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Date: 21 May 2014

From : Saudi Arabian Monetary Agency

CC : H.E. Abdulaziz Al-Helaissi, Deputy Governor for Supervision

To : All Banks

Attention : Managing Directors, Chief Executive Officers and General Managers

Subject : **Basel Committee on Banking Supervision Document of March 2014 regarding the Standardized Approach for Measuring Counterparty Credit Risk Exposures**

The captioned document represents the Basel Committee's formulation for its Standardized Approach (SA) measuring exposures at default (EAD) for counterparty credit risk (CCR). The SA-CCR will replace both current non-internal models approaches, the Current Exposure Method (CEM) currently utilized in KSA, and the Standardised Method (SM).

In formulating the SA-CCR, the Basel Committee's main objectives were to devise an approach that is suitable to be applied to a wide variety of derivatives transactions (margined and unmargined, as well as bilateral and cleared). Further it is capable of being implemented simply and easily as well as to address known deficiencies of the CEM and the SM. Further, it minimizes national discretion used by national authorities and improves the risk sensitivity of the capital framework without creating undue complexity.

The SA-CCR will apply to OTC derivatives, exchange-traded derivatives and long settlement transactions.

The Basel Committee recognizes that the SA-CCR introduces a significant change and complexity in methodology from the current non-internal model method approaches. Jurisdictions may need time to implement these changes in their respective capital frameworks. In addition, smaller banks may need time to develop operational capabilities in order to employ the SA-CCR. As a result, the SA-CCR will become effective on 1 January 2017.

In this respect, SAMA intends to utilize the current Bank Working Group organized to facilitate the implementation of Basel III. Consequently, further guidance will be provided by SAMA to the banks with regard to the aforementioned.



The Banks can access this BCBS document from BIS website: www.bis.org. Banks are expected to review and incorporate for calculating the CAR Ratio. Also should any bank need any clarifications, they should contact Mr. Tariq Javed at t_javed@sama.gov.sa and Mr. Abbas Hassan at ahassan@sama.org.sa.

Best regards,

Alwaleed Alsheikh
Director of Banking Supervision