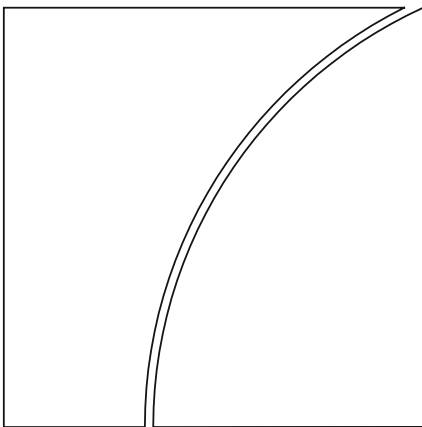


# Basel Committee on Banking Supervision



## Regulatory Consistency Assessment Programme (RCAP)

### Assessment of Basel III Liquidity Coverage Ratio regulations – Saudi Arabia

September 2015



BANK FOR INTERNATIONAL SETTLEMENTS

**Note that this report refers to the RCAP grades prior to October 2025. The grade 'materially non-compliant (MNC)', ie one notch above the lowest grade, has since been renamed to 'partially non-compliant (PNC)' for greater clarity**

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## Contents

Preface .....	2
Executive summary .....	4
Response from SAMA.....	6
1      Assessment context and main findings .....	9
1.1 Context.....	9
1.2 Structure, enforceability and binding nature of prudential regulations.....	9
1.3 Scope of the assessment .....	10
1.4 Main findings.....	11
2      Detailed assessment findings.....	14
2.1 LCR requirement .....	14
2.1.1 Scope of application and transitional arrangements .....	14
2.1.2 High-quality liquid assets (numerator) .....	14
2.1.3 Outflows (denominator).....	15
2.1.4 Inflows (denominator) .....	15
2.2 LCR disclosure requirements.....	16
2.3 Observations and other findings specific to the implementation practices in The KSA .....	16
Annexes .....	17
Annex 1: RCAP Assessment Team and Review Team .....	17
Annex 2: List of LCR standards under the Basel framework used for the assessment .....	18
Annex 3: Local regulations issued by SAMA for implementing Basel LCR standards.....	19
Annex 4: Details of the RCAP assessment process .....	21
Annex 5: List of rectifications by SAMA.....	22
Annex 6: Assessment of the binding nature of regulatory documents.....	24
Annex 7: Key liquidity indicators of the KSA's banking system .....	26
Annex 8: A summary of the materiality assessment.....	27
Annex 9: The KSA's implementation of the liquidity monitoring tools .....	28
Annex 10: The KSA's implementation of the <i>Principles for sound liquidity risk management and supervision</i> .....	31
Annex 11: Areas for further guidance from the Basel Committee .....	34
Annex 12: Areas where SAMA rules are stricter than the Basel standards.....	35
Annex 13: Implementation of LCR elements subject to prudential judgment or discretion in the KSA.....	36

## Glossary

ALA	Alternative Liquidity Approaches
BCBS	Basel Committee on Banking Supervision
BCL	Banking Control Law
BDR	Banking Disclosure Rules
BLR	Banking Liquidity Rules
CFO	Chief financial officer
CLF	Committed liquidity facility
D-SIBs	Domestic systemically important banks
FAQs	Frequently asked questions
FSAP	Financial Sector Assessment Program
FX	Foreign exchange
GCC	Gulf Cooperation Council
HQLA	High-quality liquid assets
ICAAP	Internal Liquidity Adequacy Assessment Programme
KSA	Kingdom of Saudi Arabia
LCP	Liquidity Contingency Plan
LCR	Liquidity Coverage Ratio
LIBOR	London Interbank Offer Rate
MDB	Multilateral development bank
RCAP	Regulatory Consistency Assessment Programme
SAMA	Saudi Arabian Monetary Agency
SAR	Saudi Arabian riyal
SARIE	Saudi Arabian Riyal Interbank Express
SIBOR	Saudi Interbank Offer Rate
SMEs	Small and medium-sized enterprises
SREP	Supervisory Review and Evaluation Process
UK PRA	United Kingdom Prudential Regulation Authority

## Preface

The Basel Committee on Banking Supervision sets a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if these are implemented appropriately and consistently by all member jurisdictions. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel framework.

This report presents the findings of the RCAP Assessment Team (the Assessment Team) on the domestic adoption of the Basel Liquidity Coverage Ratio (LCR) standards in the Kingdom of Saudi Arabia (KSA).<sup>1</sup> The assessment focuses on the regulatory adoption of Basel LCR standards applied to KSA banks that are internationally or regionally active and of significance to its domestic financial stability.

The RCAP LCR assessment was based primarily on the LCR rules that were issued by the Saudi Arabian Monetary Agency (SAMA) in July 2013. In the course of the assessment, the authorities made a number of revisions to the rules based on issues identified by the Assessment Team. This report has been updated where relevant, to reflect the progress made by SAMA to align the regulations with Basel LCR standards.

The RCAP Assessment Team was led by Mr Stephen Bland, Director, Strategic Policy Adviser of the United Kingdom Prudential Regulation Authority (UK PRA). The Assessment Team comprised seven technical experts drawn from China, the Financial Stability Institute, Germany, New Zealand, South Africa, Sweden and Turkey (Annex 1). The main counterpart for the assessment was SAMA.

The assessment relied upon the data, information and materiality computations provided by SAMA up to 31 July 2015. The assessment findings are based primarily on an understanding of the current processes in the KSA as explained by the counterpart staff and the expert view of the Assessment Team on the documents and data reviewed. The overall work was coordinated by the Basel Committee Secretariat.

The assessment began in February 2015 and consisted of three phases: (i) completion of an RCAP questionnaire (a self-assessment) by SAMA; (ii) an off- and on-site assessment phase (February to May 2015); and (iii) a post-assessment review phase (June to August 2015). The off- and on-site phases included an on-site visit for discussions with SAMA and representatives of KSA banks (which were used as the RCAP sample banks for the purpose of impact assessment) and external audit firms. These exchanges provided the Assessment Team with a deeper understanding of the implementation of the Basel LCR standards in the KSA. The third phase consisted of a two-stage technical review of the assessment findings: first by a separate RCAP Review Team and feedback from the Basel Committee's Supervision and Implementation Group; and secondly, by the RCAP Peer Review Board and the Basel Committee. This two-step review process is a key instrument of the RCAP process to provide quality control and ensure integrity of the assessment findings.

The focus of the assessment was on the consistency and completeness of the domestic regulations in the KSA with the Basel minimum requirements. Issues relating to prudential outcomes,

<sup>1</sup> The report complements the RCAP assessment report of Saudi Arabia's adoption of the Basel risk-based capital standards.

adequacy of liquidity ratios at individual banks or the effectiveness of the Saudi authorities' liquidity risk management supervision were not in the scope of this RCAP assessment exercise.<sup>2</sup>

Where domestic regulations and provisions were identified to be not in conformity with the Basel framework, those deviations were evaluated for their current and potential impact (or non-impact) on the reported liquidity ratios for a sample of internationally and regionally active KSA banks. Some findings were evaluated on a qualitative basis. The overall assessment outcome was based on the materiality of findings and the use of expert judgment.

The report has two sections and a set of annexes: (i) an executive summary with a statement from SAMA on the material findings; (ii) the context, scope and methodology and the main set of assessment findings; and (iii) details of the deviations and their materiality along with other assessment-related observations.

The RCAP Assessment Team acknowledges the professional cooperation received from SAMA counterparts throughout the assessment process. In particular, the team sincerely thanks the staff of SAMA for playing an instrumental role in coordinating the assessment exercise. The series of comprehensive briefings and clarifications provided by SAMA enabled the RCAP assessors to arrive at their expert assessment. The Assessment Team is hopeful that the RCAP assessment exercise will contribute towards strengthening prudential effectiveness and full implementation of the recent reform measures in the KSA.

<sup>2</sup> The most recent assessment of the KSA's financial system under the IMF-World Bank Financial Sector Assessment Program (FSAP) was published in 2012. A detailed assessment of Saudi Arabia's compliance with *Basel Core Principles* on supervisory issues was also carried out as part of the FSAP assessment and published in 2013.

## Executive summary

SAMA has implemented the Basel LCR requirements consistently with the internationally agreed standards with the exception of one material finding with regard to the definition of high-quality liquid assets (HQLA). SAMA has implemented the Basel LCR requirements consistently with the internationally agreed timeline and has also applied the transitional arrangements in line with the Basel LCR standard. The LCR applies to all 12 licensed banks on a consolidated basis, while KSA foreign bank branches are so far exempted from the LCR.

In February 2015, SAMA completed an extensive self-assessment of the KSA LCR rules as part of the preparation for the RCAP exercise. In its review of the KSA regulations and the self-assessment by SAMA, the Assessment Team identified a few deviations in the LCR rules from the Basel framework. SAMA used the RCAP findings to amend the rules where feasible and consistent with the KSA's national interests. This has resulted in a significant strengthening of the KSA's liquidity regime.

Overall, for the reasons set out below, as on the cut-off date for the RCAP assessment, the final LCR requirements in the KSA are assessed as largely compliant with the minimum Basel liquidity standards. The two graded components of the LCR framework, the LCR standard and the LCR disclosure requirements, are assessed as largely compliant and compliant with the Basel standard, respectively.

Following the issuance of the revisions to the KSA LCR rules, one finding remains on the definition of HQLA, which has a material effect on the LCR results of KSA banks. In order to qualify as Level 1 HQLA securities, the Basel LCR standard requires that assets fulfil a number of conditions, which include a requirement for such assets to be traded in large, deep and active markets characterised by a low level of concentration. Currently there is no liquid market in KSA for domestic Level 1-type assets. Therefore, in the local KSA context, the LCR rules specify that the ability to engage in a repurchase agreement with the central bank is a sufficient determining criterion for a local asset to be considered as satisfying this condition and, thus, to be eligible for inclusion as Level 1 HQLA.<sup>3</sup> Accordingly, local government bonds and central bank treasury bills are accepted as Level 1 HQLA for the purpose of calculating the LCR, although they do not fulfil the requirements set out in the Basel LCR standard.<sup>4</sup> In the Assessment Team's view, the reliance on this criterion (repo-ability with the central bank), as well as the inclusion of the illiquid local government bonds as Level 1 HQLA deviates from the Basel LCR standard. This deviation has a material impact on the LCR and reduces its international comparability. The Assessment Team understands the rationale for such deviation in the local KSA context. However, based on quantitative and qualitative judgment, the Assessment Team is of the view that the finding constitutes a material deviation from the Basel LCR standard.

<sup>3</sup> In addition, the asset should also fulfil other conditions set in the local rules, which are in line with other conditions specified in paragraph 50(c) of the LCR. For example: (i) 0% risk weight; (ii) proven record as a reliable source of liquidity during stressed market conditions; and (iii) not an obligation of a financial institution.

<sup>4</sup> Paragraph 50(c) of the Basel III specify specific conditions for marketable securities representing claims on or guaranteed by sovereigns to be eligible for inclusion as Level 1 assets. These conditions include (i) assigned a 0% risk-weight under the Basel II Standardised Approach for credit risk, (ii) traded in large, deep and active repo or cash markets characterised by a low level of concentration, (iii) have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions and (iv) not an obligation of a financial institution or any of its affiliated entities. See paragraph 24 and 50(c) for details. Also, paragraph 27 of the LCR standard stipulates a requirement that "central bank eligibility does not by itself constitute the basis for the categorisation of an asset as HQLA".

Some jurisdictions may have an insufficient supply of Level 1 assets (or both Level 1 and Level 2 assets) in their domestic currency to meet the aggregate demand of banks with significant exposures in this currency. To address this situation, the LCR allows alternative treatments, the Alternative Liquidity Approaches (ALA) for holdings in the stock of HQLA. SAMA decided to not make use of these alternatives. The Assessment Team recognises that all ALA options come with a cost and that it is possible, or even likely, that the ALA would not provide an unambiguously better solution for SAMA. If SAMA were to adopt an ALA, it is likely it would be considered compliant with Basel III's LCR standard, which would align SAMA's implementation with that of other jurisdictions with insufficient Level 1 HQLA and improve comparability across jurisdictions.

Similar to the capital assessment, the Assessment Team notes that SAMA regulates Sharia-compliant banks in the same way as other conventional banks in the KSA. Thus, the way in which it does so does not currently lead to any deviation from Basel standards. Nevertheless, if there were to be a greater variety of Sharia-compliant activities and/or if the International Financial Reporting Standards were differently applied to Sharia-compliant activities in the KSA, this could change. More generally, it would seem sensible for the Basel Committee to consider whether the application of its standards in practice fully captures the risk emanating from the variety of Sharia-compliant banks and activities.

In addition to the formal assessment of the LCR standard and disclosure requirements, this report also summarises SAMA's implementation of the Basel *Principles for sound liquidity risk management* (Sound Principles) and the LCR monitoring tools (Annexes 9 and 10). The Sound Principles have been implemented in the KSA's regulation through the issuance of a circular to the banks. The liquidity monitoring tools were introduced in the KSA on 24 September 2014 through the issuance of a circular which became effective from 1 January 2015. Further, a summary is provided of the key national discretions and approaches that SAMA has adopted in their implementation of the LCR standard (Annex 13).

The Assessment Team recognises the efforts made by SAMA to strengthen and align its LCR rules to the Basel LCR framework throughout the course of the assessment process. These amendments became effective prior to 31 July 2015 (see Annex 5 for a complete list of the amendments).



## Response from SAMA

SAMA welcomes this opportunity to respond to the findings and comments of the RCAP Assessment Team on the implementation of Basel Liquidity Coverage Ratio in Saudi Arabia. SAMA also wishes to acknowledge and appreciate the commitment, professionalism and expertise of the RCAP Assessment Team, under the leadership of Mr Stephen Bland, and would like to thank the Team for the proficiency with which the entire RCAP exercise for Saudi Arabia was completed.

The RCAP exercise has provided a comprehensive and thorough review of the implementation of the Basel LCR framework in Saudi Arabia, although we are disappointed that Saudi Arabia has received an overall largely compliant rating.

We believe that this was perhaps the first time that an RCAP Assessment Team faced a situation of a zero (0%) risk weight country which does not have a "large, deep and active market". In our view, this assessment arose from a narrow and selective use and interpretation of the LCR rules, particularly paragraph 50(c), which requires HQLA to be traded in "large, deep and active markets", characterised by low levels of concentration. Also the AT has used paragraph 27 that states that central bank eligibility "does not by itself constitute the basis of HQLA". We believe that this narrow and selective use of LCR Rules ignores other relevant paragraphs including 24, 25, 26, 44, 45 and 50(a), (b) and (d). For example, paragraph 45 states that "the stock of HQLA should comprise assets with characteristics outlined in paragraphs 24 to 27". In our view the Level 1 HQLA defined by SAMA meets the requirements of these paragraphs. To put our comments in perspective, it is important to explain that Level 1 HQLA in Saudi Arabia are well diversified and include the following (percentage of total HQLA as at 31 December 2014):

### HQLA in Saudi Arabia

Reserves and balances with central bank	25%
Coins, cash and money	7%
Foreign securities	16%
MDBs	3%
Shariah-compliant products	8%
Saudi Government securities and bills	33%
HQLA Level 2A	8%

In our view, all of the above assets qualify as Level 1 HQLA as they meet the requirements of paragraph 24 that states "Assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss in value". The above assets can be easily liquidated in international markets or repo'd with central banks to raise cash quickly without loss in value. The assets also meet the requirements of paragraph 25, which states "that the test of whether assets are liquid or of high quality is that by way of sale or repo their liquidity generating capacity is assumed to remain intact even in periods of severe idiosyncratic and market stress". This has been successfully tested several times in Saudi Arabia in the last few decades, most recently during the 2007–09 global financial crisis. In paragraph 26, the Basel LCR rules state that HQLA should "ideally be eligible at central bank for intraday liquidity needs and overnight liquidity facilities". Again, the KSA government bonds and SAMA bills, as well as most of foreign securities meet these requirements.

In our view, a broader interpretation of the Basel LCR rules including all relevant paragraphs (paragraphs 24 to 27, 44, 45 and 50) could lead to a more pragmatic conclusion, keeping in perspective the on-the-ground realities and the special characteristics of a market. On the other hand, a narrow interpretation of LCR rules would mean that only a few advanced markets in Europe, North America and

Asia would qualify as “large, deep and liquid” while most emerging markets would not meet these requirements, despite a large stock of domestic government securities and T-bills, and would never be LCR-compliant. It is counter intuitive to note that had the KSA been a non-zero risk weight market, it would have been fully compliant to Basel LCR standards due to the provision of paragraph 50(d).

We would like to draw your attention to the fact that the KSA banking system has had a legal liquidity ratio that is more stringent than the LCR and a loan-to-deposit ratio since the 1966 Banking Control Law (BCL) was put into effect. Also, for several decades, the KSA banking system and SAMA have been net providers of liquidity to the global financial markets. Over these decades, despite wars, conflicts and global and regional financial crises, no bank has ever failed in Saudi Arabia nor has there been a liquidity crisis. Today, the banking system continues to be highly liquid with an average LCR of 180% (three times the Basel requirements) and among the most liquid jurisdictions in the BCBS QIS exercise since 2013. We believe that, with such a long history of ample liquidity and the current strong liquidity position, the assessment should have been “compliant”, as what matters is the ability of SAMA and the banking system to meet the substance of the LCR requirements as envisaged in paragraphs 2 and 4 of the Basel LCR rules under stress scenarios.

Turning to the proposed suggestion of the Assessment Team that SAMA should explore the ALA option, SAMA foresees several difficulties:

- The KSA’s banking system has no shortage of HQLA, as outlined earlier, and the banking system does easily meet the Basel requirements. For KSA to seek an ALA solution would be a contradiction of the first criteria in paragraph 56 of the Basel LCR standards.
- To exclude government securities and replace it by an ALA arrangement would send a wrong signal on the liquidity of such securities and thus could have a negative impact on the government’s plan for debt issuance.
- It will send a message that banks should invest in foreign securities of other 0% risk-weighted countries instead of domestic securities. We are not aware of any other government issuing such instructions to its banks.
- It would add to the cost for the banking system as the ALA facilities come with a fee.
- The ALA arrangements would add a significant operational burden on the banks and SAMA, as the ALA is far more complex than the current simple repo arrangements.

In view of the above, SAMA has made an assessment that the use of the ALA cannot be justified, and the KSA should not embark on it at this stage.

Given the somewhat different and unique liquidity circumstances in the KSA, an assessment needed to focus on a careful understanding of the ability of a banking system to meet the Basel requirements, rather than a simplistic application of the wording of the Basel requirements. It is noteworthy that a few different findings and observations were presented by the RCAP Assessment Team at different stages of the Assessment and Review process, with different suggestions. However, the solutions that were offered for full compliance did not seem to have any precedents, and were impractical given the ample liquidity position of the KSA banking system. Consequently, we believe that there is a need for the Basel Committee to provide additional guidance to banking supervisors and the RCAP teams on the correct interpretation of paragraphs 24 to 27, 44, 45 and 50 of the LCR rules, keeping in perspective that the Basel LCR rules apply to not only few advanced markets but also to a large number of zero risk weight emerging markets, which may lack some aspects of “large, deep and active markets” but may have equally sound solutions to provide their institutions with sufficient liquidity over a short period.

Based on SAMA’s self-assessment and as identified by the Assessment Team, SAMA has carried out 14 modifications to the existing regulations and guidelines before the agreed cut-off date 31 July

2015. We believe that these modifications will further strengthen the implementation of the Basel liquidity framework in Saudi Arabia.

Overall, SAMA considers the RCAP process to have been a very useful exercise, and is supportive of the Basel objectives to promote consistency of implementation of rules among member countries. SAMA also concurs that the RCAP process promotes a level playing field among Basel member jurisdictions, which reduces regulatory arbitrage and promotes safety, soundness and stability in the global financial system.

# 1 Assessment context and main findings

## 1.1 Context

### Status of implementation

The Saudi Arabian Monetary Agency (SAMA), the KSA's central bank, is responsible for the regulation and supervision of the banking sector. SAMA is empowered by the Banking Control Law (BCL) 1966 and SAMA Charter 1957 to issue banking regulations, rules and guidance to licensed banks in the KSA. The Basel LCR standards have been in effect from 1 January 2015, implemented via the issuance of regulations and circulars (see Annex 2 for a complete timeline). Regulations are published in English.

The LCR standard was first introduced through Circular #BCS 7390 of 8 February 2012. Subsequently, SAMA issued revisions of the LCR regulation and LCR disclosure requirements, on 10 July 2013 and 25 August 2014, respectively. These regulations came into force on 1 January 2015. Final revisions entered into force on 9 July 2015.

Along with the LCR regulations, SAMA has also implemented the LCR monitoring tools (31 January 2015) and the Basel *Principles for sound liquidity risk management and supervision* (5 December 2008). A factual description of how each of these frameworks has been implemented is provided in Annexes 9 and 10, respectively.

### Regulatory system and model of supervision

In the KSA, all commercial banking institutions are subject to the Basel III LCR standards. SAMA is responsible for issuing and enforcing the LCR regulation in the KSA.

In case of breaches of the LCR regulation, SAMA has powers to impose corrective measures, as detailed in the LCR regulation and BCL. In periods of systemic stress, SAMA may also determine whether to relax or lower the LCR requirements.

Further, SAMA has issued a data collection template with the information required to calculate the LCR for each bank. The submitted LCR and accompanying data are reviewed monthly. Given the amount of information needed, and the need for homogeneous and consistent reporting, banks are also provided with technical guidance on completing the data template and computing the LCR. This technical guidance is explicitly referenced in the KSA's LCR regulation.

## 1.2 Structure, enforceability and binding nature of prudential regulations

The liquidity regulation is subject to the same well defined regulatory process as for capital regulation. The following table provides an overview of the legal hierarchy of prudential regulations in the KSA (details on the structure and binding nature of prudential regulations in the KSA are outlined in the RCAP assessment report on the KSA risk-based capital requirements for banks).<sup>5</sup> The LCR requirements, as issued in final form on 9 July 2015, meet the RCAP criterion of being enforceable and binding in nature.

<sup>5</sup> Available at [www.bis.org/bcbs/implementation/l2.htm](http://www.bis.org/bcbs/implementation/l2.htm).

Hierarchy of banking regulations in the KSA		Table 1
Laws and regulation	SAMA Charter (1957) – legislation	
	Banking Control Law (1966) – legislation	
	Ministerial Decree of Minister of Finance (1986) – legislation	
	SAMA Regulations (various) – regulation	
	SAMA Prudential Returns and Guidance Notes (various) – regulation	
Internal regulation derived from the above laws and regulations	SAMA Circulars and Guidance Documents (guidance & documents) eg (loan-to-deposit ratio, role of audit committee etc)	

### 1.3 Scope of the assessment

The assessment was made of the LCR requirements as applicable to all of the 12 locally incorporated banks in the KSA. In evaluating the materiality of the findings, the quantification was limited to the agreed five banks subject to the RCAP review (see Annex 8). These banks hold more than 63% of the assets in the KSA banking system.

#### Assessment grading and methodology

As per the RCAP methodology approved by the Basel Committee, the outcome of the assessment was summarised using a four-grade scale, at the level of both the twin components of the Basel LCR framework (LCR and LCR disclosure requirements) and the overall assessment of compliance: compliant, largely compliant, materially non-compliant and non-compliant.<sup>6</sup>

The materiality of the deviations was assessed in terms of their current or, where applicable, potential future impact (or non-impact) on the liquidity coverage ratios of the banks. Wherever relevant and feasible, the Assessment Team, together with SAMA, attempted to quantify the impact based on data collected from KSA banks in the agreed sample of banks. The non-quantifiable aspects of identified deviations were discussed and reviewed with SAMA, in the context of the prevailing regulatory practices and processes.

Ultimately, the assignment of the assessment grades was guided by the collective expert judgment of the Assessment Team. In doing so, the Assessment Team relied on the general principle that the burden of proof rests with the assessed jurisdiction to show that a finding is not material or not potentially material. A summary of the materiality analysis is given in Section 2 and Annex 8.

In a few cases, KSA liquidity requirements go beyond the minimum Basel standards. Although these elements provide for a more rigorous implementation of the Basel framework in some aspects, they have not been taken into account for the assessment of compliance under the RCAP methodology as per the agreed assessment methodology (see Annex 12 for a listing of areas of super-equivalence).

<sup>6</sup> This four-grade scale is consistent with the approach used for assessing countries' compliance with the Basel Committee's *Core principles for effective banking supervision*. The actual definition of the four grades has been adjusted to take into account the different nature of the two exercises. In addition, components of the Basel framework that are not relevant to an individual jurisdiction may be assessed as not applicable (NA). For further details, see [www.bis.org/publ/bcbs264.htm](http://www.bis.org/publ/bcbs264.htm).

## 1.4 Main findings

A summary of the main findings is given below. Overall, the Assessment Team considers the LCR regulation issued in July 2015 as largely compliant with the Basel standard. The LCR regulation and the disclosure standards are assessed by the RCAP Assessment Team as largely compliant and compliant with the minimum Basel liquidity standard, respectively. More detail is provided below.

Summary assessment grading		Table 2
Key components of the Basel LCR framework	Grade	
Overall grade:	LC	
LCR subcomponents (as agreed by the Basel Committee in September)		
Liquidity Coverage Ratio regulation	LC	
LCR Disclosure Standards	C	

Definition of the grades): **compliant (C)**: all minimum Basel provisions have been satisfied and no material differences have been found that would give rise to prudential concerns or provide a competitive advantage to internationally active banks; **largely compliant (LC)**: only minor provisions have not been satisfied and differences that have a limited impact on financial stability or the international level playing field have been identified; **materially non-compliant (MNC)**: key provisions of the framework have not been satisfied or differences that could materially impact the LCR; **non-compliant (NC)**: the regulation has not been adopted or differences that could severely impact the LCR and financial stability or international level playing field have been identified.

Colour code:

Compliant	C
Largely compliant	LC
Materially non-compliant	MNC
Non-compliant	NC

### Main findings by component

#### *Scope of application and transitional arrangements*

The Basel LCR standard is applicable to all internationally active banks on a consolidated basis. According to SAMA, the regulation applies to all commercial banks and regulated entities in the KSA on a consolidated level, with the exception of foreign bank branches in the KSA. Currently there are 12 locally incorporated banks and 12 foreign branches registered in the KSA.

The regulation does not apply to investment entities that are not subsidiaries, not registered as banks and not consolidated in a banking group. However, SAMA has the authority to require banks to include investment firms in their LCR calculation, specifically when a bank has a minority interest in an entity and carries a significant liquidity risk with respect to that entity. At present, SAMA has not

enforced such requirement to any banking institution. It does not require insurance companies to be consolidated for LCR purposes due to the ownership restrictions imposed on banks.<sup>7</sup>

### *High-quality liquid assets (numerator)*

The definition of high-quality liquid assets (HQLA) is a key element of the Basel LCR standard. SAMA has generally implemented the HQLA component of the LCR consistently with the Basel standard, with one exception which materially affects the implementation of the HQLA requirement. As such, the Assessment Team assesses the implementation of the HQLA requirement as being largely compliant.

The finding relates to the conditions set up in the Basel standard that assets need to fulfil in order to qualify as Level 1 HQLA. According to the Basel LCR standard, marketable securities can be included to an unlimited amount in Level 1 HQLA provided that they satisfy all of the conditions set out in paragraph 50(c) of the Basel III text. These conditions include: (i) assigned a 0% risk-weight under the Basel II Standardised Approach for credit risk, (ii) traded in large, deep and active repo or cash markets characterised by a low level of concentration, (iii) have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions and (iv) not an obligation of a financial institution or any of its affiliated entities. Additionally, paragraph 27 of the Basel LCR standard states that central bank eligibility is not a sufficient condition for an asset to be classified as HQLA.

The KSA government debt securities are internationally rated as AA<sup>8</sup> and therefore have a 0% risk weight under the Basel II credit risk standardised approach. Despite the excellent credit quality, there are no large, deep and active local markets for these securities in the KSA. According to SAMA, this is due to several factors, including (i) the limited supply of government securities (only 2% of the KSA's GDP), (ii) banks and other investors typically hold the securities until maturity and (iii) a lack of foreign and institutional investors (pension funds or insurance companies) in the market. This is also true for other domestic Level 1-type securities such as central bank claims. The only reliable way for banks to monetise these assets is therefore through repos with SAMA. For this reason, SAMA has made repo-ability with the central bank a sufficient requirement to satisfy the "large, deep and active market" condition in the LCR. As a consequence, the local government bonds (and other local Level 1-type assets) are accepted as Level 1 HQLA for the purpose of calculating the LCR, despite the absence of a large, deep and active private market. In the view of the Assessment Team, this is a deviation from the requirement stipulated in paragraphs 27 and 50(c) of the Basel LCR standard.

Notwithstanding this deviation, the Assessment Team considers that KSA's situation is challenging. For jurisdictions with an insufficient supply of Level 1 HQLA assets in their domestic currency, the LCR provides for Alternative Liquidity Approaches (ALA). Such jurisdictions could consider exploring the possibility of using ALA's Option 1 – the Committed Liquidity Facility (CLF) – and/or, Option 2 – the use of foreign currency HQLA – and/or Option 3 – additional use of Level 2 assets with a higher haircut. The team also notes SAMA's earlier decision not to adopt the ALA due to an internal assessment it conducted. This assessment concluded that the KSA has sufficient domestic assets (mainly government debt securities and SAMA Bills) to meet the HQLA requirement and expressed concern that adopting the ALA might also induce banking institutions to heavily invest in foreign assets, which could lead to capital outflows. It is possible, or even likely, that the ALA would not provide an unambiguously

<sup>7</sup> KSA banks are only allowed to take a minority interest of a maximum of 30% in any single insurance company.

<sup>8</sup> The KSA's long-term foreign and local currency issuer default ratings (Feb 2015): Aa3 (Moody's); AA (Fitch); AA– (S&P).

better solution for SAMA as these solutions come with costs, in terms of increased operational challenges, eg determining the conditions of a CLF (ALA Option 1) and implementing additional mechanisms to control the FX risks (ALA Option 2). Adopting the ALA would, however, bring the domestic LCR rule fully in line with the Basel LCR standard (subject to meeting the ALA eligibility criteria) and rectify the deviation with respect to paragraphs 27 and 50(c). Additionally, this could also align SAMA's implementation with other jurisdictions with insufficient Level 1 HQLA and improve comparability across jurisdictions.

In addition, SAMA also relies on central bank repo-ability as a sufficient condition when classifying HQLA Level 1 assets in other jurisdictions where markets are not liquid, eg the other Gulf Cooperative Council (GCC) jurisdictions. However, this deviation from paragraphs 27 and 50(c) has been assessed as not material.

The Assessment Team also made one observation with respect to SAMA's implementation of paragraph 50(c). The team notes that a 25% haircut was imposed by SAMA as part of its central banking operation on the local government securities but this was not taken into account in the banks' LCR calculation. As a result, banks may have overstated the amount of HQLA in the LCR calculation relative to the amount of liquidity these can generate for the banks (as central bank repos are the only way of monetising the assets). SAMA has aligned their central bank haircut (from 25% to 0%) with that of the LCR, following the RCAP assessment, meaning there is no longer a risk of overstatement of banks' LCR. This has been listed as part of the rectifications made by SAMA in Annex 5 of this report.

Also with respect to HQLA, the Assessment Team noted that SAMA has implemented a murabaha facility for Sharia-compliant banks that is treated as a central bank reserve. It therefore qualifies as a Level 1 asset. The facility is de facto a cash placement with the central bank and replicates a treasury bill. Banks are allowed to use this product as collateral for central bank operations (a 0% haircut applies as of 8 July 2015) and could therefore generate liquidity when needed. The Assessment Team considered the treatment of this product by SAMA in the LCR to be adequate.

Level 2A assets are generally HQLA-eligible in the KSA but locally this type of asset does not exist due to market illiquidity. SAMA disallows Level 2B assets generally, even for foreign operations of the KSA banks where the host supervisors allow Level 2B assets to be included as HQLA.

#### *Outflows (denominator)*

SAMA has implemented the LCR outflow requirement consistently with the run-off factors (outflows) specified by the Basel LCR standard. (In some cases, SAMA's LCR rules are more conservative than the Basel LCR requirements.) In this regard, the Assessment Team considered the implementation of the outflows requirement as being compliant.

#### *Inflows (denominator)*

SAMA has implemented the inflows requirements consistently with the Basel LCR standard and it is assessed as compliant.

#### *Disclosure requirements*

The Basel standard requires disclosure of the LCR at a consolidated level and at the same frequency, and concurrently with, the publication of financial statements. The KSA's implementation of the LCR disclosure requirements is assessed as compliant with the Basel standard.

In the KSA, LCR disclosure started from 1 January 2015. With respect to the phase-in period, SAMA will allow banks to calculate their average LCR based on three end-of-month observations until 2017. From 1 January 2017, the numbers must be based on daily data. SAMA also requires banks to report both quantitative and qualitative LCR disclosures according to the Basel disclosure template on a quarterly basis and no later than 30 days after the quarter-end.



## 2 Detailed assessment findings

The component-by-component details of the assessment of compliance with the LCR standards of the Basel framework are detailed below. The focus of Sections 2.1 to 2.2 is on findings that were assessed to be deviating from the Basel minimum standards and their materiality. Section 2.3 lists some observations and other findings specific to the implementation practices in the KSA.

### 2.1 LCR requirement

Section grade	Largely compliant
Summary	Overall, the Assessment Team assesses the current KSA's regulations adopting the LCR requirements as largely compliant. The largely compliant grade for the LCR is driven by one material finding which is detailed below.

#### 2.1.1 Scope of application and transitional arrangements

Summary	<p>The Assessment Team assesses the KSA's regulatory implementation of the scope of application and transitional arrangements to be compliant with the Basel LCR standards. The LCR, as well as its related disclosure requirements were introduced in the KSA on 1 January 2015. SAMA's implementation of the LCR minimum level follows the same transitional arrangements as stipulated in the Basel standard. However, SAMA does not allow banks that are already well above the 100% LCR requirement to fall below 100% under normal business circumstances.</p> <p>The LCR applies to all banks/banking groups on a consolidated level in KSA. KSA foreign bank branches are currently exempted from the LCR requirements.</p>
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#### 2.1.2 High-quality liquid assets (numerator)

Summary	The Assessment Team assesses the KSA's regulatory implementation of the HQLA requirements to be largely compliant with the Basel LCR standards. A key deviation is the recognition of government securities and other domestic Level 1-type claims as HQLA, even though these assets are not traded in liquid and active markets.
Basel paragraph no	Paragraphs 24, 27 and 50(c) LCR:
Reference in the domestic regulation	SAMA's general guidance Attachment 1 and 2, page 5, "Characteristics of HQLA"
Findings	<p>In order for assets to qualify as HQLA, the Basel standard sets out a number of conditions and requirements that need to be satisfied. Paragraph 24 of the Basel LCR text describes in detail the fundamental and market-related characteristics of HQLA, especially with regard to an active and sizeable market: an HQLA should have active outright sale or repo markets at all times. This means that there should be historical evidence of market breadth and market depth and a robust market infrastructure in place.</p> <p>Additionally, paragraph 27 of the Basel LCR rules states that central bank eligibility does not by itself constitute the basis for the categorisation of an asset as HQLA. Additionally, paragraph 50 sets out a number of conditions that Level 1 assets need to fulfil. Subparagraph 50(c) says that sovereign and central bank debt claims can be included to an unlimited amount in HQLA if they satisfy four conditions, of which one is that assets should be traded in large, deep and active markets.</p> <p>SAMA rules generally reproduced the Basel LCR standard. However, the Assessment Team notes that the local LCR rules added the following requirement: <i>"By large, deep and active markets, SAMA understands that the relevant instrument should be at least repo-able with the central banks and preferably other regulated entities."</i></p> <p>The addition to the rules text is a measure taken by SAMA as a consequence of the lack of liquid markets for local Level 1-type assets. Government securities (bonds,</p>

	<p>SAMA bills, repos) of the KSA are of an excellent credit quality (rating AA) and satisfy the 0% risk weight requirement under the Basel II framework. Despite the excellent credit quality, the local private markets for these securities are illiquid and inactive. As a result, SAMA has decided that repo-ability at the central bank is a sufficient determining criteria for domestic assets to be eligible as Level 1 HQLA and included the above-mentioned criteria in their rules text. Based on this repo-ability criterion, the local government securities are accepted as Level 1 HQLA for the purpose of calculating the LCR. The Assessment Team is of the view that this clearly deviates from the requirements stipulated in paragraphs 27 and 50(c) of the Basel LCR rules.</p> <p>In addition, SAMA also relies on the central bank repo-ability as a sufficient condition when classifying HQLA Level 1 assets in other jurisdictions where markets are not liquid, eg the other GCC jurisdictions. However, this deviation from paragraphs 27 and 50(c) has been assessed as not material.</p>
Materiality	<p>Material</p> <p>The Assessment Team considered this deviation as material. In practice, these assets can be included as part of the Level 1 assets, although they do not meet the conditions of the Basel LCR standards. The inclusion of such assets materially overstates the banks' HQLA and LCR ratios (Saudi Government securities and bills comprise 33% of total HQLA in KSA).</p> <p>For jurisdictions with an insufficient supply of Level 1 HQLA assets in their domestic currency, the LCR provides for Alternative Liquidity Approaches (ALA). Such jurisdictions could consider exploring the possibility of using ALA's Option 1 – the Committed Liquidity Facility (CLF) – and/or, Option 2 – the use of foreign currency HQLA – and/or Option 3 – additional use of Level 2 assets with a higher haircut. The Assessment Team notes SAMA's earlier decision not to adopt the ALA due to an internal assessment which concluded that the KSA has sufficient domestic assets (mainly government debt securities) to meet the HQLA requirement and voiced the concern that adopting the ALA might also induce banking institutions to heavily invest in foreign assets, leading to outflows of capital from the KSA. It is possible, or even likely, that the ALA would not provide an unambiguously better solution for SAMA as these solutions come with costs in terms of increased operational challenges, eg in determining the conditions of a CLF (ALA Option 1) and implementing additional mechanisms to control the FX risks (ALA Option 2). Adopting ALA would, however, bring the domestic LCR rule fully in line with the Basel LCR standard (subject to meeting the ALA eligibility criteria) and rectify the deviation with respect to paragraphs 27 and 50(c). Additionally, this could also align SAMA's implementation with other jurisdictions with insufficient Level 1 HQLA and improve comparability across jurisdictions.</p>

### 2.1.3 Outflows (denominator)

Summary	The rectifications issued by SAMA on 7 July 2015 resolved all identified deviations regarding outflows.
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### 2.1.4 Inflows (denominator)

Summary	The rectifications issued by SAMA on 7 July 2015 resolved all identified deviations regarding inflows.
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## 2.2 LCR disclosure requirements

Section grade	Compliant
Summary	The Assessment Team finds that SAMA's implementation of the LCR disclosure standard to be compliant with the Basel LCR disclosure standard. Following the amendments made by SAMA, the Assessment Team did not identify any deviation.

## 2.3 Observations and other findings specific to the implementation practices in The KSA

The following list includes observations made by the Assessment Team regarding the KSA's implementation of the LCR standard. These observations are assessed as consistent with the Basel standard and are provided here for background information only.

Basel paragraph no	Paragraphs 50b LCR
Reference in the domestic regulation	SAMA's general guidance Attachment 1 and 2, page 13, Section 3.2, "Definition of High-Quality Liquid Assets (HQLA)"
Observation	Generally, the Basel LCR rules do not allow facilities to be recognised as HQLA. SAMA allows Sharia-compliant banks to count the murabaha facility as central bank reserves that can be included in Level 1 assets: <i>"The murabaha facility made available to SAMA by Sharia-compliant banks fall under the category of central bank reserves and can be included in Level 1 assets."</i> From an economic view this product is de facto a cash placement with the central bank comparable to a treasury bill. Islamic banks are allowed to make withdrawals, if needed, from SAMA against the murabaha facility. A 0% haircut applies as of 31 July 2015. The Assessment Team is of the opinion that the treatment of this product is acceptable.
Basel paragraph no	Paragraphs 75, 78, 81, [89] LCR
Reference in the domestic regulation	SAMA's general guidance Attachment 1 and 2, page 25, Section 3.5 "Cash Outflows"
Observation	The Basel rules divides deposits into stable and less stable categories. To qualify as stable deposits, the deposits need to be covered by a recognised deposit insurance scheme. Further, Basel paragraph 169 states that, unless otherwise specified by the home supervisor, the host countries' treatment of stable and less stable deposits for retail and SME deposits should apply in the home country. As noted in Annex 12, a deposit insurance scheme has been put in place, which will become effective as of 1 January 2016. Notwithstanding, the stable deposit category does not apply for deposits in the KSA banks. In addition, SAMA has applied a treatment to deposits which is similar to that in other jurisdictions, even though these deposits are covered by deposit insurance schemes (in host jurisdictions) as part of computing the consolidated LCR for KSA banks. This applies to all type of deposits, ie retail, SME and wholesale.

## Annexes

### Annex 1: RCAP Assessment Team and Review Team<sup>9</sup>

#### Assessment Team

Mr Stephen Bland, UK Prudential Regulation Authority (Team Leader)

Name	Affiliation
Ms Johanna Eklund	Riksbank, Sweden
Mr Markus Herfort	Federal Financial Supervisory Authority (BaFin), Germany
Mr Qaiser Anwarudin	Financial Stability Institute, Bank for International Settlements
Mr Erhan Çetinkaya	Banking Regulation and Supervision Agency, Turkey
Mr Stuart Irvine	Reserve Bank of New Zealand
Ms Katherine Munsamy	South African Reserve Bank
Ms Jin Wang	China Banking Regulatory Commission

#### Supporting members

Name	Affiliation
Mr Nik Faris Sallahuddin	Basel Committee Secretariat
Mr Christian Schmieder	Basel Committee Secretariat

#### Review Team

Name	Affiliation
Mr Brad Shinn	The Office of the Superintendent of Financial Institutions, Canada
Mr Sudarshan Sen	Reserve Bank of India
Mr Vance Price	Office of the Comptroller of the Currency, United States
Mr Karl Cordewener	Basel Committee Secretariat

<sup>9</sup> The RCAP Assessment Team worked closely with Mr Olivier Prato, Head of Basel III Implementation at the Basel Committee Secretariat. It has also benefited from the feedback of the RCAP Review team and the Peer Review Board. The Review Team is separate from the Assessment Team, and provides an additional level of quality assurance for the report's findings and conclusions.

## Annex 2: List of LCR standards under the Basel framework used for the assessment

### Basel documents in scope of the assessment

- (i) The Liquidity Coverage Ratio (January 2013), including the frequently asked questions on Basel III's January 2013 Liquidity Coverage Ratio (April 2014);
- (ii) Liquidity Coverage Ratio disclosure standards (January 2014);

### Basel documents reviewed for information purposes

- (iii) Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools (January 2013) (part of liquidity risk monitoring tools);
- (iv) Monitoring tools for intraday liquidity management (April 2013); and,
- (iv) Principles for sound liquidity risk management and supervision (September 2008).

## Annex 3: Local regulations issued by SAMA for implementing Basel LCR standards

The BCL of 1966 and SAMA Charter of 1957 have conferred powers on SAMA to issue regulations, rules and guidance to licensed banks in the Kingdom of Saudi Arabia. Under these laws, SAMA has used its powers to issue regulations related to the Basel II, II.5 and III Rules standards. All of the regulations issued by SAMA are legally enforceable and none has never been challenged in a court of law. In certain instances, regulations have been supplemented by additional Guidance Notes; however, all additional guidance is legally enforceable. Basel III Regulations, Rules and Guidance Notes are in final form and the text in English is available on SAMA website.

Overview of issuance dates of important SAMA liquidity rules

Table 3

Domestic regulations	Name of the document, version and date
Banking Ordinance (BO)	<p>A. <b>BCL Article # 7</b> Liquid assets to be maintained by Banks at SAMA under the provisions of BCL Article # 7. This Law was issued in 1966.</p> <p>B. SAMA's Regulatory Requirement concerning the loans-to-deposit ratio was introduced in the 1970s. This requirement was updated through Circular # BCS 392 dated 25 July 2006. SAMA ensures that banks must maintain loans to deposits ratio of less than 85%.</p>
Banking (Liquidity) Rules (BLR)	<ol style="list-style-type: none"> <li>1. SAMA's Revised Amended LCR Regulations – Operational Deposits – Circular # 361000050640 dated 26 January 2015.</li> <li>2. SAMA's Amended LCR – Cash Outflow Rates Concerning other Contingent Funding Obligations – Circular # 361000049442 dated 21 January 2015.</li> <li>3. SAMA's Revised Amended Liquidity Coverage Ratio Regulations and Guidance Documents – Circular # 361000009335 dated 10 November 2014.</li> <li>4. SAMA Circular # 341000085566 dated 20 May 2013 concerning Monitoring Tools for Intraday Liquidity Management – Circular # 361000009344 dated 10 November 2014 deferring the implementation of the aforementioned circular to January 2017.</li> <li>5. SAMA's Implementation of Monitoring Tools in Conjunction with the Amended LCR issued through Circular # 351000147086 dated 24 September 2014.</li> <li>6. BCBS Document issued in April 2014 regarding Frequently Asked Questions on Basel III's January 2013 Liquidity Coverage Ratio. This document was issued by SAMA through Circular # 351000095017 dated 21 May 2014.</li> <li>7. SAMA's Finalized Guidance and Prudential Returns Concerning Amended Liquidity Coverage Ratio (LCR) based on BCBS Amendments of January 2013 issued through Circular # 34100010720 dated 10 July 2013.</li> <li>8. SAMA's Prudential Returns Concerning the Monitoring of Basel III Liquidity Risk through the Minimum Regulatory Liquidity Standards Ratios issued through Circular # 14522/BCS 7390 dated 8 February 2012.</li> <li>9. Basel Committee Documents published on 16 December 2010:               <ol style="list-style-type: none"> <li>(1) Basel III – Global Framework for More Resilient Banks and Banking System;</li> </ol> </li> </ol>

	<p>(2) Basel III – International Framework for Liquidity Risk Measurement Standards and Monitoring; and (3) Results of the Quantitative Impact Study - Circular # BCS 1278 dated 21 December 2010.</p> <p>10. Basel Committee Papers on Basel II Framework – Circular # BCS 849 dated 28 December 2009.</p> <p>11. Strengthening the Resilience of Banking Sector.</p> <p>12. International Framework for Liquidity Risk Measurement Standards and Monitoring.</p> <p>13. In September 2008, the BCBS published Principles for sound liquidity risk management and supervision (Sound Principles). SAMA issued this document through its Circular # BCS 771 of 5 December 2008. Later, SAMA issued another Circular # 351000147075 on 25 September 2014 with regard to this BCBS document.</p>
Banking (Disclosure) Rules (BDR)	Basel Committee on Banking Supervision (BCBS) Document regarding Liquidity Coverage Ratio Disclosure Standards issued through Circular # 351000133366 dated 25 August 2014.

#### Hierarchy of SAMA laws and regulatory instruments

Table 4

Level of rules (in legal terms)	Type
SAMA Charter (1957)	Legislation
BCL (1966)	Legislation
Ministerial Decree of Minister of Finance (1986)	Legislation
SAMA Regulations (various)	Regulation
SAMA Prudential Returns and Guidance Notes (various)	Regulation
SAMA Regulations related to Basel I, II, II.5 and III	Regulation
SAMA Circulars and Guidance Documents (guidance & documents, eg on loan-to-deposit ratio, role of audit committee etc)	Guidance/documents

## Annex 4: Details of the RCAP assessment process

### A. Off-site evaluation

- (i) Completion of a self-assessment questionnaire by SAMA
- (ii) Evaluation of the self-assessment by the RCAP Assessment Team
- (iii) Independent comparison and evaluation of the domestic regulations issued by SAMA with corresponding Basel III standards issued by the BCBS
- (iv) Identification of observations
- (v) Refinement of the list of observations based on clarifications provided by SAMA
- (vi) Assessment of materiality of deviations for all quantifiable deviations based on data and non-quantifiable deviations based on expert judgment
- (vii) Forwarding of the list of observations to SAMA

### B. On-site assessment

- (viii) Discussion of individual observations with SAMA
- (ix) Meeting with selected KSA banks, accounting firms
- (x) Discussion with SAMA and revision of findings to reflect additional information received
- (xi) Assignment of component grades and overall grade
- (xii) Submission of the detailed findings to SAMA with grades
- (xiii) Receipt of comments on the detailed findings from SAMA

### C. Review and finalisation of the RCAP report

- (xiv) Review of comments by the RCAP Assessment Team, finalisation of the draft report and forwarding to SAMA for comments
- (xv) Review of SAMA's comments by the RCAP Assessment Team
- (xvi) Review of the draft report by the RCAP Review Team
- (xvii) Review of the draft report by the Peer Review Board
- (xviii) Reporting of findings to SIG by the team leader



## Annex 5: List of rectifications by SAMA

Basel Paragraph	Reference to KSA's document and paragraph	Brief description of the forthcoming correction
50(d)	Paragraph 50(d) on page 14 of SAMA's general guidance Attachment 1 and 2	SAMA clarified that the treatment of non-0% risk weight sovereign debt exposure as Level 1 assets (paragraph50(d)) applies only "in the country in which the liquidity risk is being taken or in the bank's home country". This has been published via a revision in an existing document titled "Attachment # 1 and 2 – Finalized Guidance Notes".
54	Paragraph 54 on page 17 of SAMA's general guidance Attachment 1 and 2	SAMA excluded in its regulation in general Level 2b assets although SAMA has included the Basel language on Level 2b assets into its regulation. SAMA completed its requirements with respect to RMBS (paragraph54 (a) of the Basel LCR text) to be fully in line with the Basel requirements. This has been published via a revision in an existing document titled "Attachment # 1 and 2 - Finalized Guidance Notes".
67	Paragraph 67 on page 24 of SAMA's general guidance Attachment 1 and 2	SAMA has not utilised any of the options under the alternative treatment for liquid assets (ALA) although the local regulation includes in general the Basel LCR-ALA requirements. The respective wording has been modified to be fully in line with the Basel requirements. This has been published via a revision in an existing document titled "Attachment # 1 and 2 - Finalized Guidance Notes".
69	Paragraph 69 on page 24 of SAMA's general guidance Attachment 1 and 2	Wording has been modified and this has been published via a revision in an existing document titled "Attachment # 1 and 2 - Finalized Guidance Notes".
71	Paragraph 71 on page 25 of SAMA's general guidance Attachment 1 and 2	Wording has been modified and this has been published via a revision in an existing document titled "Attachment # 1 and 2 - Finalized Guidance Notes".
82	Paragraph 82 on page 28 of SAMA's general guidance Attachment 1 and 2	Wording has been modified and this has been published via a revision in an existing document titled "Attachment # 1 and 2 - Finalized Guidance Notes".
108	Paragraph 91 on pages 30–31 of SAMA's general guidance Attachment 1 and 2	Paragraph 91 has been added and this has been published via a revision in an existing document titled "Attachment # 1 and 2 - Finalized Guidance Notes".

111	Paragraph 111 on page 35 of SAMA's general guidance Attachment 1 and 2	Wording has been modified and this has been published via a revision in an existing document titled "Attachment # 1 and 2 – Finalized Guidance Notes".
115 + 145+146	Paragraph 115 on page 41 of SAMA's general guidance Attachment 1 and 2. Also paragraphs 143–146 on pages 38–39 and 75.	Paragraphs have been added along with modified wordings and this has been published via a revision in an existing document entitled "Attachment # 1 and 2 – Finalized Guidance Notes".
118 + 120–122	Paragraphs 117–123 on pages 37–38 of SAMA's general guidance Attachment 1 and 2. Also note inserted on page 64.	Paragraphs have been added along with modified wordings and this has been published via a revision in an existing document entitled "Attachment # 1 and 2 – Finalized Guidance Notes".
131	Paragraph 131 references on page 70 of SAMA's general guidance Attachment 1 and 2.	Wording has been modified and this has been published via a revision in an existing document entitled "Attachment # 1 and 2 – Finalized Guidance Notes".
10 LCR disclosure standards	Page 2 of BCBS document regarding Liquidity Coverage Ratio Disclosure Standards	Wording has been modified and this has been published via a revision in an existing document entitled "BCBS Document regarding Liquidity Coverage Ratio Disclosure Standards".

## Annex 6: Assessment of the binding nature of regulatory documents

The following table summarises the assessment of the seven criteria used by the Assessment Team to determine the eligibility of KSA's regulatory documents. Based on this, the Assessment Team concluded that the regulatory instruments issued and used by SAMA as set out in Annex 3 are eligible for the RCAP assessment.

Criterion	Assessment
(1) The instruments used are part of a well defined, clear and transparent hierarchy of legal and regulatory framework.	<p>The BCL gives power to SAMA to introduce any relevant regulations it deems fit to maintain the stability of the financial system. BCBS standards including on liquidity risk have been issued under this law.</p> <p>The legal hierarchy includes SAMA Charter, BCL, Ministerial Decree, Regulations and Guidance Documents.</p>
(2) They are public and easily accessible	<p>SAMA issues draft guidelines and actively consults all the concerned stakeholders before implementing final regulations. Also it has published all relevant regulations and guidance documents on the internet so that the general public and other stakeholders can access them. See SAMA website: <a href="http://www.sama.gov.sa/en-US/Laws/Pages/Banking.aspx">www.sama.gov.sa/en-US/Laws/Pages/Banking.aspx</a>.</p>
(3) They are properly communicated and viewed as binding by banks as well as by the supervisors.	<p>After the conclusion of the consultation process as outlined in point (2) above, SAMA issues final regulations and, where needed, issues a "Frequently Asked Questions" document.</p> <p>All regulations and related documents issued by SAMA are viewed as binding upon the regulated entities. SAMA monitors the implementation and enforces these regulations through a supervisory review process comprising three blocks as explained below:</p> <p><b>Off-site supervision</b></p> <p>SAMA collects information through standardised regulatory prudential returns that range from a weekly to an annual basis.</p> <p>SAMA also arranges ICAAP/ SREP meetings with banks on risk management processes, at which all elements of liquidity and risk management are discussed.</p> <p><b>On-site inspections</b></p> <p>SAMA carries out full-scope examinations or thematic reviews under which it has the option to review all liquidity risk-related requirements.</p> <p><b>Frequent interaction</b></p> <p>SAMA frequently interacts with the banks and the industry on various liquidity-related matters.</p>
(4) They would generally be expected to be legally upheld if challenged and are supported by precedent.	<p>Under the BCL, banks that are deemed not compliant will be subject to corrective measures and fines. Furthermore, SAMA has broad powers to take supervisory action as well as remedial and enforcement action to enforce compliance with its regulations. SAMA's powers of enforcement have never been challenged in court.</p>
(5) Consequences of failure to comply are properly understood and carry the same practical effect as for the primary law or regulation.	<p>Under the BCL, violations of any regulation including liquidity-related requirements are subject to corrective measures and fines.</p> <p>SAMA has powers at its discretion to require or to take any remedial action depending on the nature of the issue faced by the bank. The aforementioned is properly understood by the banks.</p>
(6) The regulatory provisions are expressed in clear language that complies with the Basel provisions in both substance and spirit.	<p>SAMA's liquidity regulations have been drafted in clear and concise language using the Basel standard as guidance in order to avoid any misinterpretation and aid easy enforcement. Additionally, SAMA has issued guidelines to provide greater clarity and achieve harmonisation.</p> <p>As stated earlier, SAMA also issues a "Frequently Asked Questions" document to resolve any queries and to aid implementation.</p>

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(7) The substance of the instrument is expected to remain in force for the foreseeable future	SAMA's liquidity regulations are legally issued and consist of binding laws, regulations and guidelines which are expected to remain in force for the foreseeable future.
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## Annex 7: Key liquidity indicators of the KSA's banking system

Size of banking sector (SAR millions). Data as of March 2015		
1. Total assets of all banks operating in the jurisdiction <sup>10</sup>	2,219,569	
2. Total assets of all major locally incorporated banks	2,145,786	
3. Total assets of locally incorporated banks to which liquidity standards under the Basel framework are applied	2,145,786	
Number of banks		
4. Number of banks operating in the jurisdiction (excl. local representative offices)	24	
5. Number of Global Systemically Important Banks (G-SIBs)	3	
6. Number of Domestic Systemically Important Banks (D-SIBs) <sup>11</sup>	6	
7. Number of banks which are internationally active banks	24	
8. Number of banks required to implement Basel III liquidity standards	12	
9. Number of banks required to implement domestic liquidity standards	24	
Breakdown of LCR for five RCAP sample banks	Unweighted	Weighted
10. Total HQLA	342,410	337,889
11. Level 1 HQLA	312,277	312,277
12. Level 2A HQLA	30,133	25,612
13. Level 2B HQLA	Nil	Nil
14. ALA HQLA	Nil	Nil
15. Total cash outflows	1,699,241	247,006
16. Retail and small business stable deposits	Nil	Nil
17. Retail and small business less stable deposits	651,117	64,103
18. Wholesale unsecured operational deposits	Nil	Nil
19. Wholesale unsecured non-operational funding	364,120	162,076
20. Secured funding	8,552	1,089
21. Debt issued instruments (incl. credit and liquidity facilities)	Nil	Nil
22. Other contractual outflows	872	872
23. Contingent funding obligations	674,580	18,866
22. Total cash inflows	121,588	59,285
23. Secured lending	6,177	Nil
24. Fully performing unsecured loans	113,893	57,767
25. Other cash inflows	1,518	1,518
26. Liquidity Coverage Ratio		180%

<sup>10</sup> The figure is computed as total assets less provision as reported by banks including reporting banks with Saudi Arabia offices and overseas branches.

<sup>11</sup> By SAMA's definition, all locally incorporated banks are classified as international banks due to the nature and scope of their operation regardless of size.

## Annex 8: A summary of the materiality assessment

As a general principle, and mirroring the established RCAP assessment methodology for risk-based capital standards, the RCAP-LCR materiality assessment is based on both quantitative and qualitative information with an overlay of expert judgment. Where possible, teams also take into account the dynamic nature of liquidity risks and seek to assess the materiality of deviation at different points in time.

In line with underlying RCAP principles, the quantitative materiality assessment for the LCR is based on a determination of the cumulative impact of all identified deviations (both quantifiable and non-quantifiable deviations). Where deviations are quantifiable, the Assessment Team will generally base the assessment on the highest impact that has been reported across three data points. The collection of data across different dates is agreed upon between the team leader and the assessed jurisdiction.

In the case of the KSA LCR assessment, two deviations were assessed on both a quantifiable and qualitative basis, taking into account the amendments made by SAMA during the course of the RCAP. The following table summarises the number of deviations according to their materiality.

Number of gaps/differences by component			Table 5
Component	Non-material	Material	Potentially material
Scope of application	0	0	0
Transitional arrangements	0	0	0
Definition of HQLA (numerator)	1	1	0
Outflows (denominator)	0	0	0
Inflows (denominator)	0	0	0
LCR disclosure requirements	0	0	0

Note: materiality is defined based on quantitative benchmark thresholds (for the quantifiable gaps) and expert judgment (for the non-quantifiable gaps). See Section 2 with the detailed assessment findings for further information.

## Annex 9: The KSA's implementation of the liquidity monitoring tools

In addition to the minimum standard for the LCR, the LCR framework also outlines metrics to be used as consistent liquidity monitoring tools ("the monitoring tools"). The monitoring tools capture specific information related to a bank's cash flows, balance sheet structure, available unencumbered collateral and certain market indicators. The monitoring tools supplement the LCR standard and are meant to provide the cornerstone of information that aids supervisors in assessing a bank's liquidity risk. This part of the annex provides a qualitative overview of the implementation of the monitoring tools in the KSA.

### Method of implementing the Basel liquidity monitoring tools

The liquidity monitoring tools were introduced in the KSA on 24 September 2014 by means of Circular # 351000147086, which outlines the considerations that banks must observe when managing their liquidity risk and the specific risk management process that banks must follow. This circular took effect on 1 January 2015.

1. Contractual maturity mismatch
2. Concentration of funding
3. Available unencumbered assets
4. LCR by currency
5. Market-related monitoring tool: already implemented by SAMA as described in Item II below.

### How are the tools used by supervisors?

Banks have been required to calculate the monitoring tools (returns) as part of their liquidity risk management process and practices, and to submit the returns monthly since 1 January 2015. The returns are standard reporting templates for banks to report their positions in respect of (i) concentration of funding; (ii) available unencumbered assets; and (iii) LCR by significant currency; and (iv) maturity mismatch.

Failure to submit the returns could trigger the use of other supervisory actions by SAMA, which includes fines and penalties.

### Description of how the monitoring tools in SAMA regulation will be implemented

#### I. Contractual maturity mismatch

SAMA's monitoring tool on the contractual maturity mismatch profile identifies the gaps between the contractual inflows and outflows of liquidity for defined time bands. These maturity gaps indicate how much liquidity a bank would potentially need to raise in each of these time bands. This metric provides insight into how far the bank relies on maturity transformation under its current contracts.

## II. Concentration of funding

This Basel standard tool is designed to identify sources of wholesale funding that are of such significance that withdrawal of this funding could trigger liquidity problems. For this purpose, banks should manage funding concentration by counterparty, significant instrument as well as list assets and liabilities by significant currency.

## III. Available unencumbered assets

This monitoring tool is designed to provide supervisors with data on their available unencumbered assets in terms of quantity and key characteristics, including currency denomination and location.

## IV. LCR by significant currency

While compliance with the LCR is required in one single currency, the Basel liquidity standard states that banks and supervisors should also monitor the LCR in other significant currencies. This will allow the bank and the supervisor to track potential currency mismatch issues that could arise.

The KSA regulation requires banks to define and monitor their Liquidity Coverage Ratio for each relevant currency.

## V. Market-related monitoring tools

It is evident that the "market-related monitoring tools" requirement includes a wide range of information on the financial sector; bank-specific information and related market development. It is currently available in SAMA through the following channels, which are adequate in terms of frequency of information as an early warning system for SAMA purposes.

- (a) SAMA regularly publishes its weekly report on market developments and other investment information covering the following aspects:
  - Foreign exchange and money market rates
  - Status of eight stock exchanges including that of the KSA
  - US Treasury yields
  - International government bond yields
  - LIBOR and SIBOR rates
  - For nine major economies
    - Oil prices
    - Interest rates
    - Price/earnings ratio
    - Dividend yields
    - Market capitalisation
- (b) This information is also available in SAMA's annual, quarterly, and monthly reports. The information provided is quantitative and qualitative and comprises various quarterly financial ratios and other financial information.



## Basel guidance on monitoring tools for intraday liquidity management

The BCBS in April 2013 issued a document entitled "Monitoring tools for intraday liquidity management". SAMA circulated this document to banks through its Circular # 341000085566 dated 20 May 2013, which required banks to incorporate this guidance in their internal risk management systems concerning liquidity risk.

Meetings and teleconferences have taken place between SAMA, the Saudi Arabian Riyal Interbank Express (SARIE) and the banks to discuss the implementation of this circular.

Consequently, SAMA is aiming to implement the intraday liquidity management in Saudi Arabia before the end of 2016, prior to the time limit set by the BCBS of January 2017.

## Annex 10: The KSA's implementation of the *Principles for sound liquidity risk management and supervision*

This annex outlines the implementation of the Basel Committee's *Principles for sound liquidity risk management and supervision* (Sound Principles) in the KSA's regulation. The principles are not part of the formal RCAP assessment and no grade is assigned. This annex serves for information purposes only.

The Sound Principles were published in September 2008. SAMA issued this document to the banks through its Circular # 771 of 5 December 2008, which instructed banks to audit the level of their compliance with the Sound Principles. It required this assessment to be made on a principle-by-principle basis as follows:

1. Compliant
2. Largely compliant
3. Largely not compliant
4. Not compliant

These results were received by SAMA in the first half of 2009.

SAMA subsequently issued Circular # 351000147075 of 25 September 2014 to require the banks to conduct a further internal audit to assess the current level of compliance with the Sound Principles.

Principles 1–13 are applicable to all regulated entities. Principles 14–17, which give guidance for supervisors assessing liquidity risk management in banks, are implemented through the BCL.

### Fundamental principle for the management and supervision of liquidity risk – Principle 1

The first principle states the overall purpose: banks are responsible for having processes in place to actively monitor and manage liquidity risk.

In terms of implementation, SAMA requirements mirror the BCBS requirements, which include requirements for sound risk management overall as well as a specific requirement concerning liquidity risk. SAMA's expectations have been outlined in various complementary guidelines relating to Basel II Pillar II, stress-testing and ICAAP which require banks to establish mechanisms that allow them to operate at liquidity risk levels commensurate with their liquidity profile.

SAMA's expectations are that the liquidity risk profile of a regulated entity needs to be considered on both a group and a standalone basis, and compliance is enforced through on-site and off-site monitoring.

Further, the requirement to maintain an adequate level of liquid assets has been augmented by the introduction of the LCR guidelines, with their emphasis on explicitly defined HQLA assets. It is noteworthy that the LCR coverage with respect to the overall system indicates a liquidity buffer substantially above (currently more than three times) the minimum regulatory requirement for the year 2015 as prescribed by the BCBS. SAMA believes that the liquidity profile of the regulated entities within the KSA is at a level that would enable them to cope with any reasonably foreseeable liquidity contingency.

## Governance of liquidity risk management – Principles 2–4

These principles require that a bank clearly spells out its liquidity risk tolerance and strategy to maintain the bank's stability and consequently that of the financial system. Senior management needs to ensure that the policies, procedures and practices are commensurate with the risk tolerance set by the bank. For its part, the board should take ownership of the bank's policies, practices and risk tolerance, and ensure that liquidity risk is effectively managed. For this purpose, liquidity costs, benefits and risks should be incorporated into the internal pricing, performance measurement and new product approval process for all significant business activities (both on- and off-balance sheet), thereby aligning the risk-taking incentives of individual business lines with the liquidity risk exposures that their activities create for the bank as a whole.

SAMA requirements are identical to those outlined by BCBS, so that senior management together with the board of directors are obliged to be involved in the process of defining, approving and monitoring the bank's liquidity risk tolerance. In most banks in the KSA, the assets and liabilities committee plays an instrumental role in identifying an appropriate liquidity profile and associated tolerance with due oversight from the risk management function. These recommendations form part of the financial forecasts and the ICAAP process, both of which are thoroughly reviewed by the respective bank's board. From a governance perspective, both the senior management and the board are held responsible for maintaining the bank's liquidity profile at a safe level.

SAMA requires that banks disclose in their ICAAP submissions the governance process for liquidity management. All local banks are expected to institute a liquidity risk management process that allocates the liquidity costs, benefits and risks of the various business units appropriately, taking a holistic approach to liquidity risk measurement for the entire bank. SAMA is cognisant of the high correlation liquidity risk can have at times with other risk categories and expects banks to manage risks on an integrated basis.

## Measurement and management of liquidity risk – Principles 5–12

The aim of these Basel principles is that banks should have adequate tools in place to capture all material sources of liquidity, whether current or those arising as a result of the bank's strategic plan. Liquidity risk is expected to be managed holistically at a group level and banks are expected to maintain a robust funding strategy, covering short- to long-term horizons, including intraday. Further, collateral management, stress testing and liquidity contingency should form an integral part of a bank's risk management mechanisms.

SAMA requires banks to comply with their obligations, while considering the possibility of adverse conditions, and to maintain a level of liquid assets that is sufficient to cover outflows, even in stress situations. SAMA expects to see adequate linkage between the stress testing undertaken and liquidity contingency planning. In addition, all measurement tools are required to capture all material aspects of a bank's balance sheet, including, derivatives and structured products, and traditional off-balance sheet items. SAMA annually reviews the same as part of the bank's stress-testing framework and the ICAAP process. As part of the implementation, SAMA imposes additional capital which varies from bank to bank based on its Pillar II risk profile, a material part of which is based on an assessment of the bank's liquidity risk profile.

SAMA's LCR guidelines further complement the principles laid out in the Sound Principles and require banks to differentiate between encumbered and unencumbered assets and take into account which are part of their hedging strategies. SAMA also requires banks to proactively manage their liquidity positions and their intraday risks and is in the process of implementing the BCBS requirement

on intraday liquidity monitoring to further strengthen the resilience of the banking system in terms of meeting its payment and settlement obligations in a timely fashion, both in normal and stress conditions.

SAMA regulations require that regulated entities must have a documented Liquidity Contingency Plan (LCP), which addresses all material threats to liquidity and is annually reviewed and approved by the bank's board. SAMA also requires an adequate linkage between business continuity planning and the LCP; and the LCP needs to reflect the bank's strategy and its business profile.

## Public disclosure – Principle 13

Principle 13 requires regular public disclosure of liquidity-related information to enable market participants make an informed judgment about the soundness of an institution's liquidity risk management framework and liquidity position.

SAMA formed a subcommittee of its committee for bank CFOs. The committee recommended an Illustrative Financial Statement template covering the key elements of a bank's methodologies for the management of liquidity risks, including:

- brief description of the methodology used to identify and quantify liquidity risk; and
- exposures and portfolios being assessed for liquidity risk.

In addition, the CFO Committee is actively working on the Enhanced Disclosures Task Force's recommendations, including those pertaining to liquidity risk, which aim at bringing the quality of local banks' disclosures on liquidity and other financial risks into line with global best practice.

## The role of supervisors – Principles 14–17

According to these principles, the supervisor should regularly assess a bank's overall liquidity risk management framework and liquidity position to determine whether they deliver an adequate level of resilience to liquidity stress given the bank's role in the financial system. This comprehensive assessment should be supplemented by monitoring a combination of internal reports, prudential reports and market information. In the case of deficiencies in a bank's liquidity risk management processes, the supervisor should intervene to require effective and timely remedial action by the bank.

Based on the BCL, SAMA can make regular on-site inspections to regulated entities to assess if their operations, organisation, processes and systems of internal control and risk management comply with the provisions regarding liquidity risk.

For this purpose, SAMA assesses the risks to which the banks are exposed, their control systems and the quality of management, to ensure that they maintain adequate liquidity. Additionally, the regulated institutions must provide the inspection team with the information it requires for its liquidity risk assessments.

## Annex 11: Areas for further guidance from the Basel Committee

The Assessment Team listed the following issues for further guidance from the Basel Committee.

### Illiquid 0% risk-weighted government securities

To ensure a consistent implementation of the LCR across jurisdictions, the Assessment Team believes it would be helpful if the Committee clarifies the treatment of 0% risk-weighted Level 1 securities that are not traded on large, deep, active and liquid markets and how to deal with central bank haircuts where banks have to rely on central banks to monetise these assets due to illiquid markets.

Paragraph 50(c) of the Basel LCR rules is explicit only on tradability as a condition required for 0% risk-weighted securities. Non-0% risk-weighted government securities, as stipulated in paragraph 50(d) and 50(e), on the other hand do not have to meet this criteria but can be included without any restriction if they comprise domestic securities and non-domestic securities, limited to the amount of net cash outflows in that currency. In the case of non-0% risk-weighted government securities, there seems to be a presumption that these may not be liquid and that therefore a (constrained) exemption is proposed for these. In practice, countries such as the KSA could have allowed for more of their local government bonds to be included in the LCR if the bonds were to have a lower credit rating. This does not seem to be a fully consistent or intended outcome.

### Sharia-specific requirements

SAMA regulates Sharia-compliant banks in the same way as it does other banks in the KSA. Thus, this does not currently lead to any deviation from Basel standards. Nevertheless, if there were to be a greater variety of Sharia-compliant activities and/or if the International Financial Reporting Standards were differently applied to Sharia-compliant activities in the KSA, this could change. More generally, it would seem sensible for the Basel Committee to consider whether the application of its standards in practice fully captures the risk emanating from the variety of Sharia-compliant banks and their activities.

## Annex 12: Areas where SAMA rules are stricter than the Basel standards

In several places, SAMA has adopted a stricter approach than the minimum standards prescribed by Basel or has simplified or generalised an approach in a way that does not necessarily result in stricter requirements under all circumstances but which never results in less rigorous requirements than the Basel standards. The following list provides an overview of these areas. It should be noted that these areas have not been taken into account as mitigants for the overall assessment of compliance.

- Currently, SAMA does not permit the use of Level 2B assets for the purpose of the LCR.
- For the overseas branches and subsidiaries of KSA banks, on a consolidated basis, SAMA applies a run-off rate of 10% for their retail deposits, although the host country may have a deposit insurance scheme and could be applying a lower run-off rate.
- Although a deposit insurance scheme is in place in the KSA, which takes effect on 1 Jan 2016, SAMA does not allow the category of stable deposits. Hence, a run-off rate of 10% is applied. This also applies to all deposits outside the KSA.

## Annex 13: Implementation of LCR elements subject to prudential judgment or discretion in the KSA

The following tables provide information on elements of LCR implementation that are subject to prudential judgment and national discretion. The information provided helps the Basel Committee to identify implementation issues where clarifications and (additional) FAQs could improve the quality and consistency of implementation. It should also inform the preliminary design of any peer comparison of consistency across the membership that the Committee may decide to conduct, in similar fashion to the studies on risk-weighted asset variation for the capital standards.

Elements requiring judgment (non-comprehensive list)

Table 6

Basel paragraph	Description	Implementation by SAMA
24(f)	Treatment of the concept of “large, deep and active markets”	As a general description, the concept of large, deep and active markets means those markets where assets recognised as HQLA can be traded, sold easily in the market and are repo-able with the central bank, banks and large corporations. In the KSA, there is a deep, large and active market only for Saudi shares. Saudi banks have investments in large, deep and active foreign markets. There is also an active sizeable repo market in non-government securities.  Regarding illiquidity in the local government securities market, SAMA requires that any HQLA should be repo-able with the central banks and possibly other key regulated entities.
50	Treatment of the concept of “reliable source of liquidity”	In Saudi Arabia, the major sources of liquidity are retail, corporate and public sector deposits. Other defining attributes include an asset being repo-able and capable of an outright sale.  By a reliable source of liquidity, SAMA understands that the relevant instrument, as a minimum, has been eligible for repo either from the central bank or other key regulated entities even in stressful times such as the global financial crisis from 2007 onwards.
52	Treatment of the concept of “relevant period of significant liquidity stress”	By relevant period of significant liquidity stress, SAMA understands these to be of a similar character to the global financial crisis from 2007 onwards.
74–84	Retail deposits are divided into “stable” and “less stable”	A deposit protection scheme has been introduced and will be effective from 1 January 2016.  As of this date, all retail deposits are treated as unstable deposits with a run-off rate of 10%. However, this is a conservative run-off rate, as the actual run-off rates have been historically much lower.
83, 86	Treatment of the possibility of early withdrawal of funding with maturity above 30 days (para 83 – retail deposits; para 86 – wholesale funding)	SAMA requires the same conditions as set out by the BCBS in its LCR 2013 guidelines. These are set out by SAMA on pages 28–29 of Attachment 1 and 2 of SAMA Amended LCR guidelines.

90–91	Definition of exposure to small business customers is based on nominal euro amount (EUR 1 million)	SAMA defines small business customer and the group as a whole with total consolidated funding of less than EUR 1 million.
94–103	Deposits subject to “operational” relationships”	SAMA through its Circular # 361000009335 of 10 November 2014 provided guidance on the implementation of para 93 concerning Operational Deposits. Para 93 requirements include that banks wishing to utilise a preferential 25% cash outflows rate with regard to operational deposits must obtain SAMA’s authorisation.
131(f)	Definition of other financial institutions and other legal entities	In keeping with BCBS definition.

Elements left to national discretion (non-comprehensive list)

Table 7

Basel paragraph	Description	Implementation by SAMA
5	These two standards [the LCR and NSFR] comprised mainly specific parameters which are internationally “harmonised” with prescribed values. <i>Certain parameters, however, contain elements of national discretion to reflect jurisdiction-specific conditions. In these cases, the parameters should be transparent and clearly outlined in the regulations of each jurisdiction to provide clarity both within the jurisdiction and internationally.</i>	SAMA guidance document contains prescribed BCBS parameters with regard to these two standards.
8	Use of phase-in options	The same phase in-options laid down by BCBS have been adopted by SAMA. These are set out on pages 11–12 of Attachment 1 and 2 of SAMA’s Amended LCR Guidelines.
11	The Committee also reaffirms its view that, during periods of stress, it would be entirely appropriate for banks to use their stock of HQLA, thereby falling below the minimum. Supervisors will subsequently assess this situation and will give guidance on usability according to circumstances. <i>Furthermore, individual countries that are receiving financial support for macroeconomic and structural reform purposes may choose a different implementation schedule for their national banking systems, consistent with the design of their broader economic restructuring programme.</i>	SAMA in its Amended LCR Guidelines document of July 2013 has provided that, during a period of stress, the stock of a bank’s HQLA could fall below the minimum requirement.
50(b)	Eligibility of central bank reserves	Central bank reserves are eligible as Level 1 assets because banks can access liquidity against their reserves.
50(c)	Marketable securities that are assigned a 0% risk-weight under the Basel II Standardised Approach for credit risk	SAMA conforms to this BCBS requirement.



53–54	Eligible Level 2B assets	Currently, SAMA does not utilise Level 2B assets for the purpose of the LCR.										
54a	Provision relating to the use of restricted contractual committed liquidity facilities (RCLF) <sup>12</sup>	Para 54a relates to Level 2B assets, which are not permitted by SAMA.										
55(f)	Treatment for jurisdictions with insufficient HQLA (subject to separate peer review process)	As a jurisdiction, Saudi Arabia has sufficient HQLA.										
68	Treatment of Shariah-compliant banks	No special treatment is given to Shariah-compliant banks.										
78	Treatment of deposit insurance	SAMA issued in April 2015 the final rule for its deposit insurance scheme, which goes into effect on 1 January 2016										
79(f)	Categories and run-off rates for less stable deposits	There are currently no stable deposits (however, refer to our response for Paragraph 78, above) in the KSA market (because of a lack of deposit insurance). Consequently, a run-off rate of 10% is assigned.										
123	Market valuation changes on derivative transactions	SAMA's requirements on valuation changes are the same as set out by BCBS in the 2013 LCR guidelines. These are set out on page 63 of Attachment 1 and 2 of SAMA's Amended LCR Guidelines.										
134–140	Run-off rates for other contingent funding liabilities	The following are the run-off rates for funding obligations which were issued via a circular on 20 January 2015.										
		<table><tr><td>Description</td><td>Rates</td></tr><tr><td>Item 254:<sup>13</sup> Unconditionally revocable uncommitted credit and liquidity facilities</td><td>3.00%</td></tr><tr><td>Item 255:<sup>1</sup> Trade finance-related obligations including guarantees and letters of credit</td><td>2.00%</td></tr><tr><td>Item 256:<sup>1</sup> Guarantees and letters of credit unrelated to trade finance and obligations</td><td>2.00%</td></tr><tr><td>Item 257:<sup>1</sup> non-contractual obligations</td><td>1.00%</td></tr></table>	Description	Rates	Item 254: <sup>13</sup> Unconditionally revocable uncommitted credit and liquidity facilities	3.00%	Item 255: <sup>1</sup> Trade finance-related obligations including guarantees and letters of credit	2.00%	Item 256: <sup>1</sup> Guarantees and letters of credit unrelated to trade finance and obligations	2.00%	Item 257: <sup>1</sup> non-contractual obligations	1.00%
		Description	Rates									
		Item 254: <sup>13</sup> Unconditionally revocable uncommitted credit and liquidity facilities	3.00%									
		Item 255: <sup>1</sup> Trade finance-related obligations including guarantees and letters of credit	2.00%									
Item 256: <sup>1</sup> Guarantees and letters of credit unrelated to trade finance and obligations	2.00%											
Item 257: <sup>1</sup> non-contractual obligations	1.00%											
160	Weight assigned to other contractual inflows	SAMA has currently assigned a 0% weight to other contractual inflows. This is more conservative.										
164–165	Determination of scope of application of LCR (whether to apply beyond “internationally	Amended LCR applies on a consolidated basis. Currently applies to locally incorporated banks only.										

<sup>12</sup> See [www.bis.org/publ/bcbs274.htm](http://www.bis.org/publ/bcbs274.htm).

<sup>13</sup> These refer to the row number in SAMA's Amended LCR Prudential Return.

	active banks" etc) and scope of consolidation of entities within a banking group	
168–170	Differences in home/host liquidity requirements due to national discretions	NA
Annex 2	Principles for assessing eligibility for Alternative Liquidity Approaches (ALA)	Alternative Liquidity Approach is not required.