

29 June 2016

From : Saudi Arabian Monetary Agency (SAMA)
To : All Banks
Attention : Managing Directors, Chief Executive Officers and General Managers
Subject : **SAIBOR/SAIBID Rates - Implementation of Phase 1 New Requirements**

This refers to SAMA Circular # 376000094293 dated 25/8/1437H on the above-subject. Following queries and comments arising from banks during the implementation process, SAMA has amended the Circular to further clarify the rules. Also, a Q&A is attached as an Annex 1. The changes to the original Circular are reflected herein.

As you are aware, Benchmark Administration procedures across the world have gone through major changes in the wake of the recent financial crisis. The fundamental shift has been a move from self-regulation to the appointment of independent Calculation Agents and Administrators. Also, IOSCO has issued Principles to guide Central Banks and Regulatory Authorities on the governance, oversight and surveillance of the Benchmarks.

In view of these developments, SAMA has undertaken a study of the SAIBOR and SAIBID in which the Saudi Banks have been fully consulted. The objective of the study was to identify changes that should be made in the SAIBOR/SAIBID rate setting process in order to enhance governance and to ensure compliance with the IOSCO Principles.

SAMA is looking at implementing the study's recommendations in two phases. In the first phase, with immediate effect, the Banks are required to implement the following:

1. Definition of SAIBOR/SAIBID

SAIBOR – The rate at which contributing banks would be able to borrow unsecured interbank funds in Saudi Riyals, were they to accept offers in reasonable market size from other banks in the SAIBOR panel at 11:00am Riyadh time.

SAIBID – The rate which contributing banks would be willing to pay for an unsecured deposit in reasonable market size from another SAIBOR Panel bank in Saudi Riyals at 11:00am Riyadh time.

2. Banks Internal Methodologies

All Banks must develop and implement reasonable methodologies based on quantitative and qualitative factors to support their rate submission. These methodologies should at a minimum include the following:

- Eligible inputs in rate setting;
- Procedures to detect and evaluate the bonafide nature of such inputs;

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- Policies guiding and detailing the use of expert judgment, including documentation;
- Maintaining records and underlying documentation supporting submissions;
- Procedures for pre-submission validation of eligible inputs and procedures for review by senior staff to check inputs before submission.

These methodologies should be approved by the Board or the Executive Committee and should be consistently applied. The Internal Audit Department should once a year undertake a review of the process and of the methodologies and report to the Audit Committee or to the Board on the compliance with the established policies and procedures.

3. Input Process

Contributing banks are to provide the rate at which they could borrow unsecured interbank funds for each SAIBOR tenor to the calculation agent on a daily basis (by 11:00am Riyadh time).

Also, Contributing Banks should provide rates they would be willing to pay for an unsecured deposit from another Panel Bank, daily at 11:00am Riyadh time.

The Banks should implement a system whereby a senior manager, the Treasurer (or Deputy Treasurer) takes the responsibility for submission of the SAIBOR/SAIBID rates on a daily basis to the Calculation Agent and the Administrator.

4. Standards for Submission & Data Keeping

Banks are expected to:

1. *Submit SAIBOR representing the average rate offered by Panel Banks to the contributing Bank for the tenor(s) for which it wishes to take unsecured funds (extrapolated where necessary).*
2. *Take (up to a standard ticket across relevant tenors) unsecured deposits from Panel banks at the rate underlying the bank's SAIBID submission.*
3. *a Commitment to maintain a reasonable spread between SAIBOR and SAIBID.*
4. *maintain records and evidence to substantiate the rates submitted to the calculation agent.*
5. *In case of significant perceived credit deterioration of a SAIBOR contributing bank, SAMA and the Benchmark Administrator should be informed to review eligibility of the bank concerned.*

In the second phase, SAMA may also consider the following:

- Introduce a Code of Conduct;
- Revisit the Tenors for which rates are submitted;
- Review the criteria for Banks to join the SAIBOR panel;

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- Establish a detailed control framework for the Benchmark Calculation Agent and Administrator;
- Identify the internal and external audit requirements; and
- Procedures for checking history of transactions.

5. Work in Progress

SAMA is currently in the process of selecting a Calculation Agent and Administrator for SAIBOR/SAIBID. This selection process will be completed shortly and the process regarding Governance, Administration, Oversight, Audit, etc. will be documented and implemented thereafter.

6. Reporting to SAMA

Banks are required to provide a bi-weekly report (on 15th and 30th of the month) on their interbank transactions on the prudential return which is attached to this Circular (see Annex 1). The first report is due on 15th June 2016. This Report should be submitted within five (5) working days after the end of the period.



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