



Monetary Authority of Singapore

GUIDELINES ON DEFINITION OF A “DEPOSIT”

Guidelines on definition of a “Deposit” (“these Guidelines”)

These Guidelines set out the factors that the Authority would consider in determining whether a financial product satisfies the definition of a “deposit” under the Banking Act.

Definitions

2 In these Guidelines, “liabilities base” in relation to a bank in Singapore, means the liabilities against which minimum liquid assets and minimum cash balances are required to be maintained as reserves under sections 38 and 39 of the Banking Act.

3 The expressions used in these Guidelines shall, except where expressly defined in these Guidelines or where the context otherwise requires, have the same respective meanings as in the Banking Act.

4 Section 4B of the Banking Act defines a “deposit” as a sum of money paid on terms –

- (a) under which it will be repaid, with or without interest or a premium, or with any consideration in money or money’s worth, either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the person receiving it; and
- (b) which are not referable to the provision of property or services or to the giving of security.

Similarly section 61 and 62 of the Banking Act define a “deposit liability” in a manner similar to that of a “deposit” under section 4.

Characteristics of a deposit

5 In determining whether a product is a “deposit”, the Authority would consider whether:

- (i) the principal amount invested in a product is repaid in full i.e. the person issuing the product (“the issuer”) is under an obligation to return to the investor the full value of the principal at maturity. A product where the principal amount is exposed to any risk, other than the credit risk of the issuer, would not be considered a deposit;
- (ii) the repayment of the principal amount is in cash. Payment of the interest portion may either be in cash or any other asset class. However, a product would not be considered a “deposit” where the repayment of the principal amount is in any other asset class, such as shares or bonds;
- (iii) the product is repaid in full if held to maturity. In this regard, the Authority recognises that a product may still be considered a “deposit” despite the fact that an early withdrawal by the investor may result in the investor recovering a sum that is less than the full principal value. However, where a product is terminated early by the issuer due to the exercise of any rights of the issuer under any agreement with the investor, or any other circumstances within the issuer’s control, the product would not be considered a deposit unless the investor recovers, at the minimum, the full value of the principal.

Products which are not deposits

6 Every bank in Singapore should take note that a product that does not satisfy the characteristics of a deposit as set out in paragraph 5 above:

- a. should not be represented or referred to as such in any offer, invitation or advertisement issued in relation to the product;
- b. need not be included in the deposit liabilities base of the bank in Singapore¹;
- c. may be a capital markets product as defined under section 2 of the Securities and Futures Act (Cap.289) [“SFA”] and hence a bank may be subject to all the relevant provisions under the SFA relating to capital markets products including prospectus requirements under Part XIII;
- d. may be an investment product as defined under section 2 of the Financial Advisers Act (Cap. 110) [“FAA”] and hence a bank may be subject to all the relevant provisions under the FAA relating to investment products.

Transitional arrangements for banks in Singapore

7 For the purposes of these Guidelines —

‘existing product’ means any product offered before the issuance of these Guidelines, that has been classified by any bank as a deposit, but which does not fall within the definition of “deposit” in section 4B of the Banking Act;

‘new product’ means any product issued after the issuance of these Guidelines, that has been classified by any bank as a deposit, but which does not fall within the definition of “deposit” in section 4B of the Banking Act.

¹ For the avoidance of doubt, the issuance of stored value cards are still subject to such reserve and liquidity requirements as the Authority may determine under the Banking Act.

8 The Authority is prepared to grant an exemption to all banks in Singapore which do not comply with the requirements in the FAA and the SFA in respect of any existing product from the date the existing product is offered to the date the product matures, subject to the condition that the bank has to continue to include the existing product in the computation of the liabilities base of a bank until it reaches maturity.

9 The Authority is also prepared to grant an exemption to all banks in Singapore which do not comply with the requirements in the FAA and the SFA in respect of any new product where the maturity date of the product does not exceed 1 June 2005 from the date of issuance of these Guidelines until 1 June 2005, subject to the condition that:

- (a) the bank includes the new product in the computation of the liabilities base of the bank until it reaches maturity; and
- (b) the bank does not represent or refer to the new product as a deposit in any offer, invitation or advertisement issued in relation to the product.

10 Every bank in Singapore should take immediate steps to ensure that its products are classified correctly for the purposes of ensuring compliance with all relevant legislation.

11 These Guidelines take immediate effect.