Circular # 351000133366
Date: 25 August 2014

From : Saudi Arabian Monetary Agency

CC : H.E. Abdulaziz Al-Helaissi, Deputy Governor for Supervision

To : All Banks

Attention : Managing Directors, Chief Executive Officers and General Managers

Subject : **Basel Committee on Banking Supervision (BCBS) Document regarding Liquidity Coverage Ratio Disclosure Standards**

SAMA issued through its circular # 351000058269 dated 9th March 2014 a BCBS document of January 2014, titled "Liquidity Coverage Ratio (LCR) Disclosure Standards". The objectives of the aforementioned BCBS document was to introduce disclosure requirements concerning a Bank's liquidity. This would in turn lead to improved transparency, enhanced market discipline, and reduced uncertainty in the markets with regard to liquidity.

SAMA is now issuing an implementation framework regarding the Liquidity Coverage Ratio Disclosure Standards which will become effective from 1 January 2015. This framework incorporates General and Specific Guidance Notes as well as a Prudential Reporting Template based on the aforementioned BCBS document of January 2014.

The disclosure requirements set out in this document should be applied to all Saudi banks on a consolidated basis.

The Banks should access the BCBS document from BIS website: www.bis.org titled "Basel Committee on Banking Supervision - Liquidity Coverage Ratio Disclosure Standards" dated January 2014 for their reference and understanding. Also should a bank need any clarification, it should contact at the latest by 15 October 2014 myself at akalsheikh@sama.gov.sa or Mr. Tariq Javed at t_javed@sama.gov.sa and Mr. Abbas Hassan at ahassan@sama.org.sa. Depending on the questions raised by the banks, SAMA may decide to introduce an FAQ process.

Best regards,

**Alwaleed Alsheikh**
*Director of Banking Supervision*

## A. GENERAL GUIDANCE

### Scope of application, implementation date and frequency of reporting

1. Disclosure requirements are effective 1 January 2015.

Quantitative and ***Qualitative*** information is to be disclosed on a quarterly basis, and due after 30 calendar days following the quarter end.

2. Disclosures must either be included in a bank's published financial report or, at a minimum, provide a direct link to the bank's websites.

3. A Bank must also make available on its website disclosures relating to prior reporting periods going back one year. Irrespective of the location, the minimum disclosure requirements must be in the format required by the attached Prudential returns (item C) as well as the qualitative and quantitative requirements.

4. The notation "BCBS document" refer to the BCBS documents issued in January 2014 titled "Liquidity Coverage Ratio Disclosure standards".

5. Banks should consider section "E" to be optional with regard to both qualitative and quantitative disclosures. While SAMA has provided a general guidance on the nature, extent of such disclosure, the senior management of each banks in the interest of providing greater transparency to market participants will determine the disclosures on an optional basis.

5.1 Section "E" requires qualitative disclosures to be based on the BCBS document of September 2008 titled "Principle for Sound Liquidity Risk Management and Supervision". In this respect, banks should refer to section "F" for the principle of Sound Liquidity Risk Management and Supervision.

## B. SPECIFIC GUIDANCE

### Quantitative

1. The disclosure of quantitative information about the LCR should follow the Prudential returns as described in item C.

2. The LCR information must be calculated on a consolidated basis and presented in Saudi Riyals.

3. Quantitative data must be presented as simple average of daily observations over the period quarter (i.e. the average is calculated over a period of 90 days).

4. Banks must publish the number of data points used in calculating the average figures in the Prudential returns.

5. For most data items, both unweighted and weighted values of the LCR components must be disclosed[1].

5.1 The unweighted value of inflows and outflows is to be calculated as the outstanding balances of various categories or types of liabilities, off-balance sheet items or contractual receivables.

5.2 The “weighted” value of HQLA is to be calculated as the value after haircuts are applied.

5.3 The “weighted” value for inflows and outflows is to be calculated as the value after the inflow and outflow rates are applied.

6. Total HQLA and total net cash outflows must be disclosed as the adjusted value, where the “adjusted” value of HQLA is the value of total HQLA after the application of both haircuts *and* any applicable caps on Level 2B and Level 2 assets.

7. The adjusted value of net cash outflows is to be calculated after the cap on inflows is applied, if applicable (see item C.2 for more details).

8. Applicable Caps on Level 2 and Level 2B Assets[1A]

8.1 Level 2 Assets

- Maximum of 40% total of Level 1 assets and Level 2 assets

8.2 Level 2B Assets

- Maximum of 15% of HQLA

8.3 Caps on Inflows

- Cash Inflows cannot exceed 75% of cash outflows.

[1] These are based on the BCBS prescribed weights for LCR framework.

[1A] Also refer to BCBS Document entitled “Basel III: The Liquidity Coverage Ratio and Monitoring Tools” of January 2013 - Annex 1.

## C. LCR Common Disclosure Prudential Return Templates

| LCR common disclosure template | | | |
|---|---|---|---|
| *(In SR 000's)* | | TOTAL UNWEIGHTED[a] VALUE (average) | TOTAL WEIGHTED[b] VALUE (average) |
| **HIGH-QUALITY LIQUID ASSETS** | | | |
| 1 | Total high-quality liquid assets (HQLA) | | |
| **CASH OUTFLOWS** | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | | |
| 3 | *Stable deposits* | | |
| 4 | *Less stable deposits* | | |
| 5 | Unsecured wholesale funding, of which: | | |
| 6 | *Operational deposits (all counterparties)* | | |
| 7 | *Non-operational deposits (all counterparties)* | | |
| 8 | *Unsecured debt* | | |
| 9 | Secured wholesale funding | | |
| 10 | Additional requirements, of which: | | |
| 11 | *Outflows related to derivative exposures and other collateral requirements* | | |
| 12 | *Outflows related to loss of funding on debt products* | | |
| 13 | *Credit and liquidity facilities* | | |
| 14 | Other contractual funding obligations | | |
| 15 | Other contingent funding obligations | | |
| 16 | **TOTAL CASH OUTFLOWS** | | |
| **CASH INFLOWS** | | | |
| 17 | Secured lending (eg reverse repos) | | |
| 18 | Inflows from fully performing exposures | | |
| 19 | Other cash inflows | | |
| 20 | **TOTAL CASH INFLOWS** | | |
| | | | TOTAL ADJUSTED[c] VALUE |
| **21** | **TOTAL HQLA** | | |
| **22** | **TOTAL NET CASH OUTFLOWS** | | |
| **23** | **LIQUIDITY COVERAGE RATIO (%)** | | |

[a] Unweighted values must be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).

[b] Weighted values must be calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).

[c] Adjusted values must be calculated after the application of both (i) haircuts and inflow and outflow rates *and* (ii) any applicable caps (ie cap on Level 2B and Level 2 assets for HQLA and cap on inflows).

C.1 **Explanation of the LCR Common Disclosure Prudential Returns**[1]

| Row number[2] | Explanation[2] | Relevant paragraph(s) of LCR standards[2] |
|---|---|---|
| 1 | Sum of all eligible high-quality liquid assets(HQLA), as defined in the standard, before the application of any limits, excluding assets that do not meet the operational requirements, and including, where applicable, assets qualifying under alternative liquidity approaches | 28–68 |
| 2 | Retail deposits and deposits from small business customers are the sum of stable deposits, less stable deposits and any other funding sourced from (i) natural persons and/or (ii) small business customers (as defined by paragraph 231 of the Basel II framework) | 73–84, 89–92, 110 |
| 3 | Stable deposits include deposits placed with a bank by a natural person and unsecured wholesale funding provided by small business customers, defined as "stable" in the standard | 73–78, 89–91 |
| 4 | Less stable deposits include deposits placed with a bank by a natural person and unsecured wholesale funding provided by small business customers, not defined as "stable" in the standard | 73–74, 79–81, 89–91 |
| 5 | Unsecured wholesale funding is defined as those liabilities and general obligations from customers other than natural persons and small business customers that are not collateralised | 93–111 |
| 6 | Operational deposits include deposits from bank clients with a substantive dependency on the bank where deposits are required for certain activities (ie clearing, custody or cash management activities). Deposits in institutional networks of cooperative banks include deposits of member institutions with the central institution or specialised central service providers. | 93–106 |
| 7 | Non-operational deposits are all other unsecured wholesale deposits, both insured and uninsured | 107–109 |
| 8 | Unsecured debt includes all notes, bonds and other debt securities issued by the bank, regardless of the holder, unless the bond is sold exclusively in the retail market and held in retail accounts | 110 |
| 9 | Secured wholesale funding is defined as all collateralised liabilities and general obligations | 112–115 |
| 10 | Additional requirements include other off-balance sheet liabilities or obligations | 116–131 |
| 11 | Outflows related to derivative exposures and other collateral requirements include expected contractual derivatives cash flows on a net basis. These outflows also include increased liquidity needs related to: downgrade triggers embedded in financing transactions, derivative and other contracts; the | 116–123 |

[1] Also refer to annex 1of BCBS document.

[2] See www.bis.org/publ/bcbs238.pdf. This is the BCBS document of January 2013 titled Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring tools.

| Row number[2] | Explanation[2] | Relevant paragraph(s) of LCR standards[2] |
|---|---|---|
| | potential for valuation changes on posted collateral securing derivatives and other transactions; excess non-segregated collateral held at the bank that could contractually be called at any time; contractually required collateral on transactions for which the counterparty has not yet demanded that the collateral be posted; contracts that allow collateral substitution to non-HQLA assets; and market valuation changes on derivatives or other transactions. | |
| 12 | Outflows related to loss of funding on secured debt products include loss of funding on: asset-backed securities, covered bonds and other structured financing instruments; and asset-backed commercial paper, conduits, securities investment vehicles and other such financing facilities | 124–125 |
| 13 | Credit and liquidity facilities include drawdowns on committed (contractually irrevocable) or conditionally revocable credit and liquidity facilities. The currently undrawn portion of these facilities is calculated net of any eligible HQLA if the HQLA have already been posted as collateral to secure the facilities or that are contractually obliged to be posted when the counterparty draws down the facility. | 126–131 |
| 14 | Other contractual funding obligations include contractual obligations to extend funds within a 30-day period and other contractual cash outflows not previously captured under the standard | 132–133, 141 |
| 15 | Other contingent funding obligations, as defined in the standard | 134–140 |
| 16 | Total cash outflows: sum of lines 2–15 | |
| 17 | Secured lending includes all maturing reverse repurchase and securities borrowing agreements | 145–147 |
| 18 | Inflows from fully performing exposures include both secured and unsecured loans or other payments that are fully performing and contractually due within 30 calendar days from retail and small business customers, other wholesale customers, operational deposits and deposits held at the centralised institution in a cooperative banking network | 153–154, 156–157 |
| 19 | Other cash inflows include derivatives cash inflows and other contractual cash inflows. | 155, 158–160 |
| 20 | Total cash inflows: sum of lines 17–19 | |
| 21 | Total HQLA (after the application of any cap on Level 2B and Level 2 assets) | 28–54 |
| 22 | Total net cash outflows (after the application of any cap on cash inflows) | 69, Annex 1 in the standard |
| 23 | Liquidity Coverage Ratio (after the application of any cap on Level 2B and Level 2 assets and caps on cash inflows) | 22 |

C.2 **Instructions for completion of the LCR Common Disclosure[1] Prudential Returns**

Rows in the template are set and compulsory for all banks. The table in C.1 provides an explanation of each line of the common template, with references to the relevant paragraph(s) of the Basel III LCR standard. Key points to note about the common template:

- Each dark grey row introduces a section of the template (HQLA, cash outflows and cash inflows) and does not require any value to be reported.
- The light grey rows represent the broad categories of the subcomponents of the LCR in the relevant section.
- The unshaded rows represent subcomponents within the major categories of cash inflows and outflows. The relevant subcomponents to be included in the calculation of each row are specified in C.1.
- No data should be entered in the cross-hatched cells.

Figures entered in the template must be averages of the observations of individual line items over the financial reporting period (ie the average of components and the average LCR over the most recent three months of daily positions, irrespective of the financial reporting schedule). The averages are calculated after the application of any haircuts, inflow and outflow rates and caps, where applicable. For example:

$$\text{Total unweighted stable deposits}_{Qi} = \frac{1}{T} \times \sum_{t=1}^{T} (\text{Total unweighted stable deposits})_t$$

$$\text{Total weighted stable deposits}_{Qi} = \frac{1}{T} \times \sum_{t=1}^{T} (\text{Total weighted stable deposits})_t$$

where $T$ equals the number of observations in period $Qi$.

*Weighted* figures of HQLA (line 1, third column) must be calculated after the application of the respective haircuts but before the application of any caps on Level 2B and Level 2 assets. Unweighted inflows and outflows (lines 2–8, 11–15 and 17–21, second column) must be calculated as outstanding balances. *Weighted* inflows and outflows (lines 2–21, third column) must be calculated after the application of the inflow and outflow rates.

Adjusted figures of HQLA (line 22, third column) must be calculated after the application of both (i) haircuts and (ii) any applicable caps (i.e. cap on Level 2B and Level 2 assets). *Adjusted* figures of net cash outflows (line 23, third column) must be calculated after the application of both (i) inflow and outflow rates *and* (ii) any applicable cap (i.e. cap on inflows).

[1] Also refer to annex 2 of the BCBS document.

The LCR (line 23) must be calculated as the average of observations of the

$$LCR_{Qi} = \frac{1}{T} \times \sum_{t=1}^{T} (LCR)_t$$

Not all reported figures will sum exactly, particularly in the denominator of the LCR. For example, “total net cash outflows” (line 22) may not be exactly equal to “total cash outflows” minus “total cash inflows” (line 16 minus line 20) if the cap on inflows is binding. Similarly, the disclosed LCR may not be equal to an LCR computed on the basis on the average values of the set of line items disclosed in the template.

D. **DISCLOSURE REQUIREMENTS - QUALITATIVE**

Banks are required to provide sufficient and qualitative discussion of their LCR results and the related components that are required to be disclosed. Banks may also choose to provide other qualitative information to enable market participants to gain a more thorough understanding of internal liquidity risk measurement and management, particularly those related to their specific bank. This information could include:

(1) governance of liquidity risk management, including risk tolerance; structure and responsibilities for liquidity risk management; internal liquidity reporting; and communication of liquidity risk strategy, policies and practices across business lines and with the board of directors;

(2) funding strategy, including policies on diversification in the sources and tenor of funding, and whether the funding strategy is centralised or decentralised;

(3) Liquidity risk mitigation techniques.

(4) An explanation of how stress testing is used

(5) Outline of funding contingency plans

**Other Qualitative Information**

There should be a sufficient qualitative discussion around the LCR to facilitate an understanding. For example, where significant to the LCR, banks should disclose.

(1) the main contributor of their LCR results and the evolution of the contribution of inputs to the LCR's calculation over time;

(2) Intra period changes as well as change over time.

(3) the composition of HQLA;

(4) concentration of funding sources;

(5) derivative exposures and potential collateral calls;

(6) currency mismatch in the LCR;

(7) a description of the degree of centralisation of liquidity management and interaction between the group's units; and

(8) other inflows and outflows in the LCR calculation that are not captured in the LCR common template but which the institution considers to be relevant for its liquidity profile.

E. **Guidance on Additional or Other Disclosures – Qualitative and Quantitative (Optional)**

1. This section is optional for implement for both qualitative and quantitative exposure.

2. Banks at their own discretion may choose to disclose the nature and extent of disclosure contingent on their size, internal liquidity management and reporting system and business models.

3. **Additional Qualitative Information**
The LCR is only one measure of a bank's liquidity risk position. Disclosure of other qualitative information will provide market participants with a broader picture of banks' liquidity risk position and management and promote market discipline. The *Sound Principles* (refer to section F) provide additional guidance to banks on prudent liquidity risk management, including principles on disclosure of certain key information. Using the Sound Principles as a basis for providing greater qualitative information on a bank's approach to liquidity risk management will further enhance the quality and consistency of liquidity disclosures. It will also allow banks to present information relevant to their business model that may not be adequately captured by standardized regulatory metrics. Additional information that banks **choose** to disclose should provide sufficient information to enable market participants to understand and analyze any figures provided.

4. **Additional Quantitative Information**
As there is no single metric that can comprehensively quantify liquidity risk, a bank **may** also choose to disclose additional quantitative information related to its internal liquidity risk measurement and management framework. In particular, the Basel III liquidity risk framework outlines several key monitoring tools for assessing liquidity risk[1]. These metrics are not regulatory requirements under the Basel III framework, but may be used as consistently defined monitoring tools. They are intended to capture specific information related to a bank's cash flows, balance sheet structure and available collateral.

5. The additional quantitative information that banks **may** consider disclosing could include customized measurement tools or metrics that assess the structure of the bank's balance sheet, as well as metrics that project cash flows and future liquidity positions, taking into account off-balance sheet risks which are specific to that bank. Other quantitative information **could** include key metrics that management monitors, including, but not limited to:

   (1) concentration limits on collateral pools and sources of funding (both products and counterparties);

[1] These monitoring tools comprise: (i) contractual maturity mismatch; (ii) concentration of funding; (iii) available unencumbered assets; (iv) LCR by significant currency; and (v) market-related monitoring tools. See www.bis.org/publ/bcbs238.pdf.

(2) liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of liquidity; and

(3) balance sheet and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps.

F. **Principle for the management and supervision of liquidity risk**

**Principle 1**: A bank is responsible for the sound management of liquidity risk. A bank should establish a robust liquidity risk management framework that ensures it maintains sufficient liquidity, including a cushion of unencumbered, high quality liquid assets, to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources. Supervisors should assess the adequacy of both a bank's liquidity risk management framework and its liquidity position and should take prompt action if a bank is deficient in either area in order to protect depositors and to limit potential damage to the financial system.

**Governance of liquidity risk management**

**Principle 2**: A bank should clearly articulate a liquidity risk tolerance that is appropriate for its business strategy and its role in the financial system.

**Principle 3**: Senior management should develop a strategy, policies and practices to manage liquidity risk in accordance with the risk tolerance and to ensure that the bank maintains sufficient liquidity. Senior management should continuously review information on the bank’s liquidity developments and report to the board of directors on a regular basis. A bank’s board of directors should review and approve the strategy, policies and practices related to the management of liquidity at least annually and ensure that senior management manages liquidity risk effectively.

**Principle 4**: A bank should incorporate liquidity costs, benefits and risks in the internal pricing, performance measurement and new product approval process for all significant business activities (both on- and off-balance sheet), thereby aligning the risk-taking incentives of individual business lines with the liquidity risk exposures their activities create for the bank as a whole.

**Measurement and management of liquidity risk**

**Principle 5**: A bank should have a sound process for identifying, measuring, monitoring and controlling liquidity risk. This process should include a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons.

**Principle 6**: A bank should actively monitor and control liquidity risk exposures and funding needs within and across legal entities, business lines and currencies, taking into account legal, regulatory and operational limitations to the transferability of liquidity.

**Principle 7**: A bank should establish a funding strategy that provides effective diversification in the sources and tenor of funding. It should maintain an ongoing presence in its chosen funding markets and strong relationships with funds providers to promote effective diversification of funding sources. A bank should regularly gauge its capacity to raise funds quickly from each source. It should identify the main factors that affect its ability to raise funds and monitor those factors closely to ensure that estimates of fund raising capacity remain valid.

**Principle 8:** A bank should actively manage its intraday liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions and thus contribute to the smooth functioning of payment and settlement systems.

**Principle 9:** A bank should actively manage its collateral positions, differentiating between encumbered and unencumbered assets. A bank should monitor the legal entity and physical location where collateral is held and how it may be mobilized in a timely manner.

**Principle 10:** A bank should conduct stress tests on a regular basis for a variety of short-term and protracted institution-specific and market-wide stress scenarios (individually and in combination) to identify sources of potential liquidity strain and to ensure that current exposures remain in accordance with a bank's established liquidity risk tolerance. A bank should use stress test outcomes to adjust its liquidity risk management strategies, policies, and positions and to develop effective contingency plans.

**Principle 11:** A bank should have a formal contingency funding plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations. A CFP should outline policies to manage a range of stress environments, establish clear lines of responsibility, include clear invocation and escalation procedures and be regularly tested and updated to ensure that it is operationally robust.

**Principle 12:** A bank should maintain a cushion of unencumbered, high quality liquid assets to be held as insurance against a range of liquidity stress scenarios, including those that involve the loss or impairment of unsecured and typically available secured funding sources. There should be no legal, regulatory or operational impediment to using these assets to obtain funding.

**Public disclosure**

**Principle 13:** A bank should publicly disclose information on a regular basis that enables market participants to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position.