

Circular

The circular to all banks operating in Saudi Arabia.

Subject: Controls for Preventing Fraud of Letters of Guarantee

The Ministry of Finance has received reports from some government authorities regarding the increasing number of letters of guarantee found to be fake or fraudulent when submitted by such authorities (beneficiaries) to the issuing bank. Therefore, For the purpose of protecting the rights of government authorities and protecting the banking sector from any potential risks that could be caused by such fraud, Controls for Preventing Fraud of Letters of Guarantee are attached hereto.

All banks must comply with these Controls and ensure their inclusion in the bank's laws and procedures. In addition, All banks must inform SAMA, within a month as of the date of this circular, of the procedures to be applied regarding theses Controls.

Yours sincerely,

Deputy Governor for Technical Affairs

Abdulrahman Abdulmohsen Al-Khalaf

Controls for Preventing Fraud of Letters of Guarantee

1. Letters of guarantee must only be issued by the bank's head office, regional offices, and main branches.
2. The bank must establish an effective internal control system for issuing letters of guarantee, including dual control, to prevent internal fraud.
3. The letters of guarantee must be issued on documents bearing the name of the issuing bank. Such documents must include high security features such as:
 - Fraud proof security features.
 - Special inks.
 - Electronic stamps.
 - Raised texts and signatures.
 - Checkers must be used.
 - Special serial and reference numbers must be used.
 - Effective control measures must be developed for the paper stock.
4. The letters of guarantee must include contact information such as (phone number, fax number, P.O. Box and email address) to enable beneficiaries to verify the data of the letter in accordance with the form attached.
5. The bank must ensure timely response to the requests submitted by beneficiaries for the verification of the letters of guarantee they receive, and must establish internal procedures to meet such requirements.
6. Beneficiaries must be responsible for the verification of the letters of guarantee in coordination with the issuing bank.
7. The bank must keep original copies of the letters of guarantee they issue.
8. Valid letters of guarantee may be cancelled only by an official request submitted to the bank by the beneficiary along with the original letter of guarantee and amendments thereon, if any.

- Reporting fraud of letters of guarantee:
 - a) The bank must immediately inform the government authority submitting a request for verification that the letter of guarantee is fake, and must ask such authority to report such case to the investigation authorities to protect its rights.
 - b) Fraud of letters of guarantee must be reported to the competent security authorities (the police department in the region) to ensure that investigations are carried out in accordance with the applicable laws.
 - c) Banking Inspection Division at SAMA must receive a copy of the report submitted by the bank to the competent security authorities, along with a copy of the fake letter of guarantee and a technical report on the fraud incident.
 - d) The bank must establish procedures that aim at encouraging customers to report fraud cases and facilitating such a process.

Subject: Verification of Letters of Guarantee

Dear/
Greetings,

We would like to verify the data of the letter(s) of guarantee mentioned below issued in our favor on behalf of the entity identified in the letter. Please find attached a copy of the letter of guarantee.

| Issuer | LG Number | LG Date | LG Validity | LG Amount | Purpose |
|--------|-----------|---------|-------------|-----------|---------|
| | | | | | |
| | | | | | |
| | | | | | |

We appreciate your prompt response by email or letter.
ext.

Should you have any questions, please contact us at: (phone number)

Name of beneficiary

Stamp of beneficiary

Dear Sir/Madam,

Having reviewed the letter(s) of guarantee submitted to you, we would like to confirm that the data of the letter(s) of guarantee mentioned above is:

() Correct, and the beneficiary must verify the original letter(s) of guarantee.

() Not to be found in the records of the bank, and relevant authorities must be notified.

() Other.

Phone number:

Fax number:

Authorized signatories

Stamp of bank