

From : Saudi Arabian Monetary Agency

To : All Banks

Attention : Managing Directors, Chief Executive Officers and General Managers

Subject : **SAMA's Finalized Guidance Document for the Implementation of Basel II.5 Standardized and IRB Approaches (Document)**

SAMA issued a draft Guidance Document concerning the implementation of Basel II.5 Standardized and IRB Approaches on 29 September 2012 to all banks to solicit comments by 10 October 2012. These comments have now been received and we have now attached finalized the Guidance Document for the implementation of Basel II.5 in Saudi Arabia.

The Basel II.5 framework was issued through the following documents.

- "Enhancement to the Basel II Framework" – July 2009
- "Revisions to the Basel II Market Risk Framework" – December 2010

The aforementioned documents were issued in response to the financial crisis that began in 2007 and negatively affected many international banks and banking systems with significant losses on their investments in complex securitization products. Consequently, the BCBS issued the aforementioned documents to strengthen Credit and Market risks in international banks.

SAMA's Finalized Guidance Document comprises of all Pillar 1, Pillar 2, and Pillar 3 requirements and contains Guidance Notes and Prudential Returns which have been compiled on the basis of the two aforementioned BCBS documents which represent enhancements and amendments to the BCBS Basel II Framework with regard to securitization and re-securitization activities. Consequently, the implementation of SAMA's Basel II.5 will be carried out through the adjustments and enhancements to the Basel II Framework.

#### A. Pillar 1

With regard to implementing Pillar-1 risk, we refer to the following SAMA Circulars concerning the implementation of Basle II.5 Standardized and IRB Approaches.

- SAMA – Basle II Prudential Returns Circular # BCS 180 of 22 March 2007.
- SAMA Basle II Guidance Document to banks in Saudi Arabia of 6 June 2006.
- SAMA Amended IRB Prudential Return and Guidance Notes of 18 January 2012 Circular # BCS 5318.

While SAMA's implementation framework incorporates i) Credit Risk and ii) Market Risk for both the Standardized and IRB Approaches, the latter would only be applicable where SAMA granted an approval to use IRB approaches.

With regard to implementing models in the context of Basel II.5 Market risk, SAMA has decided to wait until substantial Trading Book issues under review in the BCBS are resolved. These were documented in the BCBS document of May 2012 entitled "Fundamental Review of the Trading Book".

With regard to Operational Risk, there were no refinements under Basel II.5.

It should be noted that these Prudential Returns are not applicable to branches of foreign banks as the Agency will discuss the Basle II.5 implementation with their Head Offices and Home Supervisory Authorities, and ensure that they include the branches in Saudi Arabia in their Capital Adequacy plans.

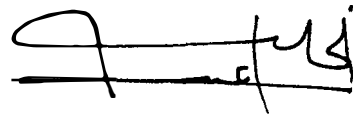
**B. Pillar 2**

- Basel II.5 Pillar 2 ICAAP Requirements
  - Please refer to page 40.

**C. Pillar 3**

- Basel II.5 Pillar 3 Disclosure Requirements
  - Please refer to page 42.

SAMA Basel II.5 Framework will be effective 1 January 2013 and Banks will submit their first quarterly prudential returns for data as of 31 March 2013 to be sent to SAMA by 30 April 2013.



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