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26 August 2009

From : Saudi Arabian Monetary Agency
To : All BANKS
Attention : Managing Directors, Chief Executive Officers and General Managers
Subject : **Governance of Compensation Practices**

In order to improve compensation practices and strengthen supervision in this area, the Financial Stability Board(FSB) has issued its Principles for Sound Compensation Practices in April 2009. The implementation of these Principles has been reiterated by Basel Committee on Banking Supervision(BCBS) as a part of its document titled "Enhancements to the Basel II framework"(Para 84 to 94), which has already been issued to banks by SAMA vide Circular No.769 dated 29 July 2009.

SAMA has recently carried out a Survey of compensation practices of banks operating in Saudi Arabia and the results thereof are being analyzed. In the light of Survey findings, the Agency is planning to issue a circular to banks in due course providing supervisory guidance on compensation practices. Meanwhile, the Agency is issuing this document to encourage the banks to take into account the guidance provided in the FSF Principles in establishing their compensation policies and practices.

The FSF Principles may be obtained from the BIS website: www.bis.org. In case you need any further information, you may contact Mr. Fahd Al-Mufarrij at Telephone # 466-2305 or Mr. Tariq Javed at Telephone # 466-2532.

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Dr. Abdulrahman Al-Hamidy
Deputy Governor
for Technical Affairs

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