



Circular No.: BCS 210
Date: 8 April 2008

From : Saudi Arabian Monetary Agency
To : All Banks
Attention : Managing Directors, Chief Executive Officers and General Managers
Subject : **Guidelines on Application Procedures for the Adoption of IRB Approaches**

You are aware that on 1st January 2008, all Banks licensed in Saudi Arabia made a transition to the Basel II framework, employing the Standardized Approach for Credit Risk and the Basic Indicator or the Standardized Approach for Operational Risk. The Banks are expected to start implementing all three Pillars of the Basel II framework and going forward, Banks are required from 31 March, 2008 to only submit their Basel II Prudential returns to SAMA.

The Agency now envisages that most banks will continue to move to the IRB Approaches for calculating their credit risk capital requirements using the Foundation and/or the Advanced IRB Approaches. Banks are expected to implement their chosen IRB Approaches during the period January 2009 to January 2012. In this regard, we refer you to SAMA circulars concerning the implementation of Basel II in the Kingdom which requires banks to formally obtain the Agency's prior approval before using any specific IRB Approach. Consequently, the Agency is issuing the attached Draft Guidelines to assist banks in preparing and submitting their application and to develop appropriate and relevant validation procedures relating to the IRB Approaches. The Banks are required to review these Draft Guidelines and provide any comments they may have to SAMA at the latest by 30th April 2008. If required, SAMA may call a meeting of all the IRB Banks to discuss this *issue further. Furthermore, banks are advised to also refer to SAMA's document on "Basel II – SAMA's Detailed Guidance Document Consultative Draft No. 2"* issued on 6th June 2006.

A completed application documentation package should be submitted to SAMA at least two months prior to the planned implementation of IRB Approaches. In particular, banks are required to formally apply to SAMA to adopt IRB approaches by submitting a set of completed application forms, details on IRB Approaches and options chosen, along with a completed questionnaire, as well as an updated implementation plan. The application process will be followed by a bilateral discussion as well as an on-site visit by SAMA officials to conduct validation and testing of risk ratings and risk estimates, as well as an assessment of governance structures, models, data, risk management processes, etc. It should be noted that a bank is constrained from moving to the IRB Approaches to compute its capital adequacy until it has received SAMA's approval.

If there are any questions, these may be referred to Mr. Tariq Javed at telephone # 01-466-2532 or Mr. Abbas Hassan at telephone # 01-466-2526.

Dr. Abdulrahman Al-Hamidy
*Deputy Governor
for Technical Affairs*