

# **A Framework for Dealing with Domestic Systemically Important Banks in Saudi Arabia**

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**Saudi Arabian Monetary Agency  
Banking Supervision Department**

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## **Framework for D-SIBs in Saudi Arabia**

### **I. Introduction**

1. The Basel Committee on Banking Supervision (BCBS) in November 2011 issued the rules text on the assessment methodology for global systemically important banks (G-SIBs) and the additional loss absorbency requirements over and above the Basel III requirements that have been introduced for all internationally active banks. The G20 leaders also asked the BCBS and the Financial Stability Board (FSB) to work on modalities to extend expeditiously the G-SIFI framework to domestic systemically important banks (D-SIBs).
2. Accordingly, the BCBS developed assessment methodology to identify and designate D-SIB banks in the domestic economies of National Jurisdictions. In this context, the assessment methodology for D-SIB should reflect the potential impact of, or externality imposed by, a bank's failure on the domestic economy and potentially any impact on cross-border externalities posed by the institution.
3. In this regard, SAMA has developed an assessment methodology based on an indicator-based measurement approach for assessing and designating D-SIBs in Saudi Arabia that is consistent with the BCBS D-SIB assessment methodology. The selected indicators are chosen and calibrated to reflect the different aspects and operational dynamics of the Saudi Arabian Banking System that generates negative externalities and makes a bank critical for the stability of the financial system. Further, SAMA's assessment considers bank-specific characteristics of systemic importance such as size, interconnectedness, substitutability, and complexity, which are correlated with the systemic impact of failure.

### **II. The Assessment Methodology**

4. The assessment methodology for D-SIBs reflects the potential impact of, or externality imposed by, a bank's failure. Thus, the reference system for assessing the impact of failure by D-SIBs is the domestic economy.
5. The impact of a D-SIB's failure on the domestic economy, or the assessment and designation of D-SIBs in Saudi Arabia should, in principle, be assessed annually having regard to bank-specific factors combined with SAMA's discretion (based on supervisory judgment). Thus, the assessment and designation process for D-SIB's by SAMA will take place in February of each year based on end year data.

6. D-SIB's identified and designated by SAMA under this methodology will be required to comply with the Higher Loss Absorbency (HLA) measures with effect from January 2016.
7. The bank's degree of systemic importance should be assessed at a consolidated level. The methodology of designation for the D-SIBs in Saudi Arabia is based on four categories with different weights, and each category weight differs, based on the sub-category that has the:
  - I. Size of the bank as total exposures, as measured in the leverage ratio under Basel III.
  - II. Interconnectedness of the bank vis-à-vis other financial institutions; the three indicators are used to measure interconnectedness: (i) intra-financial system assets, (ii) intra-financial system liabilities, and (iii) total marketable securities.
  - III. Complexity of the bank by measuring the notional amount of over-the-counter derivatives (OTC).
  - IV. Substitutability which relates to the bank's activities and implications of its failure.

Below is a table that shows each category with its sub-category and weights:

<b><u>Category (and weighting)</u></b>	<b><u>Individual Indicator</u></b>	<b><u>Indicator Weighting</u></b>
Size (30%)	Total exposure as defined for use in the Basel III leverage ratio	30%
	Intra-financial system assets: due from commercial banks, specialized banks, and other financial institutions.	10%
Interconnectedness (30%)	Intra-financial system liabilities: due to commercial banks, specialized banks, and other financial institutions.	10%
	Total Marketable securities	10%
	OTC derivatives notional value	10%
Complexity (10%)	Payments cleared and settled through payment system	30%
Substitutability (30%)		
<b>4 categories</b>	<b>6 indicators</b>	<b>100%</b>

### **III. The Scoring and Bucketing**

8. After calculating scores for banks, banks with a score above a certain level (the cut-off score) will automatically be classified as D-SIBs. Also, SAMA at its discretion and using supervisory judgment may decide to add banks with scores below the cut-off score to the list of D-SIBs.
9. There will be four buckets between the cut-off score and one more bucket on top (4+1). D-SIB's will be allocated to a bucket based on their scores.

<b><u>Bucket</u></b>	<b><u>Bucket Scoring</u></b>
1	X* ~ 15.0%
2	15.1% ~ 20.0%
3	20.1% ~ 25.0%
4	25.1% ~ 30.0%
5	30.1% ~ 100%

\*X: refer to the cut-off score and equal to 10%.

### **IV. Higher Loss Absorbency (HLA)**

10. The purpose of an HLA requirement for D-SIBs is to reduce further the probability of failure compared to non-systemic institutions, reflecting the greater impact a D-SIB failure is expected to have on the domestic financial system and economy.
11. The HLA requirement imposed on a bank is commensurate with the degree of systemic importance, as identified under the assessment and designation process. Also, the HLA requirement should be met fully by common equity Tier 1 (CET1).
12. The HLA requirement imposed on a bank will be in addition to the target CAR determined by SAMA based on the risk profile of the concerned bank. The HLA capital charge will be calculated by SAMA based on the bank's degree of systemic importance determined in the scoring exercise and each bank will be allocated to a bucket based on its scores.
13. In addition, SAMA may put in place any additional requirements and other policy measures it considers to be appropriate to address the risks posed by a D-SIB including Recovery and Resolution Plans and other measures as deemed appropriate. Accordingly, SAMA will ensure that banks with same degree of systemic importance in Saudi Arabia are subject to the same HLA requirements.

V. **Buckets and HLA requirements**

<b><u>Bucket</u></b>	<b><u>Bucket Score</u></b>	<b><u>Higher Loss Absorbency requirement (common equity tier 1 as percentage of Risk-Weighted Assets)</u></b>
1	10.0% ~ 15.0%	0.5%
2	15.1% ~ 20.0%	1.0%
3	20.1% ~ 25.0%	1.5%
4	25.1% ~ 30.0%	2.0%
5	30.1% ~ 100%	2.5%