

SAUDI ARABIA

Saudi Arabian Monetary Agency SAMA

Capital Market Authority CMA

Annex I: Banks

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending decisions.</i></p>			
a) Remove references to CRA ratings in laws and regulations relating to banks.	SAMA	There are no references in Law. Only references in Regulations arise from Basel standards.	-

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations relating to banks.	SAMA	SAMA will revise its regulations when changes are made by the Basel Committee.	-
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of banks’ own credit assessment processes and incentivise market participants to develop internal risk management capabilities.	SAMA	<ul style="list-style-type: none"> - Supervisory meeting with Banks to discuss banks own systems for Credit risk assessment. - Inspections of Banks systems and processes. 	<p>Done</p> <p>On-going</p>
b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes.	SAMA	<ul style="list-style-type: none"> - Basel Pillar III disclosure standards introduced. - International Accounting Standards applied. - SAMA has encouraged banks to strengthen disclosures to the market. 	<p>Done</p> <p>On-going</p>

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
3.2 Prudential supervision of banks (Principle III.2)			
a) Enhance supervisory oversight of banks to ensure they develop adequate internal credit assessment processes that avoid mechanistic reliance on CRA ratings (differentiating where appropriate between banks subject to the internal ratings-based (IRB), Standardised Approach of other capital regime).	SAMA	<ul style="list-style-type: none"> - All banks are required to have their own loan classification and internal Credit Rating Systems. - Banks expected to have IRB systems in place when size of portfolios justify. - SAMA supervises the development of IRB systems in the banks in formal meetings. 	<p>Done</p> <p>On-going</p>
b) Revise CRA ratings in other prudential supervisory policies (e.g. relating to liquidity requirements) to reduce reliance on CRA ratings.	SAMA	<ul style="list-style-type: none"> - Currently, SAMA Laws and Regulations on Liquidity have no reference to CRA Rating. - SAMA has introduced Basel Liquidity Rules (LCR and NSFR) which have references to credit ratings. Changes by SAMA will follow changes made by the Basel Committee. 	<p>None</p> <p>On-going</p>

Annex II: Central bank operations

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
3. Application of the basic principles to particular financial market activities (Principle III)			
<i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing changes, including which areas are considered priorities, and the steps authorities intend to take to reduce reliance on CRA ratings in central bank policies and operations.</i>			
3.1 Central bank operations (Principle III.1)			
a) Reduce reliance on CRA ratings in central bank policies (such as investments, asset management frameworks, and conventional and unconventional operations), including the decision to accept or reject an instrument as collateral or for outright purchase and in determining haircuts.	SAMA	For the time being SAMA’s investments in bonds (Government & Corporate) and deposit placements require rated instruments besides other internal guidelines.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
b) Adjust policies for imposing risk control measures (including haircuts) on financial instruments to align with the FSB Principles on CRA ratings.		See response on Attachment 1.	
c) Develop the central bank’s internal credit risk assessment capabilities and use of alternative measures of creditworthiness.		See response on Attachment 1.	

Annex III: Insurance/Reinsurance Companies¹

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending or investment decisions.</i></p>			

¹ Answers in this section should relate to the prudential regulation of insurance companies and reinsurance companies. Laws and regulations relating to insurance companies in their capacity as institutional investors should be included in the section entitled “Investment Funds Management.”

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
a) Remove references to CRA ratings in laws and regulations relating to insurance/reinsurance companies.	SAMA	<p>References to CRA’s are present in the Implementing Regulations and the Regulation of <u>Reinsurance</u> Activities.</p> <p>These references will be updated in line with SAMA’s upcoming planned review of its Regulations, which will be conducted over the year 2014. The consultation and feedback processes required for any amendments to the Regulations means it is most practical to bundle together updates into the next regular review in 2014.</p> <p>Full account will be taken of any new international standards agreed including reducing reliance on credit rating agency (CRA) ratings.</p>	End of 2014

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations relating to insurance/reinsurance companies.	SAMA	SAMA will take on board approaches and standards of credit assessment developed in much larger and better resourced international regulators, and/or the International Association of Insurance Supervisors (IAIS)	Two years after the IAIS has published appropriate guidance.
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of insurers'/reinsurers' own credit assessment processes and incentivise market participants to develop internal risk management capabilities.	SAMA	The insurance industry in Saudi Arabia is relatively immature, having only started in 2008. The intention therefore would be to follow best practices developed in mature markets after giving those a reasonable length of time in place to judge their cost-effectiveness and efficiency.	Two years after the successful introduction of such processes in more developed markets.
b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes.	SAMA	As above.	As above.

Annex IV: Investment Funds Management
(including collective investment schemes, alternative investment schemes, occupational retirement schemes)

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
<i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.</i>			
a) Remove references to CRA ratings in laws and regulations for investment funds management.	CMA	None	N/A
b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations for investment funds management.	CMA	There is no reference to CRA ratings in laws and regulations pertaining to Investment Fund Management.	N/A

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of market participants’ own credit assessment processes.	CMA	N/A. There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management. The CMA has in place different procedures to assess the adequacy of market participants own credit assessment processes.	N/A
3. Application of the basic principles to particular financial market activities (Principle III.3)			
a) Establish, as appropriate, supervisory review of internal limits and investment policies of investment managers and institutional investors.			
a. Insurance companies (in their capacity as institutional investors)	CMA	N/A. There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management. Furthermore, insurance companies are not regulated by the CMA as they operate under the umbrella of SAMA and thus any required changes would be under their jurisdiction.	N/A See SAMA comments in Annex III.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
b. Investment managers (i.e. managers of collective investment schemes).		There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management.	
c. Alternative investment managers (e.g. hedge funds, endowments).		There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management.	
d. Managers of occupational retirement schemes.		N/A	
b) Require changes to internal limits and investment policies.			
a. Insurance companies (in their capacity as institutional investors)	CMA	N/A. There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management. Furthermore, insurance companies are not regulated by the CMA as they operate under the umbrella of SAMA and thus any required changes would be under their jurisdiction.	N/A See SAMA comments on Annex III.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
b. Investment managers (i.e. managers of collective investment schemes).		There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management.	
c. Alternative investment managers (e.g. hedge funds, endowments).		There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management.	
d. Managers of occupational retirement schemes.		N/A	
c) Incentivise compliance with the CRA Principles.			
a. Insurance companies (in their capacity as institutional investors)	CMA	N/A. There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management. Furthermore, insurance companies are not regulated by the CMA as they operate under the umbrella of SAMA and thus any required changes would be under their jurisdiction.	N/A See SAMA comments in Annex III.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
b. Investment managers (i.e. managers of collective investment schemes).		There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management.	
c. Alternative investment managers (e.g. hedge funds, endowments).		There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management.	
d. Managers of occupational retirement schemes.		N/A	
d) Strengthen supervisory oversight to assess whether investments managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
a. Insurance companies (in their capacity as institutional investors)	CMA	N/A. There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management. Furthermore, insurance companies are not regulated by the CMA as they operate under the umbrella of SAMA and thus any required changes would be under their jurisdiction.	N/A See SAMA comments in Annex III.
b. Investment managers (i.e. managers of collective investment schemes).		There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management.	
c. Alternative investment managers (e.g. hedge funds, endowments).		There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management.	
d. Managers of occupational retirement schemes.		N/A	

Annex V: Collateral Policies for Central Counterparties (CCPs)

(Not applicable as there is NO central counterparty in the KSA)

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which CCPs should perform their own due diligence.</i></p>			
<p>1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</p>			
a) Remove references to CRA ratings in laws and regulations relating to collateral policies for CCPs.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to collateral policies for CCPs.			
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of CCPs’ own credit assessment processes.			
3. Application of the basic principles to particular financial market activities (Principle III)			
3.1 Central counterparties and private sector margin agreements (Principle III.4a)			
a) Conduct stress tests or estimate the procyclical effect, on the overall margin requirements for the CCP participants, of a sudden downgrade of the credit ratings of some widely used securities.			
b) Assess the reliance on credit ratings in the investment policy of the CCP.			
c) Review private sector margin agreements to ensure compliance with the Principle.			

<p style="text-align: center;">Action to be taken</p>	<p style="text-align: center;">Responsible national authority</p>	<p style="text-align: center;">High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</p>	<p style="text-align: center;">Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)</p>
<p>d) Require changes to private sector margin agreements.</p>			
<p>e) Incentivise compliance with the CRA Principles.</p>			

Annex VI: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.</i></p>			
<p>1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</p>			
<p>a) Remove references to CRA ratings in laws and regulations related to securities issuance.</p>	<p>CMA</p>	<p>None</p>	<p>N/A</p>
<p>b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to securities issuance.</p>	<p>CMA</p>	<p>There is no need for any steps to be taken as there is no reference to CRA ratings in laws and regulations pertaining to securities issuance.</p>	<p>N/A</p>

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of market participants own credit assessment processes.	CMA	N/A. There is no reference to CRA ratings in laws and regulations pertaining to securities issuance.	N/A
3. Application of the basic principles to particular financial market activities (Principle III)			
<i>3.1 Central counterparties and private sector margin agreements (Principle III.5a)</i>			
a) Review the role of credit rating in disclosures by issuers of securities.	CMA	There is no need for any steps to be taken as all securities issuance in SA do not require ratings.	N/A
b) Reduce the role of credit ratings in disclosures by issuers of securities (list the steps to take).	CMA	N/A	N/A

Annex VII: Securities Firms (broker-dealers)

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes.</i></p>			
<p>1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</p>			
a) Remove references to CRA ratings in laws and regulations relating to securities firms.	CMA	None	N/A
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to securities firms.	CMA	The Prudential Rules (PRs), published by CMA for regulating capital adequacy of the securities firms, require the conduct of an internal capital adequacy assessment process (ICAAP) in line with the Basel Committee’ recommendations. In the absence of mandatory reliance on credit ratings, the securities firms are expected to develop and use sound risk management techniques in monitoring credit	This requirement is contained under Pillar 2 of the PRs which is to be enforced in early 2014.

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		assessments process.	
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of securities firms’ own credit assessment processes.	CMA	The supervisory process and procedures have been enhanced to include (from early 2014) the review and evaluation of a securities firms’ own credit assessment submission. These credit assessment submissions will be based on an internal capital adequacy assessment process (ICAAP) to be conducted by the securities firms.	This is to be completed by early 2014 upon enforcing the Pillar 2 of the PRs, as stated in 1b) above.