

Saudi Arabian Monetary Agency

BANKING CONTROL



From : Saudi Arabian Monetary Agency (SAMA)
To : All Banks
Attention : Managing Directors, Chief Executive Officers and General Managers
Subject : **Applicability of Countercyclical Capital Buffer (CCyB) in Saudi Arabia**

History and background

In 2010, the Basel Committee on Banking Supervision (BCBS) released the Basel III capital standards, which contained detailed information about CCyB. This was followed by additional information on procedures for operating this buffer.

The CCyB aims to ensure that banking sector's capital requirements take account of the macro-financial environment in which the banks operate. Its primary objective is to achieve a broader macro prudential goal of protecting the banking sector from periods of excessive aggregate credit growth that have often been associated with the build-up of system-wide risk. In downturn environment, the release of this buffer should help to reduce the risk of undermining the performance of the real economy and additional credit losses in the banking system.

Calculation

The Countercyclical Capital Buffer varies between 0% and 2.5% to total risk weighted assets and is calculated as the weighted average of the buffers in effect in the jurisdictions in which the banks have a credit exposure.

Timeline

All banks in Saudi Arabia should use the buffer rate for each country (including Saudi Arabia) for the calculation of CCyB from 1 January 2016.

Periodic announcement

Countercyclical buffer rate for Saudi Arabia will be pre-announced by SAMA at least one year in advance. While increases in buffer rate becomes effective one year after the date of announcement of the increase, decreases will take effect immediately as of the date of announcement. However, in case of any immediate changes foreseen, SAMA will make the changes in the buffer rate more frequently.

Methodology

Credit-to-GDP gap (point in time and longer term trend) as proposed by the Basel Committee has been taken by SAMA as the main indicator for the calculation of countercyclical buffer rate. However, in future, SAMA could also include additional indicators relating to the financial system and may revise the current methodology, if needed.

Calculation of bank-specific countercyclical capital buffer

- 1) Reciprocity is an important basis for the calculation of bank-specific countercyclical capital buffer based on location of exposures in different countries. However, this arrangement is valid mainly for Basel Committee member countries and countercyclical capital buffer rates implemented in those countries. These rates (along with countercyclical capital buffer for Saudi Arabia) will be available on the Basel Committee website (<http://www.bis.org/bcbs/ccyb/index.htm>) and should be taken by the banks for the calculations. However, SAMA could determine a more prudent rate for certain countries, if needed.
- 2) In case, if there is no rate published by the Basel Committee for the country in which the banks have a presence or a position, a maximum buffer rate of 2.5% should be used for that country.
- 3) Banks should take into account exposures to private sector counterparties, which attract a credit risk capital charge in the banking book, and the risk-weighted equivalent trading book capital charges for specific risk, the incremental risk charge, and securitization. Interbank exposures and exposures to the public sector are excluded while non-bank financial sector exposures should be included in the calculation.
- 4) Banks should make classification of geographic location according to the criteria of "ultimate risk" i.e. where the final risk lies.
- 5) Banks should take into account the geographic location of their private sector credit exposures (as explained in 4 above) and calculate their countercyclical capital buffer requirement as a weighted average of the buffers that are being applied in various jurisdictions where they have an exposure. The weighting applied to the buffer in place in each jurisdiction will be the bank's total credit risk charge (as explained in 3 above) that relates to private sector credit exposures in that jurisdiction, divided by the bank's total credit risk charge that relates to private sector credit exposures across all jurisdictions.

Principles and procedures on profit distribution

Banks should continue to seek permission from SAMA before making dividend distribution. In the permission applications, SAMA will also consider Capital Conservation Buffer, Countercyclical Capital Buffers and Domestic Systemically Important Banks Buffer (if applicable).

Buffer rate for Saudi Arabia

For the year 2016, SAMA has computed 0% as a buffer rate for Saudi Arabia based on the methodology as already explained, which will also be published on the dedicated Basel webpage. Banks will be notified a year in advance if there were any changes in the future.

For further details, banks should access the BCBS document on Countercyclical Capital Buffer from BIS website www.bis.org. Should any bank need any further clarifications, they should contact Mr. Tariq Javed at t_javed@sama.gov.sa or Mr. Qaiser Noor at qnoor@sama.gov.sa



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