

# Saudi Arabian Monetary Agency

Banking Supervision Dept.

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From : Saudi Arabian Monetary Agency

To : All Banks

Attention : Managing Directors, Chief Executive Officers and General Managers

Subject : **Basel Committee on Banking Supervision (BCBS) Consultative Document entitled: "Fundamental Review of the Trading Book"**

This consultative document presents the initial policy proposals of the Basel Committee's ("the Committee") fundamental review of trading book capital requirements. These proposals are intended to strengthen capital standards for market risk, and thereby contribute to a more resilient banking sector.

As a response to the crisis, the Committee introduced a set of revisions to the market risk framework in July 2009 (part of the "Basel 2.5" rules). However, the Committee recognised at the time that the Basel 2.5 revisions did not fully address all the shortcomings of the framework.

This document seeks to address these shortcomings both with regard to the internal models-based and standardised approaches as given below:

Key Areas of Committees Focus:

1. The trading book/banking book boundary
2. Stressed calibration
3. Moving from value-at-risk to expected shortfall
4. A comprehensive incorporation of the risk of market illiquidity
5. Treatment of hedging and diversification
6. Relationship between internal models-based and standardised approaches

We suggest that Banks should access this document from Bank for International Settlements website: (<http://www.bis.org>) and distribute it to their relevant managers and obtain their views. In this regard, all Banks are expected to provide comments to SAMA by 11<sup>th</sup> August 2012. It is essential that all banks respond by 15<sup>th</sup> August 2012 in order for SAMA to meet its own deadline with regard to this Consultative document.

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