FSB- G20 - MONITORING PROGRESS – Saudi Arabia September 2010 [For Publication in March 2011]

#		G20/FSB RECOMMENDATIONS		DEAD-LINE	PROGRESS TO DATE	PLANNED NEXT STEPS
					Explanatory notes: In addition to information on progress to date, specifying steps taken, please address the following questions: 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? Also, please provide links to the relevant documents that are published.	Explanatory notes: Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?) Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps? What are the key challenges that your jurisdiction faces in implementing the recommendations?
I. Building high quality capital and mitigating procyclicality						
1	(Pitts)	Basel II Adoption	All major G20 financial centers commit to have adopted the Basel II Capital Framework by 2011.	By 2011	The Saudi Arabian Monetary Agency (SAMA) has taken necessary measures that have enabled the banking system to make a smooth transition to Basel II. All banks have implemented three Pillars of Basel II in 2008. The banks have fully implemented all aspects of the Basel II framework including the Pillar 2 risks and the Internal Capital Adequacy Assessment plan process. The banks have also fully implemented Pillar 3 for enhanced transparency and market discipline.	Some banks are now planning to move to the Foundation and Advanced IRB Approaches by 2012. SAMA is also planning to introduce Basel III standards issued by the Basel Committee (BCBS) in December 2010 and to ensure their smooth implementation in accordance with the proposed timeline from 2013 and beyond.

2	(FSB 2009) (Tor)	Basel II trading book revision	Significantly higher capital requirements for risks in banks' trading books will be implemented, with average capital requirements for the largest banks' trading books at least doubling by end-2010. We welcomed the BCBS agreement on a coordinated start date not later than 31 December 2011 for all elements of the revised trading book rules.	By end-2011	SAMA has implemented rules relating to the market risk in 2004. However, market risk (related to trading book, foreign exchange and commodities) represents less than 5% of the risk of the Saudi banks. All banks are applying standardized approach or value at risk methods under the Basel II framework. Therefore, trading risks for Saudi banks do not seem to be material as of now.	SAMA will continue to implement new Basel proposed measures in order to strengthen the risk management practices related to the trading book. However, given the size and scope of trading activities of Saudi banks, these risks do not seem to be material as of now.
3	(Pitts)	Build-up of capital by banks to support lending	We call on banks to retain a greater proportion of current profits to build capital, where needed, to support lending.	Ongoing	SAMA has been pursuing counter cyclical measures for many years, requiring banks to raise their capital in good times. Saudi banks have for the past two decades maintained capital adequacy levels at around 20% which declined in recent times due to implementation of Basel II in 2008. However, the average CAR for the banking system was 17.2 % at the end of 2010. Under the Banking Control Law, banks are required to create a statutory reserve by transferring a sum equal to not less than 25% of their net profit until the amount of the reserve equals to the paid-up capital of the bank. Banks are required to receive SAMA's no objection on their financial results and before declaration of their proposed interim or annual dividends. All these measures have helped Saudi banks to build capital buffers to mitigate procyclicality. For example, during the period from 2004 to 2009 the total capital of Saudi banks has increased by more than 2.5 times.	Ongoing Challenges: In line with the recent international trends and standards and with SAMA supervision methodology, SAMA will continue to pursue its prudent and conservative policies and ensure Saudi banks continue to allocate sufficient proportion of their profits to build capital buffers.
4	(FSF 2009)	Basel II – Pillar 2 enhancement	1.4 Supervisors should use the BCBS enhanced stress testing practices as a critical part of the Pillar 2 supervisory review process to validate the adequacy of banks' capital buffers above the minimum regulatory capital requirement.	End-2009 and ongoing	SAMA has implemented Pillar 2 risk requirements, including extensive stress testing, through the ICAAP process. Banks are required to perform stress testing to assess various risks including credit, market, liquidity, interest rate, FX risk, etc. Also, SAMA has issued the January 2009 BCBS guidelines concerning stress testing which banks are now incorporating in their own specific methodologies. SAMA has also developed a framework for conducting stress testing of the Saudi banking system.	Since 2008, SAMA has been conducting extensive supervision of banks' stress testing practices as part of the Pillar 2 Supervisory review process. This is leading to significant improvements in the banks' capabilities in stress testing and greater use by management.

5	(Lon)	Supplementation of Basel II by simple, transparent, non-risk based measure	Supplement risk-based capital requirements with a simple, transparent, non-risk based measure which is internationally comparable, properly takes into account off-balance sheet exposures, and can help contain the build-up of leverage in the banking system.	Ongoing	Under banking control law article 6, SAMA already uses a simple, transparent and easy-to-understand capital leverage ratio that ensures customer deposits do not exceed 15 times capital and reserves. This ratio was around 19.4% at the end of 2010. This ratio provides a capital floor for banks and is used in conjunction with a risk weighted assets capital ratio which, as at 31 December 2010, was 17.2%.	In 2011, SAMA will commence the monitoring of the new leverage ratio being proposed for strengthening the banks' capital base.
6	(Pitts) (Tor)	Development of international rules to improve quantity & quality of bank capital	We commit to developing by end-2010 internationally agreed rules to improve both the quantity and quality of bank capital and to discourage excessive leverage. These rules will be phased in as financial conditions improve and economic recovery is assured, with the aim of implementation by end-2012. We agreed that all members will adopt the new standards and these will be phased in over a timeframe that is consistent with sustained recovery and limits market disruption, with the aim of implementation by end-2012, and a transition horizon informed by the macroeconomic impact assessment of the FSB and BCBS.	End-2010, implement over a timeframe that is consistent with sustained recovery and limits market disruption	SAMA has already established a robust framework for capital adequacy that includes the Basel II framework and a simple capital leverage ratio. Saudi banks continue to maintain a high level of CAR (17.2% as at December 2010). Saudi banks' capital largely comprises Tier I Capital, which meets the proposed Basel Definition of Capital. The phase-in of the new Basel proposals will not be difficult for Saudi banks.	SAMA currently requires Saudi banks to review the recent proposals of the BCBS and take preparatory steps for their early adoption and implementation. In February 2011, SAMA announced its Basel III implementation plans covering 2011 and beyond.

7	(FSF 2008)	Monitoring of banks' implementation of the updated guidance	II.10 National supervisors should closely check banks' implementation of the updated guidance on the management and supervision of liquidity as part of their regular supervision. If banks' implementation of the guidance is inadequate, supervisors will take more prescriptive action to improve practices.	Ongoing	SAMA ensures systemic liquidity by requiring banks to maintain minimum Liquid Assets at 20% of their deposits, and a Loan-to-Deposit Ratio below 85%. It also requires banks to carry out Maturity-Gap analysis and to comply with Basel Pillar 2 Liquidity Risk Requirements and to address this issue in the submission of their ICAAP returns. Saudi banking system liquid asset ratios have remained over 30% for the past 2 decades. Under SAMA's Basel II requirements, stress testing of liquidity at banks is an important feature for providing liquidity buffers for various adverse scenarios in form of additional capital or enhanced internal risk management policies with regard to limits structures, monitoring, and reporting.	SAMA is planning the implementation of the enhancements proposed by the Basel Committee in December 2010. The implementation of the enhanced liquidity requirements in terms of the Liquidity-Coverage-Ratio and the Net-Stable-Funding Ratio are expected during 2012-18.
8	(Lon)	Development of liquidity framework	The BCBS and national authorities should develop and agree by 2010 a global framework for promoting stronger liquidity buffers at financial institutions, including cross-border institutions.	By 2010	SAMA has already engaged in discussions with other host and home supervisory authorities on matters relevant to liquidity of individual banks, as a part of its supervisory review activities and home/host meetings. The recent standards published by the Basel Committee would further strengthen these practices and help build up stronger liquidity buffers.	SAMA has required Saudi banks to implement the appropriate~~,~~ enhancements on Liquidity Risk Management to further promote stronger Liquidity buffers. SAMA is also discussing this issue with relevant home and host authorities. SAMA has now announced the commencement of the liquidity monitoring and follow-up process from 2012.
9	(FSB 2009)	Enhancement of supervision of banks' operation in foreign currency funding markets	Regulators and supervisors in emerging markets will enhance their supervision of banks' operation in foreign currency funding markets.	Ongoing	SAMA maintains a close watch on the foreign currency exposures of Saudi banks through a monthly prudential return and through its market operations. It also requires banks to identify, measure and monitor FX risk as part of the Pillar 2 process and for allocation of capital to it.	SAMA will continue to follow closely the emerging banking and supervisory standards from the Basel Committee and will continue to strengthen the existing practices.
10	(FSF 2008)	Strengthening of regulatory and capital framework for monolines	II.8 Insurance supervisors should strengthen the regulatory and capital framework for monolines insurers in relation to structured credit.	Ongoing	SAMA's regulatory and supervisory framework is continuously being strengthened in accordance with new developments in the Insurance sector and international best practices.	On-going process.

II. Strengthening accounting standards						
11	(WAP)	Consistent application of high-quality accounting standards	Regulators, supervisors, and accounting standard setters, as appropriate, should work with each other and the private sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards.	Ongoing	Under SAMA guidance, Saudi banks have been subject to the IFRS since 1992. SAMA continues to work with the relevant bodies in Saudi Arabia to ensure that the Saudi banks promptly implement all changes to the IFRS.	SAMA will continue to work with relevant bodies to ensure quick and smooth implementation of all recent changes in the global accounting standards.
12	(FSF 2009)	The use of valuation reserves or adjustments by accounting standard setters and supervisors	3.4 Accounting standard setters and prudential supervisors should examine the use of valuation reserves or adjustments for fair valued financial instruments when data or modelling needed to support their valuation is weak.	End-2009	SAMA is participating in the BCBS work with the IASB which is developing such proposals. SAMA is also discussing the use of models for valuations with the banks and their external auditors.	This is an on-going process that binds banks, accounting firm and supervisors to cooperate to enhance accounting rules. In Saudi Arabia SAMA, the banks and External Audit firms work closely to ensure banks continue to apply IFRS.
13	(FSF 2009)	Dampening of dynamics associated with FVA.	3.5 Accounting standard setters and prudential supervisors should examine possible changes to relevant standards to dampen adverse dynamics potentially associated with fair value accounting. Possible ways to reduce this potential impact include the following: (1) Enhancing the accounting model so that the use of fair value accounting is carefully examined for financial instruments of credit intermediaries; (ii) Transfers between financial asset categories; (iii) Simplifying hedge accounting requirements.	End-2009	SAMA supports the work regarding the negative effects of fair value accounting on banks' financial assets. In this regard, work is currently underway by the IASB and its follow-up by the Basel Committee for participating with relevant accounting standards setters in their efforts to revise the relevant accounting standards.	SAMA continues to work actively in the Basel Committee working groups to support the accounting standard setters in their efforts to improve things in this regard.
14	(FSF 2008)	Enhanced disclosure of securitised products	III.10-III.13 Securities market regulators should work with market participants to expand information on securitised products and their underlying assets.	Ongoing	Saudi authorities are continuously taking regulatory and other steps to disseminate information on market products including securitized products and their underlying assets. These steps are taken in conjunction with the efforts by other market participants to enhance market knowledge and transparency.	These efforts are a part of the authorities' medium term plan of educating the investors community.

III. Reforming compensation practices to support financial stability

15	(Lon) (Pitts) (Tor)	Implementation of FSB/FSF compensation principles	National supervisors should ensure significant progress in the implementation of FSF sound practice principles for compensation by financial institutions by the 2009 remuneration round. We fully endorse the implementation standards of the FSB aimed at aligning compensation with long-term value creation, not excessive risk-taking. Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention. We call on firms to implement these sound compensation practices immediately. We encouraged all countries and financial institutions to fully implement the FSB principals and standards by year-end, We call on the FSB to undertake ongoing monitoring in this area and conduct a second through peer review in the second quarter of 2011.	End-2010	Compensation practices have not been a major risk in the Saudi banking system due to the tight monitoring and conservative regulatory approach of the SAMA. Since the early 1990s, SAMA has been proactively monitoring the compensation practices of banks. This has ensured a reasonable mix of fixed and variable compensation in the banking system and keeping the administrative costs under control. Some of the measures taken by SAMA in this regard over the last two decades included the following: i. Banks are required to fix compensation of their chairmen and members of the Board of Directors and audit committees of banks in line with the SAMA approved limits; ii. Banks are required to frame prudent compensation policies; iii. Banks have formed Remuneration Committees of the Board of Directors; iv. The bonus schemes of banks are reviewed by SAMA to ensure that the same are in line with their operating performance and good practices; v. The deferred compensation schemes of banks, which include a mix of cash and shares, require prior no objection of SAMA; The compensation schemes of banks are thoroughly reviewed by SAMA during the on-site examination and are also discussed during the annual supervisory visits; Since the early 1990s, SAMA's Institute of Banking conducts survey of compensation practices in banks every two years for the benefit of the industry. The above measures taken well before the issuance of FSB Principles have now been supplemented with further regulatory requirements to ensure full compliance with the FSB Principles and Standards. Some of the additional measures taken in this regard includes the following: i. Issuance of regulatory circulars requiring banks to take into account the requirements of FSB Principles and Standards in establishing their compensation policies and practices; ii. Issuance of guidelines to banks on compensation practices; iii. Conducting survey of compensation practices in banks; Reviewing the compensation policies and practices during on-site examination and while conducting the Supervisory Review Process in a bank.	SAMA will require banks to implement its Rules on compensation. Furthermore, it will conduct on-site examinations and supervisory review processes to ensure compliance of guidelines and other regulatory requirements on compensation practices.

16	(Pitts)	Supervisory review of firms' compensation policies etc.	Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention.	Ongoing	SAMA has reviewed the compensation practices of Saudi banks through on-site examination and supervisory review visits. A detailed survey of compensation practices has also been conducted. SAMA has also advised banks to take into account the requirements of the FSB Principles and Standards in establishing their compensation policies and practices. Furthermore, banks are expected to use these guidelines in identification and assessment of risks arising out of compensation policies and practices as part of their Internal Capital Adequacy Assessment Plan (ICAAP).	SAMA will continue to review the compensation policies and practices of banks during its on-site examination and while conducting the Supervisory Review Process in a bank. In case of material deficiencies noted during the on-site examination and/or the Supervisory Review Process, the Agency shall direct the concerned banks for rectification of deficiencies and may also prescribe increased capital requirements for them. The Agency may also impose penalty in case of serious violations. Through this process, it will ensure alignment, if needed, of compensation structures in banks with the FSB Principles and its regulatory requirements.
IV. Improving OTC derivatives markets						
17	(Lon)	Development of action plan on the standardization of CDS markets (eg CCP)	We will promote the standardization and resilience of credit derivatives markets, in particular through the establishment of central clearing counterparties subject to effective regulation and supervision. We call on the industry to develop an action plan on standardisation by autumn 2009.	Autumn 2009	SAMA is monitoring the work by the relevant parties and the global banking industry on the reforms of the central clearing and will take necessary action if as appropriate.	Banks in the Kingdom use CTA and ISDA documentation in their OTC transactions. SAMA ensures that banks implement international standards and best practices, likely to be supplemented by the signing of an international agreement between regulators and market participants to ensure uniform implementation, , these will be studied and implemented as appropriate.

18	(Pitts)	Trading of all standardized OTC derivatives on exchanges etc.	All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements.	By end-2012 at the latest	SAMA and the relevant bodies will continue to monitor international developments in this area and take necessary action as needed.	We are currently in the process of assessing the current situation in the Kingdom with respect to the G20 guidelines on OTC derivatives' and implementation of the FSB's recommendations on OTC derivatives market reforms. In addition we are also studying the developments and implementation plans as currently underway in both advanced and emerging markets. Banks in the Kingdom deal primarily in plain vanilla derivative products which are used for risk management purposes, and the size of the OTC derivatives market within the Kingdom is nominal at 0.03% of the global outstanding notional values of OTC derivatives contracts. The whole issue of how to proceed with the implementation of Standardisation, Setting up of Central Counterparties, Electronic trading Platforms and Trade Repositories is under study by all the relevant authorities in the Kingdom. We will proceed with formulating plans for implementation of the recommendations pursuant to the completion of the self-assessment study by a Committee of Saudi Banks. The authorities are targeting to complete the self-assessment process by end 2011, with a view to roll out implementation Rules by the 3rd Quarter of 2012.
V. Addressing cross-border resolutions and systemically important financial institutions						
19	(Pitts)	Consistent, consolidated supervision and regulation of SIFIs	All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards.	Ongoing	SAMA regulates banks and insurance companies on a consolidated basis. Their subsidiaries are also subject to consistent supervision.	SAMA will continue to follow international standards and practices from FSB, BCBS, Joint Forum, etc. and implement the best international practices.

20	(Pitts)	Development of resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future	We should develop resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future. Our prudential standards for systemically important institutions should be commensurate with the costs of their failure. The FSB should propose by the end of October 2010 possible measures including more intensive supervision and specific additional capital, liquidity, and other prudential requirements.	October 2010	SAMA already takes into account the supervisory issues related to size of financial institutions and moral hazard in balancing between market discipline and market failure. SAMA's risk based supervision approach fully takes into account the risks arising from size of a financial institution in determining the scope and carrying out its on-site and off-site work. SAMA is part of the on-going discussions at the FSB and BCBS on these issues and will be part of the development of new regulations, policies and procedures arising from the current initiatives.	In line with legislative practices in Saudi Arabia, the regulations (BCL and CICL) contain broad authorizations that enable SAMA to take control of a bank or insurance company in distress or in violation of any applicable laws, and implement a controlled liquidation before formal bankruptcy or pre-bankruptcy proceedings are initiated. The CMA has a similar set of pre-bankruptcy powers which enable it to address behavioural issues or financial distress before a possible bankruptcy. In addition, the CMA is specifically authorized to participate in and to supervise pre-bankruptcy settlement or bankruptcy proceedings.
VI. Strengthening adherence to international supervisory and regulatory standards.						
21	(Lon)	Adherence to international prudential regulatory and supervisory standards	We call on all jurisdictions to adhere to the international standards in prudential, tax and AML/CFT areas. We are committed to strengthened adherence to international prudential regulatory and supervisory standards.	Ongoing	Saudi Arabia is fully committed to this process and has already participated in the FSAP, FATF and other reviews by the IMF and FATF. It has also participated in peer reviews carried out by FSB. SAMA has issued Anti-Money Laundering regulations and has actively participated in FATF through the GCC Secretariat. Saudi Arabia is also a founding member of the Middle East North Africa FATF MENAFATF. MENAFATF has completed its second round of mutual evaluation in 2010 and results are highly satisfactory.	Already Implemented. SAMA looks forward to working with other G20 countries.
22	(Lon)	Periodic peer reviews	FSB members commit to pursue the maintenance of financial stability, enhance the openness and transparency of the financial sector, implement international financial standards, and agree to undergo periodic peer reviews, using among other evidence IMF / World Bank FSAP reports.	Ongoing	Saudi Arabia is committed to the pursuit of financial stability and transparency. Saudi Arabia has been participating in the peer reviews and other evaluations carried out by BCBS, FSB, IMF-WB etc. In April 2011, IMF-WB will carry out their evaluation of FSAP for Saudi Arabia. Last FSAP was carried out in 2004 and the results of assessment were satisfactory. MENAFATF mutual assessment report for second round had been published on June 25, 2010.	Already in place. SAMA is a member of FSB Standing Committee on Standards Implementation.

23	(WAP)	Undertaking of FSAP	All G20 members commit to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessment of countries' national regulatory systems.	Ongoing	Already Saudi Arabia has completed the FSAP (2004) and FATF reviews (2004 & 2009). These comprehensive reviews clearly indicated that this is an ongoing process to continually improve and enhance regulatory and prudential measures and that Saudi Arabia was fully or largely in compliance with international standards.	Already completed and Saudi Arabia will participate as needed. Next FSAP is to start in April 2011.
24	(FSF 2008)	Additional steps to check the implementation of int'l guidance	V.11 National supervisors will, as part of their regular supervision, take additional steps to check the implementation of guidance issued by international committees.	Ongoing	SAMA requires all banks to carry out internal and external audits to verify the implementation of international standards. SAMA also conducts full-scope inspections in which the implementation of international standards by banks is verified. This is also followed up during the supervisory visits and during on-going supervisory meetings between SAMA Staff and the banks.	Already in place and will be further enhanced.
VII. Other issues						
Developing macroprudential frameworks and tools, realigning and ensuring an adequate balance between macroprudential and microprudential supervision						
25	(Lon)	Amendment of regulatory systems to take account of macro-prudential risks	Amend our regulatory systems to ensure authorities are able to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks and private pools of capital to limit the build- up of systemic risk.	Ongoing	Over the past several years SAMA has implemented several measures and indicators for macro prudential risks. SAMA is continuing to review these for further refinements. Also, Saudi Arabia is in the process of enacting new laws to cover mortgage, leasing, finance companies. The Capital Market Authority is tasked with the regulation of Investment Funds, Private bonds of Capital, etc.	SAMA's scope of operations will be further enhanced after enactment of new legislation that will cover currently unregulated leasing, finance and mortgage companies.
26	(Lon)	Powers for gathering relevant information by national regulators	Ensure that national regulators possess the powers for gathering relevant information on all material financial institutions, markets and instruments in order to assess the potential for failure or severe stress to contribute to systemic risk. This will be done in close coordination at international level in order to achieve as much consistency as possible across jurisdictions.	Ongoing	SAMA already enjoys considerable powers and collects information at the institutional and market levels. It also contributes market data to international bodies such as the BIS and IMF. These information gathering activities will be enhanced, as needed, in line with international developments.	SAMA has enhanced the activities of information gathering, as needed, in line with international developments. This includes information from financial institutions for systemic stress testing.

27	(Lon)	Review of the boundaries of the regulatory framework	We will each review and adapt the boundaries of the regulatory framework to keep pace with developments in the financial system and promote good practices and consistent approaches at an international level.	Ongoing	SAMA will review international developments in order to continue to strengthen its regulatory framework, as needed.	SAMA is taking appropriate actions as needed in all sectors under its jurisdictions.
28	(FSF 2009)	Use of macro-prudential tools	3.1 Authorities should use quantitative indicators and/or constraints on leverage and margins as macroprudential tools for supervisory purposes. Authorities should use quantitative indicators of leverage as guides for policy, both at the institution-specific and at the macroprudential (system-wide) level. On leverage ratios for banks, work by the BCBS to supplement the risk based capital requirement with a simple, non-risk based leverage measure is welcome. Authorities should review enforcing minimum initial margins and haircuts for OTC derivatives and securities financing transactions.	End-2009 and ongoing	The BCL already provides for simple to understand quantitative leverage ratio for capital. SAMA also uses other simple ratios such as loans to deposit ratio in this regard. These ratios continue to be applied along with other risk sensitive ratios from the Basel Committee. SAMA is planning to introduce new capital leverage and liquidity ratios emanating from the Basel Committee as needed.	Now that the new international standards with regard to bank leverage have been finalized by BCBS, SAMA has reviewed them and has issued a plan to implement them in the banking system in Saudi Arabia from 2011 according to the timeline established by the BCBS.
29	(WAP)	Monitoring of asset price changes	Authorities should monitor substantial changes in asset prices and their implications for the macro economy and the financial system.	Ongoing	SAMA monitors systemic risk in the domestic, regional, and international markets. It also monitors movements in asset prices for their implication for financial stability in Saudi Arabia and takes necessary actions as needed. This also includes their impact analysis.	SAMA continues to monitor the movements in asset prices and their impact on the financial system and the macro-economy.

30	(FSF 2008)	Supervisory resources and expertise to oversee the risks of financial innovation	V.1 Supervisors should see that they have the requisite resources and expertise to oversee the risks associated with financial innovation and to ensure that firms they supervise have the capacity to understand and manage the risks.	Ongoing	SAMA continuously assesses the expertise and technical knowledge of its pool of professionals both within itself and banks with regard to sophisticated financial products. SAMA's Institute of Banking conducts training for the supervisory staff on market innovations, new products and services and on new international standards. Further, it conducts training for banks and insurance companies. SAMA also uses outside consultants to supplement its internal resources when needed.	This is an ongoing process. A number of initiatives are currently underway for capacity building of our human resources and to introduce other tools and techniques for continuing improvements in the supervisory process.
31	(FSF 2008)	Supervisory communication with firms' boards and senior management	V.2 Supervisors and regulators should formally communicate to firms' boards and senior management at an early stage their concerns about risk exposures and the quality of risk management and the need for firms to take responsive action. Those supervisors who do not already do so should adopt this practice.	Ongoing	SAMA practices proactive supervision whereby its senior management and supervisory staff are regularly in touch with banks' senior management. SAMA practices include: 1) formal annual meetings of senior SAMA officials with the Chairman of the Board of Directors and the Audit Committee, wherein all risk and supervisory concerns over the year are communicated and discussed for corrective action. If necessary, a plan of action is also discussed; 2) following annual Supervisory Review Visits to bank, SAMA informs all its concerns and comments to the Chief Executive of the banks on risk-related supervisory concerns; 3) SAMA's ICAAP review process also apprises the Committees of the Board and senior management of its risk assessment of the bank; 4) SAMA carries out full scope examinations on quality of corporate governance and risk management in banks; and 5) SAMA requires banks' Senior Management and the Board to inform SAMA on any serious threat to the financial institution.	These recommendations are already implemented.
32	(FSF 2008)	Improved cooperation between supervisors and central banks	V.8 Supervisors and central banks should improve cooperation and the exchange of information including in the assessment of financial stability risks. The exchange of information should be rapid during periods of market strain.	Ongoing	SAMA is a supervisor and the Central Bank. It works closely with the CMA which regulates the securities market. SAMA also regularly meets home and host supervisory authorities. SAMA also participates in a few supervisory colleges.	SAMA will continue to participate in development of such work at the FSB and the BCBS. It will also coordinate with other supervisory bodies and participate in supervisory colleges and other joint international forums.

Hedge funds						
33	(Lon)	Registration of hedge funds	Hedge funds or their managers will be registered and will be required to disclose appropriate information on an ongoing basis to supervisors or regulators, including on their leverage, necessary for assessment of the systemic risks they pose individually or collectively. Where appropriate registration should be subject to a minimum size. They will be subject to oversight to ensure that they have adequate risk management.	End-2009	Saudi Arabia supports regulating Hedge Funds to ensure that their activities in the markets do not pose risks to smooth functioning of those markets. However, under the Capital Market Law, the CMA has the responsibility for licensing and approving the distribution of investment and hedge fund products in Saudi Arabia.	Relevant authorities in Saudi Arabia are closely monitoring international developments in this area for their relevance and future implementation.
34	(Lon)	Effective oversight of cross-border funds	We ask the FSB to develop mechanisms for cooperation and information sharing between relevant authorities in order to ensure effective oversight is maintained when a fund is located in a different jurisdiction from the manager. We will, cooperating through the FSB, develop measures that implement these principles by the end of 2009.	End-2009	SAMA and CMA are following closely the developments in FSB, BCBS and IOSCO and will take appropriate actions as needed.	On-going process
35	(Lon)	Effective management of counter-party risk associated with hedge funds	Supervisors should require that institutions which have hedge funds as their counterparties have effective risk management, including mechanisms to monitor the funds' leverage and set limits for single counterparty exposures.	Ongoing	Investment by Saudi banks in Hedge Funds is very limited. SAMA recognizes the risks emanating from Hedge Funds and has accordingly introduced international standards that were issued by BCBS. These requirements will be further strengthened in light of recent developments in standards. SAMA closely monitors banks' proprietary investment activities in Hedge Funds and structured products. SAMA has regulatory requirements concerning effective governance and risk management systems including single obligatory limits.	SAMA recognizes the risks emanating from Hedge Funds and has accordingly introduced international standards that were issued by BCBS. There is monthly and quarterly reporting by banks to SAMA on their outstanding investments. These requirements will be further strengthened in light of recent developments in standards.

36	(FSF 2008)	Guidance on the management of exposures to leveraged counterparties	II.17 Supervisors will strengthen their existing guidance on the management of exposures to leveraged counterparties	Ongoing	SAMA closely monitors banks' exposures to leveraged counterparties and has strengthened its regulation in light of international developments.	SAMA required banks to seek its prior no-objection for an overall limit for investments in such products. SAMA will continue to take additional measures in this area in line with international standards.
Credit rating agencies						
37	(Lon)	Registration of CRAs etc.	All CRAs whose ratings are used for regulatory purposes should be subject to a regulatory oversight regime that includes registration. The regulatory oversight regime should be established by end 2009 and should be consistent with the IOSCO Code of Conduct Fundamentals.	End-2009	SAMA already requires External CRAs to register for Basel II purposes. Relevant authorities are studying these requirements. CMA is reviewing this subject with a view to establishing registration procedures.	For Basel II purposes the registration process for external CRAs is already underway. Relevant authorities will take action.
38	(Lon)	CRA practices and procedures etc.	National authorities will enforce compliance and require changes to a rating agency's practices and procedures for managing conflicts of interest and assuring the transparency and quality of the rating process. CRAs should differentiate ratings for structured products and provide full disclosure of their ratings track record and the information and assumptions that underpin the ratings process. The oversight framework should be consistent across jurisdictions with appropriate sharing of information between national authorities, including through IOSCO.	End-2009	SAMA is participating in the FSB and BCBS Working Groups that are addressing these issues. Saudi authorities will take necessary actions as required.	On-going work.

39	(FSB 2009)	Globally compatible solutions to conflicting compliance obligations for CRAs	Regulators should work together towards appropriate, globally compatible solutions (to conflicting compliance obligations for CRAs) as early as possible in 2010.	As early as possible in 2010	SAMA is participating in work at the BCBS and FSB Working Groups.	On-going work.
40	(FSF 2008)	Review of roles of ratings in regulations and supervisory rules	IV. 8 Authorities should check that the roles that they have assigned to ratings in regulations and supervisory rules are consistent with the objectives of having investors make independent judgment of risks and perform their own due diligence, and that they do not induce uncritical reliance on credit ratings as a substitute for that independent evaluation.	Ongoing	Saudi Arabian regulations do not encourage undue reliance on the work of the CRAs. Banks and other financial institutions are expected to exercise on their own due diligence in decision making. The only reference to reliance on external ratings is in the context of the standardized approach in the Basel II framework.	Already implemented in Saudi Arabia.
Supervisory colleges						
41	(Lon)	Supervisory colleges	To establish the remaining supervisory colleges for significant cross-border firms by June 2009.	June 2009	SAMA is participating in some existing colleges and will also participate in any new supervisory colleges established by the home authorities of foreign banks operating in the Kingdom.	SAMA has already participated in some supervisory colleges established by home authorities and is willing to join others.
42	(FSF 2008)	Supervisory exchange of information and coordination	V.7 To quicken supervisory responsiveness to developments that have a common effect across a number of institutions, supervisory exchange of information and coordination in the development of best practice benchmarks should be improved at both national and international levels.	Ongoing	SAMA is participating in FSB, BCBS and other forums that are working on such issues. Also, SAMA is working at the regional level with other supervisors on these issues.	On-going work.

Crisis management						
43	(Lon)	Implementation of FSF principles for cross-border crisis management	To implement the FSF principles for cross-border crisis management immediately. Home authorities of each major financial institution should ensure that the group of authorities with a common interest in that financial institution meets at least annually.	Immediate	SAMA participates in several Supervisory Colleges for foreign banks operating in the Kingdom. SAMA also takes initiatives to conduct bilateral contacts, with home/host authorities.	SAMA is to review and implement recommendations from FSB on Cross Border crisis management as appropriate. SAMA will continue to coordinate and collaborate with home and host supervisory authorities on relevant issues.
44	(Pitts)	Development of contingency and resolution plans by SIFIs and the establishment of crisis management groups etc.	Systemically important financial firms should develop internationally-consistent firm-specific contingency and resolution plans. Our authorities should establish crisis management groups for the major cross-border firms and a legal framework for crisis intervention as well as improve information sharing in times of stress.	End-2010	SAMA is following on these subjects in the context of FSB, BCBS etc and is preparing for the implementation of their recommendations as needed.	On-going work.

45	(Tor) (WAP)	Implementation of BCBS recommendations on the cross-border bank resolution	We endorsed and have committed to implement our domestic resolution powers and tools in a manner that preserves financial stability and are committed to implement the ten key recommendations on cross-border bank resolution issued by the BCBS in March 2010. National and regional authorities should review resolution regimes and bankruptcy laws in light of recent experience to ensure that they permit an orderly wind-down of large complex cross-border financial institutions.	Ongoing	SAMA is an independent and empowered body under Banking Control Law for the Regulation and Supervision of Banks. In exercise of its powers, SAMA can take necessary actions. SAMA will study the recommendations and take appropriate actions as needed.	In line with legislative practice in Saudi Arabia, the regulations (BCL and CICL) contain broad authorizations that enable SAMA to take control of a bank or insurance company in distress or in violation of any applicable laws and implement a controlled liquidation before formal bankruptcy or pre-bankruptcy proceedings are initiated. The CMA has a similar set of pre-bankruptcy powers which enable it to address behavioural issues or financial distress before a possible bankruptcy. In addition, the CMA is specifically authorized to participate in and to supervise pre-bankruptcy settlement or bankruptcy proceedings. The Kingdom does not currently host large, complex cross-border institutions (Global-SIFIS).
46	(FSF 2008)	Review of national deposit insurance arrangements	VI.6 Domestically, authorities need to review and, where needed, strengthen legal powers and clarify the division of responsibilities of different national authorities for dealing with weak and failing banks.	Ongoing	SAMA is in charge of the supervision and resolution of banks under the Banking Control Law. SAMA will study how best to implement this recommendation	SAMA is in charge of the supervision and resolution of Banks under the Banking Control Law. SAMA has the requisite powers to take all necessary measures to protect the Banking System.

47	(FSF 2008)	Review of national deposit insurance arrangements	VI.9 National deposit insurance arrangements should be reviewed against the agreed international principles, and authorities should strengthen arrangements where needed.	Ongoing	Some jurisdictions have not introduced an explicit deposit insurance scheme but have made alternate arrangements having features similar to deposit insurance schemes to ensure the safety of bank deposits. For instance, in Saudi Arabia, the Banking Control Law requires banks to (i) transfer not less than 25% of their annual net profit to statutory reserve until it equals the paid-up capital; (ii) maintain a liquid reserve of 20% of deposit liabilities in specified liquid assets; (iii) maintain with the Agency at all times a statutory deposit of a sum not less than 15% of their deposit liabilities; (iv) cap their deposit liabilities to fifteen times of their paid-up capital and reserves.	SAMA will study the related international principles to assess their relevance and take action as needed.
Risk management						
48	(WAP)	Development of enhanced guidance for banks' risk management practices	Regulators should develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices, and should encourage financial firms to re-examine their internal controls and implement strengthened policies for sound risk management.	Ongoing	Over the past decades, SAMA has ensured that Saudi banks adopt and fully implement all international standards and principles in Risk Management including those from Basel Committee and FSB have been issued to the banks and implemented. SAMA's regulatory stance on risk management in banks is at the leading edge of international practices.	SAMA continues to strengthen its regulations, policies and practices and ensures that the Saudi banking system maintains its policy of adopting and implementing the best risk management and control standards and practices.
49	(Pitts)	Robust, transparent stress test	We commit to conduct robust, transparent stress tests as needed.	Ongoing	SAMA has implemented Pillar 2 risk requirements through the ICAAP processes and where necessary banks are required to perform stress testing on risk which include, credit, market, liquidity, interest rate, FX risk, etc. Also, SAMA issued the recent (January 2009) BCBS guidelines concerning stress testing which banks are incorporating in their own specific methodologies.	SAMA will start implementation of its recently developed stress testing framework. Furthermore, it will continue to refine stress testing process in banks as part of the Pillar 2 supervisory review process.
50	(Pitts)	Efforts to deal with impaired assets and raise additional capital	Our efforts to deal with impaired assets and to encourage the raising of additional capital must continue, where needed.	Ongoing	SAMA has provided strong regulatory guidance to banks on provisioning and capital levels. SAMA has required banks to follow a countercyclical approach in these areas.	SAMA will continue to adopt the best regulatory standards in these areas.

51	(FSB 2009)	Implementation of BCBS/IOSCO measures for securitisation	During 2010, supervisors and regulators will: • implement the measures decided by the Basel Committee to strengthen the capital requirement of securitisation and establish clear rules for banks' management and disclosure; • implement IOSCO's proposals to strengthen practices in securitisation markets.	During 2010	SAMA has established a strong risk capital framework for banks in line with the Basel II requirements including countercyclical capital and provisioning requirements. Consequently, Saudi banks continue to have high levels of capital and provisions by international standards. SAMA has required banks to implement the Basel reforms on trading book and securitizations. SAMA has already taken steps to expose banks to the recent Basel standards and to seek their implementation.	In 2011, further refinements in this area are planned for implementation.
52	(Lon)	Improvement in the risk management of securitisation	The BCBS and authorities should take forward work on improving incentives for risk management of securitisation, including considering due diligence and quantitative retention requirements by 2010.	By 2010	SAMA is an active member and participant of various BCBS sub-committees. SAMA has actively formulated and issued relevant standards and guidelines in order to improve risk management.	SAMA is requiring banks to implement as appropriate, any new standards and guidelines formulated and issued by the BCBS in this area.
53	(Pitts)	Retainment of a part of the risk of the underlying assets by securitisation sponsors or originators	Securitization sponsors or originators should retain a part of the risk of the underlying assets, thus encouraging them to act prudently.	Ongoing	Saudi banks are not undertaking any securitization business. However, the BCBS and IOSCO rules in these areas will be implemented by banks and their investment subsidiaries. SAMA is a member of the working group at the BCBS currently working on this subject.	This work is in progress. There is no securitization origination market yet in Saudi Arabia.
54	(WAP)	Enhanced risk disclosures by financial institutions	Financial institutions should provide enhanced risk disclosures in their reporting and disclose all losses on an ongoing basis, consistent with international best practice, as appropriate.	Ongoing	Saudi banks are subject to the IFRS and to Pillar 3 requirements under the Basel II framework. The disclosures on risks are extensive and go beyond international requirements.	SAMA requires banks to implement new IFRS and Pillar 3 proposals in order to strengthen banks' disclosure of risk management and all matters relating to disclosure of net income/loss.
55	(FSF 2008)	Strengthening of supervisory requirements or best practices fir investment in structured products	II.18 Regulators of institutional investors should strengthen the requirements or best practices for firms' processes for investment in structured products.	Ongoing	SAMA requires banks to strengthen their internal risk management system to be commensurate with the underlying risks of structured investment products. In particular, banks are expected to carefully handle work in relation to their investments and not merely rely on external ratings. Saudi banks' exposures to structured products are closely monitored by SAMA.	SAMA continues to require bank to implement all enhancements from BCBS in this area.

Others						
56	(Pitts)	Development of cooperative and coordinated exit strategies	We need to develop a transparent and credible process for withdrawing our extraordinary fiscal, monetary and financial sector support, to be implemented when recovery becomes fully secured. We task our Finance Ministers, working with input from the IMF and FSB, to continue developing cooperative and coordinated exit strategies recognizing that the scale, timing and sequencing of this process will vary across countries or regions and across the type of policy measures.	Ongoing	SAMA reiterates and reaffirms its commitment and support to implementation of the following general principles concerning exit strategies such as a premature exit from monetary and fiscal policy support, or an incomplete implementation of measures to restore financial sector to its full health in the affected countries posing a major risk to global recovery. Furthermore, while supportive policies should remain in place until the recovery is firmly established, it is important that authorities remain vigilant in view of the large increase in debt burdens in many countries and the indications of a build-up in inflationary pressures in some other countries. This would call for a gradual exit from accommodative policies, once the recovery is on a firm footing, to ensure medium-term sustainability. It is also imperative that member countries coordinate their exit strategies to ensure a gradual drawdown to lower the risk of a shock to the system. Additionally, Saudi Arabia's banking system remained largely insulated from the contagion effects of the global financial crisis, primarily on account of the economy's robust fundamentals which were supported by conservative and prudent fiscal and monetary policies. SAMA has been consistently following policies and procedures that have ensured the systemic stability of the banking system by implementing a host of measures including counter-cyclical policies that required banks to continue increasing their capital levels and providing higher levels of provisions for bad debts, implementing risk based supervisory framework, and corporate governance guidelines among others. The foregoing measures enabled the Saudi banking system to remain materially unaffected and unlike other affected jurisdictions, Saudi Arabia was in no need to implement emergency measures to support its banking system.	On-going process.

Origin of recommendations:

Pitts: Leaders' Statement at the Pittsburgh Summit (25 September 2009)
Lon: The London Summit Declaration on Strengthening the Financial System (2 April 2009)

Tor: The G-20 Toronto Summit Declaration (26-27 June 2010)
WAP: The Washington Summit Action Plan to Implement Principles for Reform (15 November 2008)
FSF 2008: The FSF Report on Enhancing Market and Institutional Resilience (7 April 2008)
FSF 2009: The FSF Report on Addressing Procyclicality in the Financial System (2 April 2009)
FSB 2009: The FSB Report on Improving Financial Regulation (25 September 2009)