

Saudi Arabian Monetary Agency

Banking Supervision Dept.



From : Saudi Arabian Monetary Agency
To : All Banks
Attention : Managing Directors, Chief Executive Officers and General Managers
Subject : **Minimum capital requirements for Market Risk – New Standard**

This document sets out revised standards for minimum capital requirements for Market Risk by the Basel Committee on Banking Supervision (BCBS). The document text is intended to replace the existing minimum capital requirements for market risk in the global regulatory framework, including amendments made after the June 2006 publication of Basel II: International Convergence of Capital Measurement and Capital Standards - Comprehensive Version.

Consistent with the policy rationales underpinning the Committee's three consultative papers on the Fundamental Review of the Trading Book, the revised market risk framework consists of the following key enhancements:

- A revised Internal Models Approach (IMA). The new approach introduces a more rigorous models approval process that enables supervisors to remove internal modelling permission for individual trading desks, allow more consistent identification and capitalisation of material risk factors across banks, and introduce constraints on the capital-reducing effects of hedging and diversification.
- A revised Standardised Approach (SA). The revisions fundamentally overhaul the standardised approach to make it sufficiently risk-sensitive to serve as a credible fallback for, as well as a floor to, the IMA, while still providing an appropriate standard for banks that do not require a sophisticated treatment for market risk.
- A shift from Value-at-Risk (VaR) to an Expected Shortfall (ES) measure of risk under stress. Use of ES will help to ensure a more prudent capture of "tail risk" and capital adequacy during periods of significant financial market stress.
- Incorporation of the risk of market illiquidity. Varying liquidity horizons are incorporated into the revised SA and IMA to mitigate the risk of a sudden and severe impairment of market liquidity across asset markets. These horizons replace the static 10-day horizon assumed for all traded instruments under VaR in the current framework.
- A revised boundary between the trading book and the banking book. Establishment of a more objective boundary will serve to reduce incentives to arbitrage between the regulatory banking and trading books, while still being aligned with banks' risk management practices.

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The banks should access the BCBS document from BIS website www.bis.org and are expected to review it in detail before formation of a formal working group on Market Risk. SAMA will be holding meetings with all banks through this working group to discuss the implementation of this framework. The timelines are elaborated in the below table:

Tasks	Date
Formation of the Working Group on Market Risk	28 February 2016
Finalization of market risk reporting templates	31 July 2016
Finalisation of guidelines/ FAQs on templates	30 September 2016
Transitional implementation period	1 January 2017 – 31 December 2017
Final implementation date	1 January 2018



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