Basel IV

South African Banking Implementation Report 2024

Research

Basel IV Implementation Survey & Report

Basel IV, officially known as the Basel III Reforms, as well as the Fundamental Review of the Trading Book Framework (FRTB), finalised and released in 2017 and 2019 respectively, have been a key regulatory imperative for several years now, impacting the entire international banking industry.

The main objective of this suite of regulations is to restore credibility in the calculation of risk weighted assets (RWAs) and to improve the comparability of banks' capital ratios by the Basel Committee on Banking Supervision (BCBS). While essential, Basel IV has required a substantial implementation effort from the banking industry. Furthermore, quantitative forecasts of the regulatory capital impacts have been contentious among banks across the globe.

With South African banks nearing the final 12 months of implementation (1 July 2025), Monocle conducted a comprehensive Basel IV implementation and regulatory capital impact survey across the South African banking industry.

Key Findings

South African banks' Basel IV* implementations are **progressing well**, with 100% of respondents confident that they will achieve full implementation by the 1 July 2025 deadline and nearly 80% of respondents confident of reaching compliance without relying on tactical solutions and work-arounds. This is partly due to multiple implementation extensions from the South African Reserve Bank (SARB), which have provided sufficient time for banks to reach their compliance milestones.

However, respondent banks still face **multiple challenges**, including incomplete data and poor data quality, uncertainty stemming from outstanding requirements from the SARB, and ensuring operating model embedment.

Overall Basel IV Progress

At a risk area level, 78% of respondents found Basel IV to have a **minimal or decreased impact on regulatory capital charges.** This is partly explained by the industry's consistent approach to proactively mitigating capital impacts, with most banks focusing on engagement with the regulator on critical issues, together with various other methods to ensure capital efficiencies.

While most bank respondents indicated that they believe Basel IV will **improve the risk resilience of the industry**, there were various disparate views as to whether it will hinder South African banks' capacity to effectively finance their customers and clients. However, this issue requires additional long-term research to provide definitive findings.

Deadlines

Regulatory Reforms

- 1 July 2025

- Revised standardised approach for credit risk
- Revised internal ratings-based approaches for credit risk
- Revised operational risk framework
- Leverage ratio – revised exposure definition
- Minimum capital requirements for market risk
- Revised credit valuation adjustment framework

Phase-In Output Floors

- 1 July 2025: **60%**
- 1 January 2026: **65%**
- 1 January 2027: **70%**
- 1 January 2028: **72.5%**

** The term "Basel IV" will be used throughout the report to refer to both the Basel III Reforms and FRTB framework.*

Survey Results

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About the Survey

Monocle's 2024 Basel IV Implementation Report was developed through the use of a comprehensive survey with the aim to gauge the progress of Basel IV implementations in South African banks and to provide critical indications of the related regulatory capital impacts.

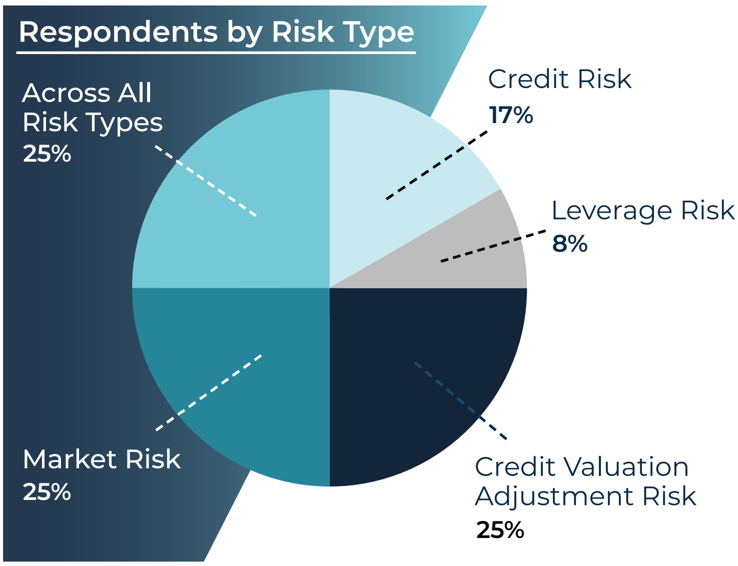
The survey targeted senior bank risk stakeholders across **all affected risk types** in South Africa – including credit, credit valuation adjustment, operational, leverage and market risk – as well as implementation leads responsible for Basel IV implementation. The consolidated responses cover around 82% of all South Africa banking sector assets and approximately 80% of Tier 1 capital.

Results were collected throughout March, April and May 2024 and are reported at an industry level, unless otherwise stated.

Survey Respondents

Basel IV impacts a variety of risk types across banking entities and the risk area demographics of survey respondents was therefore favourably wide-ranging. Due to the substantial reforms required under credit valuation adjustment and market risk, the survey provided for additional stakeholder responses from those risk areas.

Responses from stakeholders who operate **"Across All Risk-Types"**, such as Basel IV programme implementation leads, have helped to round out the survey's scope to include insights related to **operational** and **leverage risk.**

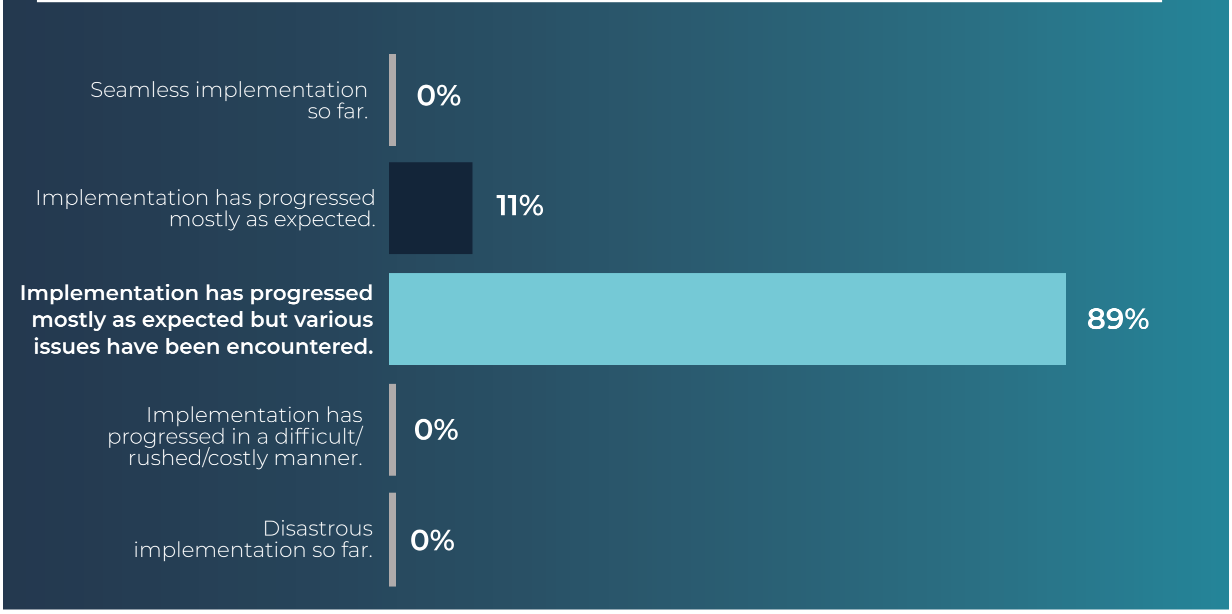


Implementation Progress

The majority of respondents confirmed that their respective **bank's implementation of Basel IV had so far progressed largely as expected**, despite encountering a variety of challenges throughout. Unsurprisingly, none of the bank respondents reported serious difficulties in implementation.

This is in part due to the various **implementation extensions** afforded to the industry – culminating in an additional 3.5 years being granted on the BCBS's original 1 January 2022 implementation deadline – which have allowed banks additional time to ensure compliance. Recent extensions from the SARB were attributed to the Covid-19 pandemic, as well as international implementation date divergences.

How has your risk area progressed in implementing Basel IV up until now?

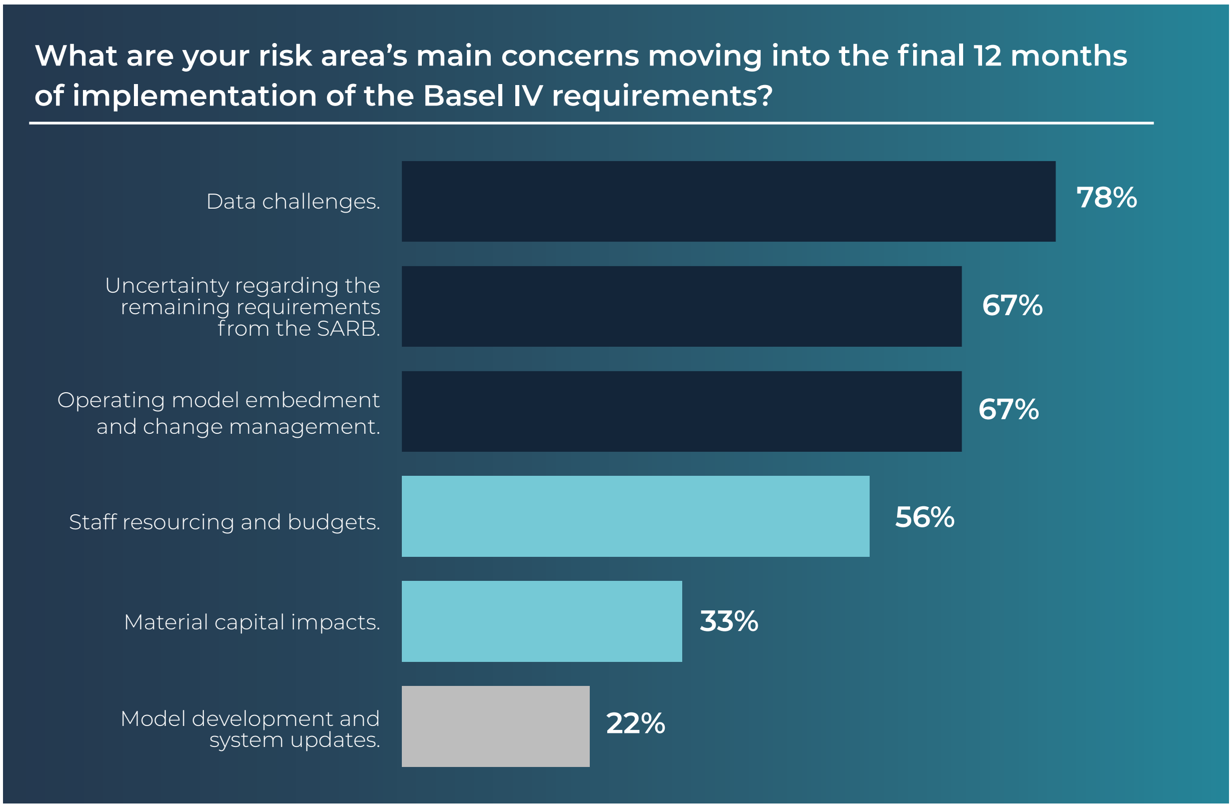


Respondents were also confident in their respective bank's ability to **achieve the updated implementation deadline of 1 July 2025**, as set by the SARB, with 78% of respondents regarding this deadline as achievable (without tactical solutions). This is encouraging for the industry and for regulators as long-term regulatory initiatives often lead to stakeholder fatigue due to continuous replanning and rescheduling, ultimately undermining the efficacy of industry-wide reforms.

67% of respondents indicated that they would continue to refine, automate and enhance their Basel IV capabilities post implementation.

How achievable are the SARB's latest 1 July 2025 deadlines for your risk area?

However, bank respondents consistently highlighted **several lingering challenges** that would be faced over the next 12 months relating to data, outstanding regulatory requirements, operating model embedment, and change management.



Multiple responses permitted.

Data challenges such as poor data quality or missing data requirements were most commonly cited among respondents (78%). This is particularly significant for data from banks' African subsidiaries. Globally, banks have raised data management and complexity as their biggest concern.[1] Additionally, capital calculations will fluctuate as data becomes available and quality improves, leading to potentially significant capital adjustments.

Another major concern raised by respondents revolved around **outstanding regulatory requirements**. These include finalised FRTB reporting templates, various technical and reporting queries raised with the SARB, integration with Project Umoja—the SARB's new digital reporting platform—and go-live readiness requirements.

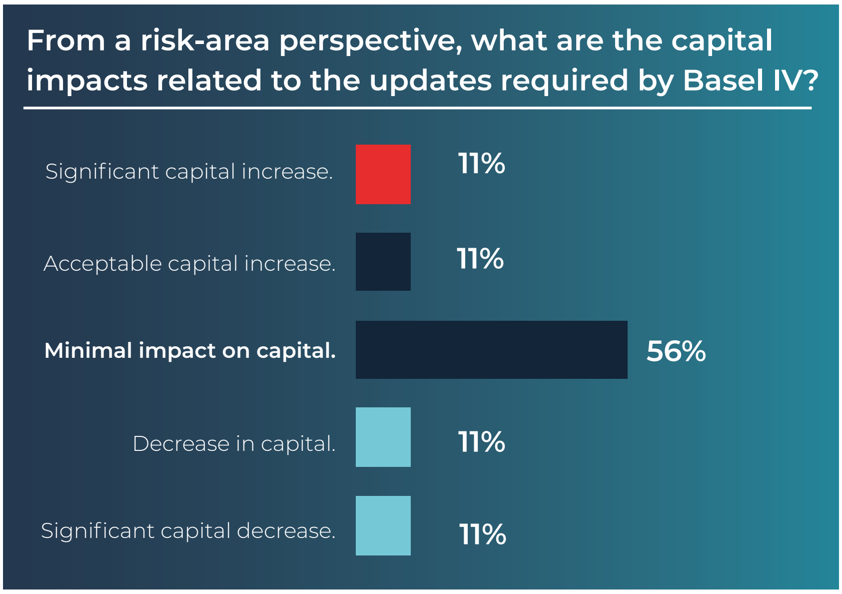
Lastly, Basel IV **embedment and change management** concerns were raised by 67% of respondents, highlighting the challenges of raising awareness of the reform's impacts across the bank. This is particularly relevant for front-office operations and pricing, as well as new data processes. Over the next 12 months, training programmes will become crucial to informing impacted stakeholders of Basel IV-related changes to their operations.

> **"Globally, banks have raised data management and complexity as their biggest concern. Capital calculations will fluctuate as data becomes available and quality improves."**

[1] *S&P Global, The Road to Basel IV (2022)*

Regulatory Capital Impacts

The anticipated inflation of regulatory capital requirements due to the Basel IV has been a prominent issue globally. **In a South African context, bank respondents noted that their risk area's capital charge impacts tended towards a minimal/decreased impact.** However, it is important to note that the distribution of responses was wide-ranging and included indications of both significant capital increases and decreases.



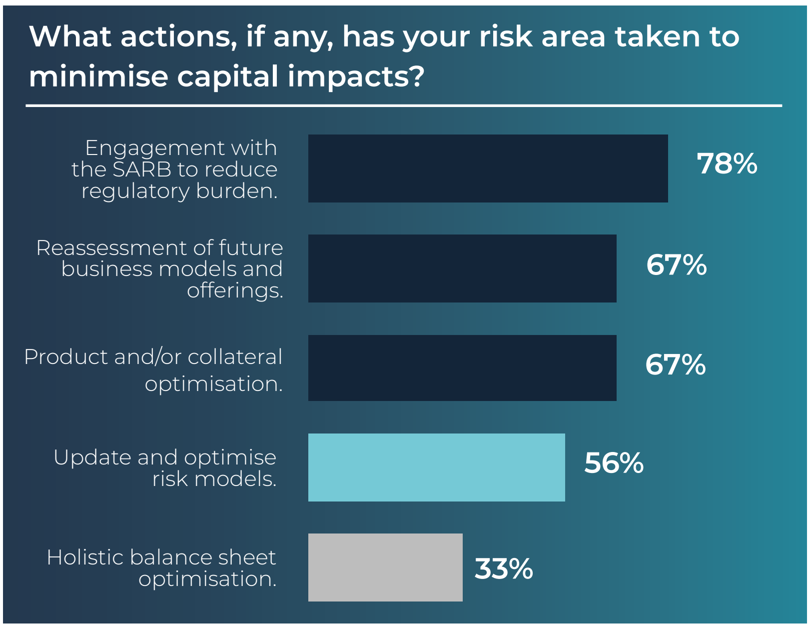
Further analysis of the underlying results between banks, as well as between risk areas, confirmed that Basel IV has impacted certain banks' business units disproportionally due to a range of issues. These include model approach, underlying diversity of clients and products and data limitations. Banks that favour internal rating-based approaches with larger mortgage, corporate and markets exposures will see greater increases. **It is important to note, however, that capital impacts are likely to change as implementation continues over the following 12 months.**

While banks are primarily focused on compliance, the industry has been proactive in capturing incremental capital efficiencies throughout implementation of Basel IV. When asked to rate their risk area's effort to mitigate capital impacts on a scale of 0 (no mitigation) to 10 (proactive mitigation), the **average response was 6.8.**

> **"While banks are primarily focused on compliance, the industry has been proactive in capturing incremental capital efficiencies throughout implementation of Basel IV."**

The proactive approach to mitigation, together with the high percentage of mitigating actions taken by banks, has contributed to the softening of regulatory capital impacts. Engagement with the SARB has been particularly prevalent, with banks consistently seeking implementation guidance and highlighting issues to the regulator.

As part of their capital management, 67% of respondents reported that their respective bank had also made use of its available **"business levers"** to drive capital efficiencies including the reassessment of future business models and offerings, as well as optimisation of its products and collateral.



Multiple responses permitted.

Beyond Basel IV

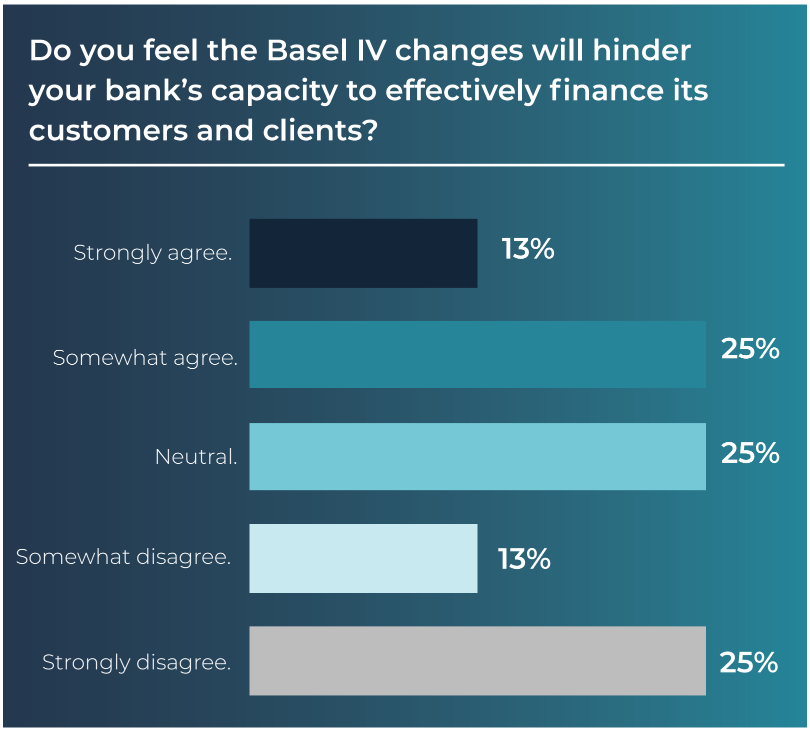
Much has been said regarding **Basel IV's possible negative impact on bank competitiveness** and, ultimately, the supply of funding to the economies in which these institutions operate. In the United States, the push back against "the Basel Endgame" has been particularly fierce with Jamie Dimon, CEO of JPMorgan Chase, warning that US banks could become "uninvestable".

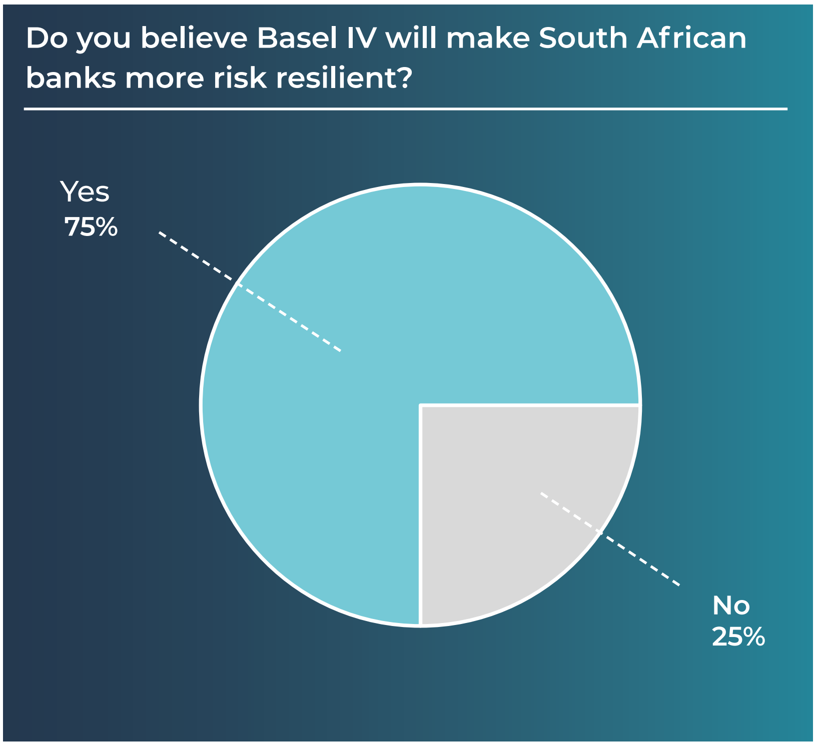
From the survey, responses were mixed regarding how Basel IV would impact banks' ability to effectively finance their customers and clients. While it is too early to definitively predict the long-term impact on the banking industry, when viewed alongside the result of a "minimal to decreased impact to capital", it seems unlikely that the South African banking industry will emerge worse off.

Further research regarding bank funding supply and pricing in South Africa following the launch of Basel IV would assist in determining the systemic, long-term impacts of the regulations. It should be noted that recent research from the SARB found little evidence that higher capital requirements under Basel III reduced the supply of retail or corporate credit by banks in South Africa.[2]

In finalising the Basel III framework initially introduced following the 2007/2008 Global Financial Crisis, the latest reform aims to close out the objectives of enhancing financial stability in the banking system. **The majority of respondents (75%) agreed that Basel IV will improve the risk resiliency of South African banks.**

However, concerns were raised that banks and regulators are becoming too **focused on reporting risk rather than effectively monitoring and managing it.** This fear is not unfounded, evidenced last year by the collapse of several US banks, including Silicon Valley Bank, Signature Bank and First Republic Bank, following acute liquidity constraints that stemmed from latent and unattended risks. This has recently prompted the BCBS to begin reassessing the design of the liquidity ratios introduced in Basel III.



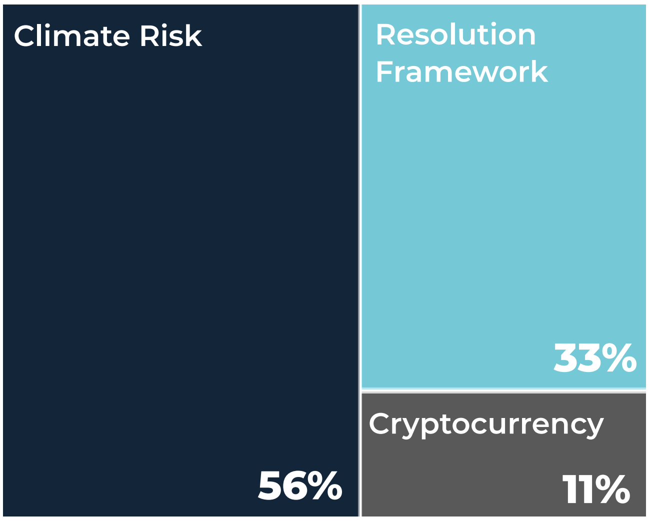


2 *SARB, The Impact of Basel III Implementation on bank lending in South Africa (2024)*

Finally, with consideration to a post-Basel IV world, climate risk was cited by over 50% of respondents as the next priority for the South African banking industry. While regulators and supervisors, including the BCBS, have been reluctant to address climate risks through Pillar 1 (minimum capital requirements), there is a growing consensus that climate risk consideration through banks' Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) would provide a more targeted and flexible approach.

South Africa is also set to continue its regulatory journey to end the "Too Big to Fail" conundrum through new standards on bank resolution and recovery. A third of respondents expected that this will be the next priority, with the SARB expected to release finalised requirements for a Resolution Framework later this year.

Which regulatory topic do you expect to become the next priority for the banking industry in South Africa?



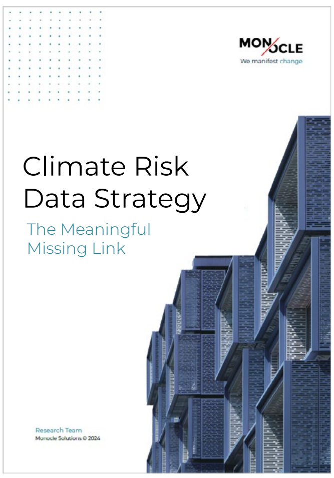
Reaching Compliance with Monocle

With the implementation of Basel IV reaching the final stretch, banks must ensure that their journey to compliance across all processes and models is nearing completion, considering parallel runs, operational embedment, and go-live reporting submissions to the SARB.

With experience in regulatory risk management dating back to Basel II, Monocle is actively involved with our banking clients to improve RWA accuracy through projects related to data process design and development, as well as collateral management process and system enhancements.

As integration with the Project Umoja platform and new Basel IV-related reporting templates become increasingly pertinent in the coming months, Monocle is ready to assist the industry in meeting its reporting compliance requirements and driving compliance across the Basel IV data life cycle.

Read our latest insights.



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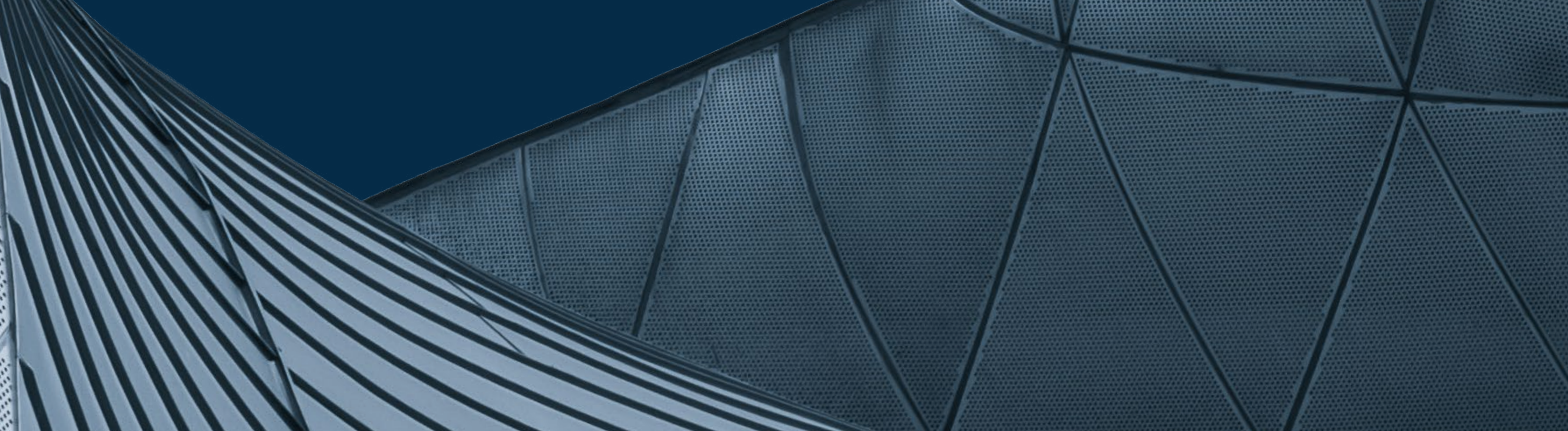

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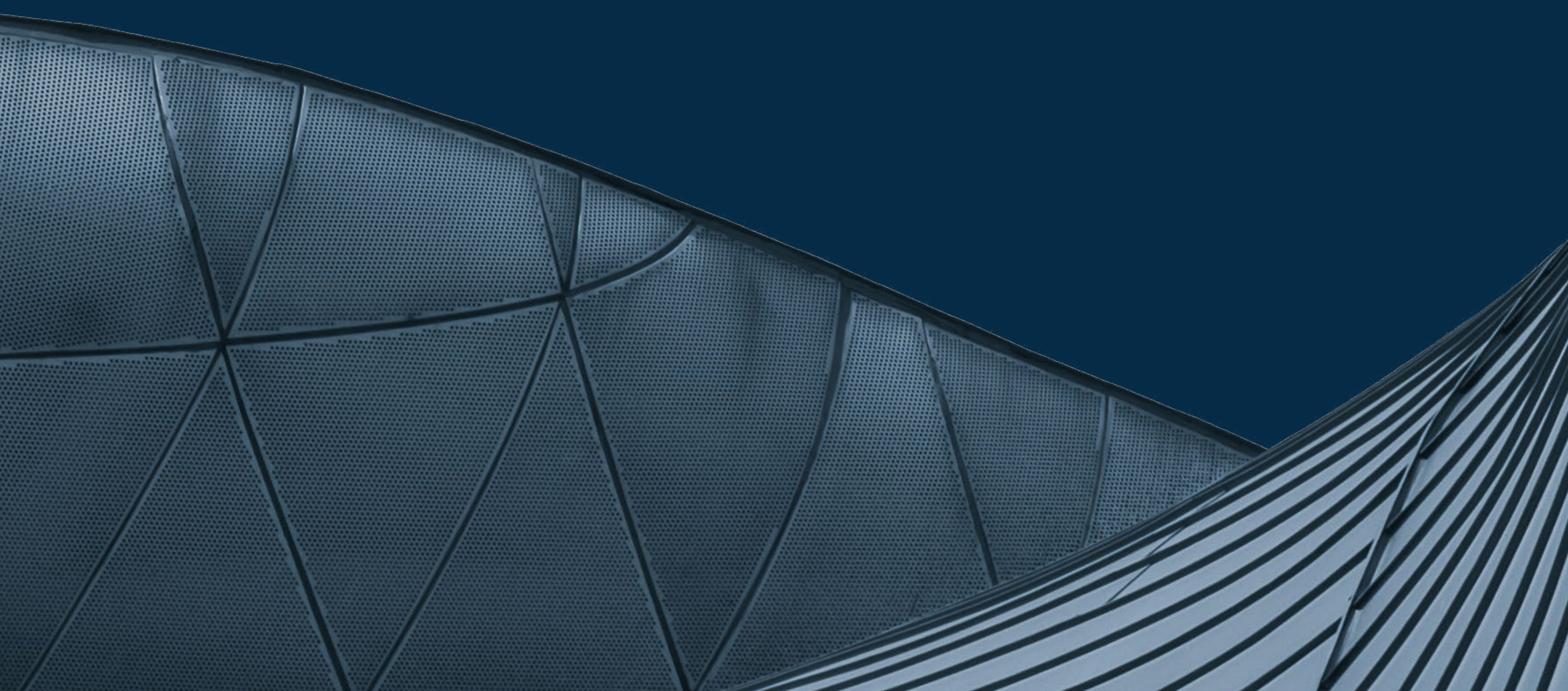

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