



Circular No.: BCS 769

Dated: 29 July 2009

From : Saudi Arabian Monetary Agency

To : ALL BANKS

Attention : Managing Directors, Chief Executive Officers and General Managers

Subject : **Enhancements and Revisions to the Basel II Framework, Market Risk and Trading Book**

We have received the following finalized documents from the Basel Committee on Banking Supervision (The Committee), which aim to address issues arising from the recent financial crisis through revisions to the Basel II Capital Adequacy Framework. The three documents issued in July 2009 are as follows:

1. Enhancements to the Basel II Framework
2. Revisions to the Basel II Market Risk Framework
3. Guidelines for Computing Capital for Incremental Risk in the Trading Book

Under the Basel II enhancements, the Committee is strengthening the treatment for certain securitizations in Pillar 1 (minimum capital requirements). Additionally, it is introducing higher risk weights for resecuritization exposures (so-called CDOs) to better reflect the risks inherent in these products. Other enhancements include banks to conduct more rigorous credit analyses of externally rated securitization exposures.

Further, the Committee recently agreed on modifications to trading book rules covering revisions to the Basel II market risk framework and Guidelines for computing Capital for Incremental Risk in the trading book. In this regard, higher capital requirement have been introduced to capture the credit risk of complex trading activities. Additionally, modifications include a stressed value-at-risk (VaR) requirement, which will help to dampen the cyclical nature of the minimum regulatory capital framework.

The Agency is planning to implement these revisions and amendments in its Basel II frameworks through its relevant Guidance documents by 31 December, 2010.

In the meantime, the purpose of SAMA in issuing these documents is to provide your Bank with an opportunity to set up the necessary policies, systems and processes to enable it to meet the Basel II requirements.

These documents maybe obtained from the BIS website: www.bis.org. If you need any further information, you may contact Mr. Fahd Al-Mufarrij at Telephone # 466-2305 or Mr. Tariq Javed at Telephone # 466-2532.

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