



June 2016

From : Saudi Arabian Monetary Agency  
 To : All Banks  
 Attention : Managing Directors, Chief Executive Officers and General Managers  
 Subject : **Capital requirements for banks' equity investments in funds**

### Background

The Basel document on capital requirements for banks' equity investments in funds outlines the policy framework for equity investments in funds. This document improves the framework by following a look-through approach to identify the underlying assets whenever investing in funds and introduces three different approaches i.e. Look-Through Approach (LTA), Mandate-Based Approach (MBA) and the Fall-Back Approach (FBA). It further enhances the framework by:

- taking account of a fund's leverage when determining risk-based capital requirements associated with banks' investments in a fund;
- clarifying the application of the IRB approaches for credit risk; and
- more appropriately reflecting the risk of a fund's underlying investments, including the use of a 1250% risk weight for situations in which there is not sufficient transparency regarding a fund's investment activities.

SAMA has conducted a consultation process with the Saudi Banks in the development of this regulation, which is attached in the annexures containing:

- Annexure 1: Capital requirements for banks' equity investments in funds (available on BIS website (<http://www.bis.org/publ/bcbs266.pdf>)).
- Annexure 2: SAMA's position on National Discretion
- Annexure 3: Changes in the template Q17 for equities. Please ensure that these templates are cross-validated and reconciled to other Q17 templates.
- Annexure 4: Frequently Asked Questions (FAQs) and answers

### Implementation date

These rules are applicable from 1 January 2017 as specified in the Basel document.

Should banks need any clarifications, they should contact Mr. Tariq Javed at email: [t\\_javed@sama.gov.sa](mailto:t_javed@sama.gov.sa) or Mr. Qaiser Noor at email: [qnoor@sama.gov.sa](mailto:qnoor@sama.gov.sa)

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