

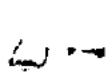
From : Saudi Arabian Monetary Agency
To : All Banks
Attention : Managing Directors, Chief Executive Officers and General Managers
Subject : **Revisions to the Standardised Approach for credit risk – Second Consultative Document**

The Basel Committee has recently issued second consultative document on revisions to the Standardised Approach for credit risk which forms part of the Basel Committee's broader review of the capital framework to balance simplicity, risk sensitivity and comparability in risk-weighted assets across banks and jurisdictions.

These proposals differ in several ways from an initial set of proposals published by the Committee in December 2014. The earlier proposal set out an approach that removed all references to external credit ratings and assigned risk weights based on a limited number of alternative risk drivers which attracted concerns by various respondents. This consultative document contains various changes summarized as below:

- Reintroduce the use of ratings, in a non-mechanistic manner, for exposures to banks and corporates
- Include alternative approaches for jurisdictions that do not allow the use of external ratings for regulatory purposes.
- Modify risk weighting of real estate loans with the loan-to-value ratio as the main risk driver.
- Not to use debt service coverage ratio as a risk driver given the challenges of defining and calibrating a global measure.
- Require the assessment of a borrower's ability to pay as a key underwriting criteria.
- Categorise all exposures related to real estate, including specialised lending exposures, under the same asset class, and applying higher risk weights to real estate exposures where repayment is materially dependent on the cash flows generated by the property securing the exposure.
- Few other changes relating to exposures to multilateral development banks, retail and defaulted exposures, and off-balance sheet items.

The credit risk standardised treatment for sovereigns, central banks and public sector entities are not within the scope of these proposals as these exposures will be part of a broader and holistic review of sovereign-related risks in future. All calibrations in the consultative document are preliminary, and will be subject to a review based on evidence from the Quantitative Impact Study (QIS) to be conducted in early 2016.



The banks should access the BCBS document from BIS website www.bis.org and are expected to review it and provide comments to SAMA by **28 February 2016**.

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