



تعميم

المحترمون

السادة/

السلام عليكم ورحمة الله وبركاته،

الموضوع: قواعد استثمارات البنوك

استناداً إلى نظام البنك المركزي السعودي الصادر بالمرسوم الملكي رقم م/٣٦ وتاريخ ١٤٤٢/٠٤/١١هـ، ونظام مراقبة البنوك الصادر بالمرسوم الملكي رقم م/٥ وتاريخ ١٣٨٦/٠٢/٢٢هـ وانطلاقاً من دور البنك المركزي الإشرافي والرقابي، ولضمان وضع البنوك إطار داخلي متكامل لتنظيم استثماراتها وحوكمة إجراءاتها، وإدارة المخاطر الناتجة عنها بشكل فعال، والحفاظ على جودة وسلامة تلك الاستثمارات، مرافق لكم الإصدار الأول لقواعد استثمارات البنوك.

للإحاطة والعمل بموجبه اعتباراً من ١ أكتوبر ٢٠٢٢ م.

وتقبلوا تحياتي،

فهد بن إبراهيم الشثري
وكيل المحافظ للرقابة

نطاق التوزيع:

البنوك والمصارف العاملة بالمملكة.

Saudi Central Bank (SAMA) Banks Investment Rules

April 2022

البنك المركزي السعودي
SAMA
Saudi Central Bank



Table of Content

1. Introduction.....	3
2. Objectives	3
3. Scope of Application	3
4. Definitions.....	4
5. General Requirements.....	4
6. Governance	5
7. Risk Management and Monitoring	7
8. Approval Requirements and Controls	8
9. Implementation and Effective Date	10

Banks Investment Rules

1. Introduction

Banks invest in different asset classes for the purpose of managing liquidity, hedging, diversification of assets, and generating returns. These Investments expose banks to a multitude of risks; therefore, SAMA has decided to issue these Banks Investment Rules.

These Rules are issued in accordance with the authority vested in Saudi Central Bank (SAMA) under the Central Bank Law issued via Royal Decree No. M/36 dated 11/04/1442H, and the Banking Control Law issued via Royal Decree No. M/5 dated 22/2/1386H.

2. Objectives

The objectives of these Rules are as follows:

- 2.1 Ensure banks put in place a comprehensive internal investment framework, with proper risk management in accordance with SAMA regulatory requirements.
- 2.2 Provide guidance for bank investment activities to ensure the alignment with sound risk management and governance practices.

3. Scope of Application

These Rules are applicable to banks' investments that are reported as net investments in the balance sheet for all banks licensed under the Banking Control Law.

4. Definitions

The following terms and phrases, where used in these Rules, should have the corresponding meanings, unless the context implies otherwise:

- **Rules** Banks Investment Rules.
- **Local Investment** Any investment in both trading and banking book that takes place in the Kingdom of Saudi Arabia regardless of the currency and the residency of the issuer.
- **International Investment** Any investment in both trading and banking book that takes place outside the Kingdom of Saudi Arabia regardless of the currency and the residency of the issuer.

5. General Requirements

- 5.1 Banks should be prudent in managing their investments, and ensure the safety of their capital and liquidity taking into consideration the following:
- Properly managing investment concentration to avoid the potential loss of one investment negatively affecting the whole investment portfolio.
 - Properly managing the liquidity of their investment portfolio to meet cash requirements and any liabilities as they fall due.
- 5.2 Banks should review and monitor their investment portfolio and make sure that their decisions and portfolio management practices comply with SAMA's regulations and the bank's policies and procedures.
- 5.3 Banks' investment decisions must be associated with a proper documented rationale taking into consideration the economic environment, investment maturity, price volatility, market behavior, credit risk, concentration risk, legal risk and all other applicable risks. In addition, banks should focus on understanding the investment structures including any associated risks and potential payoffs.

6. Governance

- 6.1 Banks should have clear governance structure in terms of the role of the Board of Directors and Senior Management. In addition, banks should have a clear internal controls and audit procedures in terms of protecting the interests of depositors and other stakeholders.
- 6.2 The Board of Directors of a bank is ultimately responsible for the oversight of the bank's investments. The Board or its delegated authority is responsible for approving the internal Investment Policy and Strategy. For Foreign Banks Branches (FBB), the responsibilities of the Board of Directors lies with the authority responsible for overseeing the business and operations of the FBB at Head Office/Regional Office.
- 6.3 Banks should have a committee at management level that will be held responsible and accountable for investment decisions including the approval and allocation of funds, risk assessment, setting investment limits and insuring that the bank's investments are in-line with its Investment Policy.
- 6.4 Banks' Investment Policy should include, but not limited to, the following:
- Governance requirements including setting controls, responsibilities, and delegation of authority.
 - Investment eligibility criteria.
 - Prudential exposure limits taking into consideration minimum capital, liquidity and reserve requirements set by SAMA.
 - Terms regulating the bank's local and international investments by setting investment limits in-line with the bank's core business activity, strategy, risk tolerance, risk profile, market and macroeconomic conditions which include but not limited to setting the following limits:

- International investments (Local/foreign currency) to total investments
- International investments (Local/foreign currency) to total regulatory capital (Tier 1 + Tier2)
- Total investments / Total Assets
- Guidelines to handle active/passive breaches to an investment limit or any fraudulent activity.
- Criteria on eligible counterparties for dealing/trading as well as the proper counterparty limits.
- Guidelines that include valuation of the portfolio, waterfall-pricing system and consistent portfolio calculation performance and reporting systems.
- Systems for management of various risks and internal controls.
- Data keeping requirements.

6.5 Banks should develop a clear, robust and demonstrable set of procedures, monitoring tools, governance and contingency plans to enable them to proactively identify any potential difficulties and risks, investigate the drivers and act in a timely manner to mitigate potential investment losses and report to the bank's senior management and SAMA if needed.

6.6 Banks Investment Policy and procedures should be reviewed at least every three years or more frequently if the bank deems it necessary based on the changes in the relevant regulatory requirements or business practices.

6.7 Banks Investment Policy and procedures should adhere to the investment requirements in the Banking Control Law and all relevant regulations.

6.8 Banks should have a strategy for their investments that articulates in a clear and concise manner the bank's approach and objectives, including establishing quantitative investment targets /goals and how to achieve them over a realistic timeframe.

- 6.9 Banks Investment Strategy should take into consideration the credit risk (Sectoral, Geographical, Settlement, etc.), market risk (volatility, interest rate including Interest Rate Risk in the Banking Book (IRRBB), FX, etc.), Operational risk (errors, frauds), liquidity risks, concentration risk and any other applicable risks.
- 6.10 Banks should oversee the implementation of the Investment Strategy and ensure that it remains appropriate in relation to the bank's size, complexity, geographical footprint, business strategy, markets and regulatory requirements.
- 6.11 Banks should have an operational guidelines detailing how the investment strategy will be implemented. This should include clearly defining and documenting the roles, responsibilities, formal reporting lines and individual (or team) goals and incentives geared towards reaching the targets in the Investment Strategy.
- 6.12 Banks should put in place mechanisms to monitor the operational guidelines effectiveness and its integration into the bank's risk management framework.

7. Risk Management and Monitoring

- 7.1 Banks should analyze and assess current and prospective investments, taking into consideration all risks that may arise from such investment. The results and any risks identified in the assessment should be reported to the relevant committee responsible for the bank's investment activities.
- 7.2 Banks investments should be in-line with their risk management framework. Banks should have an adequate risk management system to identify, measure, and manage the risks generated from investment activities.
- 7.3 Before engaging in any investments, Banks should comply with all relevant Anti Money Laundering and Terrorism Financing requirements issued by SAMA.

- 7.4 The investment portfolio should be in-line with the bank’s investment objectives as specified in their Investment Strategy. Banks should monitor the performance of their investment portfolio on continuous basis and establish benchmark for monitoring purposes where applicable.
- 7.5 Banks should diversify their investment portfolio to avoid concentration risk; also, they should determine their diversification strategy based on their risk tolerance.
- 7.6 Banks should perform an annual portfolio level stress-testing taking into consideration macro-economic circumstances to identify the bank’s risk-bearing ability and verify how potential risks are covered, and provide the results of the assessment to SAMA upon request.
- 7.7 Banks should have adequate resources to manage their investment portfolio including strong managerial /investment capabilities, knowledgeable staff with relevant professional experience.

8. Approval Requirements and Controls

- 8.1 Banks should obtain SAMA non-objection on investments that require regulatory approval based on the Banking Control Law and Ministerial Decree No. 3/2149, such investments will be approved on a portfolio level. Any changes in these investments’ structure or limits (increase or introduce new limits) will require prior non-objection from SAMA.
- 8.2 Banks should clarify in their policies the investment channels and approval requirement for each investment product, including that investing in Money Market Funds (MMFs) must be through entities that are licensed by the relevant authority (i.e. the Capital Market Authority “CMA”) and must comply with its Regulations. Such investment must also comply with the following conditions:
- Saudi riyal-denominated funds must be invested exclusively in the onshore Saudi market.
 - The minimum credit rating requirement for any MMF set by SAMA.
 - The custodian of the MMF must be licensed and regulated.

- The lending or placement of Saudi riyal-denominated funds, directly or indirectly, is restricted to banks and financial institutions regulated by SAMA or CMA, respectively. Doing otherwise requires SAMA's prior approval.

8.3 The request for obtaining SAMA non objection must at least include the following:

- Confirmation of the Board of Directors or its delegated authority approval of the Bank's Investment Strategy, including investment limits, risk tolerance and allocations for hedging and trading purposes.
- SAMA's last non-objection on investment limits.
- Existing approved limits and utilization amount.
- Detailed description of each asset class of the outstanding and proposed investments, which includes the followings:
 - Strategy for each asset class.
 - Ratings (Country issuer instrument) as applicable.
 - Book value.
 - Market value.
 - Expected annual growth rate.
 - Projected exposure amount for 3 years (Year-end).
 - IFRS9 ECL staging classification, if applicable.
 - Asset category in terms of fair value measurements (level 1, level 2, and level 3) as described in IFRS13.
 - Asset category in terms of liquidity (High quality liquid assets (HQLA) level 1, level 2a or 2b).
 - Revised investment limit.
 - Economic sector of security issuer.
 - Geographical distribution.
 - Currency of denomination.
 - Risk Weighted Asset for Credit Risk, Market Risk or Operational Risk.

- Impact assessment on SAMA regulatory ratios including (Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Capital Adequacy Ratio (CAR), SAMA Liquidity Ratio (LR), Leverage Ratio) if limits are fully utilized.
- List and copy of all relevant approved policies and procedures, in particular for monitoring the portfolio performance.
- Risk assessment for the proposed investment portfolio.
- Details on the mechanism currently in place for reporting portfolio related to risks/developments to senior management and Board of Directors.
- The escalation process for any breach of the approved limits.
- Any other information SAMA may deem necessary for determining SAMA non-objection.

8.4 Banks should review the approved limits (no change/increase/decrease) to be in -line with the bank's risk tolerance and market position at a minimum every three years.

9. Implementation and Effective Date

9.1 These Rules shall come into force starting from 1 October 2022. All Banks should develop/update their current Investment Policy, procedures and Strategy to be in -line with the requirements prescribed in these Rules.

9.2 Any violation or circumvention of these Rules may warrant the appropriate regulatory action by SAMA.