



From : Saudi Arabian Monetary Agency
To : All Banks
Attention : Managing Directors, Chief Executive Officers and General Managers
Subject : **Interest Rate Risk in the Banking Book (IRRBB)**

Interest Rate Risk in the Banking Book (IRRBB) is currently part of the Basel capital framework's Pillar 2 (Supervisory Review Process). Most jurisdictions follow this approach, which is based on the Committee's guidance set out in the 2004 Principles for the management and supervision of Interest Rate Risk (henceforth the IRR Principles). The IRR Principles lay out the Committee's expectations for banks' identification, measurement, monitoring and control of IRRBB as well as its supervision.

The Committee is proposing changes to the regulatory capital treatment and supervision of IRRBB for two reasons. First, to help ensure that banks have appropriate capital to cover potential losses from exposures to changes in interest rates. This is particularly important in the light of the current exceptionally low interest rates environments. Second, to limit incentives for capital arbitrage between the trading book and the banking book, as well as to address the differences between banking book portfolios that are subject to different accounting treatments. This is particularly important given the enhancements to the capital treatment of positions in the trading book, including the Committee's ongoing Fundamental Review of the Trading Book (FRTB).

Further this document presents two options for the regulatory treatments of IRRBB as below:

- First option - a standardised Pillar 1 (Minimum Capital Requirements) approach which would have the benefit of promoting greater consistency, transparency and comparability and
- Second option - an enhanced Pillar 2 approach (which also includes elements of Pillar 3 – Market Discipline) that can better accommodate differing market conditions and risk management practices across jurisdictions.

The banks should access the BCBS document from BIS website www.bis.org and are expected to review it and provide comments to SAMA by 23 August 2015. SAMA will be holding meetings with all banks by creating a separate Working Group concerning Interest Rate Risk in the Banking Book (IRRBB).

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