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22 April 2012

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Dear Professor Kabundi

Thank you for the email dated 13 April 2012.

I have taken the reviewers’ feedback into account: my responses are detailed below. Reviewer’s comments are in blacktext, while my responses are in blue.

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| **REVIEWER COMMENTS** | **AUTHOR RESPONSE** |
| I do not agree with the opening statement that the financial crises originated with the 2008 collapse of Lehman’s. The bursting of the US housing bubble (peaking in 2005/6) and subsequent interest rates hikes followed by housing prices declines in 2006/7 all contributed to the crises. Some economists even blame the dot-com bubble burst in 2000 as the crisis origin | Agreed. The text has been changed so that it now no longer refers to the ORIGINS of the crisis, but rather to the undisputed commencement of the crisis. The text now reads: *"The financial crisis that has wreaked havoc in global financial markets since August 2007 had its origins in an asset price bubble that interacted with new kinds of financial innovations that masked risk."* |
| I would have expected at least some reference to the South African situation. It is problematic that, with the title “Basel III countercyclical capital rules: implications for South Africa”, there is not a single reference to the SA situation in a 3 page literature review. I propose that the author revisits Section 2. | Partially agree.  The problem is that the Basel III procyclical rules are so recent, there is little [to no] literature concerning the impact of these new rules on the South African market at present (April 2012).  The purpose of this study was not designed to review the existing literature on countercyclicality in South Africa, but rather to initiate a discussion of the implications of Basel III countercyclical rules for South Africa through the application of these rules and an exploration of what might have been had the rules been in place historically.  That said, the discussion and conclusion sections have been augmented with a more *South African* flavour (see comments below). |
| Section 3 makes some very strong statements without providing a single reference. I would caution against this approach and advise that the author includes some supporting references in this section. | Agreed.  Sources now include   * Brunnermeier, 2009 * Saurina, & Trucharte, 2007 * BCBS, 2010b and * Drehmann, 2010. |
| Why is the first paragraph on p7 interrupted by Fig 1. Ensure that the 1st paragraph concludes with “... Trucharte, 2010).” followed by Fig 1. | Agreed. This has been changed. |
| The author should consider the inclusion of more sources in Section 4, specifically when introducing the concepts of “Bottom-up” and “Top down” approaches. | Agreed – this has been changed so that more sources are now included, e.g. Drehmann et al, 2010 who penned the original article detailing the BIS approach to countercyclicality. |
| Section 5 is, by far the most interesting and the biggest contribution of the article.  I understand that the author made different observations, however, they do not all flow together into a concise, confident conclusion. I propose that pages 15-17 of Section 5 are revisited to address this issue | This section (as well as the conclusion section) has been altered considerably. New, updated sources, some from 2012, have been added, as new research has come to light. South African specific sources have been added, commentary on the reaction of the SARB to the still-unfolding crisis have been discussed and possible future actions of the SARB have been discussed and analysed. |
| I find it unacceptable that the author does not make a single reference to the SA in the conclusion. This again raises questions about the author's confidence in the work done in preceding sections.  I propose that, in Section 6, the author makes clear reference to the SA implications (which should be the main observations and contribution of this article, based on the title) | The discussion (Section 5) and conclusion (Section 6) sections have now been augmented with a more *South African* flavour. Several new references have been added – namely the SARB report of 2011, Walters article of 2011 and the Ryan and Crutchley report of 2012. |