THE BANKING ASSOCIATION SOUTH AFRICA

Tel +27 11 645 6700
Fax +27 11 645 6800
P O Box 61674
Marshalltown 2107
www.banking.org.za

3rd Floor Building D
Sunnyside Office Park
32 Princess of Wales Terrace
Parktown 2193

27 March 2024

Basel Committee on Banking Supervision
BIS Tower
Centralbahnplatz 2,
4051 Basel,
Switzerland

Your ref: Consultative Document
Direct ☎: +27 82 312 7937
E-✉: garyh@banking.org.za

Per: Direct upload to BIS
Cc: SARB-PA SARB-PA@resbank.co.za

Salutation

CONSULTATIVE DOCUMENTS - RECALIBRATION OF SHOCKS FOR IRRBB

We thank the Basel Committee on Banking Supervision (BIS), for the opportunity to provide comments on proposed adjustments to its standard on interest rate risk in the banking book (IRRBB).

We welcome the recalibration of the rate shocks and believe that a regular calibration schedule should be adopted going forward. Our comments are as follows:

Section in the consultative document	Comments
General	Given the nature of the change and the local regulatory prudential limits involved, we would recommend that changes arising from the recalibration be phased in such a way, that banks have adequate time to respond in terms of their balance sheet positions. We would recommend that this phase in approach, similar to what was done for the LCR, would then apply each time a new calibration is published.
	We have noted that the extension of history in simulating shocks has resulted to ZAR shock reducing by 50pbs. As a result of this reduction, we expect the overall sensitivities to reduce marginally given that ZAR constitutes the largest in the local overall banking books. The only concern around establishing consistency around regulatory metrics, is the expectation from Basel that the regulatory sensitivities will continuously fluctuate whenever the model history is revised and how do we then achieve consistency in comparison?

	The recommendation to our local regulators would be to adhere to the 400pbs for at least three years and review recalibrations after that time, otherwise if we shift to new shocks quickly, the industry may lose reference benchmarks.
3.2 Comparison of existing and new methodology- Expansion of the time series	The current post-pandemic landscape has been characterised by higher interest rates due to tighter monetary policy that has been implemented by central banks globally to address inflationary pressures. The expansion of the time series used in the calibration of the shocks from December 2015 to December 2022 means that the higher interest rates are included in the time series for recalibration purposes. This therefore contributes to better estimation and robustness in the new methodology. While it could be argued that the recent increases in interest rates are likely to be temporary, we support the proposed conservative approach.
3.2 Comparison of existing and new methodology- Removal of global shock factors	The use of local shock factors calculated directly for each currency eliminates the influence of other currencies in the calculation and only considers the effects of interest rate changes per currency. We support the accurate methodology approach.
3.2 Comparison of existing and new methodology- Transition from the 99th to the 99.9th percentile	With the recent rise in interest rates, the transition from the 99th percentile value in determining the shock factor to a 99.9th percentile maintains sufficient conservatism in the proposed recalibration, thus increasing the accuracy of results.

We look forward to the outcome of the consultation and engaging further on these matters.

Yours sincerely

Gary Haylett
General Manager – Prudential Division