

- (C) the margin period of risk;
 - (D) the minimum threshold of unmargined exposure the bank is willing to accept;
 - (E) the minimum transfer amount.
- (vii) shall either model the mark-to-market change in the value of collateral posted or ensure the bank's continued compliance with the relevant requirements relating to collateral, specified in regulations 23(7)(b) and 23(12)(b);
- (viii) shall comply with the relevant further operational requirements specified in subregulation (12) below.
- (f) shall have in place a robust process in respect of model validation, which model validation process-
- (i) shall include appropriate backtesting in respect of representative counterparty portfolios and netting sets that complies with the relevant qualitative requirements specified in paragraph (g) below-
 - (A) which backtesting shall include a sufficient number of actual and hypothetical representative counterparty portfolios and netting sets;
 - (B) which representative portfolios and netting sets shall be selected based on their sensitivity to the material risk factors and correlations to which the bank is exposed;
 - (C) during which process of backtesting-
 - (i) starting at a particular historical date, the bank shall use its internal model to forecast each portfolio's probability distribution of exposure at various time horizons;
 - (ii) using historical data on movements in market risk factors, the bank shall compute the exposures that would have occurred in respect of each portfolio at each time horizon assuming no change in the composition of the relevant portfolio;
 - (iii) the bank shall compare the realised exposures with the model's forecast distribution at the various relevant time horizons;
 - (iv) the bank shall repeat the process in respect of several historical dates that cover a wide range of market conditions such as rising rates, falling rates, quiet markets and volatile markets;
 - (v) the bank shall obtain and duly document the explanations for significant differences between the realised exposures and the model's forecast distribution.

- (ii) shall comply with the requirements regarding initial validation and on-going periodic review of the bank's internal model and the risk measures generated by it, as specified in paragraph (n) below,

Provided that, when validating its EPE models and its risk measures that produce forecast distributions, the bank's validation shall assess more than a single statistic of the model distribution.

- (g) shall have in place a robust process of backtesting, that is, an ex-post comparison of the relevant risk measures generated by the model against realised risk measures,
 - (i) which backtesting-
 - (A) shall be conducted at regular intervals;
 - (B) shall include comparing hypothetical changes based on static positions with realised measures;
 - (ii) which process of backtesting shall comply with the relevant requirements specified in paragraph (n) below;
 - (iii) which risk measures shall not only relate to Effective EPE, the risk measure used to derive minimum required capital and reserve funds, but also to the other risk measures used in the calculation of Effective EPE, such as the exposure distribution at a series of future dates, the positive exposure distribution at a series of future dates, the market risk factors used to derive those exposures and the values of the constituent trades of a portfolio;
- (h) shall have in place a comprehensive and rigorous process or programme of stress-testing-
 - (i) the results of which stress-testing-
 - (A) shall be integrated into regular reporting to the senior management of the bank;
 - (B) shall be used in the bank's internal assessment of capital adequacy;
 - (C) shall be compared against the bank's measure of expected positive exposure and the related impact on the bank's capital adequacy;
 - (D) shall be duly reflected in the bank's policies and counterparty limits set by management and the bank's board of directors;
 - (ii) which stress-testing process or programme-
 - (A) may form part of the bank's bank-wide stress testing process;

- (B) shall include the identification of possible events or future changes in economic conditions that may have an unfavourable effect on the bank's credit exposures, and an assessment of the bank's ability to withstand such changes, which events or economic conditions may include-
 - (i) economic or industry downturns;
 - (ii) market-place events; or
 - (iii) decreased liquidity conditions.
 - (C) shall include the stress testing of the bank's counterparty exposures, including a process of jointly stressing relevant market and credit risk factors;
- (iii) which stress-testing process or programme shall be sufficiently robust-
- (A) to ensure complete trade capture and exposure aggregation across all relevant forms of counterparty credit exposure, including counterparty risk arising from OTC derivative transactions, at the counterparty-specific level, in a sufficient time frame to conduct regular stress testing;
 - (B) to at least once a month, for all relevant counterparties, produce exposure stress testing of principal market risk factors, that is, for example, interest rates, foreign exchange, equities, credit spreads, and commodity prices, in order to proactively identify, and, when necessary, reduce undue concentrations to specific directional sensitivities;
 - (C) to at least once a quarter-
 - (i) apply multifactor stress testing scenarios and assess material non-directional risks, that is, for example, yield curve exposure and basis risks, which multiple-factor stress tests shall, as a minimum, aim to address scenarios in which-
 - (aa) severe economic or market events have occurred;
 - (bb) broad market liquidity has decreased significantly; and
 - (cc) the market impact of liquidating positions of a large financial intermediary;
 - (ii) conduct stress tests, applying stressed conditions to the joint movement of exposures and counterparty creditworthiness, since stressed market movements have an impact not only on counterparty exposures, but also on the credit quality of counterparties;

- (D) to perform exposure stress testing, including single factor, multifactor and material non-directional risks, and joint stressing of exposure and creditworthiness at the counterparty-specific level, counterparty group level, that is, for example, industry and regional level, and aggregate bank-wide counterparty credit exposure levels;
 - (E) to capture the largest counterparty-level impacts across the portfolio, material concentrations within segments of the portfolio, that is, for example, within the same industry or region, and relevant portfolio and counterparty specific trends;
 - (F) to ensure that the severity of factor shocks is consistent with the purpose of the stress test, that is, when the bank, for example, evaluates solvency under stress, factor shocks shall be severe enough to capture historical extreme market environments and/or extreme but plausible stressed market conditions;
 - (G) to ensure that the bank appropriately evaluates the impact of the aforesaid shocks on matters such as qualifying capital, capital requirements and earnings;
 - (H) to ensure that for the purpose of day-to-day portfolio monitoring, hedging, and management of concentrations, the bank also considers scenarios of lesser severity and higher probability;
 - (I) to ensure that the bank conducts relevant reverse stress tests to identify extreme, but plausible, scenarios that could result in significant adverse outcomes;
- (iv) during which process of stress-testing the bank shall consider-
- (A) concentration risk, including concentration risk in respect of a single counterparty or a group of related counterparties;
 - (B) any risk of correlation between market risk and credit risk, including situations in which a large movement in market prices, for example, may result in a particular counterparty exposure becoming a large exposure or cause a material deterioration in the credit quality of the said counterparty, or both;
 - (C) the risk that liquidating a counterparty position may have a material impact on the market;
 - (D) the impact on the bank's own positions of movements in market prices, which impact shall be integrated into the bank's assessment of counterparty risk.

Provided that when the bank's stress-tests reveal particular vulnerability to a particular set of circumstances, the bank shall take appropriate and prompt action in order to manage and control the relevant risks, which action may include hedging against a particular outcome, reducing the size of the bank's exposures or increasing the amount of capital and reserve funds.

- (i) shall have in place a routine for ensuring the bank's continued compliance with a documented set of internal policies, controls and procedures concerning the operation of the bank's risk measurement system;
- (j) shall duly document-
 - (i) the process for initial and on-going validation of the bank's internal model to a level of detail that would enable a third party to recreate the relevant analysis;
 - (ii) the calculation of the respective risk measures generated by the models to a level of detail that would allow a third party to re-create the said risk measures;
 - (iii) the bank's risk measurement system, for example, by maintaining an updated risk management manual that describes the basic principles of the risk management system and that provides an explanation of the empirical techniques used to measure the bank's exposure to counterparty risk,

which documentation, among other things, shall clearly set out the frequency with which backtesting analysis and any other on-going validation will be conducted, how the validation is conducted with respect to data flows and portfolios and the analyses that are used;

- (k) shall conduct an appropriate independent review of the bank's risk measurement system, for example, as part of the bank's internal auditing process, which review-
 - (i) shall include the activities of the relevant business units, the independent risk control unit and the bank's overall risk management process;
 - (ii) shall be conducted at regular intervals but not less frequently than once a year;
 - (iii) as a minimum, shall include-
 - (A) the adequacy of documentation relating to the bank's risk management policies, system and processes;
 - (B) the organisation of the risk control unit;
 - (C) the organisation of the collateral management unit;

- (D) the integration of risk measures into the bank's ongoing risk management processes and systems;
 - (E) the approval process relating to all relevant risk pricing models and valuation systems, including counterparty credit risk models used in the calculation of counterparty credit risk exposure used by front office and back office personnel;
 - (F) the validation of any significant changes made in respect of the bank's risk measurement process;
 - (G) the scope of counterparty credit risk and relevant market risk factors captured by the risk measurement model;
 - (H) the integrity of the management information system;
 - (I) the accuracy and completeness of relevant credit and market variables and data;
 - (J) the accurate reflection of relevant legal terms in collateral and netting agreements in the respective measurements of the bank's exposure to risk;
 - (K) the verification of the consistency, timeliness and reliability of data sources used to operate the internal model, including the independence of the said data sources;
 - (L) the accuracy and appropriateness of volatility and correlation assumptions;
 - (M) the accuracy of valuation and risk transformation calculations;
 - (N) the verification of the model's accuracy through frequent backtesting as set out in these Regulations;
- (l) shall have in place a written policy that clearly describes the process by which unacceptable performance of the bank's model will be determined and remedied;
- (m) shall ensure that on-going validation of counterparty credit risk models, including backtesting, is reviewed periodically by senior management with sufficient authority to decide the course of action that will be taken to duly address weaknesses in the bank's models;
- (n) shall ensure that, as part of the bank's initial and on-going validation of its internal model and the related risk measures-
- (i) the most recent performance of the bank's EPE model and the relevant risk measures are duly assessed;

- (ii) the bank conducts backtesting using historical data on movements in market risk factors prior to the bank's application to the Registrar for approval of the bank's internal model, which backtesting shall consider a number of distinct prediction time horizons out to at least one year, over a range of various start or initialisation dates, and covering a wide range of market conditions;
- (iii) the bank's backtesting includes the performance of the EPE model and the model's relevant risk measures as well as the market risk factor predictions that support EPE, provided that, for collateralised trades, the prediction time horizons considered shall include those reflecting typical margin periods of risk applied in collateralised or margined trading, and include time horizons of at least one year;
- (iv) pricing models used to calculate counterparty credit risk exposure for a given scenario of future shocks to market risk factors are appropriately tested, which pricing models-
 - (A) may be different from the pricing models used to calculate market risk over a short horizon;
 - (B) shall in the case of options duly account for the nonlinearity of option value with respect to market risk factors;
 - (C) shall be regularly tested against appropriate independent benchmarks;
- (v) the bank verifies that transactions are assigned to the appropriate netting set within the model;
- (vi) static, historical backtesting on representative counterparty portfolios forms part of the bank's validation process;
- (vii) the bank conducts, at such intervals as may be directed in writing by the Registrar, backtesting on a sufficient number of representative counterparty portfolios, provided that-
 - (A) the representative portfolios shall be chosen based on their sensitivity to the material risk factors and correlations to which the bank is exposed;
 - (B) the backtesting conducted by the bank shall be designed to test the key assumptions of the bank's EPE model and the relevant risk measures, that is, for example, the modelled relationship between tenors of the same risk factor, and the modelled relationships between risk factors;
 - (C) the bank's backtesting programme shall be sufficiently robust to identify poor performance in the bank's EPE model's risk measures;

- (D) the bank shall report to the Registrar significant differences between realised exposures and the bank's forecast distribution;
- (viii) the bank validates its EPE model and all relevant risk measures out to time horizons commensurate with the maturity of trades for which exposure is calculated using the internal modelling method;
- (ix) the frequency with which the parameters of the bank's EPE model are updated is assessed;
- (x) in respect of a measure or metric for which the bank obtained prior approval of the Registrar to measure counterparty exposure, which measure shall be more conservative than the specified metric used to calculate EAD for every counterparty, that is, more conservative than alpha times Effective EPE, the bank shall regularly validate that the said measure or metric is sufficiently conservative;
- (xi) the bank includes all relevant counterparties for which the models are used;
- (xii) the bank assesses whether or not the bank level and netting set exposure calculations of EPE are appropriate;
- (o) shall comply with the relevant further operational requirements specified in subregulations (9) to (12) below.

(9) *Counterparty credit risk: operational requirements relating to the use test*

As a minimum, a bank that wishes to adopt the internal model method for the measurement of the bank's exposure to counterparty credit risk-

- (a) shall demonstrate to the satisfaction of the Registrar that the distribution of exposures generated by the bank's internal model and used by the bank to calculate its effective expected positive exposure is closely integrated into the day-to-day counterparty credit risk management process of the bank, that is-
 - (i) the output of the internal model shall play an essential role in the credit approval, counterparty credit risk management, internal capital allocations and governance processes of the bank;
 - (ii) the internal model used by the bank to generate the distribution of exposures shall form part of a counterparty risk management framework that includes the identification, measurement, management, approval and internal reporting of counterparty risk, which framework shall include the aggregation of credit exposures to the same counterparty and the allocation of economic capital;
 - (iii) peak exposure from the distribution is used by the bank, for example, to determine counterparty credit limits;

- (iv) expected positive exposure is used by the bank, for example, for internal allocation of capital.
- (b) shall have a credible track record in the use of an internal model that generate a distribution of exposures to counterparty credit risk, that is, the bank shall demonstrate to the satisfaction of the Registrar that for at least one year prior to the bank's application for approval to use the internal model method the bank has implemented a model-
 - (i) that calculates the distributions of exposures upon which the bank's EPE calculation is based;
 - (ii) that broadly meets the minimum requirements specified in subregulation (8) above.
- (c) shall have in place an independent risk control unit that complies with the relevant requirements specified in subregulation (8)(b) above;
- (d) shall have in place a collateral management unit that complies with the relevant requirements specified in subregulation (8)(c) above;
- (e) shall demonstrate to the satisfaction of the Registrar-
 - (i) that in addition to EPE which is a measure of future exposure, the bank measures and manages current exposure, gross and net of collateral held;
 - (ii) that the bank is able to measure counterparty exposure out to the life of all relevant contracts in a netting set and not just to a one year horizon, that is, the bank, for example, has procedures in place to identify and control the risks relating to counterparties in respect of which exposure rises beyond the one-year horizon;
 - (iii) that the bank is able to monitor and control the bank's exposure to counterparty credit risk;
 - (iv) that any forecasted increase in exposure beyond a one-year horizon constitutes an input into the bank's internal economic capital model.
- (f) shall implement a time profile of forecasting horizons that duly reflects the time structure of future cash flows and the maturity of the contracts that expose the bank to counterparty credit risk, provided that-
 - (i) although the bank may not be required to estimate or report expected exposure on a daily basis, the bank shall have the system capability to estimate expected exposure or EE daily when necessary;
 - (ii) based on materiality and the composition of the bank's exposure, the bank, for example, may compute EE on a daily basis for the first ten days, once a week out to one month, once a month out to eighteen months or once a quarter out to five years and beyond five years.

(10) *Counterparty credit risk: operational requirements relating to stress testing*

As a minimum, the senior management of a bank that wishes to adopt the internal model method for the measurement of the bank's exposure to counterparty credit risk-

- (a) shall ensure that the bank has in place a robust stress-testing process, which stress-testing process, amongst other things, shall comply with the relevant minimum requirements specified in subregulation (8)(h) above;
- (b) shall take a lead role in the integration of stress testing into the risk management framework and risk culture of the bank;
- (c) shall ensure that the results of-
 - (i) the stress testing process are meaningful and proactively used to manage counterparty credit risk;
 - (ii) stress testing for significant exposures are compared to board-approved standards that express the bank's risk appetite and elevated for discussion and action when excessive or material concentrated risks are present.

(11) *Counterparty credit risk: operational requirements relating to the identification of wrong-way risk*

As a minimum, a bank that wishes to adopt the internal model method for the measurement of the bank's exposure to counterparty credit risk shall have in place policies, processes and procedures to identify, monitor and control exposure to or cases of material-

- (a) general wrong-way risk, that is, when the probability of default of a counterparty is positively correlated with general market risk factors, provided that, as a minimum, the bank shall-
 - (i) identify all relevant exposures that give rise to a greater degree of general wrong-way risk;
 - (ii) develop and conduct relevant stress testing and scenario analyses to identify risk factors that are positively correlated with counterparty credit worthiness, which testing shall include and duly address the possibility of severe shocks occurring when relationships between risk factors have changed;
 - (iii) continuously monitor general wrong-way risk-
 - (A) by product;
 - (B) by region;
 - (C) by industry, or

- (D) by such other categories that may be relevant to the bank's business;
- (iv) regularly report to senior management and the appropriate committee of the Board relevant information related to wrong-way risks, and the steps taken to duly manage the related risk;

and

- (b) specific wrong-way risk, that is, when future exposure relating to a specific counterparty is highly correlated with the counterparty's probability of default, which situation may arise when a company, for example, write put options in respect of its own stock,

which policies, processes and procedures shall be adequate to monitor and control the relevant risk from the inception of the transaction as well as during the life of the said contract.

(12) Counterparty credit risk: further operational requirements relating to internal controls and the integrity of the bank's modelling process

As a minimum, a bank that wishes to adopt the internal model method for the measurement of the bank's exposure to counterparty credit risk-

- (a) shall have in place a robust internal model that calculates, amongst other things, expected positive exposure or EPE-
 - (i) which model shall reflect transaction terms and specifications in a timely, complete and conservative manner-
 - (A) which terms may include-
 - (i) the notional amounts of contracts;
 - (ii) the maturity of transactions, contracts or agreements;
 - (iii) any relevant reference asset;
 - (iv) any collateral threshold amount;
 - (v) any relevant margining arrangement or agreement;
 - (vi) any relevant netting arrangement or agreement;
 - (B) which terms and specifications shall reside in a secure database that is subject to formal and periodic audit;
 - (C) the transmission of which transaction terms and specifications to the bank's internal model shall be subject to internal audit;

- (ii) which EPE model and any modifications made to the model shall be subject to a robust internal model validation process, which model validation process-
 - (A) shall be duly articulated in the bank's policies and procedures;
 - (B) shall specify the type of testing required in order to ensure model integrity;
 - (C) shall identify conditions under which assumptions made may be violated, resulting in an understatement of EPE;
 - (D) shall include a review of the comprehensiveness of the bank's EPE model, including whether or not the EPE model sufficiently covers all products that may have a material impact on the bank's exposure to counterparty risk;
 - (E) shall comply with the additional requirements specified in subregulation (8)(e).
- (b) shall ensure that-
 - (i) when the model that is used to calculate, among other things, Effective EPE is calibrated using historic market data, the bank uses current market data to calculate current exposures, and at least three years of historical data is used to estimate parameters of the model, provided that-
 - (A) the bank may use market implied data to estimate parameters of the model; and
 - (B) in all cases, relevant data shall be updated quarterly or more frequently if warranted by market conditions;
 - (ii) when calculating the Effective EPE using a stress calibration, the bank also calibrates Effective EPE using-
 - (A) three years of data that include a period of stress to the credit default spreads of the bank's counterparties; or
 - (B) market implied data from a suitable period of stress,

Provided that, in order to assess the adequacy and effectiveness of the aforesaid stress calibration,

- (i) the bank shall demonstrate to the satisfaction of and in a manner and time interval determined in writing by the Registrar, which shall be no less frequently than quarterly, that the stress period coincides with a period of increased CDS or other credit spreads, such as loan or corporate bond spreads, for a representative selection of the bank's counterparties with traded credit spreads, provided that when the bank does not have adequate credit spread data for a counterparty, the bank shall map each relevant counterparty to specific credit spread

data based on relevant region, internal rating and business types;

- (ii) the exposure model for all relevant counterparties shall use data, either historic or implied, that includes the data from the stressed credit period, and the bank shall use such data in a manner consistent with the method used for the calibration of the Effective EPE model for/ to current data;
 - (iii) the bank shall create several benchmark portfolios that are vulnerable to the same main risk factors to which the bank is exposed, provided that the exposure to the said benchmark portfolios shall be calculated using-
 - (aa) current positions at current market prices, stressed volatilities, stressed correlations and other relevant stressed exposure model inputs from the 3-year stress period; and
 - (bb) current positions at end of stress period market prices, stressed volatilities, stressed correlations and other relevant stressed exposure model inputs from the 3-year stress period,
 - (iv) the Registrar may request the bank to adjust the stress calibration if the exposures of the said benchmark portfolios deviate substantially;
- (c) shall have in place a robust process for the recognition of any netting arrangement or agreement, which netting arrangement or agreement-
 - (i) shall be subject to signoff by legal staff of the bank in order to verify the legal enforceability of the relevant netting arrangement or agreement;
 - (ii) shall be captured into the relevant database by an independent unit.
- (d) shall have in place a formal reconciliation process between the bank's internal model and its source data systems in order to verify on an ongoing basis that transaction terms and specifications are duly reflected in the bank's calculation of EPE.

(13) As a minimum, and without derogating from the relevant requirements specified in regulations 3 and 14 of these Regulations, a bank that invests or trades in instruments, contracts or positions that are measured at fair value shall implement robust governance structures and control processes as part of its risk-management framework for the prudent valuation of the said instruments, contracts or positions, which structures, control processes and risk-management framework shall include the key elements specified below:

(a) *Structures, processes, systems and controls*

A bank shall establish and maintain adequate structures, processes, systems and controls in respect of instruments, contracts or positions measured at fair value, which structures, processes, systems and controls-

- (i) shall explicitly cover the role of the board of directors and the senior management of the bank;
- (ii) shall ensure that the board receives regular reports from senior management regarding matters related to the valuation oversight and valuation model performance that were brought to the attention of the senior management for resolution, and all significant changes to valuation policies;
- (iii) shall ensure the robust production, assignment and verification of all relevant valuations;
- (iv) shall be sufficiently robust-
 - (A) to ensure and promote the quality, integrity and reliability of all relevant input that affects the valuation of instruments, contracts or positions, in respect of which input the bank shall duly consider-
 - (i) the frequency and availability of the relevant prices or quotes;
 - (ii) whether or not the relevant prices represent actual regularly occurring transactions on an arm's length basis;
 - (iii) the breadth of the distribution of the data and whether it is generally available to all relevant participants in the market;
 - (iv) the timeliness of the information relative to the frequency of valuations;
 - (v) the number of independent sources that produce the relevant quotes or prices;
 - (vi) whether or not the relevant quotes or prices are supported by actual transactions;
 - (vii) the maturity of the market; and
 - (viii) the similarity between the instrument, contract or position sold in a transaction and the instrument, contract or position held by the bank;

- (B) to appropriately consider and apply all relevant international standards or guidance that may affect the valuation of instruments, contracts or positions, including all relevant financial or accounting standards or statements;
- (C) to ultimately ensure that the bank's valuation estimates are prudent and reliable;
- (v) shall ensure that all relevant new product approval processes include all internal stakeholders relevant to risk measurement, risk control, and the assignment and verification of valuations;
- (vi) shall ensure that the bank's control processes for the measurement and reporting of valuations are consistently applied-
 - (A) across the bank;
 - (B) across similar instruments or risks; and
 - (C) across all relevant business lines;
- (vii) shall be duly integrated with other risk management structures, policies, procedures, processes and systems, such as credit analysis, within the bank;
- (viii) shall be based on duly documented policies and procedures for the process of valuation, which documented policies and procedures, among other things-
 - (A) shall ensure that all relevant approvals of valuation methodologies are duly documented;
 - (B) shall duly specify the range of acceptable practices for the initial pricing, marking-to-market or model, valuation adjustments and periodic independent revaluation;
 - (C) shall include duly defined responsibilities of the various areas involved in the determination of valuations;
 - (D) shall include the sources of market information to be used and the review of their appropriateness;
 - (E) shall include appropriate guidelines for the use of unobservable inputs, reflecting the bank's assumptions of what market participants may use when pricing the relevant position;
 - (F) shall include the frequency of independent valuation;
 - (G) shall include the timing of closing prices;

- (H) shall include all relevant matters related to verification.
- (ix) shall ensure that the performance of the bank's relevant models is subject to robust testing and review, particularly under stressed conditions, in order to ensure that the board of directors and senior management of the bank understand any potential limitations of the models;
- (x) shall ensure that the bank has in place-
 - (A) adequate capacity to determine or establish and verify all relevant valuations, particularly during periods of stress;
 - (B) a board-approved external reporting or disclosure policy-
 - (i) that complies with the relevant requirements specified in regulation 43;
 - (ii) that ensures that the bank provides timely, relevant and reliable information;
 - (iii) that ensures that the bank provides meaningful information relating to-
 - (aa) the bank's respective modelling techniques and the instruments to which they apply;
 - (bb) the sensitivity of fair values to modelling inputs and assumptions;
 - (cc) the impact of stress scenarios on valuations;
 - (iv) that promotes transparency;
 - (v) that is subject to regular review to ensure that the information disclosed continues to be relevant and current;
- (xi) shall be subject to clear and independent reporting lines, that is, independent from the front office, which reporting line ultimately shall be to an executive director of the bank;
- (xii) shall be subject to internal audit.

(b) *Valuation methodologies*

(i) *Marking to market*

Based on readily available close out prices, which close out prices shall be sourced independently, a bank shall mark to market all positions accounted for at fair value as often as possible, but not less frequently than at the close of business of every day or when the closing price of a particular position or market is published, provided that-

- (A) unless the bank is a significant market maker in a particular instrument or position, and the bank is in a position to close positions out at mid-market prices, the bank shall use the more prudent side of bid/offer prices;
- (B) when estimating fair value the bank shall maximise the use of relevant observable inputs and minimise the use of unobservable inputs;
- (C) when observable inputs or transactions are deemed by the bank not to be relevant, such as in a forced liquidation or distressed sale situation, or transactions may not be observable, such as when markets are inactive, the bank shall duly consider any observable data in accordance with its board-approved policies, in order to determine the extent to which such inputs should be regarded as determinative.

(ii) *Marking to model*

Only when a bank is unable to mark to market positions accounted for at fair value, the bank may use a mark-to-model approach, that is, valuations that are benchmarked, extrapolated or otherwise calculated from a market input, provided that-

- (A) the senior management of the bank shall be aware of the elements of the trading book or other instruments, contracts or positions that are accounted for at fair value and that are subject to mark-to-model valuations, and shall understand the uncertainty that may exist in the reporting of the risk or performance of the bank;
- (B) the bank-
 - (i) shall demonstrate to the satisfaction of the Registrar that its mark-to-model approach is prudent;
 - (ii) shall source market input as frequently as possible;
 - (iii) shall use generally accepted valuation methodologies relating to particular products as frequently as possible;

- (iv) shall have in place formal change control procedures and a secure copy of the model, which copy of the model shall be maintained and periodically used to check all relevant valuations;
- (C) when the model was developed internally by the bank, the model-
 - (i) shall be based on appropriate assumptions, which assumptions shall be assessed by duly qualified persons who shall be independent from the development process;
 - (ii) shall be approved independently from the front office;
 - (iii) shall be independently tested.
- (D) the model shall be subject to periodic review to determine the accuracy of its performance, including an analysis of profit and loss against the risk factors and a comparison of actual close out values to model outputs.

(iii) *Independent price verification*

By way of independent price verification, a bank shall regularly but not less frequently than once a month, verify market prices and model inputs for accuracy, which independent price verification in respect of market prices or model inputs-

- (A) shall be performed by a unit independent from the dealing room;
- (B) shall be used-
 - (i) to identify any errors or biases in pricing;
 - (ii) to eliminate any inaccurate adjustments to valuations.

(c) *Valuation adjustment*

Due to, for example, the uncertainty associated with liquidity in markets, instruments or products accounted for at fair value, that may result in a bank being unable to sell or hedge the said instruments, products or positions in a desired short period of time, as part of a bank's risk management framework and mark-to-market or mark-to-model procedure, a bank shall establish and maintain procedures for considering relevant valuation adjustments, provided that-

- (i) as a minimum, the bank shall duly consider-
 - (A) valuation adjustments to instruments, products or positions that may be subject to reduced liquidity;

- (B) relevant close-out prices for concentrated positions and/or stale positions;
- (C) all relevant factors when determining the appropriateness of valuation adjustments or reserves for less liquid positions, including, for example-
 - (i) the time required to hedge out the position or risks associated with the position;
 - (ii) the average volatility of bid/offer spreads;
 - (iii) the availability of independent market quotes;
 - (iv) the number and identity of market makers;
 - (v) the average and volatility of trading volumes, including trading volumes during periods of market stress;
 - (vi) market concentrations;
 - (vii) the aging of positions;
 - (viii) the extent to which valuation relies on marking-to-model, and the impact of model risk;
- (ii) for complex products, including securitization or resecuritisation exposures and n-th-to-default credit derivative instruments, the bank shall explicitly and continuously assess the need for any relevant valuation adjustment to reflect at least two forms of model risk, namely
 - (A) the model risk associated with using a possibly incorrect valuation methodology; and
 - (B) the risk associated with using unobservable and possibly incorrect calibration parameters in the bank's valuation model.

(14) A bank that wishes-

- (a) to adopt the internal model market-based approach for the measurement of the bank's exposure arising from equity instruments held in the bank's banking book-
 - (i) shall have in place board approved policies, procedures and controls in order to ensure the integrity of the model and the modelling process used to measure the bank's exposure to risk, which board approved policies, procedures and controls shall be adequate-
 - (A) to ensure a complete integration of the internal model into the bank's overall management information systems, particularly in respect of the ongoing management of the bank's banking book equity portfolio, including a complete integration in order-
 - (i) to determine investment hurdle rates;
 - (ii) to evaluate alternative investments;
 - (iii) to measure and assess the performance of the bank's equity portfolio, including the risk-adjusted performance;
 - (iv) to allocate economic capital to equity positions;
 - (v) to evaluate the bank's capital adequacy,provided that the bank shall by way of, for example, investment committee minutes, demonstrate to the satisfaction of the Registrar that output from the internal model plays an essential role in the bank's investment management process.
 - (B) to ensure that the bank's internal model has good predictive power and will not produce materially incorrect capital requirements;
 - (C) to establish a rigorous statistical process, including out-of-time and out-of-sample performance tests, in order to validate the bank's selection of explanatory variables;
 - (D) to ensure that all elements of the internal modelling process, including systems, procedures and control functions, are subject to adequate periodic independent review, which independent review, as a minimum-
 - (i) shall assess the approval process relating to any revision of the model;
 - (ii) shall validate any proxies and mapping techniques used by the bank;

- (iii) shall assess the accuracy, completeness and appropriateness of model input and output;
 - (iv) shall ensure that the model remains relevant based on the bank's equity portfolio and external conditions;
 - (v) shall be adequate to detect and limit potential model weaknesses;
 - (vi) shall be based on well established model review standards;
 - (vii) may be conducted as part of the bank's internal or external audit programmes by an independent risk control unit or an external third party;
- (E) to monitor investment limits and risk exposures;
- (F) to ensure that the unit(s) responsible for the design and application of the model is functionally independent from the unit(s) responsible for the management of individual investments;
- (G) to ensure that the persons responsible for any aspect of the modelling process are adequately qualified;
- (ii) shall have in place a robust system in order to validate the accuracy and the consistency of the bank's internal model and the modelling process, including the input and the output of the model, which robust system and validation process-
 - (A) shall be adequate-
 - (i) to assess the performance of the bank's internal model and modelling processes in a consistent and meaningful manner;
 - (ii) by way of backtesting, to regularly compare actual realised and unrealised gains and losses with modelled estimates;
 - (iii) to demonstrate that the bank's actual returns are within the expected range for the portfolio and individual holdings;
 - (iv) to backtest volatility estimates and the appropriateness of proxies used in the model;
 - (B) shall make use of external data sources, which external data sources-
 - (i) shall be appropriate for the bank's equity portfolio;
 - (ii) shall be updated on a regular basis;

- (iii) shall cover a relevant observation period;
- (C) shall be based on-
 - (i) sufficiently long data histories, which data histories-
 - (aa) shall include a range of economic conditions;
 - (bb) shall preferably include one or more complete business cycles;
 - (ii) appropriate databases of actual returns and modelled estimates;
 - (iii) methods and data that are consistent through time.
- (iii) shall duly document all material elements of the bank's internal model and modelling process, which documentation-
 - (A) shall include matters relating to the design and the operational details of the internal model;
 - (B) shall provide a detailed outline of the theory, assumptions and/or mathematical and empirical basis of the parameters, variables, and data source(s) used;
 - (C) shall clearly indicate the circumstances under which the model does not work effectively;
 - (D) shall include the methods and data used in any comparison between actual realised and unrealised gains and losses, and modelled estimates;
 - (E) shall clearly indicate the use of explicit and assumptions relating to implicit correlations, which correlations shall be supported by empirical analysis;
 - (F) shall be updated on a regular basis, but not less frequently than once a year;
 - (G) shall comprehensively deal with any changes in respect of the internal model, the estimation method, data, data sources and periods covered;
 - (H) shall be adequate to demonstrate the bank's compliance with the prescribed minimum quantitative and qualitative requirements envisaged in regulation 23(11)(b)(vii);

- (l) shall duly address matters relating to-
 - (i) the application of the model to different segments of the portfolio;
 - (ii) estimation methodologies;
 - (iii) the responsibilities of persons involved in the modelling process;
 - (iv) the model approval and model review processes;
 - (v) the rationale for the bank's choice of a particular methodology;
 - (vi) the history of major changes in the model over time;
 - (vii) any changes made to the modelling process subsequent to supervisory review;
 - (viii) proxies, mapping techniques or processes used by the bank during the modelling process, including all relevant and material factors relating to-
 - (aa) business lines;
 - (bb) balance sheet characteristics;
 - (cc) geographic location;
 - (dd) company age;
 - (ee) industry sector and subsector;
 - (ff) operating characteristics;
- (iv) shall in all cases in which the bank maps individual positions to proxies, market indices or risk factors-
 - (A) ensure that the said mapping is plausible, intuitive, appropriate and conceptually sound;
 - (B) perform rigorous analysis in order to demonstrate to the satisfaction of the Registrar that the said proxies and mappings are relevant based on historical economic and market conditions and the bank's underlying portfolio;
 - (C) demonstrate that the said proxies are robust estimates of the potential risk of the bank's underlying exposure.

- (v) shall have in place a rigorous and comprehensive stress-testing programme in respect of the bank's internal model and estimation procedures, which stress-testing process-
 - (A) shall include hypothetical or historical scenarios in order to reflect worst-case losses in respect of the bank's equity positions;
 - (B) shall provide comprehensive information relating to the effect of tail events beyond the level of confidence specified in respect of the internal model approach.
- (b) to adopt the internal models approach for the measurement of the bank's exposure to market risk arising, *inter alia*, from positions held in the bank's trading book-
 - (i) shall have in place an independent risk control unit, which risk control unit-
 - (A) shall be responsible for the design and implementation of the bank's risk management system;
 - (B) shall produce and analyse daily reports on the output of the bank's risk measurement model, including an evaluation of the relationship between measures of risk exposure and trading limits;
 - (C) shall be functionally independent from all relevant business trading units;
 - (D) shall report directly to the senior management of the bank;
 - (E) shall conduct regular backtesting, that is, an ex-post comparison of the risk measure generated by the bank's model against actual daily changes in portfolio value over longer periods of time, as well as hypothetical changes based on static positions;
 - (F) shall conduct the initial and ongoing validation of the internal model, which validation process shall be conducted in accordance with the relevant requirements specified in subparagraph (ix) below;
 - (G) shall control the integrity relating to input data;
 - (H) shall validate prices supplied by business units;
 - (I) shall be adequately staffed;
 - (ii) shall ensure the active involvement and oversight of the bank's board of directors and senior management in the bank's risk control processes;
 - (iii) shall regard risk control as an essential aspect of the bank's business;

- (iv) shall devote adequate resources to the bank's risk control unit and risk control processes;
- (v) shall ensure that the daily reports prepared by the independent risk control unit are reviewed by a level of senior management with sufficient authority to enforce both reductions of positions taken by individual traders and reductions in the bank's overall risk exposure;
- (vi) shall ensure that the senior management of the bank is aware of the limitations and assumptions made in respect of the said internal model and the impact that such limitations and assumptions may have on the output of the model;
- (vii) shall have in place a robust risk measurement model, which model-
 - (A) shall be closely integrated into the day-to-day risk management processes of the reporting bank and the output of which model shall form an integral part of the process of planning, monitoring and controlling the bank's exposure to market risk;
 - (B) shall be used in conjunction with internal trading and exposure limits in a manner that is consistent over time and that is well understood by traders and the senior management and relevant line functions of the reporting bank;
- (viii) shall have in place a routine and rigorous process or programme of stress testing, the results of which stress testing-
 - (A) shall be duly documented;
 - (B) shall periodically be reviewed by the senior management of the bank;
 - (C) shall be used in the bank's internal assessment of capital adequacy;
 - (D) shall be duly reflected in the bank's policies and limits set by management and the bank's board of directors,

Provided that when the bank's stress tests reveal particular vulnerability to a particular set of circumstances, the bank shall take appropriate and prompt action in order to manage and control the relevant risks, which action may include hedging against a particular outcome, reducing the size of the bank's exposures or increasing the amount of capital and reserve funds.

- (ix) shall have in place robust processes in order to ensure adequate validation of the bank's relevant models by suitably qualified persons independent from the development process, which validation-
 - (A) shall ensure that all relevant and material risks are duly captured;
 - (B) as a minimum, shall be conducted-
 - (i) when the model is initially developed;
 - (ii) when any significant changes are made to the model;
 - (iii) on a periodic basis but especially when significant structural changes in the market or in the composition of the bank's portfolio took place, which changes might result in the model no longer being adequate;
 - (C) shall in appropriate cases ensure compliance with the relevant requirements relating to specific risk, specified in regulation 28(8);
 - (D) shall not be limited to backtesting;
 - (E) as a minimum, shall include-
 - (i) tests to demonstrate that any assumptions made within the internal model are appropriate and do not underestimate risk, including relevant tests relating to-
 - (aa) the assumption of a normal distribution;
 - (bb) the use of the square root of time to scale from a one day holding period to a ten day holding period;
 - (cc) the use of extrapolation or interpolation techniques;
 - (dd) the bank's pricing models;
 - (ii) tests during which hypothetical changes in portfolio value is used when end-of-day positions remain unchanged, which tests therefore shall exclude fees, commissions, bid-ask spreads, net interest income and intra-day trading;
 - (iii) tests conducted for periods longer than what is otherwise required in the bank's process of backtesting, which longer time period may improve the power of the backtesting process, provided that a longer time period may not be desirable when the bank's VaR model or market conditions have changed to an extent that makes historical data irrelevant or less relevant;

- (iv) tests based on confidence intervals other than the 99 per cent interval required in respect of quantitative standards specified in regulation 28(8)(e);
- (v) the use of hypothetical portfolios in order to ensure that the bank's model is able to account for particular structural features that may arise such as-
 - (aa) when data histories for a particular instrument do not meet the quantitative standards specified in regulation 28(8) and the bank has to map positions to proxies, in which case the bank shall ensure that the proxies produce conservative results under relevant market scenarios;
 - (bb) ensuring that material basis risks are duly captured, which may include mismatches between long and short positions by maturity or by issuer;
 - (cc) ensuring that the model captures concentration risk that may arise from an undiversified portfolio.
- (x) shall have in place a routine for ensuring the bank's continued compliance with a documented set of internal policies, controls and procedures concerning the operation of the bank's risk measurement system;
- (xi) shall duly document the bank's risk measurement system, for example, by maintaining an updated risk management manual that describes the basic principles of the risk management system and provides an explanation of the empirical techniques used to measure the bank's exposure to market risk;
- (xii) shall conduct an appropriate independent review of the bank's risk measurement system, for example, as part of the bank's internal auditing process, which review-
 - (A) shall include the activities of the relevant business trading units, the independent risk control unit and the bank's overall risk management process;
 - (B) shall be conducted at regular intervals but not less frequently than once a year;

- (C) as a minimum, shall include-
- (i) the adequacy of documentation relating to the bank's risk management policies, system and processes;
 - (ii) the organisation of the risk control unit;
 - (iii) the integration of market risk measures into daily risk management;
 - (iv) the approval process relating to all relevant risk pricing models and valuation systems used by front and back-office personnel;
 - (v) the validation of any significant changes made in respect of the bank's risk measurement process;
 - (vi) the scope of market risk and market risk factors captured by the risk measurement model;
 - (vii) the integrity of the bank's management information system;
 - (viii) the accuracy and completeness of relevant market variables and position data;
 - (ix) the verification of the consistency, timeliness and reliability of data sources used to operate the internal model, including the independence of the said data sources;
 - (x) the accuracy and appropriateness of volatility and correlation assumptions;
 - (xi) the accuracy of valuation and risk transformation calculations;
 - (xii) the verification of the model's accuracy through frequent backtesting.

- (c) to adopt an internal approach and incremental risk capital (IRC) model for the measurement of the bank's exposure to incremental default and migration risks arising from instruments or positions subject to specific interest rate risk, other than securitisation or resecuritisation exposures and n-th-to-default credit derivative instruments, held in the bank's trading book, shall have in place a robust validation process, which validation process-
 - (i) shall apply the validation principles specified in regulations 39(8), 39(14)(a) and 39(14)(b) when designing, testing and maintaining the bank's IRC models, including-
 - (A) the evaluation of conceptual soundness;
 - (B) ongoing monitoring that includes process verification and benchmarking; and
 - (C) outcomes analysis;
 - (ii) shall ensure that-
 - (A) liquidity horizons reflect actual practice and experience during periods of both systematic and idiosyncratic stresses;
 - (B) the bank's IRC model for measuring default and migration risks over the liquidity horizon takes into account objective data over the relevant horizon and includes a comparison of risk estimates for a rebalanced portfolio with that of a portfolio with fixed positions;
 - (C) correlation assumptions are supported by analysis of objective data in a conceptually sound framework.

When a bank uses a multi-period model to compute incremental risk, the bank shall evaluate the implied annual correlations to ensure they are reasonable and in line with observed annual correlations.
 - (D) the bank's modelling approach for correlations is appropriate for the bank's portfolio, including the choice and weights of systematic risk factors;
 - (iii) shall include relevant stress tests, sensitivity analyses and scenario analyses, to assess its qualitative and quantitative reasonableness, particularly with regard to the model's treatment of concentrations;
 - (iv) shall be an ongoing process that makes provision for the Registrar and the bank to jointly determine the exact set of validation procedures to be employed, that is, tests, for example, shall not be limited to the range of events experienced historically.

Provided that the bank shall duly document its modelling approach in order to ensure that the correlation and other modelling assumptions, for example, are available and transparent.

(15) As a minimum, a bank that wishes to adopt the advanced measurement approach for the calculation of the bank's capital requirement relating to operational risk-

- (a) shall have in place an independent operational risk management function, which operational risk management function shall be responsible for-
 - (i) the development of-
 - (A) policies and procedures relating to operational risk management and control, including policies to address areas of non-compliance, which policies ultimately shall be approved by the bank's board of directors;
 - (B) strategies to identify, measure, monitor and control or mitigate the bank's exposure to operational risk.
 - (ii) the design and implementation of-
 - (A) a methodology for the measurement of the bank's exposure to operational risk;
 - (B) the bank's operational risk management framework;
 - (C) a risk-reporting system relating to operational risk;
- (b) shall have in place an internal operational risk measurement system-
 - (i) which operational risk measurement system-
 - (A) shall be closely integrated into the day-to-day risk management processes of the bank;
 - (B) shall be subject to regular validation and independent review, which validation and independent review shall include verification that the internal validation processes are operating in a satisfactory manner and that data flows and processes associated with the risk measurement system are transparent and accessible;
 - (ii) the output of which system shall form an integral part of the process to monitor and control the bank's exposure to operational risk, including internal capital allocation and risk analysis;

- (c) shall have in place techniques-
 - (i) to allocate capital to major business units, which allocation shall be based on operational risk;
 - (ii) to create incentives to improve the management of operational risk throughout the bank;
- (d) shall on a regular basis report its exposure to operational risk, including material losses suffered in respect of operational risk, to the management of the bank's business units, the senior management of the bank and the bank's board of directors;
- (e) shall have in place adequate measures to take appropriate action, including in cases of non-compliance with internal policies, controls and procedures;
- (f) shall duly document the bank's operational risk management system;
- (g) shall have in place a process to ensure compliance with the bank's documented set of internal policies, controls and procedures concerning the operational risk management system;
- (h) shall have in place a robust operational risk management process, which operational risk management process shall be subject to regular review by the bank's internal and/or external auditors, which review shall include the activities of-
 - (i) the relevant business units;
 - (ii) the independent operational risk management function.

(16) Based on and without derogating from the requirements specified in subregulations (1) to (15) above, a bank's policies, processes and procedures relating to governance, effective risk management, adequate capital and internal controls shall contain the key features specified below:

(a) *Board and senior management oversight*

Since a sound governance and risk management process provides the basis for ensuring, among other things, that a bank continuously maintains adequate capital and liquidity, the board of directors of a bank-

- (i) shall set the bank's tolerance for risk, that is, the board of directors shall, among other things, duly define and approve the bank's risk appetite;

- (ii) shall ensure that effective governance is in place in respect of the bank's compensation or remuneration policies, processes, practices and procedures, and in particular the board of directors-
 - (A) shall actively oversee the design and operation of the bank's compensation or remuneration policies, processes, practices and procedures;
 - (B) shall duly monitor and review the bank's policies, processes, practices and procedures in order to ensure that the said policies, processes, practices and procedures operate as intended;
 - (C) shall ensure that staff engaged in financial and risk control-
 - (i) are independent;
 - (ii) have appropriate authority; and
 - (iii) are compensated in a manner that is independent of the relevant business areas they oversee, and commensurate with the key function that they fulfil;
- (iii) shall ensure that the bank's compensation or remuneration policies, processes, practices and procedures are duly aligned with the board approved tolerance for risk or risk appetite, and in particular the board of directors shall ensure that-
 - (A) compensation in the bank is duly adjusted for all relevant and material types of risk;
 - (B) all compensation outcomes are symmetric with the relevant and related risk outcome;
 - (C) all relevant compensation payout schedules are duly sensitive to the relevant and related time horizon of risk;
 - (D) the relevant mix or composition of cash payment, equity or other form of compensation is consistent with the relevant and related risk exposure;
 - (E) the aforesaid policies, processes, practices, procedures and compensation outcomes duly consider the risk and reward related to all relevant transactions concluded by executive directors or executive officers;
 - (F) the aforesaid policies, processes, practices and procedures support and promote the bank's other policies, processes, practices and procedures related to sound corporate governance and effective risk management;

- (G) the aforesaid policies, processes, practices and procedures protect and promote the long-term safety and soundness of the bank;
 - (H) the aforesaid policies, processes, practices and procedures include adequate controls and are subject to appropriate audit;
 - (I) the bank's policies, processes, practices and procedures comply with such further requirements as may be specified in writing by the Registrar;
- (iv) shall ensure that, based on, among other things, the bank's capital needs, the bank's anticipated capital expenditure and the bank's desired level of capital, the annually approved variable component of compensation does not unduly limit or restrict the ability of the bank to appropriately strengthen the capital base;
- (v) shall ensure that the senior management of the bank-
- (A) establishes a risk framework in order to assess and appropriately manage the various risk exposures of the bank;
 - (B) develops a system to relate the bank's risk exposures to the bank's capital and reserve funds, that is, every bank shall have in place a robust internal capital adequacy assessment process (ICAAP), as part of the bank's overall risk management framework and processes, which ICAAP-
 - (i) shall in addition to the relevant requirements specified in this sub-item (B), continuously comply with the requirements specified in paragraph (b) below;
 - (ii) shall ensure that the bank maintains qualifying capital and reserve funds adequate to continuously support the nature and extent of the bank's relevant risk exposures;
 - (iii) shall incorporate sufficiently robust stress-testing to complement and validate the bank's quantitative and qualitative measures related to its risk management framework, policies, processes or practices, and shall provide the board of directors and senior management with sufficiently robust information to better understand the bank's various exposures to risk and the potential interrelatedness of the said risks under stressed conditions, including the potential interrelatedness between liquidity risk and capital adequacy;
 - (iv) shall incorporate measures to ensure that the bank builds and maintains sufficient capital buffers during benign periods to ensure that the bank will be able to subsequently withstand severe and prolonged market downturns;

- (v) shall be sufficiently robust-
 - (aa) to examine future capital resources and capital requirements under adverse scenarios;
 - (bb) to ensure that the bank maintains an appropriate amount of capital for concentration risk;
 - (cc) to continuously analyse the bank's issued capital instruments and their potential performance during periods of stress, including their ability to absorb losses and support the bank's ongoing business operations;
 - (dd) to accommodate changes in the bank's strategy or risk appetite, and volatility in market conditions over time;
- (vi) shall incorporate such further requirements as may be specified in writing by the Registrar;
- (C) establishes a method to monitor the bank's compliance with internal policies;
- (D) effectively communicates all relevant policies and procedures throughout the bank;
- (E) duly defines the bank's stress testing objectives and scenarios-
 - (i) the results of which stress tests shall be duly considered during the bank's strategic decision making process and when the board of directors specifies the bank's risk tolerance or appetite levels;
 - (ii) which stress testing shall in relevant cases duly consider-
 - (aa) the potential risks and exposures associated with pipeline and warehoused exposures that may emerge when the bank is unable to access the securitisation market due to either bank specific or market stresses;
 - (bb) reputational risk scenarios;
 - (cc) scenarios in respect of which the bank, for example, assesses the size and the soundness of securitisation vehicles relative to the bank's own financial, liquidity and capital positions, including an assessment of all relevant covenants and triggers;

- (F) duly discusses and understands the results of the bank's stress tests and scenario analysis;
- (vi) shall adopt and support strong internal controls;
- (vii) shall ensure that the bank has in place appropriate written policies and procedures;
- (viii) shall ensure that the bank has in place an appropriate strategic plan, which strategic plan, as a minimum, shall duly outline-
 - (A) the bank's capital needs;
 - (B) the bank's anticipated capital expenditure;
 - (C) the bank's desired level of capital.
- (ix) shall ensure that the bank has in place an appropriate policy relating to public disclosure, which policy, as a minimum, shall ensure the bank's continued compliance with the requirements specified in regulation 43.

(b) *Sound capital assessment*

Without derogating from the relevant requirements specified in paragraph (a) above, as a minimum, a bank shall have in place a sound capital assessment process, which capital assessment process-

- (i) shall include board approved policies and procedures designed to ensure that the bank identifies, measures, and reports all material risk exposures;
- (ii) shall include all material risk exposures incurred by the bank, including the risks specifically referred to in subregulation (3);

Although a bank may not be able to accurately measure all risk exposures, the bank shall develop and implement an appropriate framework and process to estimate the key elements of the bank's material risk exposures.

- (iii) shall relate the bank's capital and reserve funds to the level of risk incurred by the bank;
- (iv) based on the bank's strategic focus and business plan, shall clearly state the bank's objectives in respect of capital adequacy and risk exposure;
- (v) shall incorporate rigorous, forward-looking stress testing that identifies possible events or changes in market conditions that could adversely impact the bank, the results of which stress testing shall be considered when the bank evaluates the adequacy of its capital buffer;

- (vi) shall promote the integrity of the bank's overall risk-management process by way of internal controls and appropriate internal and external reviews and audit.

(c) *Monitoring and reporting*

- (i) As a minimum, a bank shall establish and maintain an adequate system-
 - (A) to monitor, communicate and report the bank's exposures to risk in a timely manner and at an appropriate level;
 - (B) to assess the impact of the bank's changing risk profile on the bank's capital position.
- (ii) The board of directors of a bank or a board-appointed committee shall receive regular reports, which reports shall be sufficiently detailed to allow the said board of directors or board-appointed committee-
 - (A) to evaluate and understand the level and trend of material risk exposures and the impact of the risk exposures on the bank's capital adequacy;
 - (B) to determine whether the bank maintains sufficient capital against the various risk exposures and complies with the bank's established objectives relating to capital adequacy;
 - (C) to make timely adjustments to the bank's strategic plan.
- (iii) The senior management of a bank shall receive regular reports, which reports shall be sufficiently detailed to allow the senior management of the bank-
 - (A) to consider the matters specified in subparagraph (ii) above;
 - (B) to evaluate and understand the sensitivity and reasonableness of key assumptions used in the capital measurement system;
 - (C) to assess the bank's future capital requirements based on the bank's reported risk profile.

(d) *Internal control review*

- (i) A bank shall establish and maintain an appropriate internal control structure in order to monitor the bank's continued compliance with internal policies and procedures.

(ii) As a minimum, a bank shall conduct periodic reviews of its risk management processes, which periodic reviews-

(A) shall be adequate to ensure-

- (i) the integrity, accuracy, and reasonableness of the processes;
- (ii) the appropriateness of the bank's capital assessment process based on the nature, scope and complexity of the bank's activities;
- (iii) the timely identification of any concentration risk;
- (iv) the accuracy and completeness of any data inputs into the bank's capital assessment process;
- (v) the reasonableness and validity of any scenarios used in the capital assessment process;
- (vi) that the bank conducts appropriate stress testing;

(B) shall ensure the appropriate involvement of internal and external audit.

(17) On an ongoing basis, the overall effectiveness of the processes relating to corporate governance, internal controls, risk management, capital management and capital adequacy shall be monitored, amongst other things, by the bank's board of directors.

(18) The board of directors of a bank or a committee appointed by the board for such purpose-

- (a) shall at least once a year assess and document whether the processes relating to corporate governance, internal controls, risk management, capital management and capital adequacy implemented by the bank successfully achieve the objectives specified by the board;
- (b) shall at the request of the Registrar provide the Registrar with a copy of the report compiled by the board of directors or committee in respect of the adequacy of the processes relating to corporate governance, risk management, capital management and capital adequacy.

(19) In addition to the reports referred to in regulations 40(4) and 46, the external auditors of a bank shall annually review the process followed by the board of directors in assessing the corporate governance arrangements, including the management of risk and capital, and the assessment of capital adequacy, and report to the Registrar whether any matters have come to their attention to suggest that they do not concur with the findings reported by the board of directors, provided that when the auditors do not concur with the findings of the board of directors, they shall provide reasons therefor.

(20) The provisions of subregulations (1) to (19), insofar as they are relevant, shall *mutatis mutandis* apply to any controlling company.

40. Guidelines relating to conduct of directors

(1) Every director of a bank or controlling company shall acquire a basic knowledge and understanding of the conduct of the business of a bank and of the laws and customs that govern the activities of such institutions. Although not every member of the board of directors of a bank or controlling company is required to be fully conversant with all aspects of the conduct of the business of a bank, the competence of every director of a bank shall be commensurable with the nature and scale of the business conducted by that bank and, in the case of a director of a controlling company, as a minimum, shall be commensurable with the nature and scale of the business conducted by the banks in the group.

(2) All directors and executive officers of a bank or controlling company shall perform their functions with diligence and care and with such a degree of competence as can reasonably be expected from persons holding similar appointment and carrying out similar functions as are carried out by the relevant director or executive officer, provided that none of the provisions or requirements contained or specified in these Regulations, including this regulation 40, shall be construed as derogating from any other relevant provision or requirement relating to directors and executive officers that may be contained or specified in any other relevant law or code of conduct.

(3) In view of the fact that the primary source of funds administered and utilised by a bank in the conduct of its business is deposits loaned to it by the general public, it shall be the duty of every director and executive officer of a bank to ensure that risks that are of necessity taken by such a bank in the conduct of its business are prudently managed.

(4) The-

(a) directors of a bank shall annually report to the Registrar whether or not:

(i) the bank's internal controls-

(A) provide reasonable assurance as to the integrity and reliability of the bank's financial statements; and

(B) safeguard, verify and maintain accountability of the bank's assets;

(ii) the internal controls are based on established policies and procedures and are implemented by trained, skilled personnel, whose duties are duly segregated;

(iii) adherence to the implemented internal controls is continuously monitored by the bank;

(iv) all bank employees are required to maintain high ethical standards, thereby ensuring that the bank's business practices are conducted in a manner that is above reproach;

- (v) the bank implemented and continuously maintained compensation policies, processes and practices that, as a minimum, comply with the requirements specified in regulation 39(16)(a);
 - (vi) anything came to their attention to indicate that any material malfunction, as defined and documented by the board of directors, which definition shall be submitted to the Registrar, in the functioning of the aforementioned controls, procedures and systems has occurred during the period under review.
 - (b) directors of a bank shall annually report to the Registrar that there is no reason to believe that the bank will not be a going concern in the year ahead, and should there be reason to believe so, such reason shall be disclosed and explained.
 - (c) directors of a bank shall submit the reports on the internal controls and going-concern aspect of the bank within 120 days after the financial year-end of the bank.
 - (d) external auditors of a bank shall annually report to the Registrar whether or not they concur with the reports mentioned in paragraphs (a) and (b) above, provided that when the external auditors do not concur with such reports, they shall provide reasons therefor.
- (5) The provisions of subregulation (4) shall *mutatis mutandis* apply to any controlling company.
- (6) For the purposes of this regulation, "director" includes an alternate director.

41. Composition of the board of directors of a bank or controlling company

- (1) The chairperson of the board of directors of a bank shall not be an employee of-
- (a) the bank;
 - (b) any of the subsidiaries of the bank;
 - (c) the controlling company of the bank; or
 - (d) any subsidiary of the controlling company.
- (2) The chairperson of the board of directors of a bank shall not be a member of the audit committee of-
- (a) the bank; or
 - (b) the controlling company of the bank.

- (3) The chairperson of the board of directors of a controlling company shall not be an employee of-
 - (a) the controlling company; or
 - (b) any bank in respect of which that company is registered as a controlling company.
- (4) The chairperson of the board of directors of a controlling company shall not be a member of the audit committee of-
 - (a) the controlling company; or
 - (b) any bank in respect of which that company is registered as a controlling company.
- (5) Except when the Registrar, in view of special circumstances pertaining to a particular bank, grants consent to a deviation from the provisions of this regulation in respect of that particular bank, at least two of the members of the board of directors of a bank shall be persons who are employees of that bank.

42. Statement relating to attributes of serving or prospective directors or executive officers

- (1) A duly completed statement and declaration in the form of a form BA 020, as prescribed in regulation 53, shall be submitted to the Registrar by the chairperson of the board, or the chairperson's duly appointed representative, or, in the case of a new bank, by the auditor, in respect of-
 - (a) every person who for the first time accepts an appointment as a director or an executive officer of a bank or a controlling company at least 30 days prior to the appointment becoming effective; and
 - (b) every person who previously served as a director or executive officer of a bank or controlling company but subsequently resigned as such and is being reappointed as a director or executive officer of a bank or controlling company after a period of more than twelve months since the date of resignation at least 30 days prior to the appointment becoming effective; and
 - (c) any serving director or executive officer of a bank or controlling company, at the request of the Registrar, in terms of section 1(1A)(c) of the Act.
- (2) For the purposes of this regulation, "related party" means any person (whether natural or juristic) over the business of which the director or executive officer can exercise a significant influence and which business undertakes business with the relevant bank or controlling company to an extent that could materially influence the asset base, profitability or risk profile of the said bank or controlling company.

BA 020

When insufficient space is provided, please attach a separate sheet.

**STATEMENT BY INDIVIDUALS WHO ARE HOLDING, OR ARE PROPOSING TO HOLD,
THE OFFICE OF A DIRECTOR OR EXECUTIVE OFFICER OF A BANK OR CONTROLLING
COMPANY**

(Confidential and not available for inspection by the public)

1. Name of institution in connection with which this questionnaire is being completed ("the institution"):

.....

2. Your surname:

.....

3. Your full forename(s):

.....

4. Former surname(s) and or forename(s) by which you may have been known:

.....

5. Please state in which capacity you are completing this questionnaire, that is, as a current or prospective director, an executive officer or combination of these.

.....

6. Please state your full title, and describe the particular duties and responsibilities attaching to the position(s) that you hold or will hold. If you are completing this form in the capacity of director, indicate whether, in your position as director, you have or will have executive responsibility for the management of the institution's business. In addition, please provide a copy of your *curriculum vitae*, unless it has already been provided:

.....

.....

7. Residential address:

.....

8. Any previous residential address(es) during the past 10 years:

.....

9. Date and place of your birth (including town or city):
.....
10. Your nationality and how it was acquired (birth, naturalisation or marriage):
.....
11. Name(s) and address(es) of your bankers during the past 10 years:
.....
12. Your professional qualifications and year in which they were obtained:
.....
13. Your occupation and employment now and during the past 10 years, including the name of your employer in each case, the nature of the business, the position held and relevant dates:
.....
14. Of which bodies corporate (other than the institution) are you a director or an executive officer and since when?
.....
15. Do you have any direct or indirect interest representing 15 per cent or more of the issued capital of any body corporate (other than the institution) that is now registered, or that has applied for authorisation, under the Act? If so, give particulars:
.....
16. Of which bodies corporate other than the institution and those listed in reply to question 13 above have you been a director or an executive officer at any time during the past 10 years? Give relevant dates:
.....
17. Do any of the bodies corporate listed in reply to questions 13, 14, 15 and 16 above maintain a business relationship with the institution? If so, give particulars:
.....
18. Do you hold or have you ever held or applied for a licence or equivalent authorisation to conduct any business activity in the Republic of South Africa ("the Republic") or elsewhere? If so, give particulars. If any such application was refused or withdrawn after it was made or if any authorisation was revoked, give particulars:
.....

- 19.** Does any institution with which you are, or have been, associated as a director or executive officer hold, or has it ever held or applied for, a licence or equivalent authorisation to conduct any business activity? If so, give particulars. If any such application was refused, or was withdrawn after it was made or if an authorisation was revoked, give particulars:

.....

- 20.** Have you at any time been convicted of any offence, excluding -

- (i) any offence committed when you were under 18 years, unless the same offence was committed within the last 10 years;
- (ii) any road traffic offence; or
- (iii) any political offence?

If so, give particulars of the court by which you were convicted, the offence, the penalty imposed and the date of conviction:

.....

- 21.** Have you, in the Republic or elsewhere, been censured, disciplined, warned as to future conduct, or made the subject of a court order at the instigation of any regulatory authority or any professional body to which you belong or belonged, or have you ever held a practising certificate subject to conditions? If so, give particulars:

.....

- 22.** Have you, or has any body corporate, partnership or unincorporated institution with which you are, or have been, associated as a director or executive officer, been the subject of an investigation, in the Republic or elsewhere, by or at the instigation of a government department or agency, professional association or other regulatory body? If so, give particulars:

.....

- 23.** Have you, in the Republic or elsewhere, been dismissed from any office or employment, or been subject to disciplinary proceedings by your employer or been barred from entry to any profession or occupation? If so, give particulars:

.....

- 24.** Have you failed to satisfy any debt adjudged due and payable by you, as a judgement-debtor under an order of a court in the Republic or elsewhere, or made any compromise arrangement with your creditors within the past 10 years? If so, give particulars:

.....

25. Have you ever been declared insolvent (either provisionally or finally) by a court in the Republic or elsewhere, or has a bankruptcy petition ever been served on you? If so, give particulars:
-
26. Have you, in connection with the formation or management of any body corporate, partnership or unincorporated institution, been adjudged by a court in the Republic or elsewhere civilly liable for any fraud, misfeasance or other misconduct by you towards such a body or company or towards any members thereof? If so, give particulars:
-
27. Has any body corporate, partnership or unincorporated institution with which you were associated as a director or executive officer, in the Republic or elsewhere, been wound up, made subject to an administration order, otherwise made any compromise or arrangement with its creditors or ceased trading, either while you were associated therewith or within one year after you ceased to be associated therewith, or has anything analogous to any of these events occurred under the laws of any other jurisdiction? If so, give particulars:
-
28. Have you been concerned with the management or conduct of the affairs of any institution that, by reason of any matter relating to a time when you were so concerned, has been censured, warned as to future conduct, disciplined or made the subject of a court order at the instigation of any regulatory authority in the Republic or elsewhere? If so, give particulars:
-
29. In carrying out your duties will you be acting on the directions or instructions of any other individual or institution? If so, give particulars:
-
30. Do you, or does any related party of whom you are aware, undertake business with this institution? If so, give particulars:
-
31. How many shares in the institution are registered in your name or the name of a related party? If applicable, give name(s) in which such shares are registered and the class of shares:
-
32. In how many shares in the institution (not being registered in your name or that of a related party) are related parties beneficially interested?
-

33. Do you, or does any related party, hold any shares in the institution as trustee or nominee? If so, give particulars:

.....

34. Are any of the shares in the institution mentioned in reply to questions 31, 32 and 33 above equitably or legally charged or pledged to any party? If so, give particulars:

.....

35. In respect of which proportion of the voting power at any general meeting of the institution (or of another body corporate of which it is a subsidiary) are you or any related party entitled to exercise control?

.....

36. If the exercise of the voting power at any general meeting of the institution, or of another body corporate of which it is a subsidiary, is or may be controlled by one or more of your associates or any related party, give the proportion of the voting power so controlled in each case and the identity of each associate:

.....

37. Are you currently, or do you, other than in a professional capacity, expect to be, engaged in any litigation in the Republic or elsewhere? If so, give particulars:

.....

38. Do you have a basic knowledge and understanding of the risks to which banks are exposed? (Refer to Chapter III, regulation 39 of the Regulations relating to Banks, in this regard.)

.....

39. Do you, at all times while acting in your capacity as a director or executive officer of the institution, undertake-

- (i) to act in good faith towards the bank/banks in the group;
- (ii) to avoid conflict between your other interests and the interests of the bank/banks in the group; and
- (iii) to place the interest of the bank/banks in the group and the depositors above all other interests?

.....

40. Have you acquainted yourself with, and do you understand, the extent of the rights and powers, as well as your responsibilities and duties as a director of the institution, as contained in the applicable law? (To be completed only by directors or prospective directors.)

.....
.....

Please attach to the form BA 020 a matrix that clearly sets out the details specified below:

- (i) The number of other directorships or memberships held by the proposed appointee.
- (ii) The name of the other entity(ies) in respect of which the proposed appointee already serves as a director or member.
- (iii) The particular duties and responsibilities attached to each of the aforesaid positions held.
- (iv) The number of meetings each of the aforesaid entities holds or is expected to hold per annum, that the proposed appointee is required to attend.
- (v) The expected average number of hours that is required for the proposed appointee to duly prepare for each of the aforesaid meetings.

DECLARATION

I,, hereby declare the following:
This statement consists of pages, each signed by me. The content of this declaration is true to the best of my knowledge and belief. I am aware that should it be submitted as evidence and I know that something appears therein that I know to be false or believe not to be true, I may be liable to prosecution.

I undertake that, as long as I continue to be a director or executive officer of the institution, I will notify the Registrar of any material changes to, or affecting the completeness or accuracy of, the information supplied by me in items 1 to 40 as soon as possible, but in no event later than 21 days from the day that the changes come to my attention.

Taking into account the commitments set out in question 40, I confirm that I have sufficient time available to duly discharge my duties and responsibilities as a director of this institution.*

I know and understand the content of this declaration. I have*/do not have* objections to taking the prescribed oath*/affirmation*.
I consider the prescribed oath*/affirmation* to be binding*/not binding* on my conscience.

.....SIGNATURE OF DEPONENT

I certify that the above statement was taken by me and that the deponent has acknowledged that he*/she* knows and understands the content of this statement. This statement was sworn to*/affirmed* before me and the deponent's signature was placed thereon in my presence at on this day of(yyyy-mm).

.....
COMMISSIONER OF OATHS

FULL NAMES:

EX OFFICIO:

AREA:

ADDRESS:

* Delete whichever is not applicable

Note: Each page of the form BA 020, and each additional page attached thereto, shall be initialled by the relevant signatories, that is, the relevant applicant, commissioner of oaths, and the chairperson of the board of directors or external auditor.

DECLARATION BY CHAIRPERSON OF INSTITUTION*

I, the undersigned,, being chairperson of the board of directors of, confirm that I have carefully studied all information supplied in this statement and, after discussion with the deponent and all other members of the board, and after having taken into account any other information at my disposal or that has come to my attention, am of the opinion that the deponent is fit and proper to take up office in this institution, with effect from In the case of the appointment of a director, I confirm that there has been compliance with the appropriate conditions of the articles of association of the company. Similarly, in the case of the appointment of an executive officer, I confirm that there has been compliance with company policy.

DECLARATION BY AUDITOR IN CASE OF NEW BANK*

I, the undersigned,, being the auditor of, confirm that I have carefully studied all information supplied in this statement and, after discussion with the deponent and all other members of the board, and after having taken into account any other information at my disposal confirm that nothing has come to my attention that causes me to believe that the deponent is not fit and proper to take up office in this institution, with effect from In the case of the appointment of a director, I confirm that there has been compliance with the appropriate conditions of the articles of association of the company. Similarly, in the case of the appointment of an executive officer, I confirm that there has been compliance with company policy.

NAME

SIGNED

DATE

* *Delete whichever is not applicable*

Note: Each page of the form BA 020, and each additional page attached thereto, shall be initialled by the relevant signatories, that is, the relevant applicant, commissioner of oaths, and the chairperson of the board of directors or external auditor.

43. Public disclosure

(1) Subject to the provisions of subregulation (3), a bank shall disclose in its annual financial statements and other disclosures to the public, reliable, relevant and timely qualitative and quantitative information that enable users of that information, among other things, to make an accurate assessment of the bank's financial condition, including its capital adequacy position, and financial performance, business activities, risk profile and risk-management practices, provided that-

- (a) the bank shall have in place a formal board approved policy relating to disclosure, which policy, as a minimum-
 - (i) shall specify the approach that the bank adopted in order to determine the materiality, nature and extent of information that will be disclosed to the public;
 - (ii) shall be sufficiently robust to ensure that the bank-
 - (A) establishes and maintains appropriate internal control processes and procedures relating to the qualitative and quantitative information disclosed to the public;
 - (B) assesses on a regular basis the appropriateness of information disclosed to the public;
 - (C) establishes and maintains an appropriate process to validate the information disclosed to the public;
 - (D) regularly assesses the frequency and materiality of information disclosed to the public;
 - (E) is able to continuously determine the extent to which the required information may already be included in the bank's accounting disclosure requirements and to what extent the bank has to disclose information in addition to the bank's accounting disclosure requirements;
- (b) when compliance with the minimum required information specified in subregulation (2) below is not sufficient to provide a true and fair presentation of the bank's financial condition, including its capital-adequacy position, and financial performance, business activities, risk profile and risk-management practices, the bank shall disclose relevant additional information;
- (c) the bank's annual financial statements and other disclosures to the public shall present or disclose each material item separately. Information is material if its omission or misstatement could change or influence the judgement or decision of a user relying on that information to take, amongst other things, economic or investment decisions;

- (d) the minimum required publicly disclosed information, amongst other things, shall be consistent with the manner in which the board of directors and the senior management of the bank assess and manage the bank's risk exposures;
 - (e) the bank shall on a regular basis, but not less frequently than-
 - (i) once a year disclose to the public qualitative information in respect of the bank's risk management objectives and policies, reporting system and general definitions;
 - (ii) once a year disclose to the public the relevant required qualitative and quantitative information related to remuneration, specified in subregulation (2)(f) below;
 - (iii) on a quarterly basis, disclose to the public quantitative information in respect of-
 - (A) the bank's tier 1 capital, including the bank's tier 1 capital adequacy ratio;
 - (B) the bank's total capital, including the bank's total capital adequacy ratio;
 - (C) the components of capital;
 - (D) the total required amount of capital and reserve funds;
 - (E) the bank's relevant countercyclical buffer requirement, which buffer requirement shall be based on the latest relevant jurisdictional countercyclical buffers available at the date that the bank calculates its minimum capital requirement, provided that the bank shall also disclose to the public the relevant geographic distribution of its private sector credit exposures used in the calculation of the said buffer requirement;
 - (F) any risk exposure or other item that is subject to rapid or material change,
 - (iv) on a semi-annual basis, disclose to the public the qualitative and quantitative information, other than the information referred to in subparagraphs (i) to (iii) above, envisaged in subregulation (2) below,
- provided that, in all cases, the bank shall publish material information that are subject to rapid or material change as soon as possible;
- (f) at the discretion of the management of the bank, the bank shall determine appropriate additional mediums and locations to disclose the required information to the public;

- (g) the bank's disclosure to the public in terms of the provisions of this regulation 43-
 - (i) shall be consistent with the bank's audited financial statements;
 - (ii) shall be subject to appropriate internal control and verification;
 - (h) when the information required to be disclosed in terms of the provisions of this regulation 43 differs from any prescribed listing requirements or disclosure requirements in terms of Financial Reporting Standards, the bank shall in an appropriate manner explain any material differences between the said disclosure requirements;
 - (i) on prior written application by the bank and/or subject to such conditions as may be specified in writing by the Registrar, the requirements of this regulation 43 place no duty on the bank to disclose to the public proprietary or confidential information, that is-
 - (i) information in respect of, for example, products or systems that, if shared with competitors, is likely to render the bank's investment in the said products or systems less valuable or undermine the bank's competitive position; or
 - (ii) information that is provided in terms of a legal agreement, which information is classified as confidential information;
 - (j) except for information that forms part of a bank's audited financial statements as a result of requirements relating to Financial Reporting Standards, unless otherwise specified in writing by the Registrar, the required additional information that has to be disclosed by the bank to the public in terms of the provisions of this regulation 43 may be, but is not required to be, subject to external audit.
- (2) Without derogating from the provisions of subregulation (1), in accordance with the provisions of the framework for the preparation and presentation of financial statements, read with the relevant requirements of Financial Reporting Standards that may be issued from time to time, a bank shall, as a minimum, disclose in its financial statements appropriate qualitative and quantitative information in respect of the broad categories of information specified below:
- (a) Scope of application
- A bank shall in respect of the required-
- (i) qualitative information, disclose to the public-
 - (A) the name(s) of the controlling company/ public company in the group structure to which the requirements of the Regulations also apply;

(B) any differences between the manner in which entities are consolidated for accounting and regulatory purposes, with a brief description of the entities within the group-

- (i) that are fully consolidated;
- (ii) that are pro-rata consolidated;
- (iii) that are subject to a deduction approach;
- (iv) from which surplus capital is recognised as qualifying capital and reserve funds;
- (v) that are neither consolidated nor deducted, that is, the bank's investment in the entity is risk-weighted,

which entities shall include subsidiaries and significant minority equity investments in entities involved in-

- (aa) securities trading;
- (bb) insurance;
- (cc) other financial activities;
- (dd) commercial activities;

(C) sufficiently detailed information in respect of any restrictions or other major impediments on the transfer of funds or qualifying capital within the banking group;

(ii) quantitative information, disclose to the public-

(A) in the case of a subsidiary that conducts insurance business, the aggregate amount of surplus capital recognised in the capital and reserve funds of the consolidated banking group, that is, for example, the difference between the amount invested in the insurance entity and the entity's regulatory capital requirement;

(B) in the case of a subsidiary in respect of which the invested amount is deducted from capital and reserve funds instead of being consolidated-

- (i) the aggregate amount relating to capital deficiencies, that is, the amount by which the subsidiary's capital requirement exceeds the invested amount;
- (ii) the name(s) of the said subsidiaries,

provided that any capital deficiency that has been deducted on a group level in addition to the investment in the said subsidiary shall not be included in the aggregate amount relating to a capital deficiency;

- (C) in the case of an investment in an entity that conducts insurance business, which investment is risk-weighted instead of being deducted from capital and reserve funds or subject to an alternate method of consolidation in accordance with the provisions of regulation 36-
 - (i) the aggregate amount, that is, the book value of the said investment;
 - (ii) the name of the relevant entity;
 - (iii) the country of incorporation or residence;
 - (iv) the proportion of ownership interest and, when different, the proportion of voting rights in the said entity;
 - (v) the quantitative impact in respect of qualifying capital and reserve funds as a result of the investment being risk weighted instead of being deducted from capital and reserve funds.

(b) Financial performance

(c) Financial position, including-

- (i) capital adequacy;

A bank shall in respect of the required-

- (A) qualitative information, disclose to the public sufficiently detailed information in respect of the bank's approach to assess the adequacy of the bank's capital in order to support the bank's current and future activities;
- (B) quantitative information, disclose to the public-
 - (i) the bank's capital requirement in respect of credit risk, including sufficiently detailed information in respect of-
 - (aa) portfolios subject to the standardised or simplified standardised approach, which disclosure shall be made in respect of each relevant credit portfolio;

- (bb) portfolios subject to the IRB approaches, that is, portfolios subject to the foundation IRB approach and portfolios subject to the advanced IRB approach, which disclosure shall be made in respect of each relevant credit portfolio, including:
 - (i) exposures relating to corporate institutions, including exposures in respect of specialised lending not subject to the standardised risk grades, sovereigns and banks;
 - (ii) residential mortgage exposure;
 - (iii) qualifying revolving retail exposure;
 - (iv) other retail exposure;
- (cc) the bank's securitisation exposures;
- (ii) the bank's capital requirement in respect of equity exposures subject to the IRB approach, that is-
 - (aa) equity portfolios subject to the market-based approach, including-
 - (i) equity portfolios subject to the simple risk-weight method; and
 - (ii) equities held in the banking book, which equity positions are subject to the internal model approach;
 - (bb) equity portfolios subject to the PD/LGD approach;
- (iii) in respect of positions held in the bank's trading book, the bank's capital requirement in respect of market risk, with separate disclosure in respect of exposures subject to-
 - (aa) the standardised approach;
 - (bb) the internal models approach;
- (iv) the bank's capital requirement in respect of operational risk, with separate disclosure in respect of-
 - (aa) the basic indicator approach;
 - (bb) the standardised approach;
 - (cc) the advanced measurement approach;

- (v) sufficiently detailed information in respect of the bank's total capital adequacy ratio and its common equity tier 1 and additional tier 1 capital adequacy ratios, including the component relating to innovative capital instruments that is subject to phase-out arrangements and a comprehensive explanation of how the respective aforesaid ratios were calculated, in respect of-
 - (aa) the controlling company;
 - (bb) significant bank subsidiaries, either based on a stand-alone basis or sub-consolidated basis depending on the required manner of reporting in respect of the said subsidiaries.
- (ii) capital structure;

A bank shall in respect of the required-

- (A) qualitative information, disclose to the public sufficiently detailed information relating to-
 - (i) the main features, terms and conditions of all relevant capital instruments issued by the bank, particularly in respect of innovative, complex or hybrid capital instruments;
 - (ii) all limits and minima, identifying the positive and negative elements of capital to which such limits and minima apply;
- (B) quantitative information, disclose to the public -
 - (i) the amount relating to common equity tier 1 capital and reserve funds, including information in respect of:
 - (aa) paid-up share capital, including ordinary shares;
 - (bb) reserve funds;
 - (cc) any relevant minority interests in the equity of fully consolidated subsidiaries in relation to instruments issued to third parties;
 - (dd) other instruments qualifying as common equity tier 1 capital;
 - (ee) any relevant surplus amount of capital from insurance companies, calculated in accordance with the provisions of regulation 36(10);

- (ff) amounts deducted from common equity tier 1 capital in respect of expected losses that exceed the eligible provisions of a bank that adopted the IRB approach for the calculation of the bank's exposure to credit risk;
 - (gg) other amounts deducted from common equity tier 1 capital, including goodwill and specified investments;
 - (ii) the amount relating to additional tier 1 capital and reserve funds, including information in respect of:
 - (aa) paid-up capital;
 - (bb) relevant reserve funds;
 - (cc) relevant minority interests in the equity of fully consolidated subsidiaries in relation to instruments issued to third parties;
 - (dd) other instruments qualifying as additional tier 1 capital;
 - (ee) any relevant amount of surplus capital from insurance companies, calculated in accordance with the provisions of regulation 36(10);
 - (ff) amounts deducted from additional tier 1 capital;
 - (iii) the relevant amounts relating to tier 2 capital;
 - (iv) the relevant amounts relating to deductions from the bank's tier 2 capital and reserve funds;
 - (v) the relevant amount relating to total qualifying capital and reserve funds;
 - (vi) a full reconciliation between all instruments and reserves qualifying as capital and reserve funds in terms of the provisions of these Regulations and the balance sheet in the audited financial statements;
 - (vii) all adjustments to qualifying capital and reserve funds other than the relevant items or deductions specified above, including any relevant amount related to limited recognition as envisaged in regulation 38(5)(b);
- (iii) liquidity.

(d) Types of risk to which the bank is exposed

In respect of each type of risk envisaged in regulation 39(3), that is, for example, credit risk, market risk, operational risk, interest-rate risk in the bank's banking book or currency risk, a bank shall disclose sufficiently detailed information in respect of the bank's risk-management objectives and policies, including information in respect of-

- (i) the bank's strategies and processes;
- (ii) the structure and organisation of the relevant risk management functions;
- (iii) the scope and nature of the bank's risk reporting and/or risk-measurement systems;
- (iv) the bank's policies relating to hedging and/or risk mitigation and the bank's strategies and processes in order to monitor the continued effectiveness of hedges or risk-mitigation instruments.

(e) Nature and extent of risk exposures, including-

- (i) credit risk;

A bank shall in the case of-

- (A) credit risk exposures, excluding credit risk arising from positions held in equity instruments, disclose to the public the qualitative and quantitative information specified below:

- (i) Qualitative information

A bank-

- (aa) shall in addition to the information specified in paragraph (d) above, disclose to the public sufficiently detailed information in respect of-

- (i) the bank's accounting definitions in respect of past due and impaired exposure;
- (ii) the approaches adopted by the bank in respect of credit impairment, including specific and portfolio impairment, and general allowance, as well as relevant information in respect of the statistical methods applied by the bank;
- (iii) the bank's credit risk management policy;

(bb) that partially adopted either the foundation IRB or advanced IRB approach shall provide a description of the nature of exposures within each relevant portfolio that are subject to-

- (i) the standardised approach;
- (ii) the foundation IRB approach;
- (iii) the advanced IRB approach,

and by which date the bank expects to adopt a particular IRB approach in respect of all its credit exposures.

(ii) Quantitative information

A bank-

(aa) shall in respect of its major types of credit exposure disclose to the public sufficiently detailed information relating to-

- (i) the aggregate amount of gross credit exposure after the effect of set-off in accordance with the requirements of Financial Reporting Standards have been taken into consideration but before the effects of credit risk-mitigation techniques such as collateral or netting have been taken into account;
- (ii) the bank's average amount of gross exposure during the reporting period, which average gross exposure amount shall be calculated on a daily average basis, unless the exposure at the end of a particular reporting period in all material respects represents the average credit exposure amount during the said reporting period in which case the bank need not disclose the said average exposure amount, provided that when the bank is unable to calculate an average exposure amount on a daily average basis the bank shall disclose to the public the basis on which it calculated such average exposure amounts;
- (iii) the geographical distribution of its credit exposures, which distribution shall be based on the relevant requirements specified in the form BA 210 and in regulation 24;

- (iv) the distribution of exposures based on industry or counterparty type;
 - (v) the maturity breakdown of the bank's credit portfolio, which maturity breakdown shall be based on the residual contractual maturity of the said exposures;
- (bb) shall in respect of each major industry, counterparty type or geographical area disclose to the public sufficiently detailed information in respect of the aggregate amount relating to -
- (i) impaired loans and past due loans, including an analysis of the ageing of past-due loans;
 - (ii) any credit impairment, including any specific or portfolio impairment;
 - (iii) any specific or portfolio impairment raised and amounts written off during the current reporting period,

provided that the bank shall separately disclose the unallocated portion of general allowances, that is, the portion of general allowances not allocated to a specific industry, counterparty or geographical area;

- (cc) shall provide a reconciliation of changes in specific impairment or portfolio impairment, or general allowance, which reconciliations shall include-
- (i) a description of the type of impairment or allowance;
 - (ii) the relevant opening balance;
 - (iii) amounts written off against the relevant specific impairment or portfolio impairment, or allowance, during the reporting period;
 - (iv) amounts transferred to or reversed against the relevant specific impairment or portfolio impairment, or allowance, during the reporting period;
 - (v) any other adjustments such as exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, including transfers between the relevant specific impairment or portfolio impairment, or allowances;

(vi) the relevant closing balance,

provided that the bank shall separately disclose any amounts written off or recoveries that have been recorded directly in the income statement;

(dd) shall in respect of each relevant credit portfolio disclose to the public the relevant amounts of exposure that are subject to-

(i) the standardised approach;

(ii) the foundation IRB approach;

(iii) the advanced IRB approach.

(B) portfolios subject to the standardised approach or the standardised risk grades relating to specialised lending in terms of the IRB approach specified in regulation 23(11)(d)(iii), disclose to the public the qualitative and quantitative information specified below:

(i) Qualitative information

A bank shall in the case of credit portfolios subject to the standardised approach or the standardised risk grades relating to specialised lending in terms of the IRB approach specified in regulation 23(11)(d)(iii) disclose to the public sufficiently detailed information in respect of-

(aa) the names of the external credit assessment institutions or export credit agency used by the bank, and in the case of any changes made by the bank in respect of external credit assessment institutions or export credit agencies, the reasons for such change;

(bb) the types of exposure for which the bank uses a particular agency;

(cc) the process followed by the bank to assign publicly issued ratings to comparable assets in the bank's banking book;

(dd) any mapping of exposures, that is, the alignment between the alphanumerical rating scale of each relevant rating agency used by the bank and the bank's relevant risk categories, unless the bank conducts its mapping of credit exposures in accordance with the mapping procedures specified by the Registrar from time to time;

(ee) the risk weights associated with a particular rating grade or risk category.

(ii) Quantitative information

A bank shall in the case of-

- (aa) exposure subject to the standardised approach, separately disclose to the public-
 - (i) the outstanding amounts after risk mitigation in respect of rated and unrated exposures relating to each relevant risk category;
 - (ii) any exposure amount that is deducted from the bank's capital and reserve funds;
 - (bb) exposures subject to the standardised risk weights in terms of the IRB approach specified in regulation 23(11)(d)(iii) and equity exposures subject to the simple risk weight method, disclose to the public the aggregate outstanding amount in respect of each relevant risk category;
- (C) portfolios subject to one or both of the IRB approaches, that is, the foundation or advanced IRB approach, disclose to the public the qualitative and quantitative information specified below:
 - (i) Qualitative information

A bank-

 - (aa) shall disclose to the public relevant information in respect of the approval granted by the Registrar for the bank to apply a particular IRB approach for the measurement of the bank's exposure to credit risk, including relevant details when the Registrar granted approval for a transition period to implement a particular IRB approach;
 - (bb) shall provide sufficiently detailed information, that is, as a minimum, an explanation and review of-
 - (i) the structure of the bank's internal rating systems and the relationship between internal and external ratings;
 - (ii) the use by the bank of internal risk estimates other than for the calculation of the bank's capital requirement in terms of the IRB approach;
 - (iii) the bank's process in order to manage and recognise credit risk mitigation instruments;

- (iv) the bank's control mechanisms in respect of its rating system, including information relating to matters such as independence, accountability and the review of the rating systems;
- (cc) shall provide separate descriptions in respect of the bank's internal rating processes relating to-
 - (i) corporate exposure, including exposures to SMEs, specialised lending and purchased corporate receivables, and sovereign and bank exposure;
 - (ii) equity exposure when the bank adopted the PD/LGD approach in respect of equity instruments held in the bank's banking book;
 - (iii) residential mortgage exposure;
 - (iv) qualifying revolving retail exposure;
 - (v) other retail exposure;

which description shall in the case of each portfolio include sufficiently detailed information in respect of-

- (a) the types of exposure included in the portfolio;
- (b) the definitions, methods and data used to estimate and validate the bank's PD ratios and in the case of portfolios subject to the advanced IRB approach, the LGD ratios and/or EAD amounts, including any assumptions made by the bank in respect of the relevant risk components, provided that the bank is not required to provide a detailed description of the model used by the bank;
- (c) any approval obtained from the Registrar to deviate from the definition of default specified in regulation 67, including information relating to the broad segments of the portfolio(s) affected by such a deviation(s).

(ii) Quantitative information relating to the bank's assessment of risk

A bank-

(aa) shall in respect of each relevant portfolio other than retail exposure specified in sub-item (i)(cc) above, disclose to the public the information specified below, which information shall be provided across a sufficient number of PD grades, including exposures that are in default, to provide a meaningful distribution of risk, provided that the information relating to PD ratios, LGD ratios and EAD amounts shall reflect the effects of eligible risk mitigation instruments and each PD grade shall include the exposure weighted average PD for a particular risk grade.

(i) The total outstanding amount, that is, in the case of-

(a) corporate, sovereign and bank exposure, the total outstanding amount plus the relevant EAD amount in respect of undrawn commitments;

(b) equity exposure, the outstanding amount;

(ii) In the case of a bank that adopted the advanced IRB approach, the exposure-weighted average LGD ratio, which LGD ratio shall be expressed as a percentage;

(iii) The exposure weighted average risk weight.

(bb) that adopted the advanced IRB approach, shall disclose to the public-

(i) the amount in respect of undrawn commitments; and

(ii) in respect of each relevant portfolio, the exposure-weighted average EAD amounts,

provided that the bank may provide only one estimate of the EAD amount in respect of a particular portfolio or, when the bank is of the opinion that more detailed disclosure will ensure a better assessment of risk, disclose EAD estimates across a number of EAD categories;

(cc) shall in the case of each retail portfolio specified in sub-item (i)(cc) above, on a pool basis, either disclose-

(i) the information specified in sub-item (ii)(aa) above, that is, the same information relating to PD ratios, LGD ratios and EAD amounts as for non-retail exposure; or

(ii) an analysis of outstanding loans and EAD amounts in respect of commitments, against a sufficient number of expected loss risk grades in order to

CONTINUES ON PAGE 962—PART 7



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ensure a meaningful distribution of risk.

(iii) Quantitative information relating to historical results

A bank shall in respect of each relevant portfolio specified in sub-item (i)(cc) above-

(aa) disclose to the public the amount of actual losses, that is, amounts written off and specific provisions raised, in respect of the period preceding the current financial year, including sufficiently detailed information in respect of-

- (i) the extent to which the said amounts differed from the bank's past experience;
- (ii) the factors that impacted on the bank's loss experience during the period preceding the current financial year, that is, did the bank, for example, experience higher than average default rates or higher than average LGD ratios or EAD amounts.

(bb) provide a comparison between the bank's risk estimates and the actual outcomes over a sufficiently long period to provide a meaningful assessment of the performance of the bank's internal rating processes, provided that a bank that adopted-

- (i) the foundation IRB approach shall, when appropriate, such as in the case of material differences, further decompose the said information and provide an analysis of PD ratios and reasons for material differences;
- (ii) the advanced IRB approach shall, when appropriate, such as in the case of material differences, further decompose the said information and provide an analysis of actual PD ratios, LGD ratios and EAD outcomes compared to the bank's estimated risk components, provided that the bank shall provide reasons for any material differences.

- (D) credit risk mitigation in terms of the standardised or IRB approach, excluding any risk mitigation that falls within the ambit of the exemption notice relating to securitisation schemes, disclose to the public sufficiently detailed information in respect of the qualitative and quantitative information specified below:

(i) Qualitative information

A bank shall in addition to the information specified in paragraph (d) above, disclose to the public sufficiently detailed information in respect of-

- (aa) the bank's policies and processes relating to on- and off-balance sheet netting, including the extent to which the bank makes use of on- and off-balance sheet netting when the bank determines its exposure to credit risk;
- (bb) the bank's policies and processes relating to the valuation and management of collateral, including a description of the main types of collateral accepted by the bank;
- (cc) the main types of guarantors or credit-derivative counterparties involved in the bank's risk mitigation activities, and the creditworthiness of the said parties;
- (dd) any risk concentration incurred in respect of the bank's risk mitigation activities.

(ii) Quantitative information

A bank shall in respect of each separately identified credit portfolio in terms of the standardised or foundation IRB approach disclose to the public the bank's total exposure after the effect of any on- or off- balance sheet netting has been taken into consideration, with an indication of exposures protected by way of-

- (aa) eligible financial collateral, after the effect of any haircuts has been taken into consideration;
- (bb) other eligible IRB collateral, that is, collateral that qualifies as eligible collateral in terms of the IRB approach in addition to eligible financial collateral, after the effect of any haircuts or adjustments to the exposure has been taken into consideration;
- (cc) guarantees or credit-derivative instruments.

- (E) exposure to counterparty credit risk, disclose to the public sufficiently detailed information in respect of the qualitative and quantitative information specified below:

(i) Qualitative information

In respect of derivative instruments and exposures relating to counterparty credit risk, a bank shall in addition to the information specified in paragraphs (d) and (e)(i)(A) above, disclose to the public sufficiently detailed information relating to-

- (aa) the methodology adopted by the bank in order to assign economic capital and credit limits in respect of the bank's exposure to counterparty risk;
- (bb) the bank's policies in order to secure collateral and to establish adequate credit reserves;
- (cc) the bank's policies with respect to the identification, measurement and control of wrong-way risk exposure;
- (dd) the estimated amount of collateral the bank would have to provide in the case of a credit rating downgrade.

(ii) Quantitative information

A bank-

- (aa) shall disclose to the public sufficiently detailed information relating to-
 - (i) the gross positive fair value of all relevant contracts that expose the bank to counterparty credit risk;
 - (ii) any relevant netting benefits;
 - (iii) the net amount of current credit exposure;
 - (iv) collateral held, including the type of collateral held, such as cash or government securities;
 - (v) the net amount of derivative credit exposure, that is, the amount of credit exposure in respect of derivative transactions after the benefits relating to legally enforceable netting agreements and collateral arrangements have been taken into consideration;
 - (vi) the notional value of credit derivative hedges;
 - (vii) the distribution of current credit exposure, which distribution shall be based on the relevant types of credit exposure, that is, for example, interest rate

contracts, FX contracts, equity contracts, credit derivative instruments or commodity contracts.

- (bb) shall in respect of the current exposure method, standardized method or internal model method, as the case may be, disclose to the public sufficiently detailed information relating to the relevant exposure amount or EAD, that is, the estimated exposure at default;
 - (cc) shall, based on the relevant types of credit derivative product, that is, for example, credit default swaps or total return swaps, disclose to the public sufficiently detailed information relating to credit derivative transactions or contracts that expose the bank to counterparty credit risk, including any relevant notional amounts, provided that within the said product type the bank shall distinguish between-
 - (i) instruments used as part of the bank's own credit portfolio and instruments used as part of the bank's intermediation activities;
 - (ii) protection bought and protection sold.
 - (dd) that obtained the approval of the Registrar to estimate an alpha factor for the measurement of the bank's exposure to counterparty credit risk shall disclose the bank's said estimate of alpha.
- (F) credit risk arising from positions held in equity instruments, disclose to the public the qualitative and quantitative information specified in subparagraph (ii) below.
- (ii) market risk;

A bank-

- (A) that adopted the standardised approach specified in regulation 28(7) for the measurement of the bank's exposure to market risk in respect of positions held in the bank's trading book shall disclose to the public sufficiently detailed information in respect of the qualitative and quantitative information specified below:

(i) Qualitative information

A bank shall in addition to the qualitative information specified in paragraph (d) above, disclose to the public information relating to the portfolios/instruments that are subject to the standardised approach.

(ii) Quantitative information

A bank shall disclose to the public sufficiently detailed quantitative information in respect of the bank's capital requirement relating to:

- (aa) interest-rate products, provided that the bank shall separately disclose its relevant required amount of capital and reserve funds related to securitised or resecuritised instruments or positions in accordance with the relevant requirements specified in subparagraph (vi) below;
- (bb) equity positions;
- (cc) positions in foreign exchange; and
- (dd) commodities.

(B) that adopted the internal models approach specified in regulation 28(8) for the measurement of the bank's exposure to market risk in respect of positions held in the bank's trading book shall disclose to the public sufficiently detailed information in respect of the qualitative and quantitative information specified below:

(i) Qualitative information

A bank-

- (aa) shall in addition to the qualitative information specified in paragraph (d) above, disclose to the public sufficiently detailed information in respect of the portfolios/instruments that are subject to the internal models approach;
- (bb) shall in respect of each relevant portfolio subject to the internal models approach provide a description of-
 - (i) the key characteristics of the model(s) used by the bank;
 - (ii) the stress testing applied by the bank to a particular portfolio;

- (iii) the approach adopted by the bank in order to backtest or validate the accuracy and consistency of the internal model(s) and modelling processes used by the bank.
- (cc) shall disclose to the public sufficiently detailed information in respect of the (extent of) approval obtained from the Registrar to apply the internal models approach in respect of positions held by the bank in its trading book;
- (dd) shall in respect of the bank's incremental risk capital requirement and its comprehensive risk capital requirement disclose to the public sufficiently detailed information in respect of the methodologies used and the risks measured through the use of the bank's internal models, including-
 - (i) the approach used to determine liquidity horizons;
 - (ii) the methodologies used to achieve a capital assessment that is consistent with the required soundness standard; and
 - (iii) the approaches used in the validation of the models.
- (ii) Quantitative information

A bank shall in respect of each relevant portfolio subject to the internal models approach-

- (aa) disclose to the public sufficiently detailed information in respect of the high, mean and low value-at-risk (VaR) amounts of the reporting bank during the relevant reporting period and as at the end of the reporting period;
- (bb) disclose to the public sufficiently detailed information in respect of the high, mean and low stressed value-at-risk (sVaR) amounts of the reporting bank during the relevant reporting period and as at the end of the reporting period;
- (cc) disclose to the public sufficiently detailed information in respect of the high, mean and low amounts of required capital and reserve funds related to incremental risk and comprehensive risk during the relevant reporting period and as at the end of the reporting period;
- (dd) provide a detailed comparison between value-at-risk estimates and actual gains/losses experienced by the bank;
- (ee) provide an analysis of important "outliers" identified during the bank's backtesting process.

- (C) shall in respect of equity positions held in the bank's banking book disclose to the public sufficiently detailed information in respect of the qualitative and quantitative information specified below:

(i) Qualitative information

A bank shall in addition to the qualitative information specified in paragraph (d) above, disclose to the public sufficiently detailed information in respect of the bank's accounting policies, including-

- (aa) the manner in which the bank values and accounts for equity positions held in the banking book, that is, the accounting technique and valuation methodology used by the bank;
- (bb) key assumptions made and practices adopted by the bank, which practices may affect the valuation of the said equity positions, and any significant changes made by the bank in respect of the said practices,

provided that the bank shall differentiate between equity positions in respect of which the bank expects to realise capital gains and equity positions held for other reasons, such as strategic positioning or in order to establish a particular relationship.

(ii) Quantitative information

A bank-

- (aa) shall disclose to the public-

- (i) the value at which investments held in the bank's banking book is disclosed in the bank's balance sheet, and the fair value of the said investments, provided that when the share price of listed instruments materially differs from the fair value of the instruments the bank shall provide a comparison between the listed share price and the fair value of the said instruments;
- (ii) the cumulative amount of gains/losses realised by the bank from the sale/liquidation of positions held in the bank's banking book during the current reporting period;

- (iii) the total amount relating to unrealised gains/losses, that is, unrealised gains/losses recognised directly in the bank's balance sheet instead of being recognised in the bank's income statement;
 - (iv) the total amount relating to latent revaluation gains/losses, that is, unrealised gains/losses not recognised in either the bank's balance sheet or income statement;
 - (v) the extent to which the bank included unrealised gains/losses referred to in items (iii) and (iv) above in tier 1 or tier 2 capital and reserve funds of the bank;
 - (vi) based on the approach adopted by the bank, the bank's capital requirement in respect of the various equity positions held in the bank's banking book;
- (bb) shall distinguish between the various types of instrument held in the bank's banking book, and the nature of the said investments, including the amounts relating to-
 - (i) publicly traded instruments; and
 - (ii) privately traded instruments.
- (iii) liquidity risk;
- (iv) interest-rate risk;

A bank shall in respect of positions held in the bank's banking book-

- (A) in addition to the qualitative information specified in paragraph (d) above, disclose to the public sufficiently detailed qualitative information relating to-
 - (i) the nature of the bank's exposure to interest-rate risk;
 - (ii) key assumptions made by the bank, including assumptions relating to loan prepayments and the behaviour of core deposits, that is, deposits that are not drawn in accordance with the contractual provisions of the deposits and which deposits are regarded as "permanent" funding;
 - (iii) the frequency with which the bank measures its exposure to interest-rate risk.

- (B) disclose to the public, quantitative information in respect of the increase or decrease in earnings, economic value or the relevant measure used by the management of the bank, relating to a standardised upward and downward interest rate shock specified in the form BA 330 or in writing by the Registrar, provided that the bank shall break the required information down based on each relevant currency.

(v) operational risk;

A bank-

- (A) shall in addition to the qualitative information specified in paragraph (d) above, disclose to the public sufficiently detailed information relating to the approach(es) adopted by the bank for the measurement of the bank's exposure to operational risk, provided that a bank that obtained the approval of the Registrar to apply different approaches for the measurement of the bank's exposure to operational risk shall provide sufficiently detailed information in respect of the scope and coverage of the different approaches used by the bank;
- (B) that adopted the advanced measurement approach for the measurement of the bank's exposure to operational risk shall provide a sufficiently detailed description of-
 - (i) the advanced measurement approach applied by the bank, including a discussion of relevant internal and external factors considered by the bank;
 - (ii) insurance obtained by the bank in order to mitigate the bank's exposure to operational risk.

(vi) securitisation or resecuritisation;

A bank that adopted the standardised approach or IRB approach for the measurement of the bank's exposure to risk arising from a traditional or synthetic securitisation scheme or resecuritisation exposure shall disclose to the public the qualitative and quantitative information specified below, provided that, where relevant or specified below or directed in writing by the Registrar, the bank shall separately disclose qualitative and quantitative information related to the securitisation and resecuritisation positions held in the bank's banking book and its trading book.

(A) Qualitative information

A bank-

- (i) shall in addition to the information specified in paragraph (d) above, disclose to the public sufficiently detailed information in respect of-

(aa) the bank's objectives in respect of securitisation schemes or resecuritisation exposure, including the extent to which the bank successfully achieves a transfer of credit risk to external entities or persons;

(bb) the types of risk assumed or retained by the bank in respect of securitisation or resecuritisation exposure.

For example, when a bank actively participates in the market of the senior tranche of resecuritisation exposures of mezzanine tranches related to securitisations of residential mortgages, the bank shall describe the structure of the relevant resecuritisations, such as senior tranche of mezzanine tranche of residential mortgages, which information shall be provided for the main categories of resecuritisation products in which the bank is active.

(cc) the nature of other risks inherent in the bank's securitised or resecuritised assets or exposure, such as liquidity risk or reputational risk;

(dd) the various role(s) played by the bank in respect of a securitisation scheme or resecuritisation exposure, with an indication of the extent of the bank's involvement in each of the said roles played. For example, the role of-

(i) an originator;

(ii) an investor;

(iii) a servicer;

(iv) a provider of credit enhancement;

(v) a sponsor of an asset-backed commercial paper facility;

(vi) a liquidity provider;

(vii) a swap provider,

(ee) the processes in place to monitor changes in the credit and market risk exposures related to or arising from the bank's relevant securitisation or resecuritisation

exposures, including how the aforesaid processes differ for resecuritisation exposures.

This includes, for example, how the behaviour of the underlying assets impacts the bank's securitisation exposures.

- (ff) the bank's policy governing the use of credit risk mitigation to mitigate the risks retained through securitisation or resecuritisation exposures;
 - (gg) the approach adopted by the bank in respect of its exposures arising from securitisation or resecuritisation activities, including the type of securitisation or resecuritisation exposures to which the said approach applies, that is, whether the bank, for example, adopted the standardised approach, the ratings-based approach, the internal assessment approach or the standard formula approach.
- (ii) shall provide a list of-
- (aa) the names and types of special-purpose institutions in respect of which the bank acts as a sponsor to securitise third-party exposures, and indicate whether the bank has exposure to the said special-purpose institutions, either on-balance sheet or off-balance sheet;
 - (bb) affiliated entities-
 - (i) that the bank manages or advises; and
 - (ii) that invest either in the securitisation exposures securitised by the bank or in special-purpose institutions in respect of which the bank acts as a sponsor;
- (iii) shall provide summary information in respect of the bank's accounting policies relating to its securitisation or resecuritisation activities, including-
- (aa) whether the said securitisation or resecuritisation transactions are treated as sales or financing;
 - (bb) information relating to the recognition of gains in respect of sales;

- (cc) key assumptions made and methods used by the bank when the bank values retained or purchased interests or positions, including any significant changes to the aforesaid, made by the bank since the previous reporting period, and the impact of the said changes, provided that, when relevant, the bank shall duly distinguish between the valuation of securitised exposures and resecuritised exposures;
 - (dd) the manner in which the bank treats exposures that arise from a synthetic securitisation scheme or resecuritisation structure, unless such information is disclosed as part of other accounting policies, such as policies in respect of derivative instruments;
 - (ee) the manner in which the bank values exposures intended to be securitised or resecuritised, such as exposures related to the bank's pipeline or warehouse activities, and whether the said exposures are included in the bank's banking book or trading book;
 - (ff) the bank's policies for recognising on-balance-sheet liabilities related to or arising from arrangements, contracts or agreements that could require the bank to provide financial support for securitised or resecuritised assets or exposures.
- (iv) shall disclose the names of external credit assessment institutions used by the bank in respect of securitisation or resecuritisation transactions, and the types of securitisation or resecuritisation exposure for which a particular agency is used;
 - (v) shall in relevant cases provide a description of its process related to the internal assessment approach, including-
 - (aa) the structure of the internal assessment process and the relation between internal assessment and external ratings, including the information specified in sub-item (iv) above related to the use of external credit assessment institutions;
 - (bb) the use of the bank's internal assessment approach, other than for the purpose of calculating the bank's required capital and reserve funds relating to securitisation or resecuritisation exposure;

- (cc) the control mechanisms in place for the internal assessment process, including matters related to independence, accountability and internal assessment process review;
- (dd) the exposure type to which the internal assessment process is applied, such as, for example, credit cards, mortgage loans and instalment sales and leasing;
- (ee) the stress factors used for determining credit enhancement levels, which information shall be disclosed by exposure type.

Provided that the bank shall disclose to the public sufficiently detailed explanatory information when significant changes to any of the aforesaid qualitative or quantitative information occurred since the previous reporting period.

(B) Quantitative information

A bank-

- (i) shall in respect of exposures securitised or resecuritised, which exposures are held in the bank's banking book and are subject to the exemption notice relating to securitisation schemes, based on the exposure or asset type, that is, for example, exposures relating to credit cards, residential mortgage loans or vehicle finance, disclose to the public-
 - (aa) the total outstanding amount in respect of the exposures securitised or resecuritised by the bank, provided that the bank-
 - (i) shall duly distinguish between exposures relating to a traditional securitisation scheme and exposures related to a synthetic securitisation scheme;
 - (ii) shall separately disclose the required information related to the securitisation of third-party exposures in respect of which the bank acts only as a sponsor;
 - (bb) the aggregate amount in respect of-
 - (i) impaired or past due assets securitised;
 - (ii) losses recognised by the bank during the current reporting period, including, for example, amounts written off or provisions raised for potential loss in respect of exposures that remained on the bank's balance sheet or credit-enhancing interest-only strips, that is, an on-balance sheet asset that is based on the valuation of future cash flows related to margin income, which asset is subordinated, and other residual interests;

- (iii) exposures retained or purchased, including, for example, commercial paper issued by the relevant special-purpose institution, liquidity facilities, credit enhancement such as interest-only strips, cash collateral accounts and other subordinated instruments;
 - (iv) on-balance-sheet securitisation or resecuritisation exposure retained or purchased;
 - (v) off-balance-sheet securitisation or resecuritisation exposure;
 - (vi) exposures intended to be securitised or resecuritised within the six-month period following the disclosure date;
 - (cc) summary information in respect of securitisation or resecuritisation transactions concluded during the current reporting period, including the relevant aggregate amount of exposures securitised or resecuritised, and any related recognised gains or losses on sale;
- (ii) shall in respect of exposures held in the bank's banking book separately disclose information relating to-
- (aa) a securitisation or resecuritisation transaction in respect of which the bank acted as an originator but in respect of which the bank did not retain any exposure, provided that the said information shall be reported only in respect of the reporting period during which the securitisation or resecuritisation transaction was concluded;
 - (bb) transactions in respect of which the bank acts only as a sponsor;
- (iii) that adopted the IRB approach for the measurement of the bank's exposure to risk relating to assets or exposures securitised or resecuritised, held in the bank's banking book-
- (aa) shall in addition to the aggregate amount of exposures retained or purchased disclose to the public the associated IRB capital requirement in respect of the said exposure(s), provided that the bank-

- (i) shall break the required information down into a meaningful number of risk categories in respect of each relevant approach, that is, for example, the ratings-based approach, internal assessment approach or the standard formula approach;
 - (ii) shall, based on the underlying asset or exposure type, separately disclose information relating to exposures deducted from tier 1 capital and reserve funds and from tier 2 capital and reserve funds.
- (bb) based on the underlying asset or exposure type, shall in the case of securitisation or resecuritisation exposures that are subject to an early amortisation mechanism, disclose to the public the aggregate amount relating to-
 - (i) drawn exposures attributed to the seller's and the investors' interests;
 - (ii) the capital and reserve funds required to be maintained by the bank in respect of the bank's retained share of the drawn balances and undrawn commitments, that is, the seller's interest;
 - (iii) the capital and reserve funds required to be maintained by the bank in respect of the investor's shares of drawn amounts and undrawn commitments.

Provided that the bank shall duly distinguish between assets or exposures securitised and assets or exposures resecuritised.

- (iv) that adopted the standardised approach for the measurement of the bank's exposure to risk relating to assets or exposures securitised or resecuritised, held in the bank's banking book-
 - (aa) shall in addition to the aggregate amount of exposures retained or purchased disclose to the public the associated capital requirement relating to the said exposure(s), provided that the bank-
 - (i) shall break the required information down into a meaningful number of risk categories;
 - (ii) shall, based on the underlying asset or exposure type, separately disclose information relating to exposures deducted from tier 1 capital and reserve funds and from tier 2 capital and reserve funds.

(bb) based on the underlying asset or exposure type, shall in the case of securitisation or resecuritisation exposures that are subject to an early amortisation mechanism, disclose to the public the aggregate amount relating to-

- (i) drawn exposures attributed to the seller's and the investors' interests;
- (ii) the capital and reserve funds required to be maintained by the bank in respect of the bank's retained share of the drawn balances and undrawn commitments, that is, the seller's interest;
- (iii) the capital and reserve funds required to be maintained by the bank in respect of the investor's shares of drawn amounts and undrawn commitments.

Provided that the bank shall duly distinguish between assets or exposures securitised and assets or exposures resecuritised.

(v) shall in respect of exposures securitised or resecuritised, which exposures are held in the bank's trading book and are subject to the exemption notice relating to securitisation schemes, based on the exposure or asset type, that is, for example, exposures relating to credit cards, residential mortgage loans or vehicle finance, disclose to the public-

(aa) the total outstanding amount in respect of the exposures securitised or resecuritised by the bank, provided that the bank-

- (i) shall duly distinguish between exposures relating to a traditional securitisation scheme and a synthetic securitisation scheme;
- (ii) shall separately disclose the relevant required information related to the securitisation of third-party exposures in respect of which the bank acts only as a sponsor;

(bb) the aggregate amount in respect of-

- (i) exposures securitised or resecuritised and in respect of which the bank retained some exposures and which exposures are subject to the relevant requirements specified in regulation 28;
- (ii) on-balance-sheet securitisation or resecuritisation exposure retained or purchased;
- (iii) off-balance-sheet securitisation or resecuritisation exposure;

- (iv) exposures intended to be securitised or resecuritised within the six-month period following the disclosure date.

Provided that in respect of exposures retained or purchased, the bank shall separately disclose the relevant required information in respect of exposures subject to the comprehensive risk measurement approach for specific risk;

- (cc) summary information in respect of securitisation or resecuritisation transactions concluded during the current reporting period, including the relevant aggregate amount of exposures securitised or resecuritised, and any related recognised gains or losses on sale;
- (vi) shall in respect of securitisation or resecuritisation exposures held in the bank's trading book, which exposures are subject to the comprehensive risk measurement approach, disclose to the public the relevant required amount of capital and reserve funds, broken down into the relevant risk classifications, that is, for example, default risk, migration risk and correlation risk;
- (vii) shall in respect of securitisation or resecuritisation exposures retained or purchased, which exposures are held in the bank's trading book, disclose to the public the relevant aggregate amount of exposures held and the relevant required amount of capital and reserve funds, broken down into a meaningful number of risk categories for each relevant approach, that is, for example, the standardised approach, the ratings-based approach or the standard formula approach;
- (viii) shall in respect of securitisation or resecuritisation exposures held in the bank's trading book, based on the exposure or asset type, separately disclose to the public the relevant aggregate amounts of exposures deducted from tier 1 capital and reserve funds and from tier 2 capital and reserve funds;
- (ix) shall in the case of securitisation or resecuritisation exposures held in the bank's trading book, which exposures are subject to an early amortisation mechanism, based on the relevant asset or exposure type, disclose to the public the aggregate amount relating to-
 - (aa) drawn exposures attributed to the seller's and the investors' interests;
 - (bb) the capital and reserve funds required to be maintained by the bank in respect of the bank's retained share of the drawn balances and undrawn commitments, that is, the seller's interest;
 - (cc) the capital and reserve funds required to be maintained by the bank in respect of the investor's shares of drawn amounts and undrawn commitments;

(x) shall in the case of resecuritisation exposures retained or purchased, irrespective whether the position is held in the bank's banking book or trading book, separately disclose to the public the relevant aggregate amount of-

- (aa) exposures in respect of which the bank obtained credit protection to mitigate its exposure to risk;
- (bb) exposures in respect of which the bank did not obtain any credit protection to mitigate its exposure to risk;
- (cc) exposure to guarantors, broken down according to the relevant types of guarantors.

Provided that the bank shall duly distinguish between exposures held in the bank's banking book and its trading book.

(vii) other material risks to which the bank is exposed;

(f) Remuneration

With regards to a bank's remuneration policies, processes and procedures, a bank shall disclose to the public sufficiently detailed qualitative and quantitative information-

(i) in respect of-

- (A) the bank's relevant governance and/or committee structures;
- (B) the design and operation of the bank's remuneration structure, and the frequency of review;
- (C) the independence of remuneration for risk and compliance staff;
- (D) the relevant risk adjustment methodologies;
- (E) the link between remuneration and performance;
- (F) the relevant long-term performance measures, such as deferral, malus or clawback;
- (G) the relevant types of remuneration, such as cash versus equity, and fixed versus variable;

- (ii) which qualitative information, as a minimum, shall include-
 - (A) information relating to the relevant bodies that oversee the bank's remuneration, including-
 - (i) the relevant name, composition and mandate of the main body overseeing remuneration;
 - (ii) external consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process;
 - (iii) a description of the scope of the bank's remuneration policy, for example, by regions and business lines, including the extent to which it is applicable to foreign subsidiaries and branches;
 - (iv) a description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each relevant group;
 - (B) information relating to the design and structure of the bank's remuneration processes, including
 - (i) an overview of the key features and objectives of the bank's remuneration policy;
 - (ii) whether the remuneration committee reviewed the bank's remuneration policy during the past year, and if so, an overview of any material changes that were made;
 - (iii) a discussion of how the bank ensures that risk and compliance employees are remunerated independently of the relevant businesses they oversee;
 - (C) a description of the ways in which current and future risks are taken into account in the bank's remuneration processes, including-
 - (i) an overview of the key risks that the bank takes into account when implementing remuneration measures;
 - (ii) an overview of the nature and type of the key measures used to take account of the said risks, including risks difficult to measure;
 - (iii) a discussion of the ways in which the said measures affect remuneration;
 - (iv) a discussion of how the nature and type of the said measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration;
 - (D) a description of the manner in which the bank seeks to link performance during a performance measurement period with levels of remuneration, including-

- (i) an overview of main performance metrics for bank, top-level business lines and individuals;
 - (ii) a discussion of how amounts of individual remuneration are linked to bank-wide and individual performance;
 - (iii) a discussion of the measures the bank in general implement to adjust remuneration in the event that performance metrics are weak, including the bank's criteria for determining "weak" performance metrics;
- (E) a description of the manner in which the bank seeks to adjust remuneration to take account of longer-term performance, including-
 - (i) a discussion of the bank's policy on deferral and vesting of variable remuneration, and when the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance;
 - (ii) a discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and, when relevant, after vesting through, for example, clawback arrangements;
- (F) a description of the different forms of variable remuneration that the bank utilises, and the rationale for using such different forms of variable remuneration, including-
 - (i) an overview of the respective forms of variable remuneration offered, that is, for example, cash, shares and share-linked instruments, or other forms, with a sufficiently detailed description of the core elements of such other forms;
 - (ii) a discussion of the use of the different forms of variable remuneration and, when the mix of different forms of variable remuneration differs across employees or groups of employees, a description of the factors that determine the mix and their relative importance;
- (iii) which quantitative information shall relate to and separate between the bank's senior management and other employees whose actions may have a material impact on the bank's exposure to risk, and, as a minimum, shall include-

- (A) the relevant number of-
- (i) meetings held by the main body overseeing remuneration during the financial year, and the remuneration paid to its members;
 - (ii) employees who received a variable remuneration award during the financial year;
- (B) the relevant number of and total amount related to-
- (i) guaranteed bonuses awarded during the financial year;
 - (ii) sign-on awards made during the financial year;
 - (iii) severance payments made during the financial year;
- (C) the relevant total amount of-
- (i) outstanding deferred remuneration, duly distinguishing between cash, shares and share-linked instruments, and other forms of deferred remuneration;
 - (ii) deferred remuneration paid out in the financial year;
- (D) a breakdown of the amount of remuneration awards for the financial year, clearly separating between-
- (i) fixed and variable remuneration;
 - (ii) deferred and non-deferred remuneration; and
 - (iii) the different forms of remuneration used, that is, cash, shares and share-linked instruments, and other forms of remuneration,

as indicated in table 1 below:

Table 1

Total amount of remuneration for the financial year	Unrestricted	Deferred
Fixed remuneration		
<i>of which:</i>		
Cash-based	x	x
Shares and share-linked instruments	x	x
Other	x	x
Variable remuneration		
<i>of which:</i>		
Cash-based	x	x
Shares and share-linked instruments	x	x
Other	x	x

- (E) sufficiently detailed information related to employees' exposure to implicit adjustments, that is, for example, fluctuations in the value of shares or performance units, and explicit adjustments, that is, for example, malus, clawbacks or similar reversals or downward revaluations of awards, of deferred remuneration and retained remuneration, clearly indicating the relevant total amount of-
 - (i) outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments;
 - (ii) reductions during the financial year due to ex post explicit adjustments; and
 - (iii) reductions during the financial year due to ex post implicit adjustments,

Provided that in all relevant cases the bank shall also disclose to the public the relevant comparative quantitative information for the previous year.

- (g) To the extent not already covered by the information required to be disclosed in terms of the provisions of paragraphs (a) to (f) above, an overview of the key aspects relating to-
 - (i) the organisational structure relevant to risk management and control, including relevant risk-management strategies, policies and practices;
 - (ii) the methods used to measure and manage risks;
 - (iii) the principal accounting policies and procedures relevant to the interpretation of the bank's risk exposures; and
 - (iv) basic business, management and corporate governance information;
 - (v) the bank's compensation or remuneration policies, processes and procedures, including sufficiently detailed information related to-
 - (A) the decision-making process used to determine the bank's compensation policy;
 - (B) the most important design characteristics of the compensation system, including-
 - (i) criteria used for performance measurement and risk adjustment;
 - (ii) relevant matters related to the bank's deferral policy and vesting criteria;
 - (iii) the parameters used for allocating cash versus other forms of compensation;
 - (vi) the manner in which the bank treats insurance entities when the bank calculates its required capital and reserve funds.

(3) Subject to such conditions as may be specified in writing by the Registrar, when a bank is controlled by-

- (a) a controlling company;
- (b) another bank; or
- (c) an institution which has been approved by the Registrar and which conducts business similar to the business of a bank in a country other than the Republic,

the requirements specified in subregulations (1) and (2) shall apply to such controlling company, bank or institution, as the case may be, instead of to such bank that is so controlled, provided that control for the purposes of this subregulation (3) means control as defined in section 42(2) of the Act.

44. Annual financial statements

(1) Unless deviation is specifically authorised by the Act or the Registrar, the annual financial statements of a bank or controlling company shall be compiled in accordance with Financial Reporting Standards issued from time to time, with additional disclosure when required, provided that in the absence of a specific Financial Reporting Standard and an approved interpretation reference shall be made to the relevant pronouncements of the International Accounting Standards Board.

(2) When the Act or the Registrar authorises a deviation as envisaged in subregulation (1), the said bank or controlling company shall in writing inform its auditors of such authorisation.

(3) Annual financial statements in respect of all subsidiary companies of a bank or controlling company shall be held available by such a bank or controlling company for submission to the Registrar when required by the Registrar, and the information reported on the respective BA returns shall *inter alia* reflect such financial statements.

(4) When relevant, interim reports of a bank or controlling company shall be prepared in accordance with relevant Financial Reporting Standards issued from time to time in respect of interim reports, with additional disclosure when required, provided that-

- (a) in the absence of a specific Financial Reporting Standard on interim reports in South Africa and an approved interpretation reference shall be made to the relevant pronouncements of the International Accounting Standards Board;
- (b) the said interim reports shall be submitted to the Registrar as soon as they become available.

45. Consolidated financial statements

(1) A bank or in the case of a group of banks the relevant controlling company shall within 120 days of the end of the financial year of such bank or controlling company, as the case may be, furnish the Registrar with consolidated annual financial statements, as prescribed in subregulations (2) and (3), whether or not such bank or controlling company in the preparation of its annual financial statements avails itself of any exemption granted under section 15A(1) of the Companies Act, 1973, or in terms of any relevant provision contained in the Companies Act, 2008, as amended from time to time.

(2) The consolidated annual financial statements referred to in subregulation (1) shall duly present the state of affairs and the results of operations in respect of the banking business and all other business activities conducted by-

- (a) the reporting bank and all its subsidiaries, or the reporting controlling company and all its subsidiaries, as the case may be;
- (b) when applicable, the following associates of such reporting bank and its subsidiaries or of such reporting controlling company and its subsidiaries, as the case may be:
 - (i) a company or other incorporated business undertaking in respect of the issued share capital of which the reporting bank and its subsidiaries or the reporting controlling company and its subsidiaries jointly hold more than 20 per cent but not more than 50 per cent;
 - (ii) a trust or other unincorporated business undertaking in which the reporting bank and its subsidiaries or the reporting controlling company and its subsidiaries jointly hold an interest of more than 20 per cent, whether as beneficiary or ultimate beneficiary in the case of a trust, or as a partner in the case where such other unincorporated business undertaking is a partnership; and
- (c) associates referred to in paragraph (b), the business activities and financial affairs of which the reporting bank and its subsidiaries or the reporting controlling company and its subsidiaries are able to materially influence.

(3) The consolidated annual financial statements shall be prepared in accordance with Financial Reporting Standards issued from time to time, with additional disclosure when required, provided that in the absence of a specific Financial Reporting Standard in South Africa and an approved interpretation reference shall be made to the relevant pronouncements of the International Accounting Standards Board, and shall reflect rand amounts in units of thousands.

46. Audit reports

(1) The auditor of a bank shall annually, within 120 days of the financial year-end of the reporting bank, in addition to any report that a bank is statutorily required to obtain from the auditor, report on the bank's financial position and the results of its operations, as reflected in the returns specified in subregulation (6) that were submitted to the Registrar as at the financial year-end of the reporting bank.

(2) Notwithstanding the provision of subregulation (1), the auditor shall also report whether, in the auditor's opinion, the information contained-

- (a) in the returns at year-end in all material respects-
 - (i) reasonably reflects the information of the management accounts;
 - (ii) is complete in so far as all relevant information contained in the accounting and other records at the reporting date has been extracted therefrom and recorded in the returns;
 - (iii) is accurate in so far as it correctly reflects the information contained in, and extracted from, the accounting and other records at the reporting date;
 - (iv) is prepared using the same accounting policies as those applied in the management and statutory accounts; and
 - (v) is prepared in accordance with the directives and instructions of the Act and the Regulations.
- (b) in the returns other than at year-end in all material respects-
 - (i) reasonably reflects the information of the management accounts;
 - (ii) is prepared using the same accounting policies as those applied in the management and statutory accounts; and
 - (iii) is prepared in accordance with the directives and instructions of the Act and the Regulations.

(3) Notwithstanding the provision of subregulation (2), the auditor shall annually report to the Registrar on any significant weaknesses in the system of internal controls relating to-

- (a) financial regulatory reporting; and
- (b) compliance with the Act and the Regulations,

that came to the auditor's attention while performing the necessary auditing procedures to enable the auditor to furnish the reports required under subregulation (2), within 120 days of the financial year-end of the reporting bank.

(4) Notwithstanding the provisions of subregulations (1), (2) and (3), the auditor shall annually, within 120 days of the financial year-end of the reporting bank, report to the Registrar on any significant weaknesses in the system of internal controls that came to the auditor's attention while performing the necessary auditing procedures as regards the policies, practices and procedures of the bank relating to-

- (a) the granting of loans;
- (b) the making of investments;
- (c) the ongoing management of the loan and investment portfolios; and
- (d) the relevant credit impairments or loan loss provisions and reserves.

(5) In the case of amendments having been effected by a reporting bank to returns submitted by it during the course of the financial year, the auditor shall, when required to do so in terms of a written request addressed by the Registrar to both the reporting bank and the auditor, in writing confirm that the auditor has verified such of the amendments as have been specified by the Registrar in the said written request.

(6) The audit reports contemplated in this regulation 46 shall be rendered in accordance with the wording and practices agreed from time to time between the Registrar, the South African Institute of Chartered Accountants and the Independent Regulatory Board for Auditors, and shall be in respect of the forms BA 100, BA 110, BA 120, BA 125, BA 130, BA 200, BA 210, BA 220, BA 300, BA 310, BA 320, BA 325, BA 330, BA 340, BA 350, BA 400, BA 410, BA 500, BA 600, BA 610 and BA 700 submitted in respect of the reporting bank's and bank controlling company's banking and other relevant operations in the Republic and elsewhere in the world.

(7) Form BA 900 shall be reconcilable with the form BA 100, and the auditor shall within 120 days of the financial year-end of the reporting bank furnish the Registrar with a written report in which it is stated whether or not all forms BA 100 and BA 900 submitted by the reporting bank during the financial year under review were in fact reconcilable with each other.

(8) Notwithstanding the provisions of subregulations (1) to (7) above, the auditor shall annually, within 120 days of the financial year-end of the reporting bank, report to the Registrar whether there were any instances of non-compliance with the requirements specified in regulations 27(6), 42(1)(a) or 42(1)(b) of these Regulations.

(9) For the purposes of the performance of the auditor's duties in terms of this regulation, the auditor-

- (a) shall hold preliminary discussions with the Registrar prior to the commencement of the said audit; and
- (b) shall obtain from the Registrar, free of charge, copies of the relevant returns submitted to the Registrar by the reporting bank or controlling company during the financial year under review.

47. Reportable offences

(1) The Registrar may, after consultation with the Minister, by notice in the *Gazette*, declare a specified activity or event as a reportable offence.

(2) A bank shall report an offence specified in subregulation (3), or specified in the *Gazette*, as contemplated in subregulation (1), in writing to the Registrar within 30 days after the bank became aware of the said reportable offence.

(3) A reportable offence includes-

- (a) a breach of the fiduciary duty of a member of the board of directors, an employee in charge of a risk-management function or an executive officer;
- (b) market abuse or financial fraud within the bank that results in or is likely to result in the bank losing an amount in excess of 1 per cent of its qualifying capital and reserve funds, as reported in item 88 of the form BA 700, at the latest date for which the relevant statement was submitted;
- (c) any act of a member of the board of directors, an employee in charge of a risk-management function or an executive officer that results in or will probably result in the reputation of the bank being adversely affected;
- (d) any act of a member of the board of directors, an employee in charge of a risk-management function or an executive officer that results in or will probably result in the bank contravening the code of conduct or ethical code of any institution of which the bank is a member or with which the bank is associated;
- (e) any money-laundering or financing of terrorism activity in which the bank was involved and which was not identified in a timely manner and reported as required by law, including in terms of the relevant requirements contained in the Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001), as amended from time to time;
- (f) any reportable irregularity as envisaged in section 45 of the Auditing Profession Act, 2005 (Act 26 of 2005), as amended, which irregularity was brought to the attention of the board of directors and/or senior management of the relevant bank.

48. Internal audit

(1) In order to, amongst other things, evaluate and improve the effectiveness of a bank's risk management, control, capital management and governance processes and/or systems, a bank shall establish an independent and objective internal audit function, which internal audit function-

- (a) shall in no case serve as a substitute for the ultimate responsibility of the bank's board of directors to ensure that the senior management of the bank, amongst other things-
 - (i) establishes and maintains-
 - (A) an adequate and effective system of internal controls, including controls over financial reporting;
 - (B) a sufficiently robust measurement system in order to identify and assess the various risks to which the bank may be exposed;
 - (C) a sufficiently robust system that relates risk exposure to required capital levels;
 - (D) appropriate methods in order to monitor the bank's compliance with laws, regulations, and supervisory and internal policies;
 - (ii) implements appropriate corrective actions in respect of internal control weaknesses identified by the bank's internal or external auditor and subsequently brought to the attention of the bank's board of directors or senior management;
 - (iii) keeps the internal audit department fully informed of new developments, initiatives, products and operational changes in order to ensure that all associated risks are identified at an early stage;
- (b) shall form an integral part of the ongoing monitoring of the bank's system of internal controls, and of the bank's internal capital assessment procedure;
- (c) shall be a permanent function of the bank, provided that-
 - (i) subject to the prior written approval of and such conditions as may be specified in writing by the Registrar, a bank may outsource some of its internal audit services, provided that the bank shall as part of its application to the Registrar, among other things, present its analysis and assessment of the impact that the said outsourcing of internal audit services will have on the bank's overall risk profile and internal control system;
 - (ii) notwithstanding approval that might be obtained from the Registrar for a bank to outsource certain internal audit services, the bank's board of directors and senior management shall remain ultimately responsible for ensuring that the bank's system of internal control and internal audit are adequate, and operate effectively;
- (d) based on-

- (i) the nature and extent of the bank's operations and risk exposure, shall be appropriately structured within the bank's governance structure;
 - (ii) the governance structure of the bank, shall report directly to the bank's chief executive officer, board of directors or audit committee;
- (e) shall have sufficient resources and appropriately trained staff, that is-
 - (i) the staff of the internal audit department shall be sufficiently competent to examine all areas in which the bank conducts business;
 - (ii) the bank shall ensure the continued professional competence of internal auditors by way of systematic and relevant training;
 - (iii) all staff members of the internal audit department shall have sufficient up-to-date knowledge of auditing techniques and banking activities;
- (f) shall be functionally independent from the activities audited and the day-to-day internal control processes of the bank, that is, the internal audit function-
 - (i) shall be able to conduct an assignment on its own initiative in respect of any relevant department, establishment or functions of the bank, including the activities of branches and subsidiaries, and outsourced activities;
 - (ii) shall be free to report its findings and appraisals;
 - (iii) shall be free to internally disclose its findings and appraisals;
- (g) shall be able to conduct any assignment with objectivity and impartiality, that is-
 - (i) the internal audit department shall be able to conduct an assignment free from any bias or interference;
 - (ii) staff shall not audit any activity or function they performed within the twelve month period preceding their appointment in the internal audit department and staff assignments shall periodically be rotated;
 - (iii) the internal audit department shall not be involved in the operations of the bank or in selecting or implementing internal control measures that may impair the judgmental independence of the internal auditors;
 - (iv) staff members of internal audit shall conduct their work free from any potential conflict of interest, which potential conflict of interest, for example, may be influenced by matters such as a compensation scheme, that is, the compensation of internal auditors shall be consistent with the objectives and charter of internal audit;

- (h) shall be headed by a senior executive officer of the bank with the authority to communicate directly and freely in respect of any relevant matter, including, for example, decisions made by the management of the bank that may be in conflict with legal or regulatory requirements, and on his/her own initiative,
 - (i) with the members or chairman of the bank's board of directors;
 - (ii) with the members or chairman of the bank's audit committee; or
 - (iii) with the external auditor of the bank, when appropriate.

Provided that whenever the head of the bank's internal audit department ceases to act as such or has been relieved of his/her duties, the bank shall in writing inform the Registrar accordingly.

- (i) shall be subject to independent review, which review, for example, may be conducted by an independent person or committee such as external audit or the bank's audit committee;
- (j) shall conduct its work in terms of a duly documented internal audit charter, which charter-
 - (i) shall enhance the standing and authority of the internal audit function within the bank;
 - (ii) shall duly state-
 - (A) the objectives and scope of the internal audit function;
 - (B) the position of the internal audit department within the bank, including its powers, responsibilities and relations with other control functions within the bank;
 - (C) the accountability of the head of the internal audit department;
 - (D) that the senior management of the bank grants the internal audit department the right of initiative and authorises the department-
 - (i) to have direct access to and communicate with any member of staff;
 - (ii) to examine any activity or entity of the bank;
 - (iii) to access any records, files or data of the bank, including management information and the minutes of any consultative or decision-making body, whenever relevant to the performance of the department's assignment;
 - (E) the terms and conditions according to which the internal audit department may be requested to provide consulting or advisory services or to conduct special tasks;
 - (F) that none of the activities of the bank or entities in which the bank has an interest, including the activities of branches and subsidiaries,

and outsourced activities, are excluded from the scope of investigation of the internal audit department;

- (iii) shall periodically be reviewed by the internal audit department, approved by the senior management of the bank and subsequently confirmed by the board of directors of the bank as part of the board's supervisory role;
- (iv) shall be communicated throughout the bank;
- (k) shall adopt and comply with all relevant generally accepted internal audit standards issued from time to time;
- (l) as a minimum-
 - (i) shall provide an independent assessment of the adequacy of and compliance with the bank's established policies, processes and procedures;
 - (ii) shall examine and evaluate-
 - (A) the adequacy and effectiveness of the bank's internal control systems;
 - (B) the application and effectiveness of the bank's risk management procedures and risk assessment methodologies;
 - (C) the bank's management and financial information systems, including the electronic information system and electronic banking services;
 - (D) the accuracy and reliability of the bank's accounting records and financial reports;
 - (E) the manner and means in terms of which the bank safeguards its assets;
 - (F) the bank's system in terms of which the bank assesses its capital and reserve funds in relation to the bank's risk exposure;
 - (G) the systems and processes established by the bank in order to ensure compliance with any relevant legal and regulatory requirements, codes of conduct and the implementation of policies and procedures;
 - (H) the manner in which assigned responsibilities are fulfilled;
 - (I) the bank's compliance with policies and controls;
 - (J) the reliability, integrity, accuracy, completeness and timeliness of financial and management information;

- (K) the continuity and reliability of the electronic information systems;
- (L) the functioning of the staff departments;
- (iii) shall conduct-
 - (A) an appraisal of the economy and efficiency of the bank's operations;
 - (B) appropriate testing of-
 - (i) transactions;
 - (ii) the functioning of specific internal control procedures;
 - (iii) the reliability and timeliness of the bank's regulatory reporting;
 - (C) relevant special investigations from time to time;
- (iv) shall evaluate whether or not the senior management of the bank-
 - (A) developed and maintained sufficiently robust risk management processes and procedures to identify, measure, monitor and control the risks to which the bank is exposed;
 - (B) at least once a year, reports to the board of directors the scope and performance of the bank's internal control system and the bank's capital assessment procedure;
 - (C) maintains an organisational structure that clearly assigns responsibility, authority and reporting relationships, and ensures that delegated responsibilities are effectively carried out;
 - (D) developed and maintains appropriate internal control policies;
 - (E) continuously monitors the adequacy and effectiveness of the internal control system;
- (m) shall have in place a complete and duly authorised audit programme in respect of each relevant audit assignment, which audit programme, as a minimum, shall describe the relevant audit objectives and an outline of the required audit work in order to achieve the stated objectives;
- (n) in order to ensure the senior management of the bank makes informed decisions in a cost-effective manner, may provide advisory services to the senior management of the bank regarding the development or improvement of internal controls, provided that-
 - (i) the said advisory or consulting services shall be ancillary to the basic function and primary responsibilities of internal audit;
 - (ii) subsequently internal audit shall not be precluded from analysing and criticising the internal controls that have been put in place by or at the direction of senior management;

- (iii) the introduction, development or improvement of internal controls shall remain the responsibility of the management of the bank;
- (o) may in the case when the bank established a separate department to control or monitor a specific activity or entity of the bank use the information reported by the relevant control department, provided that the internal audit department shall remain responsible for the examination and evaluation of the adequate functioning of the internal control of the said activity or entity;
- (p) may from time to time provide such additional assurance services as reasonably may be expected by the bank from such a function;
- (q) shall encourage departments or business units within the bank, or entities within the banking group, from time to time to conduct control self-assessments regarding the efficiency and effectiveness of all relevant internal control procedures;
- (r) may from time to time meet with the bank's external auditor in order to-
 - (i) provide information relating to any significant matter that came to the attention of the internal audit department that may affect the work of the external auditor;
 - (ii) obtain information regarding any significant matter that came to the attention of the external auditor that may affect internal audit;
 - (iii) provide input regarding the nature, timing and extent of certain external audit procedures,provided that the external auditor shall solely be responsible for the audit opinion in respect of the bank's financial statements;
- (s) shall provide the bank's external auditor access to any relevant internal audit reports;
- (t) shall duly document-
 - (i) the bank's audit plan;
 - (ii) all audit procedures, examinations and evaluations that formed part of a particular audit assignment;
 - (iii) the purpose and scope of every audit assignment;
 - (iv) all audit findings and recommendations, and the relevant responses received;

- (u) shall have in place a sufficiently robust process in order to follow up-
 - (i) responses that relate to audit findings;
 - (ii) whether or not recommendations made by the internal audit department have been implemented;
 - (iii) whether or not the department's concerns were appropriately addressed.
- (v) shall regularly-
 - (i) report to and advise senior management and the board of directors or audit committee, as the case may be-
 - (A) on the performance of the internal control system;
 - (B) on the achievement of the objectives of the internal audit department;
 - (ii) inform senior management and/or the board of directors or audit committee about the progress made in respect of the audit plan.

49. Compliance function

(1) A bank shall have in place as part of its risk-management framework and governance structure an independent compliance function, which independent compliance function shall ensure that the bank continuously manages its regulatory and supervisory risks, that is, the risk that the bank does not comply with applicable laws and regulations or supervisory requirements.

(2) The compliance function-

- (a) shall be headed by a senior executive officer of the bank with the authority to communicate directly and freely in respect of any relevant matter, including, for example, decisions made by the management of the bank that may be in conflict with legal or regulatory requirements, and on his/her own initiative,
 - (i) with the members or chairman of the bank's board of directors;
 - (ii) with the members or chairman of the bank's audit committee; or
 - (iii) with the external auditor of the bank, when appropriate.
- (b) shall be headed by a compliance officer who shall perform his/her functions with diligence and care and with such a degree of competence as can reasonably be expected from a person responsible for such a function;
- (c) shall have adequate resources and stature in order to ensure that non-compliance with laws and regulations or supervisory requirements by the bank can be duly addressed.

- (3) As a minimum, the compliance officer of a bank-

Effectiveness

- (a) shall report directly to and have demonstrable support from the board of directors, the audit committee and the chief executive officer of the bank;
- (b) shall function independently from functions such as internal audit and shall be demonstrably independent;
- (c) shall in a timely manner report non-compliance with laws and regulations or supervisory requirements to the chief executive officer, the board of directors and the audit committee of the bank;
- (d) shall submit a report on the level of compliance with laws and regulations or supervisory requirements by the bank at every meeting of the board of directors or the audit committee of the bank and provide the Registrar with a copy of such a report;
- (e) shall ensure, as far as possible, that no conflict of interest with/between other internal control functions exists;

Monitoring

- (f) shall be responsible for establishing a compliance culture in the bank that contributes to the overall objective of prudent risk management by the bank;
- (g) shall establish a line of communication to line management, in order to monitor continuously compliance with laws and regulations or supervisory requirements by the bank;
- (h) shall require line management to monitor compliance with laws and regulations or supervisory requirements as part of their normal operational duties;
- (i) shall require relevant regulatory requirements to be incorporated into operational procedure manuals;
- (j) shall make recommendations whenever necessary in order to ensure that there is compliance with laws and regulations or supervisory requirements;

Reporting

- (k) shall establish prompt mechanisms for reporting and resolving non-compliance with laws and regulations or supervisory requirements;
- (l) shall ensure that resolutions are signed off;
- (m) shall duly document the compliance officer's findings, including any remedial action, as part of the compliance monitoring programme;

Resources

- (n) shall recruit sufficient staff of the correct quality in order to monitor and test continuously the bank's compliance with laws and regulations or supervisory requirements;
- (o) shall ensure that compliance staff are trained on a continuous basis in order to ensure that they have adequate technical knowledge in order to understand the regulatory framework that applies to the bank, as well as the risks to which the bank is exposed;

Manual

- (p) shall compile and maintain a compliance manual that -
 - (i) duly addresses all material risks to which the bank is exposed;
 - (ii) duly addresses all material objectives and aspects of applicable legislation;
 - (iii) refers to specific legislation, rules and regulations when appropriate;
 - (iv) is readily available to all relevant staff;
 - (v) is reviewed and updated at least once a year.
- (4) The provisions contained in this regulation shall not be construed as derogating from the general provisions contained in the Act that place the primary responsibility of compliance with the provisions of the Act and the Regulations on directors and executive officers.

50. Market abuse and financial crime

(1) A bank shall implement and maintain robust structures, policies, processes and procedures to guard against the bank being used for purposes of market abuse such as insider trading and market manipulation, and/or financial crimes such as fraud, financing of terrorist activities and money laundering.

(2) As a minimum, the structures, policies, processes and procedures referred to in subregulation (1) and implemented by the bank shall be adequate-

- (a) to ensure continued compliance with all relevant legislation;
- (b) to facilitate co-operation with relevant law-enforcement agencies;
- (c) to identify customers and, in particular, recognise suspicious customers and transactions;
- (d) to maintain high ethical standards in all business transactions;
- (e) to provide adequate training and guidance to staff;
- (f) to maintain internal records of transactions;
- (g) to report suspicious customers and transactions;
- (h) to provide a clear audit trail.

51. Eligible institutions

(1) An-

- (a) external credit assessment institution; or
- (b) export credit agency,

that wishes to be recognised as an eligible institution for purposes of these Regulations shall obtain the prior written approval of the Registrar and shall comply with such conditions as may be specified in writing by the Registrar.

(2) The Registrar shall not grant approval as envisaged in subregulation (1) unless, as a minimum-

- (a) the relevant external credit assessment institution complies with the requirements specified below.

(i) *Objectivity*

The methodology in terms of which an external credit assessment institution assigns credit assessments in respect of a particular market segment-

- (A) shall be well established for such a minimum period as may be specified by the Registrar, which minimum period shall in no case be less than one year;
- (B) shall be rigorous;
- (C) shall be systematic;
- (D) shall be based on a combination of qualitative and quantitative elements;
- (E) shall be subject to appropriate validation, ongoing review and backtesting;
- (F) shall be responsive to changes in financial condition.

(ii) *Independence*

The external credit assessment institution shall be independent in the sense, for example-

- (A) that the institution shall be free from political or economic pressure that may influence a particular rating;
- (B) that the composition of the board of directors or the shareholder structure of the institution to be assessed shall not create any conflict of interest.

(iii) *International access*

Individual assessments issued by the external credit assessment institution as well as the key elements underlying the assessments and whether the relevant issuer participated in the assessment process shall be publicly available on a non-selective basis, provided that-

- (A) in the case of a private assessment, the Registrar may, subject to conditions determined by the Registrar in writing, allow a deviation from the aforesaid requirements; and
- (B) in all cases, the general procedures, methodologies and assumptions for arriving at assessments, used by the relevant external credit assessment institution, shall be publicly available.

(iv) *Disclosure*

As a minimum, an external credit assessment institution shall publicly disclose-

- (A) its code of conduct;
- (B) the general nature of the compensation arrangements between the external credit assessment institution and the relevant assessed entities or institutions;
- (C) the assessment methodologies used by the said external credit assessment institution, including-
 - (i) the definition of default;
 - (ii) the time horizon used in the rating process;
 - (iii) the meaning of each relevant rating;
- (D) the actual default rates experienced in respect of each assessment category;
- (E) the transitions relating to the various assessments, that is, the likelihood of, for example, a AA rating becoming an A rating over time.

(v) *Resources*

An external credit assessment institution shall have sufficient resources-

- (A) to conduct high quality credit assessments, which assessments shall be based on a combination of qualitative and quantitative elements;
- (B) to allow for substantial ongoing contact with personnel at senior and operational levels within the assessed institutions.

(vi) *Credibility*

As a minimum, the credibility of an external credit assessment institution shall be evidenced by-

- (A) the reliance being placed on the institution's external credit assessments by independent parties such as investors or insurers;
- (B) the existence of comprehensive and duly documented internal policies and procedures to prevent the abuse of confidential information.

(b) the relevant export credit agency-

- (i) publishes its risk scores;
- (ii) subscribes to any relevant OECD agreed methodology to assign country risk scores, which methodology currently establishes eight risk score categories associated with minimum export insurance premiums.

CHAPTER IV**APPLICATION PROCEDURES****52. Application forms and certificates of registration**

Form BA 001 up to and including form BA 023, prescribed in regulation 53 to these Regulations, shall be used in accordance with the applicable section of the Act and, unless otherwise directed on the form itself or by the Registrar, every application form submitted by an applicant shall include every prescribed item, numbered as indicated on the relevant form.

53. List of forms prescribed in respect of notices, applications, certificates and declarations under these Regulations

Form number	Heading of form	Applicable regulation/ section of Act No. 94 of 1990	Page no.
BA 001	Notice of review	Regulation 54(1)	1003
BA 002	Application for authorisation to establish a bank or a branch or registration as a bank or a branch	Section 12(2), 16(2), 18A	1004
BA 003	Certificate of registration as a bank	Section 17(4)	1008
BA 004	Application for registration as a controlling company	Section 43(1)	1009
BA 005	Certificate of registration as a controlling company in respect of a bank	Section 44(4)	1011
BA 006	Application for approval of appointment of auditor(s)	Section 61(2)	1012
BA 007	Application for permission to acquire shares in a bank/controlling company	Section 37(2)	1021
BA 008	Certificate of change of name	Section 56(5)	1023
BA 009	Certificate of authorisation to establish a branch	Section 18A	1024
BA 010	Certificate of authorisation to establish a representative office	Section 34(2C)	1025
BA 020	Statement by individuals who are holding, or are proposing to hold, the office of a director or executive officer of a bank or controlling company	Regulation 42	938
BA 021	Annual licence for a representative office	Section 35	1030
BA 022	Annual licence for a bank	Section 35	1031
BA 023	Annual licence for a branch	Section 35	1032

54. Review procedure

- (1) Any person desiring to submit a matter pertaining to a decision of the Registrar for review, in terms of section 9(1) of the Act, to the board of review shall within 30 days after the pronouncement of the decision in question lodge with the chairperson of the board of review a notice of review on form BA 001.
- (2) Upon receipt of the notice of review referred to in subregulation (1), the chairperson of the board of review shall cause a copy of such notice to be served on the Registrar who shall within a period determined by the said chairperson furnish the chairperson with a statement of the reasons for the decision in question.
- (3) Upon receipt of the statement referred to in subregulation (2), the chairperson of the board of review shall cause a copy thereof to be dispatched to the applicant by registered post and call upon the applicant to declare within 21 days of the date of dispatch of such statement or within such further period as the said chairperson may at the request of the applicant allow whether or not the applicant intends to proceed with the review.
- (4) When the applicant declares the intent not to proceed with the review, or when the applicant fails to declare his/her intention within the period of 21 days or the extended period contemplated in subregulation (3), the review automatically shall lapse.
- (5) When the applicant declares his/her intention in terms of subregulation (3) to proceed with the review the applicant shall in addition to such declaration lodge with the chairperson of the board of review a reply to the statement contemplated in subregulation (2).
- (6) The declaration and reply referred to in subregulation (5) shall be accompanied by the fee prescribed in item 1 of table 1 in regulation 58.
- (7) A review with which there is to be proceeded, as contemplated in subregulation (5), shall be heard at such a time and at such a place as the chairperson of the board of review may determine.

BA 001

NOTICE OF REVIEW

The Chairperson
Banks Review Board
PRETORIA

In terms of the provisions of regulation 54(1) of the Regulations relating to Banks,
notice is hereby given that -

(in the case of a juristic person)

(1)

(hereinafter referred to as the applicant)

represented herein by and

....., in their

respective capacities as and of
the applicant, duly authorised thereto by a resolution of the board of directors (a copy of which
resolution is attached hereto as Annexure),

(in the case of a natural person)

(1)

(hereinafter referred to as the applicant)

.....

.....

intends to request a review of the following decision of the Registrar of Banks:

.....

.....

.....

(2) the affidavit/s annexed hereto as Annexure/s, will be used in support of the review;

(3) the following address shall serve as *domicilium citandi et executandi* in respect of all documents to
be dispatched to or served upon the applicant by virtue of the provisions of regulation 54(3) of the
said Regulations:

Applicant's address

.....

.....

.....
on behalf of the applicant

.....
Date

.....
on behalf of the applicant

BA 002

**APPLICATION FOR AUTHORISATION TO ESTABLISH A BANK OR BRANCH* OR REGISTRATION
AS A BANK OR BRANCH***

The Registrar of Banks
PRETORIA

1. I, the undersigned, acting as principal/promotor/in the capacity as duly authorised agent* on behalf of
("the principal"), hereby apply for authorisation, in terms of section 13(1)/18A* of the Banks Act, 1990, by the Registrar of Banks to establish a bank/branch*; or
2. (a) I, the undersigned, chairperson/chief executive officer* of
.....
duly empowered thereto, hereby apply for the registration of the abovementioned public company as a bank/branch*.
- (b) I hereby apply for your approval, under section 22(1) of the abovementioned Act, of the use of
as a literal translation, and of
.....
as an abbreviation, of the name under which the abovementioned public company is registered.
3. The applicable information detailed in 4 below shall accompany each application. Indicate, against each item, in the appropriate column in paragraph 4 below -
 - (a) whether or not the requested information is attached, and, if not, reason(s) therefor; or
 - (b) when the requested information is not applicable to the application in question.

I,.....,
the undersigned, hereby declare all information contained in and with this application to be correct.

.....
Date

.....
*Applicant/Chairperson/Chief Executive Officer**

Address

.....
.....

**Delete whichever is not applicable*

FOR OFFICIAL USE	
Application granted	
Application refused	
Application granted subject to the appended conditions	

.....
Date

.....
Registrar of Banks

4.

Description		Authorisation ¹	Registration ¹
a)	Name of applicant - in own capacity (Yes/ No) - as agent (attach written consent of principal)		
b)	Full and abbreviated name of institution, as well as literal translation thereof, together with address of head office and postal address		
c)	Two copies of memorandum and articles of association, or memorandum of incorporation - Registered by Registrar of Companies and Close Corporations - not registered by Registrar of Companies and Close Corporations		
d)	Predominant business activities in which applicant is likely to be engaged and proportion in which each activity stands to total business activities of applicant		
e)	Outline of the proposed strategic and operating or business plans in the short, medium and long term Please include sufficiently detailed information in respect of - the relevant systems related to corporate governance, risk management and internal controls, including those related to the detection and prevention of criminal activities, and the oversight of proposed outsourced functions - the scope and degree of sophistication of the proposed activities		
f)	Form BA 100 (balance sheet) - proposed for ensuing year		
g)	Form BA 110 (off-balance sheet activities) - proposed for ensuing year		
h)	Form BA 125 (return regarding shareholders of a bank/controlling company) - current and proposed for ensuing 12 months as from date of application, and when applicable, written confirmation by a public accountant, as defined in section 1 of the Auditing Profession Act, 2005, that designated share capital received from proposed shareholders is held in a trust account		
i)	Form BA 120 (income statement) – proposed for ensuing year		
j)	Contemplated future policy with regard to payment of dividends		
k)	Form BA 300 (liquidity risk) - proposed for ensuing year		
l)	Guidelines (policy) to be followed in connection with maximum deposits, in relation to total deposits, to be accepted from a single depositor		
m)	Form BA 700 (capital adequacy) – proposed for ensuing year		
n)	Form BA 350 (derivative instruments) - proposed for ensuing year		
o)	Form BA 130 (restriction on investments, loans and advances) – proposed for ensuing year		

1. Indicate with an "X", under appropriate heading, type of application being submitted.

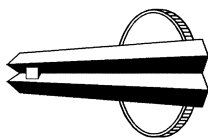
	Description	Authorisation ¹	Registration ¹
p)	Name(s) and address(es) of auditors		
q)	Form BA 006: Application for approval of appointment of auditor(s)		
r)	With regard to the management, by the applicant in the conduct of its business, of the risks specified in regulation 39(3), the policy to be followed by the applicant in the management of each type of risk and the effect, quantified if possible, of each type of risk on the business of the applicant (refer to annexure to form)		
s)	Names, and <i>curricula vitae</i> , of directors and executive officers of bank, together with duly completed forms BA 020		
t)	With regard to the group of companies of which the applicant is a member, a schematic representation reflecting all interests held in and by the applicant and, in the case of such interests held by the applicant, the nature of the business of the entities in which interests are so held by the applicant		
u)	With regard to the internal auditing of the transactions of the applicant, the applicant's findings relating to the adequacy and efficiency of the internal auditing processes applied in respect of the applicant's deposit book, advances book and large exposures during the period of 12 months immediately preceding the date of the application		
v)	Any instance of non-compliance by the applicant with any of the provisions of the Act or these Regulations during the period of 12 months immediately preceding the application		
w)	A report by a public accountant, as defined in section 1 of the Auditing Profession Act, 2005, on funds received from anticipated shareholders and held in a trust account		
x)	Additional information the Registrar deems necessary		
y)	The prescribed registration fee of R.....		

1. Indicate with an "X", under appropriate heading, type of application being submitted.

ANNEXURE TO FORM BA 002

RISK	RESPONSIBLE OFFICIAL	TITLE	RELEVANT EXPERIENCE	HIGHEST ACADEMIC QUALIFICATION
Solvency				
Liquidity				
Counterparty				
Interest rate				
Market (Position)				
Credit				
Currency				
Technological				
Operational				
Compliance				
Any other risk regarded as material: please specify				

Certificate No.

**SOUTH AFRICAN RESERVE BANK**

Republic of South Africa
Banks Act, 1990
Office for Banks, Pretoria

CERTIFICATE OF REGISTRATION AS A BANK
(Section 17(4) of the Banks Act, 1990)

I hereby certify that.....

has in terms of section 17(4) of the Banks Act, 1990, been registered as a bank.

DONE at Pretoria this

day of

.....
Registrar of Banks

BA 003

BA 004

APPLICATION FOR REGISTRATION AS A CONTROLLING COMPANY

The Registrar of Banks
PRETORIA

1. I, the undersigned, chairperson/chief executive officer* of

, duly empowered thereto,
 hereby apply for the registration of the abovementioned public company as a controlling
 company in respect of

,
 an institution registered as a bank.
2. The application is accompanied, except in so far as it has been otherwise directed by
 you, by each of the following documents, duly signed by me:
 - 2.1 two copies of the Memorandum and Articles of Association or Memorandum of
 Incorporation, as the case may be, of the applicant;
 - 2.2 a copy of the certificate of incorporation, Companies Act form CM 1, in respect of
 the applicant;
 - 2.3 a copy of the registered office and postal address, Companies Act form CM 22, in
 respect of the applicant;
 - 2.4 a statement containing the name and address and the *curriculum vitae* of the
 chairperson, every director and every executive officer of the applicant;
 - 2.5 full particulars of the business that the applicant conducts or proposes to conduct,
 of the manner in which such business is or is to be conducted and of the extent of
 each type of business conducted or to be conducted;
 - 2.6 a copy of the applicant's latest audited group and company financial statements or,
 in the case of an applicant whose first financial year has not yet expired, of an
 audited balance sheet or a *pro forma* balance sheet of the applicant, as at a date
 not more than 30 days prior to the date of application;
 - 2.7 a return, in the format of form BA 125, duly completed in respect of the applicant;
 - 2.8 a statement furnishing, as at a date not more than 30 days prior to the date of the
 application -
 - (i) the amount of the issued share capital and reserves of the applicant;
 - (ii) the amounts of the applicant's investments in, respectively -
 - (aa) fixed property used mainly for the purpose of conducting the business
 of a bank;
 - (bb) fixed property not used mainly for the purpose of conducting the
 business of a bank;

(iii) the name of the undertaking concerned and the amount invested or proposed to be invested, set out separately under the headings "Shares" and "Loans", in -

(aa) banks;

(bb) controlling companies;

(cc) property companies of which the property is used mainly for the purpose of conducting the business of a bank;

(dd) property companies of which the property is not used mainly for the purpose of conducting the business of a bank; and

(ee) other undertakings (to be specified in the statement);

2.9 a diagrammatic representation of the structure of the group of companies consisting of associates, as defined in section 37(7) of the Act, of the applicant, showing also the percentage shareholding of members of that group in the other members;

2.10 a return, in the format of form BA 125, duly completed in respect of every bank in respect of which the applicant is, or is to be, registered as a controlling company.

3. A controlling company shall, within 30 days after the date of a special resolution whereby a change of its name was effected as contemplated in section 44 of the Companies Act, in writing furnish the Registrar with full particulars of such change.

4. The prescribed registration fee in item 10 of table 1 in regulation 58 of R is enclosed with this application.

.....
DATE

.....
*Chairperson/Chief Executive Officer**

Address

.....

.....

.....

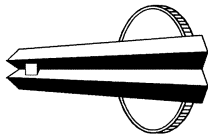
.....
**Delete whichever is not applicable*

FOR OFFICIAL USE	
Application granted	
Application refused	
Application granted subject to the appended conditions	

.....
Date

.....
Registrar of Banks

Certificate No.

**SOUTH AFRICAN RESERVE BANK**

Republic of South Africa
Banks Act, 1990
Office for Banks, Pretoria

**CERTIFICATE OF REGISTRATION AS A CONTROLLING COMPANY
IN RESPECT OF A BANK**
(Section 44(4) of the Banks Act, 1990)

I hereby certify that
previously known as
has in terms of section 44(4) of the Banks Act, 1990, been registered by me as a CONTROLLING COMPANY in respect of the bank registered/ to be
registered* as such under the name of

DONE at Pretoria this day of

.....
Registrar of Banks

BA 005

*
Delete whichever is not applicable

BA 006

APPLICATION FOR APPROVAL OF APPOINTMENT OF AUDITOR(S)

The Registrar of Banks
PRETORIA

1. I, the undersigned, chairperson/chief executive officer* of
.....
hereby declare that -
 - (a) the total assets of the abovementioned bank as at the close of its last preceding financial year, that is, on.....(yyyy-mm-dd), amounted to R ;
 - (b) in accordance with the provisions of section 269/270* of the Companies Act, 1973 (Act No. 61 of 1973), a resolution was passed at a meeting of directors/members* of the said bank, held on (yyyy-mm-dd), to appoint
.....
(name)
of
(address)
and
(name)
of
(address)
as auditor(s) of the said bank from(yyyy-mm-dd),
until the conclusion of the first succeeding annual general meeting of the said bank;
 - (c) as at the date last mentioned in paragraph (b), the following persons were partners in the auditors' firm/firms* mentioned in paragraph (b):
.....
2. In terms of section 61(2) of the Banks Act, 1990, I hereby apply for your approval of the appointment/ appointments* set out in paragraph 1(b).
3. The applicable information detailed in 4 below shall accompany each application.

.....
Date

.....
*Chairperson/Chief Executive Officer**

Address
.....

.....
**Delete whichever is not applicable*

FOR OFFICIAL USE

Approval of appointment of -

- (a)
as auditor granted/refused;*
- (b)
as auditor granted/refused.*

.....
Date

.....
Registrar of Banks

.....
**Delete whichever is not applicable*

4. Information required by the Registrar of Banks in considering the approval of the appointment of an auditor for a regulated institution.

Instructions for completion of the questionnaire

The form consists of two parts:

Part A Applicable to the audit firm

Part B Applicable to the lead partner

"Responsible partner" means the auditor responsible for the effective functioning of all phases in the audit and for exercising his/her professional judgement, based on the results of the audit procedure, to express an opinion on the fair presentation of the financial statements of the regulated institution.

The responsible partner should be specifically nominated, by the firm being appointed, as the responsible partner on the audit of the regulated institution.

The responsible partner should complete the questionnaire and certify the contents, as set out in the declaration on the last page of this document.

When firms are appointed for the first time, both Parts A and B should be completed.

Space has been provided for any comments that the responsible partner might wish to make that could be relevant to the regulator when considering the application for approval. Should the space provided not be sufficient, the detail may be provided on a separate page, duly cross-referenced to the relevant question.

Although the questions cover various criteria for the qualification or disqualification of audit firms for audit engagements of regulated institutions, the criteria and replies thereto should not be regarded as an automatic qualification or disqualification, or as exhaustive. The criteria have been made as objective as possible, but, naturally, a degree of subjectivity is still present in some criteria, and not all applicable criteria could be foreseen by the regulators.

Furthermore, depending on the complexity and size of the audit of the relevant regulated institution, certain questions may not be appropriate and/or applicable. Where this is the case, the fact and reason for the question not being applicable should be stated.

**Information required by the Registrar of Banks in considering the
approval of the appointment of an auditor for a regulated institution**

Part A (To be completed in respect of the audit firm)	
I	General objective: Administrative and firm-profile information
1.	Name of firm
2.	Business address (postal and physical), telephone and facsimile numbers
3.	Full name of responsible partner (including any former names) (The responsible partner should complete Part B of this questionnaire)
4.	Number of partners in your firm, number of partners in the office responsible for the assignment and names of key partners involved in the assignment. (Use separate page if necessary)
5.	Number of professional assistants in your firm and in the office responsible for the assignment
6.	Number of trainee accountants in your firm and in the office responsible for the assignment
7.	Details of significant <i>regulated institution(s)</i> audited / to be audited <u>Name</u> <u>Ref no.</u> <u>No. of years engaged in audit</u>
8.	Details of institutions similar to <i>regulated institution(s)</i> audited <u>Name</u> <u>Ref no.</u> <u>No. of years engaged in audit</u>
II	General objective: Independence of the firm
9.	Do you believe that your firm is organisationally independent from the <i>regulated institution</i> , or the group of which it is part, and is able to maintain an objective frame of mind in accomplishing its audit responsibilities? (Please provide details)
9.1	What percentage of your firm's total gross fees per annum are received (or will be received) directly or indirectly from the <i>regulated institution or the group of which it is part</i> ? (The regulators have indicated that, as a rule of thumb, 10 per cent or more of the total gross fees could be regarded as a large portion. Should the percentage indicated above exceed 10 per cent, please provide a motivation as to why you regard it as not impairing the firm's independence, using a separate page if necessary.)