Circular No.: 341000015689
Date: 1434/02/06H (19 December 2012G)

From : Saudi Arabian Monetary Agency

To : All Banks

Attention : Managing Directors, Chief Executive Officers and General Managers

Subject : **SAMA's Final Guidance Document Concerning Implementation of Capital Reforms Under Basel III Framework**

In 1992, SAMA introduced in its regulatory framework a Risk Based Capital Adequacy Ratio emanating from the Basel Committee on Banking Supervision known as Basel I. Subsequently in 2008, SAMA fully implemented the Basel II Capital Adequacy Standard issued by the Basle Committee, that introduced capital requirements for Operational risk and more risk sensitive capital requirements for credit and market risks. Basel II had also introduced the concept of enhanced supervisory review process under Pillar 2 and more transparency under Pillar 3.

Following the 2007 financial crisis that affected a number of financial markets and financial institutions around the globe, the BCBS came out with significant enhancements to the global supervisory standards to address the serious weaknesses identified by various lessons learnt studies. These standards aimed to create a more resilient global banking system and prevent any future financial crisis. For this purpose the BCBS issued Basle II.5 in 2009 and in 2010 and Basle III in 2010. While the former addressed the additional risks relating to securitization , resecuritization and derivative activities, the latter related to enhancing the quality and quantity of capital in banks, strengthening their liquidity and constraining their leverage.

SAMA has since 2011, introduced the main elements of the Basle III framework in accordance with the timelines agreed by the BCBs. This includes the introduction of the leverage ratio in 2011,the liquidity ratios in 2012,and the Capital Adequacy ratios from 2013.The leverage and liquidity ratios are in the monitoring phase while the Capital ratio will be in its final form. In addition SAMA has announced the full implementation of Basle II.5 effective January 2013.

SAMA has made a major effort to develop the attached Guidance Notes and Prudential Returns to implement the Basel III Framework in Saudi Arabia effective 1 January 2013. Earlier in October 2012, SAMA had issued the Basel II.5 framework consisting of a Guidance Document and Prudential Returns which are now included in the attached Basel III framework. Consequently, SAMA Basel II.5 package is now superseded by the Basel III framework. The current Basel III package includes the following:

1. Section A: Final Guidance Document
2. Section B: Final Prudential Returns

The above Basel III package is largely derived from the following BCBS papers:

a. Basel II.5: Enhancement and Revisions to the Basel II Framework issued through SAMA Circular # BCS 769 of 29 July 2009; and Revision to the Basel II Market Risk Framework – Updated as of December 2010 issued through SAMA circular # BCS 28414 of 20 November 2011.
b. Basel III: A Global Regulatory Framework for More Resilient Banks and Banking System – December 2010 (revised June 2011) issued through SAMA Circular # BCS 27885 dated 12 November 2011.
c. Final Elements of the Reform to Raise the Quality of Regulatory Capital – Loss Absorbency at the Point of Non-Viability issued through SAMA Circular # BCS 5611 dated 13 February 2011.

We would like to draw your attention to the following aspects of SAMA's Basel III framework:

1. Basel III Prudential Returns concerning Regulatory Capital fully replace the existing returns under Basel II and Basel II.5.
2. Basel III Prudential Returns concerning RWA are identical to Basel II Prudential Returns in terms of formats, descriptions, layout, etc. However, the new RWA under Basel III represent the existing Basel II RWA amended for enhancements and adjustments under Basel II.5 and Basel III.

We have delayed the implementation of Models approach for Market Risk in the context of Basel II.5 and Basel III, and have decided to wait until further progress is made on Trading Book issues currently under review by the BCBS.

It should be noted that SAMA's Basel III reforms as contained in this package are not applicable to branches of foreign banks. Consequently, the Agency will discuss the Basel III implementation with their Head Offices and Home Supervisory Authorities, and ensure that they include their branches in Saudi Arabia in their Capital Adequacy plans.

The Prudential Returns referred to above are due in SAMA 30 day following each quarter end. Consequently, the first quarterly return will be for data as of 31 March 2013 which will be due in SAMA on 30 April 2013. Additionally, banks are required to provide SAMA with information concerning the impact on their Regulatory Capital Adequacy Ratio (CAR) under Basel III as a result of the transition from the Basel II framework. This information is to be provided 30 days following the first two quarter ends in 2013 and should include relevant details and other information explaining the impact on Regulatory Capital and Risk Weighted Assets resulting from this transition.

If there are any questions, these can be referred to Dr. Alwaleed Alsheikh (E-mail: akalsheikh@sama.gov.sa) or Mr. Tariq Javed (E-mail: t_javed@sama.gov.sa) or Mr. Abbas Hassan (ahassan@sama.org.sa).

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