

# Saudi Arabian Monetary Agency

HEAD OFFICE



Deputy Governor  
For Supervision

01 June 2016

From : Saudi Arabian Monetary Agency (SAMA)  
To : All Banks  
Attention : Managing Directors, Chief Executive Officers and General Managers  
Subject : **SAIBOR/SAIBID Rates - Implementation of Phase 1 New Requirements**

As you are aware, Benchmark Administration procedure across the world have gone through major changes in the wake of the recent financial crisis. The fundamental shift has been a move from self-regulation to the appointment of independent Calculation Agents and Administrators. Also, IOSCO has issued Principles to guide Central Banks and Regulatory Authorities on the governance, oversight and surveillance of the Benchmarks.

In view of these development, SAMA has undertaken a study of the SAIBOR and SAIBID in which the Saudi Banks have been fully consulted. The objective of the study was to identify changes that should be made in the SAIBOR/SAIBID rate setting process in order to enhance governance and to ensure compliance with the IOSCO Principles.

SAMA is looking at implementing the study's recommendations in two (2) phases. In the first phase, with immediate effect, the Banks are required to implement the following:

## **1. Definition of SAIBOR/SAIBID**

*SAIBOR – The rate at which contributing banks would be able to borrow unsecured interbank funds in Saudi Riyals, were they to accept offers from other banks in the SAIBOR panel at 11:00am Riyadh time.*

*SAIBID – The rate which banks would be willing to pay for an unsecured deposit from another SAIBOR contributing bank in Saudi Riyals at 11:00am Riyadh time.*

## **2. Banks Internal Methodologies**

All Banks must develop and implement reasonable methodologies based on quantitative and qualitative factors to support their rate submission. These methodologies should at a minimum include the following:

- Eligible inputs in rate setting;
- Procedures to detect and evaluate the bonafide nature of such inputs;
- Policies guiding and detailing the use of expert judgment, including documentation;

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- Maintaining records and underlying documentation supporting submissions;
- Procedures for pre-submission validation of eligible inputs and procedures for review by senior staff to check inputs before submission.

These methodologies should be approved by the Board or the Executive Committee and should be consistently applied. The Internal Audit Department should once a year undertake a review of the process and of the methodologies and report to the Audit Committee or to the Board on the compliance with the established policies and procedures.

### 3. Input Process

The Bank should provide the following rates for each tenor to the Calculation Agent on a daily basis:

1. *SAIBOR - Offer rate representing the rate at which your Bank would lend unsecured interbank deposits to each bank in the SAIBOR panel;*
2. *SAIBID - Bid rate, representing the rate your bank would pay for unsecured interbank deposits from any of the panel banks.*

The Banks should implement a system whereby a senior manager, the Treasurer (or Deputy Treasurer) takes the responsibility for submission of the SAIBOR/SAIBID rates on a daily basis to the Calculation Agent and the Administrator.

### 4. Commitment to Lend/Borrow & Data Keeping

Banks are expected to:

1. *Lend (up to a standard ticket across all tenors) unsecured funds to each SAIBOR contributing bank at the rate underlying the bank's SAIBOR submission, subject to credit limits.*
2. *Take (up to a standard ticket across all tenors) unsecured deposits from each SAIBOR contributing bank at the rate underlying the bank's SAIBID submission.*
3. *Commitment to maintain a reasonable spread between SAIBOR and SAIBID.*
4. *Banks are expected to record and maintain data on all transactions in the interbank market.*
5. *In case of significant perceived credit deterioration of a SAIBOR contributing bank, SAMA and the Benchmark Administrator should be informed to review eligibility of the bank concerned.*

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In the second phase, SAMA may also consider the following:

- Introduce a Code of Conduct;
- Revisit the Tenors for which rates are submitted;
- Review the criteria for Banks to join the SAIBOR panel;
- Establish a detailed control framework for the Benchmark Calculation Agent and Administrator;
- Identify the internal and external audit requirements; and
- Procedures for checking history of transactional.

## **5. Work in Progress**

SAMA is currently in the process of selecting a Calculation Agent and Administrator for SAIBOR/SAIBID. This selection process will be completed shortly and the process regarding Governance, Administration, Oversight, Audit, etc. will be documented and implemented thereafter.

## **6. Reporting to SAMA**

Banks are required to provide a bi-weekly report (on 15<sup>th</sup> and 30<sup>th</sup> of the month) on their interbank transactions on the prudential return which is attached to this Circular (see Annex 1). The first report is due on 15<sup>th</sup> June 2016. This Report should be submitted within five (5) working days after the end of the period.



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