



Circular No.: BCS 5944  
Date: 15 February 2011

From : Saudi Arabian Monetary Agency  
To : All Banks  
Attention : Managing Directors, Chief Executive Officers and General Managers  
Subject : **Announcement of the Basel III Accord and SAMA Plans for its Implementation of Basel II and III in 2011**

The Basle Committee for Banking Supervision (BCBS) issued its finalized comprehensive reforms package in December 2010 to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. The objective of these reforms is to improve the banking sector's ability to absorb shocks arising from financial and economic stresses, and in this regard, this comprehensive package addresses the lessons learnt from the financial crisis.

In December 2009, the BCBS issued its initial comprehensive consultative document entitled "The Strengthening the Resilience of the Banking System". This document proposed major enhancements and amendments to the Basel II framework for strengthening the global capital framework through raising the quality, consistency and transparency of capital, institution of capital buffers, enhancing risk coverage, and the introduction of leverage and liquidity ratios. Following an elaborate consultation process, the major features of Basel III have now been agreed by the Basel Committee, and the final Basel III text was issued on 16 December 2010.

As a member of the Basel Committee, SAMA has been actively involved in developing these standards and it fully supports the package of reforms announced by the BCBS. SAMA believes that the Basel III framework will strengthen the supervisory framework by enhancing the quality and quantity of capital, introduction of liquidity and leverage ratios and by supporting greater sophistication in identification and management of risks in the banking industry. Therefore, SAMA is planning to fully implement Basel III as provided by the BCBS Reforms Package on the basis of the phase-in arrangements described in attachment – 1.

As was the case for Basel II, the implementation of Basel III in the Saudi banking system will require close coordination and collaboration between SAMA and the banks. The process will require continuous communication and feedback to ensure that the implementation of Basel III proceeds smoothly. SAMA intends to actively involve all Banks through bilateral and multilateral meetings, and SAMA sponsored seminars and presentations in the implementation of Basel III reforms. This circular is the first in a series of communiqués that SAMA plans to issue over the next few years.



During 2011, SAMA will continue to discuss with the Banks the implementation of Basel II projects and some new initiatives under Basel III. The main areas of work are as follows:

1. Further refinements of the ICAAP process in light of Basel III.
2. Follow up on Banks previously submitted plans for transition to the IRB approaches for credit risk.
3. Finalization of Prudential Returns and Guidance notes for IRB Approaches
4. Finalization of the Prudential Return on Capital Leverage Ratio and start of the monitoring process.
5. Finalization of the Prudential Returns for Liquidity Coverage Ratio and monitoring will start in 2012.

SAMA envisages forming a number of working groups to advance the implementation of different aspects of Basel III. These are listed in Attachment 2. All Banks are required to designate at least 2 senior persons to each Committee by 28 February 2011. Their names and contact telephone numbers should be forwarded to Mr. Fahd Al-Mufarrij, Director of Banking Supervision. We expect these Committees to commence work once further details on Basel III proposals are issued by the BCBS, and SAMA has assessed their relevance and implications for the Saudi Banking system. We expect the working groups to commence their work in the 2<sup>nd</sup> quarter of 2011.

In order to ensure a good understanding of Basel III in the Banking sector, SAMA representatives have made presentations to Managing Director of the Banks in the MD's Committee and to relevant senior managers and Basle II Team members in December 2010. SAMA may organize additional seminars during 2011 to deal with specific areas. Banks will be notified about the specific dates and details of such seminars in due course.

Banks are advised to maintain strong Basel II/III teams with a designated project leader (coordinator) to plan and execute the implementation of Basel III. The Project Leader should have overall responsibility, with the work delegated to the team members. The Project Leader should also act as the liaison person with SAMA.

Any question you may have in this regard should be addressed to the following officials:

1. Fahd Al-Mufarrij
2. Alwaleed Alsheikh
3. Tariq Javed
4. Abbas Hassan
5. Mohammed Al-Ghorayyeb

**Dr. Abdulrahman Al Kalaf**  
*Deputy Governor  
for Technical Affairs*