Circular No.: 351000123076
Date: 21 July, 2014

From : Saudi Arabian Monetary Agency

To : All Banks

Attention : Managing Directors, Chief Executive Officers and General Managers

Subject : **Enhancement of SAMA Circulars Concerning Basel II, II.5 and III Capital Adequacy framework**

Over the years SAMA has issued guidance to Saudi Banks arising from the Standards issued by the Basel Committee on Banking Supervision on the capital adequacy framework including those related to Basel II,II.5 and III. In this process SAMA has sometimes prepared its own documents and guidance notes extracted from the original Basel documents and also provided specific guidance in areas where national discretion was to be exercised. On other occasions SAMA issued its relevant Basel document without any change. As SAMA documents were issued at different stages in the development of the Basel Framework and also took into account the peculiar requirements of the Saudi Banking sector at the point in time, they may have sometimes varied slightly from the underlying Basel requirements.

In this respect, SAMA has now carried out a comprehensive self-review of its regulations against the relevant BCBS documentation and identified some areas where there are gaps and omissions or further clarifications are required. The purpose of this circular is to identify the specific revisions and ensure that SAMA's documentation concerning Basel II, II.5 and III is fully in sync with the relevant BCBS requirements.

Many of the gaps identified relate to IRB Approaches for Credit risk, VAR models for Market risk, CRM for Advanced IRB approaches etc. These areas at the time of issuance of SAMA regulations and documentation were largely not relevant to Saudi Banks which were still implementing the Standardized approaches. However, going forward and given increasing sophistication of our banks to implement advanced IRB and market risk approaches, these will become relevant. Therefore, where appropriate, SAMA expects banks to implement these regulations effective 1st October 2014.

Over the years SAMA has issued the following circulars and related documents, and in this respect any gaps noted as a result of the aforementioned review are described in the attached Annexes. These identify both the description of the gaps and the documentation that is required to address these gaps. The Sections and Page numbers with regard to SAMA documents have been indicated and referenced.

SAMA Regulatory Documents	Annexure
No specific SAMA Document	General Annexure - 1
SAMA Detailed Guidance Document Relating to Pillar 1, June 2006	Annexure 2
Prudential Returns Basel II, March 2007	Annexure 3
SAMA's Basel II IRB Prudential Returns, Guidance Notes Package and Frequently Asked Questions (FAQs)	Annexure 4
Guidance On Application Procedures, For Adoption Of The IRB Approach By Banks Licensed In Saudi Arabia	Annexure 5
SAMA's Finalized Guidance Document for the Implementation of Basel II.5 , 2012	Annexure 6
Detailed Guidelines Notes on the Maintenance of Adequate Capital Against Market Risk by Saudi Banks, 2004	Annexure 7
Basel II Guidance Document Pillar 2 Supervisory Review Process, 2007	Annexure 8
SAMA's Guidelines Document on the Internal Capital Adequacy Assessment Plan, 2008	Annexure 9
Pillar 3 – Package of Disclosure Requirements and Guidance Notes, 2007	Annexure 10
Basel III Pillar 3 – Package of Disclosure Requirements and Guidance Notes	Annexure 11
Section A Finalized Guidance Document Concerning the Implementation of Basel III	Annexure 12

SAMA is issuing this Circular to ensure Banks can be ready to fully implement the relevant changes by the effective date. SAMA also plans to issue the revised documents incorporating these changes in the next quarter. Given the nature of these changes and the tight timeline SAMA does not intend to have a consultative process. However any Question raised by the banks will be addressed through an FAQ process.

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Best regards,

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