



تعميم

المحترمون

السادة/

السلام عليكم ورحمة الله وبركاته،

الموضوع: المتطلبات الإضافية لكفاية رأس المال للبنوك والمصارف التي تمارس نشاط المصرفية الإسلامية.

استناداً إلى الصلاحيات المنوطة بالبنك المركزي بموجب نظامه الصادر بالمرسوم الملكي رقم (م/٣٦) وتاريخ ١١/٠٤/١٤٤٢هـ، والأنظمة ذات العلاقة. وإشارةً إلى العمل القائم لوضع إطار إشرافي للبنوك والمصارف التي تمارس نشاط المصرفية الإسلامية، وحرصاً من البنك المركزي على تعزيز المتطلبات الاحترازية الحالية لكفاية رأس المال.

عليه، مرافق لكم المتطلبات الإضافية لكفاية رأس المال للبنوك والمصارف، التي تمارس نشاط المصرفية الإسلامية، والتي تتناول المخاطر المرتبطة بالمنتجات والعقود المتوافقة مع مبادئ وأحكام الشريعة، وذلك بهدف تعزيز المتطلبات الاحترازية الحالية لكفاية رأس المال لكل من مخاطر الائتمان ومخاطر السوق، وذلك إضافةً إلى إطار البنك المركزي لمعايير بازل.

للإحاطة، والعمل بموجبه اعتباراً من ١ يناير ٢٠٢٤ م.

الزييد

وتقبلوا تحياتي،

المنظمان

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وكيل المحافظ للرقابة

عنه / زياد بن بندر اليوسف
وكيل المحافظ للتطوير والتقنية

بها تفضل

نطاق التوزيع:

البنوك والمصارف المحلية العاملة في المملكة.

Saudi Central Bank (SAMA)

Additional Requirements on Capital Adequacy for Shari'ah Compliant Banking

October 2023

البنك المركزي السعودي
SAMA
Saudi Central Bank



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1. Introduction

In exercise of the powers vested upon the Saudi Central Bank (SAMA) under the charter issued by the Royal Decree No. M/36 on 11-04-1442AH (26 November 2020G) and the Banking Control Law issued by Royal Decree No. M/5 dated 22-2-1386AH (11 June 1966G). SAMA is hereby issuing the enclosed Additional Requirements on Capital Adequacy for domestic banks conducting Shari'ah compliant banking.

2. Objective

The objective of this document is to introduce additional set of prudential requirements on the Capital Requirements for Credit Risk and Market Risk for Shari'ah Compliant banking, which are to be read alongside the applicable SAMA's Basel framework issued via circular no. 44047144 dated 04-06-1444AH (28 December 2022) and any subsequent updates. These additional requirements are issued to ensure risks associated with Islamic banking products and contracts are appropriately captured through the capital adequacy framework.

3. Scope of Application

These additional requirements are applicable to all domestic banks that conduct Shari'ah compliant banking licensed by SAMA under the Banking Control Law. Where a locally incorporated bank has a majority owned subsidiary(ies) licensed and operating outside Saudi Arabia and/or has branch operations in any foreign jurisdiction that conduct Shari'ah compliant banking shall follow these requirements.

4. Definitions

The following words and phrases, wherever mentioned in these requirements will have the meanings assigned to them unless the context implies otherwise:

SAMA: The Saudi Central Bank

Bank: Any domestic bank that is licensed to carry out banking business in Saudi Arabia in accordance with the provisions of the Banking Control Law and that conduct Shari'ah compliant banking either as a full-fledged Islamic bank or through an Islamic Window.

Islamic Window: That part of a conventional bank (which may be a branch or a dedicated unit of that bank) that conducts Shari'ah compliant banking, finance and investment activities.

Murabahah: A sale contract whereby the bank sells to a customer a specified asset, whereby the selling price is the sum of the cost price and an agreed profit margin. The Murabahah contract can be preceded by a promise to purchase from the customer.

Murabahah for Purchase Orderer (MPO): a murabahah with an agreement to purchase that is binding where the bank acquires and receives an asset expecting that the obligor will purchase it. The contract will, therefore, include terms for the obligor to pay the price to the bank after taking delivery of the asset.

Tawarruq or Commodity Murabahah Transaction (CMT): A murabahah transaction based on the purchase of a commodity from a seller or a broker and its resale to the customer on the basis of deferred murabahah, followed by the sale of the commodity by the customer for a spot price to a third party for the purpose of obtaining liquidity, provided that there are no links between the two contracts.

Salam: The sale of a specified commodity that is of a known type, quantity and attributes for a known price paid at the time of signing the contract for its delivery in the future in one or several batches.

Parallel Salam: A second Salam contract with a third party to acquire for a specified price a commodity of known type, quantity and attributes, which corresponds to the specifications of the commodity in the first Salam contract without the presence of any links between the two contracts.

Istisna: The sale of a specified asset, with an obligation on the part of the seller to manufacture/construct it using seller's own materials and to deliver it on a specific date in return for a specific price to be paid in one lump sum or instalments.

Parallel Istisna: A second istisna contract whereby a third party commits to manufacture/construct a specified asset, which corresponds to the specifications of the asset in the first istisna contract without the presence of any links between the two contracts.

Ijarah: A contract made to lease the usufruct of a specified asset for an agreed period against a specified rental. It could be preceded by a unilateral binding promise from one of the contracting parties. As for the Ijarah contract, it is binding on both contracting parties.

Ijarah Muntahia Bi Al Tamlik: A lease contract combined with a separate promise from the lessor giving the lessee a binding promise to own the asset at the end of the

lease period either by purchase of the asset through a token consideration, or by the payment of an agreed-upon price or the payment of its market value. This can be done through a promise to sell, a promise to donate, or a contract of conditional donation.

Musharakah: A partnership contract in which the partners agree to contribute capital to an enterprise, whether existing or new. Profits generated by that enterprise are shared in accordance with the percentage specified in the Musharakah contract, while losses are shared in proportion to each partner's share of capital.

Musharakah with Ijarah: Partners that jointly own an asset or real estate may lease it to a third party or to one of the partners under an ijarah contract and thus generate rental income for the partnership.

Musharakah with Murabahah: As a joint owner of the underlying asset, a bank is entitled to a share of the revenue generated from the sale of the asset under a murabahah contract.

Mudarabah: A partnership contract between the capital provider (rabb al-mal) and an entrepreneur (mudarib) whereby the capital provider would contribute capital to an enterprise or activity that is to be managed by the entrepreneur. Profits generated by that enterprise or activity are shared in accordance with the percentage specified in the contract, while losses are to be borne solely by the capital provider unless the losses are due to misconduct, negligence or breach of contracted terms.

Qard Hassan: A loan for a fixed period for which no profit rate is charged.

Wakalah: An agency contract where the customer (principal) appoints an institution as agent (wakil) to carry out the business on his/her behalf. The contract can be for a fee or without a fee.

5. Prudential Treatment (Credit Risk & Market Risk)

Calculations for risk weighted assets (RWAs) related to credit and market risks for banks conducting Shari’ah compliant banking are to follow the prudential treatment as per the applicable SAMA’s Basel framework. This section provides additional requirements for mapping Shari’ah compliant assets to SAMA’s Basel framework, given their structure and operationalisation, through the various stages of the contract.

Table 5A: Murabahah and non-binding purchase order

Applicable stage of contract	Credit risk-weight	Market risk-weight
Asset available for sale (asset on balance sheet)	N/A	Refer to Minimum Capital Requirements for Market Risk
Asset is sold and title is transferred to a customer, and the selling price (accounts receivable) is due from the customer	Refer to Minimum Capital Requirements for Credit Risk	N/A

Table 5B: Murabahah and binding purchase order

Applicable stage of contract	Credit risk-weight	Market risk-weight
Asset available for sale (asset on balance sheet)	Refer to Minimum Capital Requirements for Credit Risk	N/A
Asset is sold and delivered to a customer (accounts receivable is due from a customer)		N/A

Table 5C: CMTs

Applicable stage of contract	Credit risk-weight	Market risk-weight
Commodities on bank balance sheet for sale	N/A	In the presence of a binding promise from the counterparty to purchase, and legally enforceable contract documentation, there will be no capital charge for market risk In the absence of a binding promise from the counterparty to purchase; Please refer to Minimum Capital Requirements for Market Risk
Commodities sold and delivered to customer	Refer to Minimum Capital Requirements for Credit Risk	N/A

Table 5D: Salam with Parallel Salam

Applicable stage of contract	Credit risk-weight	Market risk-weight
Payment of purchase price by the bank to a salam customer/seller	Refer to Minimum Capital Requirements for Credit Risk	Refer to Minimum Capital Requirements for Market Risk
Receipt of the purchased commodity by the bank	N/A	

Table 5E: Salam without Parallel Salam

Applicable stage of contract	Credit risk-weight	Market risk-weight
Payment of purchase price by the bank to a salam customer/seller	Refer to Minimum Capital Requirements for Credit Risk	Refer to Minimum Capital Requirements for Market Risk
Receipt of the purchased commodity by the bank	N/A	

Table 5F: Istisna' with Parallel Istisna'

Applicable stage of contract	Credit risk-weight	Market risk-weight
Unbilled work-in-process inventory	Refer to Minimum Capital Requirements for Credit Risk	Refer to Minimum Capital Requirements for Market Risk
Amounts receivable after contract billings		

Table 5G: Istisna' without Parallel Istisna'

Applicable stage of contract	Credit risk-weight	Market risk-weight
Unbilled work-in-process inventory	Refer to Minimum Capital Requirements for Credit Risk	Refer to Minimum Capital Requirements for Market Risk
Amounts receivable after contract billings		N/A

Table 5H: Istisna' with Parallel Istisna' (For Project Finance)

Applicable stage of contract	Credit risk-weight	Market risk-weight
Unbilled work-in-process inventory	Refer to Minimum Capital Requirements for Credit Risk	N/A
Amounts receivable after contract billings		

Applicable stage of contract	Credit risk-weight	Market risk-weight
Maturity of contract term and full settlement of the purchase price by an istisna' buyer	N/A	N/A

Table 5I: Istisna' without Parallel Istisna' (For Project Finance)

Applicable stage of contract	Credit risk-weight	Market risk-weight
Amounts of progress payments to the manufacturer work-in-process inventory	None (no ultimate istisna' customer)	Refer to Minimum Capital Requirements for Market Risk

Table 5J: Operating Ijarah

Applicable stage of contract	Credit risk-weight	Market risk-weight
Asset available for lease (prior to signing a lease contract) <u>without binding lease agreement</u>	N/A	Refer to Minimum Capital Requirements for Market Risk
Asset available for lease (prior to signing a lease contract) <u>with binding lease agreement</u>	Refer to Minimum Capital Requirements for Credit Risk	N/A
Upon signing a lease contract and the lease rental payments are due from the lessee	Refer to Minimum Capital Requirements for Credit Risk	Refer to Minimum Capital Requirements for Market Risk
Maturity of contract term and the leased asset is returned to the bank	N/A	Refer to Minimum Capital Requirements for Market Risk

Table 5K: Ijarah Muntahia Bi Al Tamlik ⁽¹⁾

Applicable stage of contract	Credit risk-weight	Market risk-weight
Asset available for lease (prior to signing a lease contract) <u>without binding lease agreement</u>	N/A	Refer to Minimum Capital Requirements for Market Risk
Asset available for lease (prior to signing a lease contract) <u>with binding lease agreement</u>	Refer to Minimum Capital Requirements for Credit Risk	N/A
Upon signing a lease contract and the lease rental payments are due from the lessee	Refer to Minimum Capital Requirements for Credit Risk	N/A

⁽¹⁾ Table 5K does not apply to real estate finance exposures. All ijarah structured real estate finance exposures shall continue using the methodology for risk weighting as prescribed in the existing SAMA Basel framework.

Table 5O: Lending on the basis of Qard Hassan

Exposure	Credit risk-weight	Market risk-weight
Accounts receivable from customer	Please refer to Minimum Capital Requirements for Credit Risk	N/A

6. Equity Exposures

Banks are required to calculate risk weights assets for equity exposure (i.e. Musharakah/Mudarabah/Wakalah) in accordance to the treatment of equity and transition arrangements in SAMA's Basel framework.

7. Effective Date

These additional requirements shall be effective on 01 January 2024.