

From : Saudi Arabian Monetary Agency
 To : All Banks
 Attention : Managing Directors, Chief Executive Officers and General Managers
 Subject : **The Standardised Approach for measuring Counterparty Credit Risk**

Background

The Basel document on the Standardised Approach for measuring Counterparty Credit Risk includes a comprehensive, non-modelled approach for measuring counterparty credit risk associated with OTC derivatives, exchange-traded derivatives, and long settlement transactions. The new standardised approach (SA-CCR) replaces both the Current Exposure Method (CEM) and the Standardised Method (SM) in the capital adequacy framework. In addition, the Internal Models Method (IMM) shortcut method will be eliminated from the framework once the SA-CCR takes effect. The new Standardised Approach includes:

- increased specificity regarding the application of the approach to complex instruments;
- the introduction of a supervisory measure of duration for interest rate and credit derivative exposures;
- removal of the one-year trade maturity floor for unmargined trades and the addition of a formula to scale down the maturity factor for any such trades with remaining maturities of less than one year;
- the inclusion of a supervisory option pricing formula to estimate the supervisory delta for options;
- a cap on the measured exposure for margined transactions to mitigate distortions arising from high threshold values in some margining agreements; and
- adjustments to the calibration of the approach with respect to foreign exchange, credit and some commodity derivatives.

SAMA has conducted a consultation process with the Saudi Banks in the development of this regulation, which is attached in the annexures containing:

- Annexure 1: The Standardised Approach for measuring Counterparty Credit Risk exposures (available on BIS website <http://www.bis.org/publ/bcbs279.pdf>)
- Annexure 2: SAMA's position on National Discretion and Frequently Asked Questions (FAQs) and answers.
- Annexure 3: Changes in the template 17.6.3A. Please ensure that this template is cross-validated and reconciled to other Q17 templates.

Implementation date

These rules are applicable from 1 January 2017 as specified in the Basel document.

Should banks need any clarifications, they should contact Mr. Tariq Javed at email: t_javed@sama.gov.sa or Mr. Qaiser Noor at email: qnoor@sama.gov.sa

For: 

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