Saudi Banks Comments on BCBS Consultative Document Titled:

"Identification and management of step-in risk"

Bank 1

The Bank allocates capital for strategic/reputational risk as additional cushion. Therefore, it is our opinion that allotting additional capital on top of the existing Pillar 1&2 capital charges would just unnecessarily drag down the capital adequacy ratio (CAR). This could affect the projected growth of assets of the Bank, which may result to loss of potential business opportunities (Operational and Strategic risk).

Bank 2

1. We expect that the treatment of step-in risk through either a comprehensive approach or conversion factor approach may results in asymmetric impact on capital/liquidity requirements. Please clarify if our understanding is correct. If yes, then we expect that the template 2 may also include the treatment approach to represent a better reflection and understanding of the impact as it is expected to be disclosed under market discipline.
2. Targeted measures are proposed to be used as a supplement or alternative to the comprehensive measures. In cases where Targeted measure is used as supplementary approach, please clarify if potential double counting could exist, and if so, how it would be treated.
3. We would further like to seek clarification on the treatment of step-in risk where there is chain effect i.e. two unconsolidated entities are connected with each other. Will the banks be allowed to have a diversification benefit i.e. netting-off where two entities are on the opposite side of the deal? Please clarify
4. As mentioned in the document, public disclosures may cause "self-fulfilling prophecies" or "moral hazard". Market participants could interpret differently, and if that is the case, then it is more suitable to consider the assessment under ICAAP/stress testing program until the potential step-in risk has sufficiently to be disclosed to market (i.e. otherwise, it may create an unwarranted noise in the financial markets). If the Committee concurs with aforesaid possibility, it may wishes to reconsider the text of section 4.2.6 accordingly.

Bank 3

The Basel document lists Securities firms as one of the entity types that should be subject to the identification and assessment of step-in risk. In this regard, we note that since Authorised Persons / Investment Banking activities are separately governed and regulated through a separate regulator i.e. Capital Markets Authority (CMA), the Saudi banking industry is effectively ring fenced from this element of Step-in risk.

Referring to 'exclusions due to collective rebuttals' in paragraphs 29 and 30, more clarity on whether this includes regulatory restrictions on step-in risk within the same jurisdiction will be helpful.

Bank 4

1.4.2 Definition of "Materiality" to be provided.
1.4.5 A template / parameters to be provided for Self-assessment of Step-in risk.

2.2.1 More details are required to enable the Bank to identify the entities that are not under Unconsolidated entities

49. 50.

- The entities to disclose in point 50 are subjective, the criteria needs to be more specific since most of the entities to report are not public and/or they are too small that Financial Statements are not available, e.g. how to determine that the "underlying investments" is "opaque" or how to determine that the "return" depends on "indirect factors".
- We suggest that Disclosures frequency should be aligned to frequency of regulatory reporting (annually)

3.8. Investor risk alignment

55. 56. This exercise is exhaustive (it will imply costs and resources) and also subjective since investors' risk appetite could change anytime based on the economic climate.

3.9. Reputational risk from branding and cross-selling

58.

- The Bank uses the name of a family, which has a number of different businesses. The issue is that these businesses are not linked to the Bank in any way, the name could be linked to the Bank.
- Should these companies be reported? If so, how to get the required information if these companies have no relationship with the Bank?
- What is the status of related parties? Is it also part of Step-in Risk?
- More clarifications required in this regard

60. 61. Cross-selling is part of the Bank's strategy, so what is going to be the threshold to determine if one Customer should be included in the Regulatory report. This criteria without specific parameters could include hundreds of Customers.

<u>3.10. Historical dependence</u>

62. 63. This exercise would demand costs and resources. In addition, it is not sure that all the Customers under this criteria will be identified due to the staff attrition.

Bank 5

S. No	Reference	Description	Action
1	**Objective**	Step in to support unconsolidated entities to *which they are connect. Banks preferred to support* certain shadow banking entities in financial distress rather than allow them to fail and face a loss of reputation...	The consolidation of those activities that are usually made by bank is appropriate to avoid regulatory arbitrage; it applies to guarantees explicitly offered and confirmed liquidity lines; we consider that the possibility to extend the banking prudential requirements to seed money and investment in funds made by asset managers and other quasi financial entities should be investigated; we do not see any other activities that could be concerned.
2	**In Scope - Coverage**	Asset Management and other related activities impacting the bank reputation and other risks.	For entities that are consolidated within a prudentially regulated group, bank or insurance, these risks are already taken into consideration; other risks are consolidated as well under pillar 2 that are of relevance for asset management, in particular reputation and operational risks; we do not see why a further requirement should be introduced for step-in risk for asset management activities. If the AuM were to be considered as an adequate basis, and we see it is the easiest way to proceed, a very low CCF should apply.
3	**Implementation Timeline**	Management & Measurement of Step in Risk	End of 2019

4	**Incorporation of the Framework within BSF**	SAMA # 381000084993 Management and Measurement of Step – in Risk, to be part of the scope of work (SoW) 2019.	To comply and be in line with the said document : - A comprehensive review of current risk framework, - Perform a due diligence and GAP study of requirement and data. **- To be part of the 2019 Risk Framework.**
5	**Queries and Concerns**	- What ' Related' entities are focus of the 'step-in risk? - How would a banking organization determine, if the related company presents 'step-in risk'? -How would step-in risk be measured? What other tools are available to banking supervisors to assess and monitor step-in risk?	