

## EXECUTIVE SUMMARY OF CIRCULARS

COVERAGE: SAUDI ARABIAN MONETARY AUTHORITY  
LOCATION: SAUDI ARABIA  
ISSUE: THIRD QUARTER 2022



## INTRODUCTION & SUMMARY

During 1<sup>st</sup> July 2022 to 30<sup>th</sup> September 2022, Saudi Arabian Monetary Authority (SAMA) has issued a total of 3 circulars/guidelines/rules on different matters. These regulatory instructions were predominantly in the areas of Banking Rules & Regulations.



## DETAILS OF ISSUED/AMENDED REGULATIONS

Key instructions / regulations disseminated by SAMA during the 3<sup>rd</sup> quarter of 2022 are summarized below:

### BANKING RULES & REGULATIONS

#### Banks Investment Rules dated April, 2022

Banks invest in different asset classes for the purpose of managing liquidity, hedging, diversification of assets, and generating returns. These Investments expose banks to a multitude of risks; therefore, SAMA has decided to issue these Banks Investment Rules.

These Rules are applicable to banks' investments that are reported as net investments in the balance sheet for all banks licensed under the Banking Control Law.

The objectives of these Rules are:

- Ensure banks put in place a comprehensive internal investment framework, with proper risk management in accordance with SAMA regulatory requirements.
- Provide guidance for bank investment activities to ensure the alignment with sound risk management and governance practices.
- Banks should review and monitor their investment portfolio and make sure that their decisions and portfolio management practices comply with SAMA's regulations and the bank's policies and procedures.
- Banks' investment decisions must be associated with a proper documented rationale taking into consideration the economic environment, investment maturity, price volatility, market behaviour, credit risk, concentration risk, legal risk and all other applicable risks.
- The Board of Directors of a bank is ultimately responsible for the oversight of the bank's investments. The Board or its delegated authority is responsible for approving the internal Investment Policy and Strategy.
- Banks should have a committee at management level that will be held responsible and accountable for investment decisions including the approval and allocation of funds, risk assessment, setting investment limits and insuring that the bank's investments are in-line with its Investment Policy.
- Banks Investment Policy and procedures should be reviewed at least every three years or more frequently if the bank deems it necessary based on the changes in the relevant regulatory requirements or business practices.
- Banks Investment Policy and procedures should adhere to the investment requirements in the Banking Control Law and all relevant regulations.
- Banks should oversee the implementation of the Investment Strategy and ensure that it remains



appropriate in relation to the bank's size, complexity, geographical footprint, business strategy, markets and regulatory requirements.

- Banks should have an operational guidelines detailing how the investment strategy will be implemented.
- Banks should put in place mechanisms to monitor the operational guidelines effectiveness and its integration into the bank's risk management framework.
- Banks investments should be in-line with their risk management framework. Banks should have an adequate risk management system to identify, measure and manage the risks generated from investment activities.
- Before engaging in any investments, Banks should comply with all relevant Anti Money Laundering and Terrorism Financing requirements issued by SAMA.
- Banks should perform an annual portfolio level stress-testing taking into consideration macro-economic circumstances to identify the bank's risk bearing ability and verify how potential risks are covered, and provide the results of the assessment to SAMA upon request.
- Banks should have adequate resources to manage their investment portfolio including strong managerial /investment capabilities, knowledgeable staff with relevant professional experience.
- Banks should obtain SAMA non-objection on investments that require regulatory approval based on the Banking Control Law and Ministerial Decree No. 3/2149, such investments will be approved on a portfolio level.
- Banks should clarify in their policies the investment channels and approval requirement for each investment product, including that investing in Money Market Funds (MMFs) must be through entities that are licensed by the relevant authority and must comply with its Regulations.
- This guideline also so describe requirement of no objection certification from SAMA.
- Banks should review the approved limits (no change/increase/decrease) to be in -line with the bank's risk tolerance and market position at a minimum every three years.
- These Rules have been applicable from 1 October 2022. All Banks should develop/update their current Investment Policy, procedures and Strategy to be in -line with the requirements prescribed in these Rules.

*Related Parties Rules for Banks dated June, 2022*

- These rules define related parties, provide additional requirements in regards to exposures/transactions to related parties and reinforce and provide further guidance to Article 9 of the Banking Control Law.
- Banks should also adhere to the related party requirements as prescribed in SAMA Principles of Corporate Governance and any relevant policies as applicable.

## Executive Summary of Circulars

Saudi Arabian Monetary Authority

- Eligible Capital Base is the effective amount of Tier 1 capital fulfilling the criteria defined in the Basel III Framework.
- Control relationship will be deemed to exist automatically if one entity owns more than 50% of the voting rights of another entity. In addition, banks must determine whether a control relationship exists using the criteria mentioned in the guidelines.
- Banks are also expected to refer to criteria specified in appropriate internationally recognized accounting standards (The International Financial Reporting Standards - IFRS are applied to all banks in KSA) for further qualitatively based guidance when determining control.

Related parties mean:

- Substantial Shareholders of the bank.
- Board members of the bank or any of its subsidiaries/ affiliates (Associates and joint venture as per the definitions giving by the accounting standards) and their relatives.
- Seniors Executives and Board members of the bank or any of its subsidiaries / affiliates and their relatives.
- Board members and Seniors Executives of Substantial Shareholders of the bank.
- Companies in which of the following is a member of its Board of directors or is one of its Senior Executives or has influence on the company's decisions even if only by giving advice or guidance:
  - Board members of the bank or their relatives.
  - Shariah Committee Members of the bank or their relatives.
  - Seniors Executives of the bank or their relatives.
- Relatives:
  - Fathers, mothers, grandfathers and grandmothers
  - Children, grandchildren
  - Siblings, maternal and paternal half-siblings
  - Husbands and wives
- Substantial Shareholders:
  - Any person who owns 5% or more of the shares of the bank or voting rights therein.
- These rules shall be applicable to the all locally incorporated banks and foreign banks branches operating in the Kingdom of Saudi Arabia.
- The Board of the bank is ultimately responsible for oversight of the bank's associations with its related parties and for approving policies governing the bank's dealings and associations with its related parties.
- Exposures/transactions to related parties are subject to measurement requirements as prescribed in SAMA Rules on Large Exposures of Banks. Subject to the limits mentioned in guidelines.
- Any breaches of the exposure/transaction limits, must be communicated immediately to SAMA.
- The following exposures/transaction shall be exempt from the limits specified under these Rules:
  - Banks' exposures/transactions to the Saudi Government, SAMA, Entities Connected with

the Saudi Government, GCC and their central banks.

- Entities that are related to the bank only due to above sovereign ownership in both the entity and the bank.
- Article 9 of the Banking Control Law requires banks not to grant, without security, a loan or credit facilities, or issue a guarantee or incur any other financial liability in respect to parties specified in the law.
- Banks are required to submit to SAMA all exposures/transactions to related parties that exceeded 5% of the banks eligible capital base on the reporting date, on the prescribed format attached as per Appendix-I. (as attached on website).
- These Rules shall come into force with effect from 1st of September 2022. Banks are required to ensure compliance with these Rules while taking any new exposure/transaction or renewing existing exposures/transactions after the effective date.

## BANKING CIRCULARS

### *Urging the provision of financing awareness programs for small and medium enterprises dated 11th August, 2022 Circular No. 44003844*

In line with the objectives aimed at supporting the small and medium enterprises sector which is one of the vital sectors that support the prosperity of the Kingdom's economy. Given the importance of providing awareness.

Financing for small and medium enterprises to ensure that they are able to properly deal with financing products.

The Central Bank urges all financing bodies to develop periodic programs for financing awareness for small and medium enterprises, in proportion to the segment of the financing entity's clients and the gaps.

The current or potential awareness that becomes clear to the funding agency and the use of various awareness channels that ensures software access to these facilities. Kindly provide the Central Bank with a quarterly periodic report in this regard.

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