Circular No.: BCS 13134
Date: 11 May 2010

From : Saudi Arabian Monetary Agency

To : All Banks

Subject: **Enhancements to SAMA's Bank Disclosure Requirements Under the Basle II Framework Pillar 3 Component**

We refer to SAMA's Circular # BCS 378 of 24 May 2007 entitled "Draft Pillar 3 Disclosure Requirements and Guidance Document" issued to all Banks to implement the Pillar 3 component of the Basel II Capital Adequacy Framework. The Agency, with the objective of further encouraging market discipline, has decided to enhance Bank disclosure requirements for certain types of instruments in the market place considered to be of high risk.

These requirements are based on enhancements to standards on market discipline and transparency issued by the Financial Stability Board (FSB) and more recently by the Basle Committee on Banking Supervision (BCBS). Specifically, the recommendations of the FSB are contained in their document of April 2008, entitled "Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience", and include disclosures with regard to collateralized debt obligations (CDOs), residential mortgage backed securities (RMBSs), commercial mortgage-backed securities (CMBS), other special purpose entities (SPEs) and leverage finance. The details of FSB recommendation are described in attachment – 1.

The BCBS in its document of July 2009 entitled "Enhancements to the Basle II Framework" also initiated further improvements to its Pillar 3 regime with regard to the items listed below. These requirements fully address the FSB's recommendations in the April 2008 document. The new BCBS requirements have led to both modification and enhancement of its earlier document entitled "International Convergence of Capital Measurement and Capital Standard" of June 2006. Accordingly, SAMA has adopted these in its own Pillar 3 regime for Banks to implement where necessary. These cover the following:

i. Securitization Exposures in the Trading Book
ii. Sponsorship of Off-Balance Sheet Vehicles
iii. Internal Assessment Approach (IAA) and other ABCP Liquidity Facilities
iv. Re-Securitization Exposures
v. Valuation with Regard to Securitization Exposures
vi. Pipeline and Warehousing Risks with Regard to Securitization Exposures
vii. Other

The enhanced Pillar 3 requirements and the guidance notes under SAMA's Basle II framework are described in attachments 2 and 3. These modifications are to be made to Pillar 3 Template 9 series under both the "qualitative" and "quantitative" aspects. The modified Templates are to be implemented effective 31 December 2010.

These enhancements are aimed at helping market participants to better understand the overall risk profile of a Bank. However they will be applicable if a bank has material risk exposures to the concerned activity, and may not be relevant for banks that do not have significant exposures.

Furthermore, SAMA wishes to inform the Banks that it will continue to strengthen Bank disclosure requirements in response to evolving risks in the domestic and international markets. Consequently, it will work with Banks, external auditors, and other market participants to identify additional disclosures that may contribute in enhancing transparency.

If you require further clarifications, please call Mr. Tariq Javed at 466-2532 or Mr. Abbas Hassan at 466-2526.

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Attachment 1

The recommendation of the FSB as contained in their document entitled "Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience".

Special Purpose Entities (SPEs) – General	**Collateralized Debt Obligations**
• Size of SPE Vs firm's total exposure • Activities of SPE • Reason for consolidation (if applicable) • Nature of exposure (sponsor, liquidity and/or credit enhancement provider • Collateral type • Geographic distribution of collateral • Average maturities of collateral [1] • Credit ratings of underlying collateral [2] **Other Subprime and Alt-A Exposure** • Whole loans, residential mortgage-backed securities (RMBSs), derivatives, other • Detail on credit quality (e.g., credit rating, loan-to-value ratios, performance measures) • Breakdown of subprime mortgage exposure by vintage • Sensitivity of valuation of changes in key assumptions and inputs	• Size of CDOs Vs firm's total exposure • Breakdown of CDOs – type, tranche, rating, etc. • Breakdown of collateral by type • Breakdown of subprime mortgage exposure by vintage • Hedges, including exposures to monolines, other counterparties • Creditworthiness of hedge counterparties • Credit valuation adjustments for specific counterparties • Sensitivity of valuation to changes in key assumptions and inputs **Commercial Mortgage-Backed Securities** • Breakdown of collateral by industry • Breakdown of collateral by geography • Change in exposure from the prior period, including sales and write-downs **Leveraged Finance** • Funded exposure and unfunded commitments • Change in exposure from prior period(s), including sales and write-downs • Distribution of exposure by industry • Distribution of exposure by geography

Attachment 2

Guidance Notes to Modifications and Enhancements of SAMA's Pillar 3 Regime (Table 9 Series) on the Basis of BCBS Recommendation

I. Guidance Notes on Specific Elements

(i) Securitization exposures in the trading book

- Expand disclosures in Table 9 to include securitization exposures within the trading book broadly in line with those in the banking book. There will be separate tables for the quantitative disclosures for banking/trading book.

(ii) Sponsorship of off-balance sheet vehicles

- Add a requirement to disclose the nature of risks other than credit risk inherent in securitized assets (Table 9a).
- Define the term "sponsor" for Pillar 3 purposes, thereby requiring that banks include in the qualitative disclosures all securitization activities which the bank sponsors, regardless of whether they are in the banking or trading book, on- or off-balance sheet, and whether or not they are subject to the securitization framework (Table 9b).
- Move the voluntary disclosure on sponsorship mentioned in the current Footnote 4 to the table and make the disclosure requirement mandatory (Table 9g and 9o).
- Revise the current Footnote 3 to clarify the meaning of the phrase "exposures securitized" (Footnote 8).
- Add a requirement to disclose on-balance sheet securitization exposures separately from off-balance sheet securitization exposures (Table 9k and 9s).

(iii) Internal Assessment Approach (IAA) and other ABCP liquidity facilities

- Add a clarification to show which regulatory capital approach applies to which type of securitization exposures (Table 9a).
- Require qualitative information on the Internal Assessment Approach (IAA) process such as the structure, purposes, control mechanisms, etc. in line with the general disclosure requirements for the IRB system (Table 9e).
- Require breakdown of some quantitative information on the banking and trading books for each regulatory capital approach (Table 9l and 9u).

(iv) Re-securitization exposures

- Add a description of processes in place to monitor changes in the credit and market risk of securitization exposures; a description of the bank's policy governing the use of credit risk mitigation to mitigate the risks retained through securitization and re-securitization exposures; and the type of risks assumed and retained with re-securitization activity (Table 9a).
- Encourage separate disclosure on the valuation of securitization exposures and re-securitization exposures (Footnote 7).
- Add the aggregate amount of re-securitization exposures retained or purchased (Table 9n and 9w).

(v) Valuation with regard to securitization exposures

- Introduce qualitative disclosure requirements on how banks value their securitization positions by adding key assumptions for valuing positions (Table 9c).

(vi) Pipeline and warehousing risks with regard to securitization exposures

- Add two disclosure requirements for accounting policies, which will provide the market with information to determine where they can find exposures intended to be securitized in the future, including information about how such exposures are valued (Table 9c).
- Add a requirement to disclose the total amount of outstanding exposures intended to be securitized broken down by exposure type (Table 9i and 9p).

(vii) Other

- Add a qualitative requirement to explain significant changes to any of the quantitative information since the last reporting period (Table 9f).

II. Integration into SAMA's Existing Pillar 3 Regime

SAMA existing Pillar 3 regime under its qualitative and quantitative requirements are modified and enhanced on the following basis which is to be implemented by 31.12.2010.

Qualitative Requirements

- Tables (a) (b) and (c) have been modified as per attachment 2.
- Information under (d) (e) and (f) as described in attachment 2 is to be further added

Quantitative Requirements

- Tables (d) to ((f) (g) (h) and (j) needs to be modified.
- Information under (h) (i) (k) (l) (m) (n) (o) (p) (q) (r) (s) (t) (u) (v) as described in attachment 2 needs to be further added.

Attachment 3

Specific Modifications and Enhancements to SAMA Pillar 3 Regime's Qualitative and Quantitative Aspects

Securitization Exposure

Qualitative Disclosures [1]	(a)	The general qualitative disclosure requirement with respect to securitization (including synthetics), including a discussion of: • the bank's objectives in relation to securitization activity, including the extent to which these activities transfer credit risk of the underlying securitized exposures away from the bank to other entities and including the type of risks assumed and retained with re-securitization activity[2] • The nature of other risks (e.g. liquidity risk) inherent in securitized assets • The various roles played by the bank in the securitization process[3] and an indication of the extent of the bank's involvement in each of them. • A description of the processes in place to monitor changes in the credit and market risk of securitization exposures[11] (for example, how the behavior of the underlying assets impacts securitization exposures[11]) including how those processes differ for re-securitization exposures. • A description of the bank's policy governing the use of credit risk mitigation to mitigate the risks retained through securitization and re-securitization. • The regulatory capital approaches (e.g. Standardized Approach (SA); Ratings Based Approach (RBA) that the bank uses for its securitization activities including the type of securitization exposures[11] to which each approach applies.[12]
	(b)	A list of: • The types of SPEs that the bank, as sponsor,[4] uses to securitize third-party exposure to these SPEs, either on or off-balance sheet; and • Affiliated entities i) that the bank manages or advises and ii) that invest either in the securitization exposures[11] that the bank has securitized or in SPEs that the bank sponsors.[5]

[1] Where relevant, banks should provide separate qualitative disclosures for banking book and trading book exposures.

[2] For example, if a bank is particularly active in the market of senior tranches of resecuritization related to securitizations of residential mortgages, it should describe the structure of resecuritisations (e.g. senior tranche of residential mortgage); this description should be provided for the main categories of resecuritisation products in which the bank is active.

[3] For example: originator, investor, servicer, provider of credit enhancement, sponsor, liquidity provider, swap provider, protection provider, etc.

[4] A bank would generally be considered a "sponsor" if it, in fact or in substance, manages or advises the programme, places securities into the market, or provides liquidity and/or credit enhancements. The programme may include, for example, ABCP conduit programmes and structured investment vehicles.

[5] For example, money market mutual funds, to be listed individually, and personal and private trusts, to be noted collectively.

	(c)	Summary of the bank's accounting policies for securitization activities, including: • Whether the transactions are treated as sales or financings; • Recognition of gain on sale; • Methods and key assumptions (including inputs) applied in valuing positions retained or purchased [6] • Changes in methods and key assumptions from the previous period and impact of the changes; • treatment of synthetic securitizations if this is not covered by other accounting policies (e.g. on derivatives); • how exposures intended to be securitized (e.g. in the pipeline or warehouse) are valued and whether they are recorded in the banking book or the trading book; and • Policies for recognizing liabilities on the balance sheet for arrangements that could require the bank to provide financial support for securitized assets.
	(d)	In the banking book, the names of ECAIs used for securitizations and the types of securitization exposure [11] for which each agency is used.
	(e)	Description of the Internal Assessment Approach (IAA) process. The description should include: • Structure of the internal assessment process and relation between internal assessment and external ratings, including information on ECAIs as referenced in 9 (d); • Use of internal assessment other than for IAA capital purposes; • control mechanisms for the internal assessment process including discussion of independence, accountability, and internal assessment process review; • the exposure type[7] to which the internal assessment process is applied; and • stress factors used for determining credit enhancement levels, by exposure type.[7]
	(f)	An explanation of significant changes to any of the quantitative information (e.g. amounts of assets intended t be securitized, movement of assets between banking book and trading book) since the last reporting period.
Quantitative disclosures*: **Banking Book**	(g)	The total amount of outstanding exposures securitised[8] by the bank and defined under the securitization framework (broken down into traditional/synthetic) by exposure type[9], separately for securitizations of third-party exposures for which the bank acts only as sponsor.[4]

[6] Where relevant, banks are encouraged to differentiate between valuation of securitization exposures and resecuritization.

[7] For example, credit cards, home equity, auto, and securitisation exposures detailed by underlying exposure type and security type (e.g. RMBS, CMBS, ABS, CDOs) etc.

[8] "Exposures securitized" include underlying exposures originated by the bank, whether generated by them or purchased into the balance sheet from third parties, and third-party exposures included in sponsored schemes. Securitization transactions (including underlying exposures originally on the bank's balance sheet and underlying exposures acquired by the bank from third-party entities) in which the originating bank does not retain any securitization exposure should be shown separately but need only be reported for the year of inception.

[9] Banks are required to disclose exposures regardless of whether there is a capital charge under Pillar 1.

	(h)	For exposures securitized[8] by the bank and defined under the securitization framework:[9] • Amount of impaired/past due assets securitized broken down by exposure type[7]; and • Losses recognized by the bank during the current period broken down by exposure type.[7, 10]
	(i)	The total amount of outstanding exposures intended to be securitized broken down by exposure type.[7, 9]
	(j)	Summary of current period's securitization activity, including the total amount of exposures securitized[8] (by exposure type[7]), and recognized gain or loss on sale by exposure type.[7, 9]
	(k)	Aggregate amount of: • On-balance sheet securitization exposures[11] retained or purchased broken down by exposure type[7]; and • Off-balance sheet securitization exposures[11] broken down by exposure type.[7]
	(l)	• Aggregate amount of securitization exposures[11] retained or purchased and the associated capital charges, broken down between securitization and resecuritization exposures and further broken down into a meaningful number of risk weight bands for each regulatory capital approach (e.g. SA, RBA, IAA and SFA) used. • Exposures that have been deducted entirely from Tier 1 capital, credit enhancing I/Os deducted from total capital, and other exposures deducted from total capital should be disclosed separately by exposure type.[7]
	(m)	For securitizations subject to the early amortization treatment, the following items by exposure type[7] for securitized facilities: • The aggregate drawn exposures attributed to the seller's and investors' interest • The aggregate capital charges incurred by the bank against its retained (i.e. the seller's) shares of the drawn balances and undrawn lines; and • The aggregate capital charges incurred by the bank against the investor's shares of drawn balances and undrawn lines.
	(n)	Aggregate amount of re-securitization exposures[11] retained or purchased broken down according to: • Exposures to which credit risk mitigation is applied and those not applied; and • Exposures to guarantors broken down according to guarantor credit worthiness categories or guarantor name.
Quantitative disclosures*: **Trading Book**	(o)	The total amount of outstanding exposures securitised[8] by the bank and defined under the securitization framework (broken down into traditional/synthetic) by exposure type,[7, 9] separately for securitizations of third-party exposures for which the bank acts only as sponsor.[4]
	(p)	The total amount of outstanding exposures intended to be securitized broken down by exposure type.[7, 9]
	(q)	Summary of current period's securitization activity, including the total amount of exposures securitised[8] (by exposure type[7]), and recognized gain or loss on sale by exposure type.[7, 9]

[10] For example, charge-offs/allowances (if the assets remain on the bank's balance sheet) or write-downs of I/O strips and other retained residual interests, as well as recognition of liabilities for probable future financial support required of the bank with respect to securitized assets.

[11] Securitization exposures, as noted in item IV of attachment 2, include, but are not restricted to, securities, liquidity facilities, protection provided to securitization positions, other commitments and credit enhancements such as I/O strips, cash collateral accounts and other subordinated assets.

	(r)	Aggregate amount of exposures securitised[8] by the bank for which the bank has retained some exposures and which is subject to the market risk approach (broken down into traditional/synthetic), by exposure type.[7]
	(s)	Aggregate amount of: • On-balance sheet securitization exposures [11] retained or purchased broken down by exposure type[7]; and • Off-balance sheet securitization exposures[11] broken down by exposure type [7]
	(t)	Aggregate amount of securitization exposures[11] retained or purchased separately for: • Securitization exposures[11] retained or purchased subject to Comprehensive Risk Measure for specific risk; and • Securitization exposures[11] subject to the securitization framework for specific risk broken down into a meaningful number of risk weight bands for each regulatory capital approach (e.g. SA, RBA, SFA and concentration ratio approach).
	(u)	Aggregate amount of: • The capital requirements for the securitization exposures[11] subject to Comprehensive Risk Measure, broken down into appropriate risk classifications (e.g. default risk, migration risk and correlation risk). • The capital requirements for the securitization exposures[11] (re-securitization or securitization), subject to the securitization framework broken down into a meaningful number of risk weight bands for each regulatory capital approach (e.g. SA, RBA, SFA and concentration ratio approach). • Securitization exposures[11] that are deducted entirely from Tier 1 capital, credit enhancing I/Os deducted from total capital, and other exposures deducted from total capital should be disclosed separately by exposure type.[7]
	(v)	For securitizations subject to the early amortization treatment, the following items by exposure type[7] for securitized facilities: • The aggregate drawn exposures attributed to the seller's and investors' interests; • The aggregate capital charges incurred by the bank against its retained (i.e. the seller's) shares of the drawn balances and undrawn lines; and • The aggregate capital charges incurred by the bank against the investor's shares of drawn balances and undrawn lines.
	(w)	Aggregate amount of resecuritization exposures retained or purchased[10] broken down according to: • Exposures to which credit risk mitigation is applied and those not applied; and • Exposures to guarantors broken down according to guarantor credit worthiness categories or guarantor name.