

Saudi Arabian Monetary Agency

Banking Supervision Dept.

21 December 2010

2885.BC.S.1547

From : Saudi Arabian Monetary Agency

To : All Banks

Attention : Managing Directors, Chief Executive Officers and General Managers

Subject : **Basel Committee Papers: (1) Sound Practices for Backtesting Counterparty Credit Risk Models; and (2) Capitalisation of Bank Exposures to Central Counterparties**

The Basel Committee on Banking Supervision has recently issued the following papers:

1. Sound Practices for Backtesting Counterparty Credit Risk Models

Banks with permission to use internal model methods to calculate regulatory capital for their counterparty credit risk exposures are required to carryout ongoing validation of their CCR Exposure Models. This validation is meant to identify issues with these models and to reaffirm that model assumptions are not violated and remain appropriate.

This paper has been issued in its final form after a consultation process that was completed by 31 May 2010. SAMA would like the Banks that are planning to move to the IRB approaches for Credit Risk to be fully familiar with this paper and to ensure that it is used in developing models related to Counterparty Credit Risk.

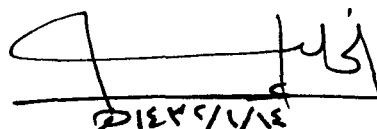
2. Capitalisation of Bank Exposure to Central Counterparties

The Basel Committee on Banking Supervision has issued a consultative paper on the above-note subject. The paper is related to the Basel III Reform Package for the proposed regulatory capital adequacy rules. The Committee is proposing that trade exposures to qualifying Central Counterparties (CCP's) will receive a 2% risk weight. In addition, default fraud exposures to such CCP's will be capitalized according to a method that consistently estimates risk arising from such default funds. The paper also provides the background to an impact study which will be initiated shortly and will be used for finalizing the provisions and for calibration.

SAMA seeks banks that are active in trading activities involving CCP's to review this paper and provide SAMA with any comments they may have by 20 January 2011. You should send a response to SAMA even if you have no comments.

These Papers are available on Bank for International Settlements (BIS) website address: <http://www.bis.org>.

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