

Frequently Asked Questions (FAQs)
SAMA response to Banks Comments concerning
Amended LCR

Comment # 1

Coins and Bank Notes – Level 1 Assets (para 50 a) – treatment of reverse repos and current accounts with SAMA

We note that in Level 1 assets the term “Cash” under previous liquidity standards has been revised to “Coins and Bank Notes”. Kindly confirm if current account with SAMA and reverse repo placements can continue to be classified in this category. Kindly advise.

Response: Yes. Bank reverse repo placements and Bank current account with SAMA are to be classified as Level-1 Assets. (Para 50 B) (Footnote 12)

Comment # 2

Non-inclusion of Sovereign exposures (rated BBB+ to BBB-) – Level 2B¹ Assets (para 54 (b))

The newly defined Level 2B assets include Corporate Debt Securities which have an external rating between A+ to BBB-. However it does not include Sovereign Debt.

Under the existing rules Sovereign Debt are only eligible for inclusion in High Quality Liquid Assets (Level 1 and Level 2) if their risk weights are 0% (corresponding to external rating better than AA-) or 20% (corresponding to external rating better than A-).

We recommend that in the revised rules since lower rated corporate debt is included as Level 2B assets, Sovereign Debt with external rating between BBB+ to BBB- should also be considered for inclusion in Level 2B assets.

Response: Revised BCBS rules as provided are final with regard to amended LCR. Currently, this is not allowed.

¹Note 1: All references to level 2B assets in this document should be read in conjunction with SAMA's National Discretion (item # 2) in attachment # 5.

Comment # 3¹

Common Equity Shares – Level 2B Assets (para 54 (c))¹

Kindly confirm our understanding that all shares other than those issued by financial institutions which are traded on the Saudi Stock Exchange would meet the eligibility criteria given in para 54 (c).

Response: Yes. Shares issued in KSA exclusive of those issued by Financial Institutions meet the six (6) eligibility requirements as provided in Para 54 (c). Level 2 B Assets are not currently allowed for LCR computation purposes.

Comment # 4¹

Residential Mortgage Backed Securities – Level 2B Assets (para 54 (a))

Since Mortgage Backed Securities (MBS) issued by US Agencies -Fannie Mae / Freddie Mac are guaranteed by the agencies and the underlying pools are effectively considered as collateral these are considered as general obligation bonds issued by Fannie Mae and Freddie Mac. Accordingly we would continue classifying them as Level 2 assets (external rating of AAA). Accordingly these would not be reported as Level 2B assets. Kindly confirm our treatment of these bonds.

Response: Fannie Mae and Freddie Mac (external rating of AAA) are to be reported as Level 2b assets. This is because these are Mortgage Backed Securities and do not meet Level 2a asset requirements of para 52 (a). Level 2 B Assets are not currently allowed for LCR computation purposes.

Comments # 5

General Comments on the Template

- We note that in some places the \geq signs have been replaced with question marks (?) this may create some confusion in interpreting the intent of the required input.

Response: This will be corrected in SAMA Finalized Prudential Returns Package.

Comments # 6

¹ Refer to Note 1 on page 1.

SAMA to provide to the banking industry the classification criteria for the statutory bodies/government owned agencies/government owned companies that qualify as PSE for the purpose of Level 1 assets.

Response: Currently, there are no PSE's in KSA that qualify for Level 1 assets.

Comment # 7

As a number of issuers for the fixed income/sukuk owned by the bank is limited, can the bank be allowed to use the external data as the proxy to develop the internal rating system?

Response: Yes. This is permitted so long the external data relates to similar bank investments and other BCBS Basel II requirements for using external data are met. Further, SAMA will review the robustness of such internal systems relating to credit and market risk that the bank could be exposed to.

Comments # 8¹

Is trading in a large, deep and active market compulsory criteria for Level 2B asset?

Response: Criteria in Para 54 (a) are a BCBS requirements. KSA has a large, deep and active exchange traded share market. In addition, note that Level 2 B Assets are not currently allowed for LCR computation purposes.

Comments # 9

As the run-off for the deposits have been reduced further from 5% to 3% to indicate Basel Committee's preference to implement the Deposit Insurance Scheme, it is suggested that SAMA explores the feasibility and viability of implementing the Deposit Insurance Scheme in Saudi Arabia.

Response: Currently, there is no effective Deposit Insurance Scheme in Saudi Arabia.

Comment # 10

We understand that correct document is titled as "Instructions for Basel III monitoring" rather than "Basle III: International Framework for Liquidity Risk Measurement, Standards and Monitoring". Kindly confirm

Response: SAMA will amend the current document title to "Instruction for Basel III Monitoring".

¹ Refer to Note 1 on page 1.

Comment # 11

BIS has allowed banks to include unrated corporate bonds as part of level 2B¹ assets based on banks internal rating. Is this permission applicable to non-IRB banks in KSA?

Response: No. This is not permitted and banks can use this own Internal Rating systems subject to their validation and approval by SAMA. Note that currently, level 2 B assets are not currently allowed for LCR computation purposes.

Comment # 13¹

Comment # 12

Operational requirements are discussed in BIS document “Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools” however these are not included in captioned document. In our opinion same should be incorporated in the captioned document as well.

Response: Yes. The Operational Requirements of Para 28 to 43 will be provided in the SAMA Finalized Package.

Comment # 13

Page 37 – Row 179 (Description)

line 174 in prudential returns is non-inputable field. Correct reference is line 178.

Response: This will be in the SAMA’s Finalized Prudential Return Package.

Comment # 14

A new level of HQLA has been introduced in this document (Level 2B Assets). These assets can comprise a maximum of 15% of the total HQLA. We believe, an Islamic bank, can include its investments in Common Equity here at 50% hair-cut, since these assets satisfy all the required features of Level 2B HQLA. We seek your further guidance and direction in this context for consideration.

Response: Bank investments in Level 2b Assets include common shares which are subject to Para 54 (c) rules. Currently, Level 2 B Assets are not currently allowed for LCR computation purposes.

Comment # 15

In the light of Sovereign rating of KSA (KSA being rated at A-), we request SAMA to clarify the treatment of Sukuk in the final regulatory document to be issued by the end of April 2013.

Response: Sukuks issued by KSA can qualify Level 2A assets of HQLA depending on their rating and other requirements of 52 (a) respectively.

Saudi Arabia does not have a large deep and active cash market in Sukuks.

Comment # 16

Term Deposit: The definition and criteria outlined in the subject consultative document may not be practical for the KSA banking industry and hence the entire KSA banking Industry's term deposits may be classified as demand deposits. We request SAMA to outline exceptional circumstances that would qualify as hardship, under which the exceptional term deposit could be withdrawn by the depositor without changing the treatment of the entire pool of deposits." We seek your further guidance and direction regarding the definition along with associated terms related to exceptional circumstances.

Response:

The response given to you earlier was incorrect. SAMA position is that retail term deposits cannot be withdrawn before maturity.

Comment # 17

Unsecured wholesale funding from SME Customers: It is treated the same way as the retail deposits – 10% hair-cut. The aggregated funding raised by a Small Business customer is less than **Euro 1.0 million**. In the light of this, we assume the SAR equivalent of Euro for the local KSA banking industry. Request confirmation from SAMA.

Response: Yes. A similar definition can be used at Euro 1 million for SME's funds provided to a Bank.

Comment # 18

Like earlier occasions, it would be highly helpful to all KSA Banks, if SAMA can provide the FAQs on this consultative document and the prudential returns as well.

Response: Yes. This FAQ will be circulated to all Banks.

Comment # 19¹

Level 2B assets – One of the conditions that need to be satisfied by common equity shares for inclusion is that it should be a constituent of the major stock index in the home jurisdiction or where the liquidity risk is taken, as decided by the supervisor in the jurisdiction where the index is located. For KSA, we would expect that the TASI represents the major stock index. In other jurisdictions, there are multiple major stock indices. For example, the US market has the S&P 500, Dow Jones Industrial, Nasdaq and Indian market has the Sensex and Nifty Indices. In this regard, is there any regulatory or supervisory guidance on the qualifying major stock index/ indices for the various jurisdictions?

Response: Bank should look into the liquidity profile and decide on a deep and a well traded market. Currently, Level 2 B Assets are not currently allowed for LCR computation purposes.

Comment # 20

In the Prudential Returns, all formulas used in calculating the Weighted Amounts and data quality checks have been removed and that renders the template unusable for reporting purposes. Will SAMA be sending any revised template with the formulas intact? In this template, certain cells have also been shaded in green color. What do these green cells represent?

Response: Ignore all colors and complete the appropriate cells.

Comment # 21

As per para 50 of the guidance note, how do we ascertain that the marketable securities qualifying for level 1 assets is:

- Traded in large, deep and active repo or cash markets characterized by a low level of concentration. What constitutes this criteria?

¹ Refer to Note 1 on page 1.

- Has a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions?

Response: Refer to comment # 19.

Comment # 22

The claims guaranteed by the sovereigns, central banks, PSEs or multilateral development banks—does 'guarantee only explicit' guarantee or implied guarantee is also included.

Response: Only explicit guarantees are applicable.

Comment # 23

For level 2A assets, the ECAI of AA- should be lowered to reflect the average ratings corporates and covered bonds (if applicable) issuers representing the region.

Response: This is not possible. BCBS document final.

Comment # 24

How do we define 'low level of concentration' for traded corporate debt securities?

Response: Refer to comment # 20.

Comment # 25

As per para 50 of the guidance note, if the local jurisdiction demonstrates the effectiveness of its currency peg mechanism and assess the long term prospect of keeping the peg, will LCR in USD be required as distinct for LCR in SAR.

Response: No. The LCR will continue to be in SAR.