

# Saudi Arabian Monetary Agency

*Banking Supervision Dept.*

11 April 2007

B.C.S 242

From : Saudi Arabian Monetary Agency  
To : All Banks  
Attention : Managing Directors, Chief Executive Officers and General Managers  
Subject : **Mapping of Credit Assessments Ratings Provided by Eligible External Credit Assessment Institution (ECAI's) to Determine Risk Weighted Exposures**

This refers to our Circular # BSC 110 of 22 March 2007 relating to 2<sup>nd</sup> Consultative Draft of Basel II Prudential Returns, which are to be implemented by the Banks during the Parallel Run in July 2007. In this regard, the Agency is issuing a guidance document to help Banks with the mapping of the credit assessments issued by acceptable ECAI's. This guidance document sets out the risk weighting framework which all banks are to use in their application of the standardized approach for Credit Risk.

The Mapping Tables described in attachment 1 of the Guidance documents indicate how the ratings assessment made by the acceptable rating agencies map into a uniform credit quality grade. SAMA will, from time to time, revise these Mapping Tables when any revisions are issued to the list of acceptable ECAI's or when other types of ratings assessments are considered.

If there are any questions, these may be referred to Mr. Abbas Hassan at (01)466-2526 or Mr. Tariq Javed at (01)466-2532.



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Encl.: a/s

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**BASEL II**

**MAPPING OF CREDIT ASSESSMENTS BY EXTERNAL  
CREDIT ASSESSMENTS INSTITUTION'S (ECAI's)  
FOR APPLICATION BY SAUDI BANKS**

**SAUDI ARABIAN MONETARY AGENCY  
APRIL 2007**

## **MAPPING OF EXTERNAL CREDIT ASSESSMENTS**

### **Guidance Notes**

#### **1. General**

Following a process of application by various external credit rating agencies and an assessment by SAMA against the Basel II criteria, the Agency has decided that the following qualify as Eligible ECAI's in Saudi Arabia.

1. Moody's
2. S&P
3. Fitch

#### **2. Implementation Consideration**

For assigning risk weights, Banks must use eligible ECAI's and their ratings consistently for each type of claim. Banks will not be allowed to "cherry-pick" the assessments provided by different ECAs.

Banks will be asked to disclose ECAs that they use for the risk weighting of their assets by type of claims and the risk weights associated with the particular rating grades as determined through the mapping process.

#### **3. Multiple Assessments**

If there is only one assessment by an ECAI chosen by a bank for a particular claim, that assessment should be used to determine the risk weight of the claim.

If there are two assessments by ECAs chosen by a bank which map into different risk weights, the higher risk weight will be applied.

If there are three or more assessments with different risk weights, the assessments corresponding to the two lowest should be referred to and the higher of those two risk weights will be applied.

#### **4. Issuer Versus Issue Assessment**

Where a bank invests in a particular issue that has an issue-specific assessment, the risk weight of the claim will be based on this

assessment. Where the bank's claim is not an investment in a specific assessed issue, the following general principles apply.

- In circumstances where the borrower has a specific assessment for an issued debt but the bank's claim is not an investment in this particular debt – a high quality credit assessment (one which maps into a risk weight lower than that which applies to an unrated claim) on that specific debt may only be applied to the bank's unassessed claim if this claim ranks pari passu or senior to the claim with an assessment in all respects. If not, the credit assessment cannot be used and the unassessed claim will receive the risk weight for unrated claims.
- In circumstances where the borrower has an issuer assessment, this assessment typically applies to senior unsecured claims on that issuer. Consequently, only senior claims on that issuer will benefit from a high quality issuer assessment. Other unassessed claims of a highly assessed issuer will be treated as unrated. If either the issuer or a single issue has a low quality assessment (mapping into a risk weight equal to or higher than that which applies to unrated claims), an unassessed claim on the same counterparty will be assigned the same risk weight as is applicable to the low quality assessment.

Whether the bank intends to rely on an issuer or an issue-specific assessment, the assessment must take into account and reflect the entire amount of credit risk exposure that bank has with regard to all payments owed to it.

In order to avoid any double counting of credit enhancement factors, no supervisory recognition of credit risk mitigation techniques will be taken into account if the credit enhancement is already reflected in the issue specific rating.

#### 5. **Domestic currency and foreign currency assessments**

Where unrated exposures are risk weighted based on the rating of an equivalent exposure to that borrower, the general rule is that foreign currency ratings would be used for exposures in foreign currency.

Domestic currency ratings, if separate, would only be used to risk weight claims denominated in the domestic currency.<sup>1</sup>

6. **Short-term and Long-term Assessments**

For risk-weighting purposes, short-term assessments are deemed to be issue specific. They can only be used to derive risk weights for claims arising from the rated facility. In no event can a short-term rating be used to support a risk weight for an unrated long-term claim. Short-term assessments may only be used for short-term claims against banks and corporates. The table below provides a framework for banks<sup>1</sup> exposures to specific short-term facilities, such as a particular issuance of commercial paper:

<b>Credit Assessment</b>	<b>A-1/P-1<sup>2</sup></b>	<b>A-2/P-2</b>	<b>A-3/P-3</b>	<b>Others<sup>3</sup></b>
<b>Risk Weight</b>	20%	50%	100%	150%

If a short-term rated facility attracts a 50% risk-weight, unrated short-term claims cannot attract a risk weight lower than 100%. If an issuer has a short-term facility with an assessment that warrants a risk weight of 150%, all unrated claims, whether long-term or short-term, should also receive a 150% risk weight, unless the bank uses recognized credit risk mitigation techniques for such claims.

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<sup>1</sup> However, when an exposure arises through a bank's participation in a loan that has been extended, or has been guaranteed against convertibility and transfer risk, by certain MDBs, its convertibility and transfer risk can be considered by national supervisory authorities to be effectively mitigated. To qualify, MDBs must have preferred creditor status recognized in the market and be included in footnote 24. In such cases, for risk weighting purposes, the borrower's domestic currency rating may be used instead of its foreign currency rating. In the case of a guarantee against convertibility and transfer risk, the local currency rating can be used only for the portion that has been guaranteed. The portion of the loan not benefiting from such a guarantee will be risk-weighted based on the foreign currency rating.

<sup>2</sup> The notations follow the methodology used by Standard & Poor's and by Moody's Investors Service. The A-1 rating of Standard & Poor's includes both A-1+ and A-1-.

<sup>3</sup> This category includes all non-prime and B or C ratings.

As SAMA has decided to apply option 2 under the standardized approach to short term interbank claims to banks in its jurisdiction, the interaction with specific short-term assessments is expected to be the following:

- The general preferential treatment for short-term claims, under option # 2 for banks, applies to all claims on banks of up to three months original maturity when there is no specific short-term claim assessment.
- When there is a short-term assessment and such an assessment maps into a risk weight that is more favourable (i.e. lower) or identical to that derived from the general preferential treatment, the short-term assessment should be used for the specific claim only. Other short-term claims would benefit from the general preferential treatment.
- When a specific short-term assessment for a short term claim on a bank maps into a less of favourable (higher) risk weight, the general short-term preferential treatment for interbank claims cannot be used. All unrated short-term claims should receive the same risk weighting as that implied by the specific short-term assessment.

7. **Level of Application of the Assessment**

External assessments for one entity within a corporate group cannot be used to risk weight other entities within the same group.

8. **Unsolicited Ratings**

SAMA does not permit banks to use unsolicited ratings.

9. **PSE and MDB Ratings**

PSE's and MDB's will be risk weighted according to relevant sovereign and corporate ratings.

1. **Sovereign and Central Bank Exposures**

SAMA's Credit Quality Grade (Sovereigns)	Risk Weight	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings
1	0%	AAA	Aaa	AAA
		AA+	Aa1	AA+
		AA	Aa2	AA
		AA-	Aa3	AA-
2	20%	A+	A1	A+
		A	A2	A
		A-	A3	A-
3	50%	BBB+	Baa1	BBB+
		BBB	Baa2	BBB
		BBB-	Baa3	BBB-
4	100%	BB+	Ba1	BB+
		BB	Ba2	BB
		BB-	Ba3	BB-
		B+	B1	B+
		B	B2	B
		B-	B3	B-
5	150%	CCC+	Caa1	CCC+
		CCC	Caa2	CCC
		CCC-	Caa3	CCC-
		CC	Ca	CC
		C	C	C
		D		D
6	100%	Unrated	Unrated	Unrated

## 2. Bank and Securities Firm Exposures

### Option #2<sup>1</sup>

SAMA's Credit Quality Grade (Banks and Securities Firms)	Risk Weight for General Exposures	Risk Weight for 3-months' Exposures <sup>2</sup> (for Banks only)	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings
1	20%	20%	AAA	Aaa	AAA
			AA+	Aa1	AA+
			AA	Aa2	AA
			AA-	Aa3	AA-
2	50%	20%	A+	A1	A+
			A	A2	A
			A-	A3	A-
3	50%	20%	BBB+	Baa1	BBB+
			BBB	Baa2	BBB
			BBB-	Baa3	BBB-
4	100%	50%	BB+	Ba1	BB+
			BB	Ba2	BB
			BB-	Ba3	BB-
			B+	B1	B+
			B	B2	B
			B-	B3	B-
5	150%	150%	CCC+	Caa1	CCC+
			CCC	Caa2	CCC
			CCC-	Caa3	CCC-
			CC	Ca	CC
			C	C	C
			D		D
6	50%	20%	Unrated	Unrated	Unrated

<sup>1</sup> As part of National Discretion, SAMA requires Banks to use option 2 available under the Standardized Approach.

<sup>2</sup> 3-months' exposures represent exposures with original maturity of three months or less (other than those having a short-term ECAI issue specific rating). Risk-weights for 3-months' exposures are applicable only to exposures to banks and not to exposures to securities firms.



### 3. Corporate Exposures

SAMA's Credit Quality Grade (Corporates)	Risk Weight	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings
1	20%	AAA	Aaa	AAA
		AA+	Aa1	AA+
		AA	Aa2	AA
		AA-	Aa3	AA-
2	50%	A+	A1	A+
		A	A2	A
		A-	A3	A-
3	100%	BBB+	Baa1	BBB+
		BBB	Baa2	BBB
		BBB-	Baa3	BBB-
		BB+	Ba1	BB+
		BB	Ba2	BB
		BB-	Ba3	BB-
4	150%	B+	B1	B+
		B	B2	B
		B-	B3	B-
		CCC+	Caa1	CCC+
		CCC	Caa2	CCC
		CCC-	Caa3	CCC-
		CC	Ca	CC
		C	C	C
		D		D
5	100%	Unrated	Unrated	Unrated