Saudi Arabian Monetary Agency

Banking Supervision Dept.

مؤسسة النقد العربي السعودي

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المرفقـات :

From : Saudi Arabian Monetary Agency (SAMA)

To : All Domestic Banks

Attention : Managing Directors, Chief Executive Officers and General Managers

Subject : **Applicability of Domestic Systemically Important Bank (D-SIB) Buffer in Saudi Arabia**

Background

In October 2012, the Basel Committee on Banking Supervision finalised its D-SIB framework, which involves a set of principles on the methodology to identify D-SIBs and on the higher loss absorbency (HLA) capital requirements for banks identified as D-SIBs. The D-SIBs are banks that are not significant from an international perspective, but nevertheless could have an important impact on their domestic financial system and economy compared to other institutions. In this regard, SAMA has issued a circular no. 351000138356 in August 2014 explaining the D-SIBs framework that requires an extra cushion of Common Equity Tier 1 Capital for systemically important banks with the primary objective to cover for macro prudential risks associated with the build-up of system-wide risk. The framework also emphasizes that other policy tools, such as more intensive supervision, can play an important role in dealing with D-SIBs.

Methodology used by SAMA

The Basel methodology is based on 12 principles, out of which 7 principles relate to Assessment Methodology and 5 principles relate to Higher Loss Absorbency (HLA). The 7 principles relate to methodology, potential impact, reference system, degree of systemic importance, bank-specific factors, regular assessment and public disclosure. The bank-specific factors used by SAMA in addition to additional supervisory measures are stated as below:

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

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The remaining 5 principles for HLA cover documentation, systemic importance, compatibility, home-host coordination and requirements to be met fully by Common Equity Tier 1 (CET 1) Capital.

Periodic announcement

SAMA will undertake an annual assessment to evaluate the systemic importance of the banks in the financial system and will communicate accordingly. The assessment can also be conducted on an adhoc basis if there are important structural changes to the banking system during the year. All the D-SIBs banks (as specified in the table below) in Saudi Arabia should provide a D-SIBs buffer in Common Equity Tier 1 Capital.

Calculation and announcement

The D-SIBs buffer varies between 0% and 2.5% to total risk weighted assets and is calculated specifically for each bank. SAMA, based on DSIBs framework (issued in August 2014) using various factors and discretionary measures, has determined the following authorised banks as D-SIBs for the year 2016:

No.	Name of the bank
1	National Commercial Bank
2	SAMBA financial group
3	Al-Rajhi Bank
4	Banque Saudi Fransi
5	Riyad Bank
6	Saudi British Bank

Future correspondence

For further details, banks should access the BCBS document on DSIBs framework from BIS website www.bis.org and SAMA's website. Should any bank need any further clarifications, they should contact Mr. Salman I. Alobaid at salobied@sama.gov.sa; Mr. Tariq Javed at t_javed@sama.gov.sa or Mr. Qaiser Noor at qnoor@sama.gov.sa

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