

FSB- G20 - MONITORING PROGRESS – Saudi Arabia September 2011

| # | | G20/FSB RECOMMENDATIONS | | DEADLINE | PROGRESS TO DATE | PLANNED NEXT STEPS |
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| # in brackets are # from the 2010 template | | | | | <p style="text-align: center;"><i>Explanatory notes:</i></p> <p><i>In addition to information on progress to date, specifying steps taken, please address the following questions:</i></p> <p>1. <i>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?</i></p> <p>2. <i>Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results?</i></p> <p><i>Also, please provide links to the relevant documents that are published.</i></p> | <p style="text-align: center;"><i>Explanatory notes:</i></p> <p><i>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</i></p> <p><i>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</i></p> <p><i>What are the key challenges that your jurisdiction faces in implementing the recommendations?</i></p> |
| I. Improving bank capital and liquidity standards | | | | | | |
| 1 | (Pitts) | Basel II Adoption | All major G20 financial centres 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 in the 2012 to 2015 time period. SAMA is also planning to introduce standards issued by the Basel Committee in July 2009 and to ensure their smooth implementation in 2011 and beyond. |
| 2 | (FSB 2009) (Tor) | Basel II trading book revision | <p>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.</p> <p>We welcomed the BCBS agreement on a coordinated start date not later than 31</p> | 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. Trading risks for Saudi Banks are not material. The revised trading book rules issued by BCBS in July 2009 have been issued to the banks and | SAMA will continue to implement new Basle proposed measures related to trading book in order to strengthen the risk management practices related to the trading book. However, given the size and scope of activities of Saudi Banks, these are not material. |

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| | (FSF 2008) | | <p>regulatory capital requirement.</p> <p>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.</p> | | <p>BCBS guidelines concerning stress testing which banks have incorporated in their own specific methodologies. SAMA has also developed a framework for conducting stress testing of the Saudi Banking system.</p> <p>SAMA ensures systemic liquidity by requiring banks to maintain minimum Liquid Assets at 20% of their deposits, and Loan to Deposit Ratio at around 85%. It also requires banks to carryout Maturity Gap analysis and to comply with Basle Pillar 2 Liquidity Risk Requirements and to address this issue in the submission of their ICAAP returns. Saudi Banking system liquid assets ratio (liquid assets or customer deposits) has remained over 30% for the past 2 decades.</p> | <p>SAMA is planning the implementation of the enhancements proposed by the Basel Committee on 17 December 2010.</p> <p>The implementation of the enhanced liquidity requirements are expected to be smoothly implemented in the 2012 to 2017 time frame proposed by the BCBS.</p> |
| | (FSB 2009) | | <p>Regulators and supervisors in emerging markets will enhance their supervision of banks' operation in foreign currency funding markets.</p> | | <p>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 the form of additional capital or enhanced internal risk management policies with regard to limits structures, monitoring, and reporting.</p> <p>SAMA maintains a close watch on the foreign currency exposures of Saudi Banks and the Banking system 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 to allocate capital to it.</p> | <p>SAMA will continue to follow closely the emerging banking and supervisory standards relating to foreign currency exposure emanating from the Basel Committee and will continue to strengthen the existing practices.</p> |

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| II. Addressing systemically important financial institutions (SIFIs) | | | | | | |
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| 5 (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. These firms are subject to consistent supervision across the entire firm including their subsidiaries. | SAMA will continue to follow international standards and practices from FSB, BCBS, Joint Forum, etc. and implement the best international practices. |
| 6 (43, 44) | (Pitts) | Mandatory international recovery and resolution planning for G-SIFIs | 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 (for setting up crisis management groups) | Currently, no Saudi Bank qualifies to be considered as a G-SIFI, although some G-SIFIs have a branch operation in Saudi Arabia. SAMA is following on these subjects in the context of FSB, BCBS etc and is preparing for the implementation of recommendations emanating from these committees as needed. | SAMA is following international developments and may consider their relevance to local branches of G-SIFIs for implementation in Saudi Arabia as deemed appropriate. |
| | (Seoul) | | We agreed that G-SIFIs should be subject to a sustained process of mandatory international recovery and resolution planning. We agreed to conduct rigorous risk assessment on G-SIFIs through international supervisory colleges and negotiate institution-specific crisis cooperation agreements within crisis management groups. | Ongoing | There are no local G-SIFIs in Saudi Arabia. SAMA is a member of supervisory colleges of some G-SIFIs and is closely following developments in this respect. | SAMA is to review and implement recommendations emanating from FSB and BCBS on Cross Border crisis management as appropriate. |
| | (Lon) | | 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. | | 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 will continue to coordinate and collaborate with home and host supervisory authorities on relevant issues. |

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| | | coordination | 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. | | Also, SAMA is working at the Regional level with other supervisors on these issues. | |
| 10 (New) | (Seoul) | More effective oversight and supervision | We agreed that supervisors should have strong and unambiguous mandates, sufficient independence to act, appropriate resources, and a full suite of tools and powers to proactively identify and address risks, including regular stress testing and early intervention. | Ongoing | SAMA in 2011 has been subject to an IMF-WB FSAP which has evaluated SAMA against the Basel Core Principles. The assessment is positive and largely confirms compliance with the core principles. | SAMA has the mandate and power to act independently, has sufficient resources and powers and tools to identify and address risks. SAMA will continue to use its powers and resources to ensure effective oversight and supervision. |
| III. Extending the regulatory perimeter to entities/activities that pose risks to the financial system | | | | | | |
| 11 (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 | The Banking Control Law 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 leverage ratios emanating from the Basel Committee as needed. | SAMA has adopted and implemented the capital leverage ratio in 2011. It will continue to monitor it until 2015 in line with BCBS timeframe. SAMA is also planning to commence work on the proposed liquidity coverage and Net Stable Funding ratios. A representative sample of Saudi Banks are participating in the ongoing Basel III Implementation Monitoring/QIS exercises on an ongoing basis. |
| 12 (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. | 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 supervisory process. |

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| | | | | | <p>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 obligor limits.</p> | |
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| 16 (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 is closely monitoring Banks exposures to leveraged counterparties and strengthening its regulation in light of international developments. | SAMA will continue to take additional measures in this area in line with international standards. |
| Securitisation | | | | | | |
| 17 (50) | (FSB 2009) | Implementation of BCBS/IOSCO measures for securitisation | During 2010, supervisors and regulators will: <ul style="list-style-type: none"> 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 already taken steps to expose banks to the recent Basle standards and to seek their implementation. | On-going work. |
| 18 (51, 52) | (Lon) (Pitts) | Improvement in the risk management of securitisation, including retainment of a part of the risk of the underlying assets by securitisation sponsors or originators | 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. Securitization sponsors or originators should retain a part of the risk of the underlying assets, thus encouraging them to act prudently. | 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 a member of the working group at the BCBS currently working on this subject. | SAMA will study and implement as appropriate, any further standards and guidelines formulated and issued in order to improve risk management. On-going work. |
| 19 (10) | (FSF 2008) | Strengthening of regulatory and capital framework for monolines | II.8 Insurance supervisors should strengthen the regulatory and capital framework for monoline 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 to international best practices. | Ongoing process. |
| 20 (54) | (FSF 2008) | Strengthening of supervisory | II.18 Regulators of institutional investors should strengthen the | Ongoing | SAMA requires banks to strengthen their internal risk management system to be | Ongoing process |

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| | | requirements or best practices for investment in structured products | requirements or best practices for firms' processes for investment in structured products. | | commensurate with the underlying risks of structured investment products. In particular, banks are expected to carryout extensive due diligence work in relation to their investments. | |
| 21 (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. |
| IV. Improving OTC derivatives markets | | | | | | |
| 22 (17, 18) | (Seoul) | Reforming OTC derivative markets, including the standardisation of CDS markets (e.g. CCP); and trading of all standardized OTC derivatives on exchanges, clearing and trade repository reporting. | We endorsed the FSB's recommendations for implementing our previous commitments in an internationally consistent manner, recognizing the importance of a level playing field. | By end-2012 at the latest | The Banks in the Kingdom use plain vanilla products and the size of the OTC markets at 0.04 % of the global outstanding Notional values of OTC Derivatives Contracts is nominal, however SAMA has established a Committee of Banks to conduct a self-assessment that will study the need and extent of standardization of OTC products in the market and will study all the other recommendations including the need for establishment of Central Counterparties (CCP) dealing with OTC Derivatives. The Committee will be required to complete the self assessment by its working Group and present its recommendations to SAMA before end 2011. | SAMA will only be able to respond once the conclusions and recommendations of the self-assessment study is completed which are expected by end 2011. |
| | (Pitts) | | 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 | | SAMA and the relevant bodies will continue to monitor international developments in this area and take necessary action as needed. | On-going work. |

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| | (Lon) | | <p>subject to higher capital requirements.</p> <p>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"</p> | | <p>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 as appropriate.</p> | <p>SAMA will continue to follow developments in this area.</p> |
| V. Developing macro-prudential frameworks and tools | | | | | | |
| 23 (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 | <p>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 as relevant.</p> <p>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.</p> | <p>SAMA powers will be further enhanced under new legislation being enacted that will cover Leasing, Finance and Mortgage companies.</p> |
| 24 (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 | <p>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.</p> | <p>SAMA will enhance the activities of information gathering, as needed, in line with international developments.</p> |
| 25 (28) | (FSF 2009) | Use of macro-prudential tools | 3.1 Authorities should use quantitative indicators and/or constraints on leverage and | End-2009 and ongoing | <p>The Banking Control Law already provides for simple to understand quantitative leverage ratio for capital. SAMA also uses</p> | <p>Once the new international standards with regard to Bank leverage are finalized by BCBS, SAMA has implemented these in</p> |

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| | | | margins as macro-prudential tools for supervisory purposes. Authorities should use quantitative indicators of leverage as guides for policy, both at the institution-specific and at the macro-prudential (system-wide) level... Authorities should review enforcing minimum initial margins and haircuts for OTC derivatives and securities financing transactions. | | 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. In 2011, SAMA has introduced a new leverage ratio emanating from the Basel Committee. | the Banking system in Saudi Arabia in 2011. |
| 26 (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 and monitor movements in asset prices for their implication for financial stability in Saudi Arabia and takes necessary actions as needed. This also includes an assessment of their impact. | SAMA continues to monitor the movements in asset prices and their impact on the financial system and the macro-economy. |
| 27 (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 and will also coordinate with other supervisory bodies and participate in supervisory colleges and other joint international forums. |
| VI. Strengthening accounting standards | | | | | | |
| 28 (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 to ensure that the Saudi Banks promptly implement all recent changes to the IFRS. | SAMA will continue to work with relevant local bodies to ensure quick and smooth implementation of the recent changes in the global accounting standards. |
| 29 (New) | (Seoul) | Convergence of accounting standards | We re-emphasized the importance we place on achieving a single set of improved high quality global accounting standards and called on the International Accounting Standards Board and the Financial Accounting Standards | End-2011 | We support the convergence project and agree that it should be completed. | |

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| | | | Board to complete their convergence project. | | | |
| 30 (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 use in valuations by Saudi Banks with the Banks and their external auditors. | This is an on-going process where Banks, accounting firm and supervisors need to cooperate to enhance accounting rules. |
| 31 (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, 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 will continue to work in the Basel Committee working groups to support the Accounting Standard setters' efforts in this regard. |
| VII. Strengthening adherence to international supervisory and regulatory standards. | | | | | | |
| 32 (21, 22, 23) | (Lon) | Adherence to international prudential regulatory and supervisory standards, as well as agreeing to undergo FSAP/ FSB periodic peer reviews (Note) Please try to prioritise any major initiatives conducted specifically in | We are committed to strengthened adherence to international prudential regulatory and supervisory standards. FSB members commit to pursue the maintenance of financial stability, enhance the openness and transparency of the financial sector, implement international | 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 on other countries in the region. 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. Saudi Arabia is committed to the pursuit of financial stability and transparency. | Already Implemented. SAMA looks forward to working with other G20 countries. SAMA is a member of FSB Standing Committee on Standards Implementation. |

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| | (WAP) | your jurisdiction. | financial standards, and agree to undergo periodic peer reviews, using among other evidence IMF / World Bank FSAP reports. All G20 members commit to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessment of countries' national regulatory systems. | | Already Saudi Arabia has completed the FSAP (2004 and 2011) and FATF reviews (2004 & 2009). These comprehensive reviews clearly indicated that there 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 in future as needed. |
| Reforming compensation practices to support financial stability | | | | | | |
| 33 (15) | (Pitts) | Implementation of FSB/FSF compensation principles | 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. | 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 Saudi Arabian Monetary Agency (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: 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; Banks are required to frame prudent compensation policies; Banks have formed Remuneration Committees of the Board of Directors; The bonus schemes of banks are reviewed by SAMA to ensure that the same are in line with their operating performance and good practices; The deferred compensation schemes of banks, which include a mix of cash and | 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. |
| | (Tor) | | We encouraged all countries and financial institutions to fully implement the FSB principles | | | |

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| | (Seoul) | | <p>and standards by year-end. We call on the FSB to undertake ongoing monitoring in this area and conduct a second thorough peer review in the second quarter of 2011.</p> <p>We reaffirmed the importance of fully implementing the FSB's standards for sound compensation.</p> | | <p>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.</p> <p>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: Issuance of regulatory circulars requiring banks to take into account the requirements of FSB Principles and Standards in establishing their compensation policies and practices; Issuance of SAMA Rules on compensation practices to banks; 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.</p> | |
| 34 (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 | 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. It 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 | 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 bank(s) for rectification of deficiencies and may also prescribe increased capital requirements for such bank(s).The Agency may also impose penalty in case of serious violations. Through this process, it will ensure |

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| | | | case of firms that fail or require extraordinary public intervention. | | Assessment Plan (ICAAP). SAMA has also conducted on-site reviews of banks to assess compliance with SAMA Rules and the FSB Principles and Standards. | alignment, if needed, of compensation structures in banks with the FSB Principles and its regulatory requirements. |
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| VIII. Other issues | | | | | | |
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| Credit rating agencies | | | | | | |
| 35 (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 ECRAs to register for Basle II purposes. Relevant authorities are studying these requirements. CMA will also be reviewing this subject with a view to establishing registration procedures. | For Basel II purposes the registration process for ECRAs is already underway. Relevant authorities will take action. |
| 36 (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. |
| 37 (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. |
| 38 (40) | (Seoul) | Reducing the reliance on ratings | We also endorsed the FSB's principles on reducing reliance on external credit ratings. | | | |

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| | (FSF 2008) | | Standard setters, market participants, supervisors and central banks should not rely mechanistically on external credit ratings. 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 do 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. |
| Risk management | | | | | | |
| 39 (48) | (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. SAMA has also planned to issue guidelines to banks on stress testing. |
| 40 (49) | (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 will continue to adopt the best regulatory standards in these areas. |
| 41 (53) | (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. | SAMA will implement new measures in order to strengthen Banks disclosure of risk management and all matters relating to net income/loss etc. as appropriate. |

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| Others | | | | | | |
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| 42 (46) | (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 | <p>Under its Charter (1957), Saudi Arabian Monetary Agency (SAMA) has a specific mandate to "regulate" commercial banks as may be found appropriate. Depositor Protection is one of SAMA's objectives under its mandate. The 1966 Banking Control Law has explicit provisions that have enabled SAMA to establish a Depositor Protection Framework (DPF) that is considered as an alternative arrangement to a Deposit Insurance Scheme but shares many features similar to such schemes in other countries. The key provisions of the Banking Control Law that underpin the Depositor Protection Framework include the following (i) Banks are required to maintain with the Agency at all times a statutory deposit of a sum not less than 15% of deposit liabilities (the limit can be varied with the approval of the Minister of Finance). Currently, the ratios are 7% on demand and 4% on time deposits; (ii) Banks are required to maintain a liquid reserve of up to 20% of deposit liabilities in specified liquid assets; (iii) Banks are to transfer not less than 25% of their annual profit to a legal reserve until it equals their paid-up capital; (iv) Banks are to cap their deposit liabilities to fifteen times their paid-up capital and reserves.</p> <p>All the features listed above are aimed at creating a strong Banking system that would ensure comprehensive protection of depositors. Over the years, the DPF has been used by the Agency to provide for depositor protection and to maintain and promote financial system stability.</p> | SAMA will study the related international principles to assess their relevance and take action as needed. |

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| 43 (55) | (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 | <p>SAMA reiterates and reaffirms its commitment and support towards 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 full health in the affected countries would pose a major risk to global recovery. Furthermore, while supportive policies should remain in place until the recovery is firmly established, it is important to 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 and lower the risk of a shock to the system.</p> <p>Additionally, Saudi Arabia's banking system largely escaped unscathed, the contagion effects of the global financial crisis, primarily on account of the economy's robust fundamentals which were supported and buttressed by conservative and prudent fiscal and monetary policies pursued by the Government. Saudi Arabian Monetary Agency 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, corporate governance guidelines among others. The</p> | On-going process. |
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| | | | | | foregoing measures enabled the Saudi Banking system to remain materially unaffected and unlike other affected jurisdictions, Saudi Arabia was in no need to rollout or implement emergency measures to support its banking system. | |
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Origin of recommendations:

Seoul: The Seoul Summit Document (11-12 November 2010)

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)