

**EXECUTIVE  
BOARD  
MEETING**

SM/17/189  
Correction 1

July 17, 2017

To: Members of the Executive Board

From: The Secretary

Subject: **Saudi Arabia—Financial System Stability Assessment**

Board Action: The attached correction to SM/17/189 (6/29/17) has been provided by the staff:

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Questions: Mr. Demekas, MCM (ext. 36755)



authorities.<sup>9</sup> Nevertheless, these provisions are not fully consistent with the BCP—as also pointed out at the last BCP assessment in 2011—and the legal framework would benefit from an update.

**21. Rules and regulations (Circulars) issued by SAMA should be consolidated and made publicly available.** Over the years, SAMA has issued over 1,500 Circulars. While all recent Circulars appear to be available on SAMA's website, some of the older ones are not. Also, when older Circulars are superseded by later versions, the original may not be deleted from the website or notated as superseded, thereby causing potential confusion.

**22. SAMA is preparing a more comprehensive set of bank licensing criteria.** At present, SAMA is using a number of general criteria for evaluating requests for a bank license—including that the proposed bank “add value” to the financial sector—that are not public. SAMA has started developing a more detailed set of licensing criteria and processes. When this is completed, SAMA should make, at a minimum, the guiding principles publicly available to enhance the transparency of the licensing process. In this context, SAMA should reconsider the weight given to the “value added” criterion in relation to the other criteria they use: while the entry of too many banks could eventually lead to over-banking, a more balanced approach to licensing, giving due attention to all aspects of the proposal—including “value added”—might be more appropriate. In this context, SAMA should also establish a formal procedure for identifying the ultimate beneficial owners of banks.

**23. SAMA is working to strengthen the monitoring and classification of rescheduled, refinanced, and restructured loans.** SAMA has prepared a draft regulation that does not allow banks to base loan classifications on the value of collateral or upgrade, as an “exception”, a substandard or doubtful loan, as is currently the case, which should be implemented as soon as possible. It is also preparing a new regulation that would require banks to submit prudential returns on such loans, thus closing a substantial data gap. Lastly, in line with international best practice, SAMA should require banks to classify loans that are restructured because of financial difficulties of the borrower as substandard or doubtful.<sup>10</sup>

**24. SAMA has made substantial progress in enhancing risk-based supervision, but there are some areas where further improvement is possible.**

- SAMA should refine the determination of its internal risk ratings of supervised institutions by considering not just quantitative but also qualitative elements, and use its risk indicator in the early warning system.
- The link between on-site inspections, risk profile, and supervisory planning should be strengthened. The risk profile—currently updated annually—should be updated after every on-site inspection (or at least quarterly) to reflect high-risk findings and be linked to the supervisory

<sup>9</sup> Moreover, SAMA's Legal Department considers that, in the application of general legal principles in Saudi Arabia, public employees cannot be held responsible for their activities while discharging their duties in good faith.

<sup>10</sup> See “Prudential treatment of problem assets - definitions of non-performing exposures and forbearance”, BIS, April 2017 (<https://www.bis.org/bcbs/publ/d403.htm>)