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Ms Daniele Nouy
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
2 Centralbahnplatz
CH – 4002 Basel
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Dear Ms. Nouy,

Re: The New Basel Capital Accord

As a leading bank in Saudi Arabia, we wish to share our views on the new Capital Accord.

Introduction:

Let me first introduce Saudi American Bank to you. Saudi American Bank or SAMBA, is the 2nd largest Saudi bank with assets of USD 21.5 bn and Capital of USD 2.3 bn. Our Tier I & II capital is at 19.9%. SAMBA, a Citibank affiliate, has grown to command a 19% share of financial institutions' equity in Saudi Arabia and a 22% share in profits. It has a technical management contract with Citibank. SAMBA is the only Saudi bank to have a 100% owned asset management company with approximately US$ 3.2 billion under management. SAMBA currently employs a staff of 2,162. SAMBA has 56 branches, 15 Women's Banking Centers, 163 ATMs and three Global Investment Centers within Saudi Arabia and overseas presence in London, Geneva, Luxembourg, and Beirut.

The New Basel Capital Accord:

In developing our response, we reviewed all the relevant draft documents, which included the main Accord, as well as all the supporting documents. Needless to say, it was a major task but we are pleased to present our comments.

I would like to take the opportunity to summarize some of our main observations:

1. In many areas like the Internally Rated Bank approach and Operational Risk , the proposed Accord expects the banks to have a very detailed, information management system in order to gather and store a wide variety of client level and business unit level information. If these management systems do not exist, the banks are expected to develop or acquire them in time for full implementation. At present, we do not believe such systems exist even with the major global banks. It will be difficult to encourage banks in the Emerging Markets to adopt such systems, as well as incur major expense, especially if they have no capital adequacy pressures.

2. For a local bank to qualify to use the Internally Rated Bank Approach, the Accord requires it to collect and maintain the probability of default, the loss given default, and the exposure at default numbers and use these numbers in calculating its capital requirements. Most banks in Saudi Arabia, even if they were able to gather the detailed data, would not necessarily have the critical mass to get a statistically accurate number. A related issue is that not all the banks have the same criteria for taking reserves or writing off bad loans. We suggest banks be allowed to use external data sources including those from the major banks. Over time, the national supervisory authorities could collect the data from the banks in their countries to have a country-specific loan default history.

3. We have suggested that the national supervisory authority should have the flexibility to decide and implement parts of the Accord, based on the local conditions. Examples of these include loss given default for the foundation approach; requirements for stress tests; definition of exposures categorized as ‘retail’; and defining the ‘beta’ for the operational risk. We believe this flexibility will allow the implementation of the Accord in Saudi Arabia to match the local banking environment.

4. The claims on sovereigns and central banks section (in the Standardized Approach to Credit Risk) should be examined closely. As drafted, it raises many questions about the funding options available to the banks and foreign investors. The Accord in its current form does not address all the possible scenarios. For example, it gives incentives to foreign investors to obtain local funding for their investments thus defeating the fundamental reason for allowing foreign investors, which is to attract foreign capital flows.

5. We agree with the requirement for capital to cover operational risk, but the calculation methodology overstates the capital requirements, which will penalize banks with good controls and a history of minimal operational losses. Additional data needs to be gathered from a larger base of banks before any calibration and setting of 'beta' factors is undertaken.

Detailed Comments:

Our detailed comments, attached with this letter, cover the main Accord and the Supporting Documents and refer to the specific paragraph in the draft document. As a result, there is some overlap and duplication as the main Accord covers all the topics covered by the Supporting Documents. Against each comment, we have made suggestions. However, there are some sections where we have pointed out the weakness in the Accord, but are not in a position to suggest alternatives.

Conclusion:

Our comments have been shared with our national supervisory authority, the Saudi Arabian Monetary Agency. We also do not have any objection to BIS sharing these comments with others.

Sincerely yours

Steve McClintock
Chairman, Credit Policy

Enclosed: Detailed comments from SAMBA