# SOUTH AFRICA (as of April 2014)

## Annex I: Banks

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| **1. Reducing reliance on CRA ratings in laws and regulations (Principle I)** | | | |
| ***Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending decisions.*** | | | |
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| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| a) Remove references to CRA ratings in laws and regulations relating to banks. | Bank Supervision Department – South African Reserve Bank | Changes in international standards are required to enable removal of references to CRA ratings in laws and regulations relating to banks. South Africa, as a member of the Basel Committee on Banking Supervision (BCBS) therefore strongly supports the forthcoming work of the Task Force on Standardised Approach (TFSA) to review the Standardised Approach and develop policy recommendations to address the problems identified. South Africa is a member of the TFSA mandated to inter alia investigate the reliance on CRA ratings and to identify a viable alternative to ratings. As a member, South Africa will recommend and support viable alternatives to ratings that are appropriate for South Africa. Aforementioned alternatives will be escalated to, and driven by the South African member of the Policy Development Group and ultimately the South African member of the BCBS. | According to the implementation schedule of the standard-setting body publishing the standards. |

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|---|---|---|---|
| It would be helpful to include a timeline and milestones for implementing new guidance after the Basel Committee finalises its work on the standardised approach | Bank Supervision Department – | Implementation is based on deadlines provided by the Basel Committee; however, South Africa will implement the updated guidance at the earliest time possible. The process of incorporating the requirements into our legislative framework until obtaining final approval from the Minister of Finance to issue the Regulations (that is, being legally enforceable) can take between 12 and 18 months. | |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations relating to banks. | Bank Supervision Department – South African Reserve Bank | South Africa is a member of the TFSA mandated to inter alia investigate the reliance on CRA ratings and to identify a viable alternative to ratings. As a member, South Africa will recommend and support viable alternatives to ratings that are appropriate for South Africa. Aforementioned alternatives will be escalated to, and driven by the South African member of the Policy Development Group and ultimately the South African member of the BCBS. As part of the on-going supervisory programme of the Department continues discussion with representatives from banks in charge of risk management functions during meetings and/or on-site examinations regarding their internal credit assessment processes and the adequacy thereof. If necessary, the Department will drive the process in banks to develop their own internal credit assessment processes. | According to the implementation schedule of the standard-setting body publishing the standards |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| It would be helpful to include a timeline and milestones for implementing new guidance after the Basel Committee finalises its work on the standardised approach | Bank Supervision Department – | Implementation is based on deadlines provided by the Basel Committee; however, South Africa will implement the updated guidance at the earliest time possible. The process of incorporating the requirements into our legislative framework until obtaining final approval from the Minister of Finance to issue the Regulations (that is, being legally enforceable) can take between 12 and 18 months. | |
| **2. Reducing market reliance on CRA ratings (Principle II)** | | | |
| a) Enhance supervisory processes and procedures to assess the adequacy of banks' own credit assessment processes and incentivise market participants to develop internal risk management capabilities. | Bank Supervision Department – South African Reserve Bank | Continue to have discussion with representatives from banks in charge of risk management functions during meetings and/or on-site examinations. Measurement, monitoring, control and mitigation of risk form a key focus during ICAAP on-site meetings with IRB and STA banks. | On-going |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| It would be helpful if the relevant authority could provide an estimate of the number of banks using the BCBS standardised approach and the per cent of risk weighted assets covered. | | As at October 2013<br>IRB banks with a portfolio on the standardised approach – 5 out of 6 banks<br>Local banks using only the standardised approach - 13<br>Branches of foreign institutions using only the standardised approach – 12<br><br>IRB banks with a portfolio on the standardised approach – 2% of total risk weighted assets (RWA)<br>Local banks using only the standardised approach – 16% of RWA<br>Branches of foreign institutions using only the standardised approach – 4.5% of RWA | |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes. | Bank Supervision Department – South African Reserve Bank | Specific disclosure requirements are incorporated in the Regulations relating to Banks. Regulation 43(2)(d) of the Regulations relating to Banks. This regulation prescribes that a bank shall disclose sufficiently detailed information in respect of the bank's risk-management objectives and policies, including information in respect of inter alia-<br>• the bank's strategies and processes;<br>• the scope and nature of the bank's risk reporting and/or risk-measurement systems.<br>The banks are also required to disclose to the public sufficiently detailed information in respect of the banks' credit risk management policies. | On-going |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| ***3.2 Prudential supervision of banks (Principle III.2)*** | | | |
| a) Enhance supervisory oversight of banks to ensure they develop adequate internal credit assessment processes that avoid mechanistic reliance on CRA ratings (differentiating where appropriate between banks subject to the internal ratings-based (IRB), Standardised Approach of other capital regime). | Bank Supervision Department – South African Reserve Bank | As prescribed in the Basel Capital Adequacy Framework (Accord), CRA ratings are used by STA banks to calculate and report minimum capital in terms of credit risk. However, banks within South Africa have internal credit assessment processes (that are, in some cases, independent of CRA ratings) that are used to determine the credit worthiness of clients. Representatives from the Bank Supervision Department will continue having discussion with representatives from banks in charge of risk management functions during meetings and/or on-site examinations regarding their internal credit assessment processes and the adequacy thereof. If necessary, the Department will drive the process in banks to develop their own internal credit assessment processes. | On-going |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| a) Revise CRA ratings in other prudential supervisory policies (e.g. relating to liquidity requirements) to reduce reliance on CRA ratings. | Bank Supervision Department – South African Reserve Bank | Will be done in line with changes in international standards (in general, the banking sector's reliance on CRA ratings in other prudential supervisory policies is determined by the extent provided for in the Basel III Accord). | On-going |

## Annex II: Central bank operations

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| **3. Application of the basic principles to particular financial market activities (Principle III)** | | | |
| ***Based on the findings from the stock-taking exercise, please describe the areas identified as needing changes, including which areas are considered priorities, and the steps authorities intend to take to reduce reliance on CRA ratings in central bank policies and operations.*** | | | |
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| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| ***3.1 Central bank operations (Principle III.1)*** | | | |
| a) Reduce reliance on CRA ratings in central bank policies (such as investments, asset management frameworks, and conventional and unconventional operations), including the decision to accept or reject an instrument as collateral or for outright purchase and in determining haircuts. | The South African Reserve Bank | The Reserves Management policies still rely heavily on CRA ratings but the Bank is in the process of refining an internal pro-active quantitative credit default swap rating signal model. The purpose of this model is to provide early warning signals for counterparties whose credit profile has changed and/or deteriorated. In addition we are reviewing our credit limit model. A Training Programme is being put in place to enhance internal fundamental credit analysis skills.<br><br>Monetary policy operations take as collateral securities classified as statutory liquid assets as per the Bank's Act 1990 and is not based on CRA. | End-2015 |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| It would be useful to consider adding additional metrics to the internal credit assessment capability (e.g. not just CDS spreads, which can be affected by market liquidity in addition to the credit of the underlying name). | | The South African Reserve Bank is look at enhancing both quantitative credit risk model skills and qualitative fundamental credit analysis skills. The fundamental analysis will focus of financial statement and industry analysis from a historical and forward perspective. Fundamental analysis will focus on entity, industry, country and regional perspectives and will be overlaid with economic forecasts from our in-house and external economic research and views. Where possible any quantitative credit model movements have to be supported by fundamental credit analysis to minimise market noise. | |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| b) Adjust policies for imposing risk control measures (including haircuts) on financial instruments to align with the FSB Principles on CRA ratings. | | Haircuts are applied to the collateral of the securities lending portfolio. Haircuts are applied based on instrument type, duration, liquidity, currency and credit rating. This will be enhanced further as part of the securities lending project review.<br><br>For monetary policy operations, haircuts take into account the term of the assets e.g. a specific haircut is applied to a specified maturity range (0-1 year). | End-2014 |
| c) Develop the central bank's internal credit risk assessment capabilities and use of alternative measures of creditworthiness.<br><br>The SARB would benefit from exchanging views with other central banks on the approach taken toward developing in-house credit assessment capabilities. | | A Training Programme is being put in place to enhance internal fundamental credit analysis skills.<br><br>SARB are willing to exchange views with other central banks. It will also be beneficial if a forum can be established where central bank views can be exchanged. | End-2015 |

# Annex III: Insurance/Reinsurance Companies[1]

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| **1. Reducing reliance on CRA ratings in laws and regulations (Principle I)** | | | |
| ***Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending or investment decisions.*** | | | |
| Short-term Insurance Act: Board Notice 169 of 2011 (Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers) issued under Item 2 of Part I of Schedule 2 of the Short-term Insurance Act.<br>Long-term Insurance Act: Board Notice 14 of 2010 (Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers) issued under paragraph 2 of Schedule 3 of the Long-term Insurance Act | | | |

[1] Answers in this section should relate to the prudential regulation of insurance companies and reinsurance companies. Laws and regulations relating to insurance companies in their capacity as institutional investors should be included in the section entitled "Investment Funds Management."

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| a) Remove references to CRA ratings in laws and regulations relating to insurance/reinsurance companies. | Financial Services Board | South Africa is currently reforming its solvency regime for both life and non-life insurers (termed the new Solvency Assessment and Management (SAM) regime), guided by equivalence with Solvency II. The regime will be given effect to in the Insurance Act, 2016. | Beginning of 2016 |
| b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations relating to insurance/reinsurance companies. | Financial Services Board | See response to a). Use of an additional creditworthiness assessment is being considered as part of these reforms.<br>The regulatory authority will encourage insurers to develop additional credit risk assessment processes to validate/augment the CRA ratings of their largest exposures. It is expected that these additional measures will be referenced in the insurers' ORSA's. | Beginning of 2016 |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| **2. Reducing market reliance on CRA ratings (Principle II)** | | **2. Reducing market reliance on CRA ratings (Principle II)** | |
| a) Enhance supervisory processes and procedures to assess the adequacy of insurers'/reinsurers' own credit assessment processes and incentivise market participants to develop internal risk management capabilities. | Financial Services Board | See response to a). Under the new SAM regime, insurers will be required to have in place and effective risk management framework; including effective monitoring and management of credit risk.<br><br>Further under the SAM regime consideration is being given to introducing Pillar II requirements (qualitative requirements, including standards and guidance on governance, internal controls, risk management and the supervisory processes) for the assessment and monitoring of credit exposures. | Interim measures are expected to be introduced in 2014<br><br>Final measures are expected to be introduced in 2016 |
| b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes. | Financial Services Board | Under the SAM regime consideration is being given to introducing Pillar III requirements (public and supervisory reporting and disclosure requirements). | Beginning of 2016 |

## Annex IV: Investment Funds Management
## (including collective investment schemes, alternative investment schemes, occupational retirement schemes)

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| **1. Reducing reliance on CRA ratings in laws and regulations (Principle I)** | | | |
| ***Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.*** | | | |
| | | | |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date<br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| a) Remove references to CRA ratings in laws and regulations for investment funds management. | Financial Services Board | Registrar of Collective Investment Schemes<br>The registrar to grant exemption from provisions of section 45(a)(i)<br>Registrar of Pension Funds<br>For occupational funds, there is no requirement to make use of CRA's in the investment process in terms of the Pension Funds Act. However, regulation 28(2)(b)(v) and (vi) requires a retirement schemes to perform a due diligence taking into account risk relevant to the investment. Regulation 28(2)(b) further states that a fund may in performing the due diligence take credit ratings into account, but such credit ratings should not be relied on in isolation for risk assessment or analysis of an asset.<br>Registrar of Financial Services Providers<br>The Financial Advisory and Intermediary Services Act, 2002 (FAIS Act) does not refer to CRA ratings. | End 2014<br>No action required |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations for investment funds management. | Financial Services Board | Registrar of Collective Investment Schemes<br>Board Notice 80 of 2012 removed reliance on credit ratings and provided an alternative standard to assessing instruments for investment by a collective investment scheme.<br><br>Registrar of Pension Funds<br>Notice to be issued in terms of regulation 28 to determine the appropriate use of credit ratings issued by credit rating agencies.<br><br>Registrar of Financial Services Providers<br>A person subject to the FAIS Act (FSP) has a general duty to render financial services (incl. investment management services) honestly, fairly, with due skill, care and diligence, and in the interest of clients and the integrity of the financial services industry. A FSP, therefore, cannot rely only on a CRA rating but must have an internal risk assessment process.<br>Recent determinations by the Ombud for Financial Services Providers emphasised that FSPs must perform its own due diligence prior to advising clients to invest in a particular product. | July 2012<br><br>July 2014 |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| **2. Reducing market reliance on CRA ratings (Principle II)** | | | |
| a) Enhance supervisory processes and procedures to assess the adequacy of market participants' own credit assessment processes. | Financial Services Board (FSB) | Registrar of Collective Investment Schemes<br>The limits stipulated in Board Notice 80 of 2012 are used/applied. All CIS managers also required to provide a risk management programme which is reviewed by Trustee and Auditor of the collective investment scheme.<br>Registrar of Pension Funds<br>Regulation 28 required that pension funds may in performing a due diligence before investing in or through an entity take credit ratings into account, but such credit ratings should not be relied on in isolation for risk assessment or analysis of an asset and the use of such credit ratings shall in no way relieve a fund of its obligation to comply with all the principles.<br>Registrar of Financial Services Providers<br>FSPs are required to have and effectively employ the resources, procedures and technological systems that | July 2012<br>Implemented July 2011 and monitored through on-site visits.<br>N/a |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
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| | | can reasonably be expected to eliminate the risk that clients will suffer financial loss. In addition, FSPs must structure their internal control procedures so as to provide reasonable assurance that financial and other information used by the FSP will be reliable. | |
| **3. Application of the basic principles to particular financial market activities (Principle III.3)** | | | |
| a) Establish, as appropriate, supervisory review of internal limits and investment policies of investment managers and institutional investors. | | | |
| a. Insurance companies (in their capacity as institutional investors) | | | |
| b. Investment managers (i.e. mangers of collective investment schemes). | FSB | Registrar of Collective Investment Schemes<br><br>This is provided for in Board Notice 80 of 2012, issued in terms of the Collective Investment Control Act No 45 of 2002. | July 2012 |
| c. Alternative investment managers (e.g. hedge funds, endowments). | | Registrar of Financial Services Providers<br>Not applicable under FAIS Act | |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
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| d. Managers of occupational retirement schemes. | | Registrar of Pension Funds<br>Monitoring limits determined in regulation 28 through quarterly reporting to the registrar and possible implementation of due diligence guidelines | January 2012 |
| b) Require changes to internal limits and investment policies. | | | |
| a. Insurance companies (in their capacity as institutional investors) | | | |
| b. Investment managers (i.e. mangers of collective investment schemes). | FSB | Registrar of Collective Investment Schemes<br>This is provided for in Board Notice 80 of 2012, issued in terms of the Collective Investment Control Act No 45 of 2002. | July 2012 |
| c. Alternative investment managers (e.g. hedge funds, endowments). | | | |
| d. Managers of occupational retirement schemes. | FSB | Registrar of Pension Funds<br>Review IPS and audited annually | On-going |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| c) Incentivise compliance with the CRA Principles. | | | |
| a. Insurance companies (in their capacity as institutional investors) | | None | |
| b. Investment managers (i.e. mangers of collective investment schemes). | | None | |
| c. Alternative investment managers (e.g. hedge funds, endowments). | FSB | Registrar of Financial Services Providers<br>Consideration is been given to introducing requirements on FSPs to regularly review any use of CRA ratings and to require public disclosure of internal due diligence and credit risk assessment processes. | End 2014 |
| d. Managers of occupational retirement schemes. | | None | |
| d) Strengthen supervisory oversight to assess whether investments managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers. | | | |
| a. Insurance companies (in their capacity as institutional investors) | | | |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| b. Investment managers (i.e. mangers of collective investment schemes). | FSB | Registrar of Collective Investment Schemes<br><br>The trustees to constantly monitor compliance and report breaches to the supervisor for regulatory action where necessary. This will include regulatory issues involving CRA. | July 2012 |
| c. Alternative investment managers (e.g. hedge funds, endowments). | FSB | Registrar of Financial Services Providers<br>Compliance officers monitor compliance by FSPs and must report any material irregularities to the Regulator. | On-going |
| d. Managers of occupational retirement schemes. | FSB | Registrar of pension funds<br>CRA's are only a guidance measurement of risk which trustees may take into account in conducting the due diligence before investing into an entity | July 2011 and on-going thereafter |

## Annex V: Collateral Policies for Central Counterparties (CCPs)

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| ***Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which CCPs should perform their own due diligence.*** | | | |
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| **1. Reducing reliance on CRA ratings in laws and regulations (Principle I)** | | | |
| a) Remove references to CRA ratings in laws and regulations relating to collateral policies for CCPs. | | | |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to collateral policies for CCPs.<br><br>Are membership requirements in any way dependent on CRA, and if so, any plans to change this? If not, why not? | | The CCP's membership requirements do not rely on CRA ratings.<br><br>. | |
| **2. Reducing market reliance on CRA ratings (Principle II)** | | | |
| a) Enhance supervisory processes and procedures to assess the adequacy of CCPs' own credit assessment processes. | | | |
| **3. Application of the basic principles to particular financial market activities (Principle III)** | | | |
| ***3.1 Central counterparties and private sector margin agreements (Principle III.4a)*** | | | |
| a) Conduct stress tests or estimate the pro-cyclical effect, on the overall margin requirements for the CCP participants, of a sudden downgrade of the credit ratings of some widely used securities. | FSB (and JSE to extent that it is an SRO) | Margin requirements are not dependent on credit ratings and only cash is accepted as collateral. That means that current collateral balances will not be influenced | |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| It would be useful to assess CCPs against the CPSS-IOSCO Principles for Financial Market Infrastructure; in particular, whether the CCP's investment policy or margin requirements can cause procyclicality. Just because a CCP does not rely on CRA ratings, it does not mean that it does not have processes that result in procyclicality. | | by a sudden downgrade.<br>The FSB has assessed Safcom against the financial market infrastructure (FMI) principles published by CPSS-IOSCO and has deemed Safcom a "qualifying CCP" in terms of those principles. The CCP's investment policy ensures diversification and limits investable instruments to non-market sensitive securities, this avoids any procyclicality. The CCP's margin policy is based on market performance data where a conservative floor is placed on margins to avoid procyclical effects of low volatility environments. Only cash is accepted as margin, eliminating any procyclycality between the movement of the value of margin instruments accepted and instruments cleared through the CCP. | |
| b) Assess the reliance on credit ratings in the investment policy of the CCP. | FSB (and JSE to extent that it is an | The CCP relies on credit ratings to determine suitable investment destinations for cash margin. Leverage ratios, Market | |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| Please explain why there are no plans to reduce the CCP's reliance on CRA ratings when setting its investment policy? | SRO) | capitalisation and regulatory capital coverage can be used as metrics going forward however this is not set up and will take some time to do so. Reliance on credit ratings can be decreased by investing less margin with commercial banks and a higher proportion with the central bank. Infrastructure is currently being set up to enable the CCP to do so.<br><br>The JSE has reviewed the investment policy for CCP's and is investigating other metrics to include in assessment of the quality of investment destinations in the policy, hence reducing the reliance on CRA ratings. Part of this review lead to the JSE establishing a process to divest from commercial banks and to place a portion of the funds with the central bank hence decreasing the impact of any CRA rating reliance. While the latter measure does not change the investment policy, it will reduce the impact of any CRA ratings | |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”) |
|---|---|---|---|
| | | substantially. Both of these measures are intended to be completed by the third quarter of this year, 2014.<br>. At this point in time, South Africa does not have a local CCP and no local regulations. Therefore, no reliance on CRA ratings | |
| c) Review private sector margin agreements to ensure compliance with the Principle. | | | |
| d) Require changes to private sector margin agreements. | | | |
| e) Incentivise compliance with the CRA Principles. | | | |

## Annex VI: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| ***Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.*** | | | |
| | | | |
| **1. Reducing reliance on CRA ratings in laws and regulations (Principle I)** | | | |
| a) Remove references to CRA ratings in laws and regulations related to securities issuance. | JSE as SRO | Johannesburg Stock Exchange (JSE) Listings Requirements Specialist Securities<br>- 19.13(a)(vii)<br>- 19.31<br>- 19.32<br>- 19.36(b)(ii)(1)<br>- 19.36(b)(iii)(2)<br>- 19.39(d)(ix)<br><br>The abovementioned paragraphs of Section 19 of the JSE Listings Requirements are in the process of being amended to remove references to credit ratings. | Section 19 – Specialist Securities – End of Q2 2014<br><br>Debt Listings Requirements – N/A |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| | | JSE Debt Listings Requirements sections:<br>- 4.17(b)<br>- 4.21(w)<br>- 4.21(aa)<br>- 4.25<br>- 6.5<br><br>The Debt Listings Requirements do not require a CRA ratings and but require the disclosure of credit ratings in the event that one has been obtained. No amendments are required. | |
| b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to securities issuance. | | N/A – Appropriate disclosure for purposes of pricing the instrument by the investor is already a requirement, and not an alternative. | N/A |
| **2. Reducing market reliance on CRA ratings (Principle II)** | | | |
| a) Enhance supervisory processes and procedures to assess the adequacy of market participants own credit assessment processes. | JSE as SRO | The JSE ensures (as a general principle) that sufficient and transparent disclosure to investors is made, in order for them to make their investment decisions.<br>• No requirements are imposed directly | |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| | | on the investor to conduct due diligence and their own independent credit judgements in making investment decisions.<br>• No requirements are imposed directly on the investor to conduct risk analysis commensurate with the complexity and other characteristics of investment and materiality of their exposure.<br>• In the debt market, the issuer is required to disclose a risk statement to investors, which includes the various forms of risks faced by an investor should they invest in that particular instrument. | |
| **3. Application of the basic principles to particular financial market activities (Principle III)** | | | |
| ***3.1 Central counterparties and private sector margin agreements (Principle III.5a)*** | | | |
| a) Review the role of credit rating in disclosures by issuers of securities. | | See responses to questions under Principle II. | |
| b) Reduce the role of credit ratings in disclosures by issuers of securities (list the steps to take). | | No action being taken by the JSE. The Credit Rating Services Act, 2012 will | |

| Action to be taken | Responsible national authority | High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards) | Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”) |
|---|---|---|---|
| | | enable this review. Supervisors will have no influence neither they will interfere with a credit rating issued by a CRA. The Act and subordinate legislation have extensive requirements for the presentation and disclosure of credit ratings. | |

## Annex VII: Securities Firms (broker-dealers)

| Action to be taken | Responsible national authority | Milestones to be met (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| ***Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes.*** | | | |
| | | | |
| **1. Reducing reliance on CRA ratings in laws and regulations (Principle I)** | | | |
| a) Remove references to CRA ratings in laws and regulations relating to securities firms.<br><br>In the section on Securities firms reference is made to the fact that no reference to rating exist in regulation. No mention is made to supervisory actions/other initiatives to encourage firms not rely mechanistically on rating in day to day practice. | | There are no references to CRA ratings in any JSE rules in relation to its authorised users (securities firms and others).<br><br>There are no supervisory initiatives to discourage use of ratings issues by credit rating agencies. The regulator is satisfied with the status quo as there is little room for securities firms to rely on ratings supplied by credit ratings agencies. | |

| Action to be taken | Responsible national authority | Milestones to be met (e.g. changes in international standards) | Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to securities firms. | JSE | There are no references to CRA ratings in any JSE rules in relation to its authorised users (securities firms and others). | |
| **2. Reducing market reliance on CRA ratings (Principle II)** | | | |
| a) Enhance supervisory processes and procedures to assess the adequacy of securities firms' own credit assessment processes. | | There are no references to CRA ratings in any JSE rules in relation to its authorised users (securities firms and others). | |