

MAS 628

30 September 2005
Last revised on 28 July 2006*

NOTICE TO BANKS
BANKING ACT, CAP. 19

(MAS Notice 628 dated 6 September 2000 is cancelled.)

SECURITISATION

1 Scope of obligations

1.1 This Notice is issued pursuant to section 55 of the Banking Act (Cap. 19) and applies to all banks in Singapore.

1.2 This Notice comprises two parts —

- (a) Part I (sections 3 to 5 and the Annexes) which sets out mandatory requirements, with the exception of footnotes labelled as guidelines; and
- (b) Part II (section 6) which sets out non-mandatory guidelines on the responsibilities of banks in respect of securitisation.

2 Definitions

2.1 For the purposes of this Notice —

- (a) “ABCP programme” means a programme of asset-backed commercial paper with an original maturity of not more than one year that is backed by assets or other underlying pool of exposures held in an SPE;
- (b) “ABCP programme sponsor” means an entity that —
 - (i) establishes an ABCP programme;
 - (ii) approves the sellers of exposures permitted to participate in an ABCP programme;
 - (iii) approves the asset pools to be purchased by an ABCP programme;or

- (iv) administers the ABCP programme by monitoring the assets backing the asset-backed commercial paper, arranging for placement of securities, compiling monthly reports, or ensuring compliance with the ABCP programme documents and with the credit and investment policy of the ABCP programme;
- (c) “clean-up call” means —
 - (i) in the case of a securitisation other than a synthetic securitisation, an option that allows the outstanding securities of a securitisation to be called before maturity; and
 - (ii) in the case of a synthetic securitisation, an option that allows the credit protection to be extinguished;
- (d) “credit enhancement” means any contractual arrangement where the credit quality of a position in a securitisation is improved in relation to what it would have been if the contractual arrangement had not been put in place and includes any enhancement provided by more junior tranches in the securitisation and other types of credit protection;
- (e) “credit risk mitigation” means any technique used by any bank to reduce the credit risk associated with an exposure or exposures which the bank continues to hold;
- (f) “Credit RWA” has the same meaning as credit risk-weighted assets in MAS Notice 637;
- (g) “CCF” means credit conversion factor;
- (h) “Deductions from Tier 1 Capital” has the same meaning as in MAS Notice 637;
- (i) “Deductions from Total Capital” has the same meaning as in MAS Notice 637;
- (j) “ECAI” means Fitch Ratings, Moody’s Investors Service or Standard and Poor’s;
- (k) “eligible external credit assessment” means a credit rating that complies with paragraph G.2.1 of Annex G;
- (l) “eligible liquidity facility” means a liquidity facility that complies with paragraph G.3.6 of Annex G;
- (m) “F3/P-3/A-3 or above” means an international short-term rating of F3 or better by Fitch Ratings, P-3 or better by Moody’s Investors Service or A-3 or better by Standard & Poor’s;
- (n) “funded credit protection” means a technique of credit risk mitigation where the reduction of the credit risk on an exposure of a bank is derived

from the right of the bank, in the event of the default of a counterparty or on the occurrence of other specified credit events relating to the counterparty, to liquidate, or to obtain transfer or appropriation of, or to retain certain assets or amounts;

(o) “implicit support” means any support that a bank provides, whether directly or indirectly, to investors in a securitisation in excess of its contractual obligation with a view to make good in part or in full any losses the investors may suffer, and includes the provision of a facility, commitment or undertaking to the investors or the SPE in a securitisation except where —

(i) the nature and extent of the facility, commitment or undertaking are clearly specified in a written agreement and there is no recourse to the bank beyond the specified contractual obligations;

(ii) the facility, commitment or undertaking is limited to a specified amount;

(iii) the duration of the facility, commitment or undertaking is limited to the date on which —

A. all claims connected with the securities issued by the SPE are paid out; or

B. the bank’s obligations are otherwise terminated, whichever is the earliest, unless the facility, commitment or undertaking may be cancelled unconditionally;

(iv) the obligations of the bank under the facility, commitment or undertaking in the securitisation are standalone from its obligations under any other facility, commitment or undertaking provided by the bank; and

(v) the facility, commitment or undertaking is given at the inception of the securitisation;

[MAS Notice 628 (Amendment) 2006]

(p) “investment grade” means an international long-term rating of BBB-minus or better by Fitch Ratings, Baa3 or better by Moody’s Investors Service, or BBB-minus or better by Standard & Poor’s;

(q) “manager” means any entity that arranges, promotes or underwrites a securitisation;

(r) “MBS” means a mortgage-backed security;

(s) “originator”, in relation to a securitisation, means —

(i) any entity which, either itself or through related entities, directly or indirectly, creates the exposure being securitised¹; or

¹ **Guideline:** Where an entity lends to an SPE with a view to enabling that SPE to make loans which are then used in a securitisation, the entity will generally be deemed to be acting as an originator.

- (ii) any entity which purchases, or advises or causes an SPE to purchase, the exposures of a third party, which are then used in a securitisation (for avoidance of doubt, selling credit protection such that the entity or the SPE has a long position in the credit risk of an obligor is equivalent to purchasing exposures)²;
- (t) “preference share” means a share, by whatever name called, which bears a fixed annual rate of dividend with a prior right over all ordinary shares in the distribution of dividends from annual profits and a prior claim to repayment of capital on a winding-up of the company, but does not entitle the holder thereof to the right to vote at a general meeting or the right to participate beyond a specified amount in any distribution whether by way of dividend, or on redemption, in a winding up, or otherwise;
- (u) “Reporting Bank” means a bank incorporated in Singapore;
- (v) “securities” has the same meaning as in the Securities and Futures Act (Cap. 289);
- (w) “securitisation” means any transaction or scheme involving the tranching of the credit risk associated with an exposure or pool of exposures and the issue of securities, and which has the following characteristics:
 - (i) payments in the transaction or scheme depend on the performance of the exposure or pool of exposures; and
 - (ii) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme,

but does not include a transaction or scheme where the tranching is achieved by the use of credit derivatives or guarantees that does not serve to hedge, in whole or in part, the credit risk of the portfolio(s) of the originator;

- (x) “securitisation exposure” means the exposure of a bank, whether at Solo or Group level as defined in MAS Notice 637, to a securitisation, and includes any on-balance sheet exposure to securities issued pursuant to a securitisation (e.g., asset-backed securities, mortgage-backed securities and collateralised debt obligations), or any off-balance sheet exposure to a securitisation (e.g., through credit enhancements, liquidity facilities, interest rate or currency swaps, credit derivatives or tranching cover), regardless of whether it was retained by the bank at, or repurchased by the bank after, the origination of the securitisation;

² **Guideline:** An entity which advises or causes an SPE to purchase the exposures of a third party, which are then used in a securitisation will generally not be deemed to be acting as an originator if –

- (a) the entity has not advised or caused the SPE to purchase any exposures which are then used in a securitisation before the date of issue of securities effecting the transfer of the credit risk of those exposures to the investors in the securitisation;
- (b) the entity will not be liable for any losses incurred by the SPE arising from the exposures (for avoidance of doubt, the entity may still be liable for losses arising from a breach of its fiduciary duties); and
- (c) the entity does not undertake to achieve a minimum performance for the exposures.

- (y) "servicer" means a bank that carries out administrative functions relating to the cash flows of the underlying exposure or pool of exposures of a securitisation, including setting up and operating the mechanism for collecting payments of interest or principal derived from the underlying exposures and channelling these funds to the investors or the trustee representing them, customer service, cash management, maintenance of records and reporting duties;
- (z) "SPE" means any corporation, trust or other entity constituted or established for a specific purpose —
 - (i) the activities of which are limited to those for accomplishing the purpose of the corporation, trust or other entity, as the case may be; and
 - (ii) which is structured in a manner intended to isolate the corporation, trust or entity, as the case may be, from the credit risk of an originator or entity selling the underlying exposure or pool of exposures;
- (aa) "subsidiary" has the same meaning as in section 5 of the Companies Act (Cap. 50);
- (bb) "synthetic securitisation" means any securitisation where the tranching is achieved by the use of credit derivatives or guarantees;
- (cc) "traditional securitisation" means any securitisation involving the transfer to an SPE in the securitisation of the risks of the exposure(s) being securitised by the transfer of ownership of the securitised exposure(s) from the originator or the repayment of a loan from the originator used to originate the securitised exposures, or through sub-participation;
- (dd) "tranche" means a contractually established segment of the credit risk associated with an exposure or a pool of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each other such segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments;
- (ee) "tranching cover", in relation to a bank, means the transferring of a portion of the credit risk of an exposure in one or more tranches to a protection seller or sellers and the retaining of some level of risk of the exposure where the risk transferred and the risk retained are of different seniority;
- (ff) "unfunded credit protection" means a technique of credit risk mitigation where the reduction of the credit risk of the exposure of a bank is derived from the undertaking of a third party to pay an amount in the event of the default of the borrower or on the occurrence of other specified events; and

- (gg) “unrated”, in relation to a securitisation exposure, means the absence of an eligible external credit assessment for that securitisation exposure.

2.2 The expressions used in this Notice shall, except where expressly defined in this Notice or where the context otherwise requires, have the same meanings as in the Banking Act.

3 Requirements for banks in Singapore

ABCP Programme Sponsors, Managers and Originators

3.1 Any bank acting as an ABCP programme sponsor, a manager or an originator shall —

- (a) comply with the separation requirements set out in Annex A and the disclosure requirements set out in Annex B; and
- (b) within 14 days from the date of issue of securities effecting the transfer of the credit risk of the underlying pool of exposures to the investors in the securitisation, notify the Authority and attest to its compliance with the requirements in this Notice using the format set out in Annex C³.

3.2 Any Reporting Bank whose subsidiary acts in the role of an ABCP programme sponsor, a manager or an originator shall procure that the subsidiary complies with the requirements in paragraph 3.1 as though it were a bank.

3.3 In the case of an existing ABCP programme, a bank need not comply with the requirement in paragraph 3.1(b) if there has been no material change to the structure of the securitisation since the previous issue of securities for which the bank had complied with paragraph 3.1(b).

[MAS Notice 628 (Amendment) 2005]

Servicers

3.4 Any bank acting as a servicer shall comply with the requirements set out in Annex D.

Providers of Liquidity Facilities and Credit Enhancement

3.5 Any bank providing liquidity facilities or credit enhancement shall comply with the requirements set out in Annex E.

4 Capital requirements for Reporting Banks acting in securitisations

ABCP Programme Sponsors and Originators

4.1 Subject to paragraphs 4.4, 4.6 and 4.8, any Reporting Bank acting as an ABCP programme sponsor or an originator which has —

³ A bank would be deemed to have complied with the requirement if it submits one notification covering all securities issued by the same SPE on the same date.

- (a) complied with the requirements in section 3 and paragraph F.1 of Annex F;
- (b) complied with the requirements in paragraph F.2 or F.3 of Annex F, as the case may be; and
- (c) confirmed in writing to the Authority that it has received written opinions from its external auditors (in respect of only accounting matters) and legal advisors (in respect of only legal matters) that the terms of the securitisation comply with the requirements in paragraph 4.1(a) and (b);

may, in the case of a synthetic securitisation involving an exposure or a pool of exposures from its balance sheet, recognise the credit protection obtained through the securitisation as provided in paragraph 4.2, or in the case of a traditional securitisation, exclude the underlying pool of exposures of the securitisation from the calculation of its Credit RWA pursuant to MAS Notice 637.

4.2 A Reporting Bank recognises credit protection obtained through a synthetic securitisation by —

- (a) substituting the risk weight of the protection seller for the risk weight of the underlying exposure(s) hedged via an unfunded credit protection; or
- (b) reducing the amount of the underlying exposure(s) by the amount that is hedged via funded credit protection,

provided the credit protection is in a form that is recognised under section 3 of MAS Notice 627. For the purposes of paragraph 3.6 of MAS Notice 627, when the underlying exposures of a securitisation have different maturities, the bank shall take the longest maturity as the maturity of the pool of exposures⁴ and when a synthetic securitisation incorporates a call (other than a clean-up call) that can effectively terminate the transaction and the purchased credit protection on a specific date, that date shall be considered as the date on which the purchased credit protection matures.

4.3 Any Reporting Bank acting as an ABCP programme sponsor or an originator which has not complied with the requirements in paragraph 4.1(a) and (c) shall, in the case of a securitisation which does not involve an exposure or a pool of exposures from its balance sheet, calculate its Credit RWA pursuant to MAS Notice 637 as though the exposure or pool of exposures being securitised were on its balance sheet.

Servicer

4.4 Subject to paragraphs 4.1, 4.6 and 4.8, any Reporting Bank acting as a servicer which has complied with the requirements in Annex D may exclude the underlying pool of exposures of the securitisation from the calculation of its Credit RWA pursuant to MAS Notice 637.

⁴ **Guideline:** Maturity mismatches may arise in the context of synthetic securitisations when, for example, a bank uses credit derivatives to transfer part or all of the credit risk of a specific pool of exposures to third parties. When the credit derivatives unwind, the transaction will terminate. This implies that the effective maturity of the tranches of the synthetic securitisation may differ from that of the underlying pool of exposures.

4.5 Any Reporting Bank acting as a servicer which has not complied with the requirements in Annex D shall, in the case of a securitisation which does not involve an exposure or a pool of exposures from its balance sheet, calculate its Credit RWA pursuant to MAS Notice 637 as though the exposure or pool of exposures being securitised were on its balance sheet.

Provider of Liquidity Facilities or Credit Enhancement

4.6 Subject to paragraphs 4.1, 4.4 and 4.8, any Reporting Bank providing liquidity facilities or credit enhancement to a securitisation which has complied with the requirements in Annex E may exclude the underlying pool of exposures of the securitisation from the calculation of its Credit RWA pursuant to MAS Notice 637.

4.7 Any Reporting Bank providing liquidity facilities or credit enhancement to a securitisation which has not complied with the requirements in Annex E shall, in the case of a securitisation which does not involve an exposure or a pool of exposures from its balance sheet, calculate its Credit RWA pursuant to MAS Notice 637 as though the exposure or pool of exposures being securitised were on its balance sheet.

Participant in a Clean-up Call

4.8 Subject to paragraphs 4.1, 4.4 and 4.6, any Reporting Bank which —

- (a) is a party to the securitisation (including any clean-up call agreement) at its inception;
- (b) has the ability to exercise a clean-up call according to the contractual terms of the securitisation documents; and
- (c) has complied with the requirements in paragraph F.4 of Annex F,

may exclude the underlying pool of exposures of the securitisation from the calculation of its Credit RWA pursuant to MAS Notice 637.

4.9 Any Reporting Bank which —

- (a) is a party to the securitisation (including any clean-up call agreement) at its inception;
- (b) has the ability to exercise a clean-up call according to the contractual terms of the securitisation documents; and
- (c) has not complied with the requirements in paragraph F.4 of Annex F,

shall, in the case of a securitisation which does not involve an exposure or a pool of exposures from its balance sheet, calculate its Credit RWA pursuant to MAS Notice 637 as though the exposure or pool of exposures being securitised were on its balance sheet.

4.10 For avoidance of doubt, section 5 is still applicable in respect of any securitisation exposure that a Reporting Bank retains or repurchases, even though the Reporting Bank may be permitted, pursuant to paragraphs 4.1, 4.2, 4.4, 4.6 and 4.8, to exclude the

underlying pool of exposures of the securitisation from the calculation of its Credit RWA pursuant to MAS Notice 637.

5 Capital requirements for Reporting Banks assuming securitisation exposures in the banking book

5.1 A Reporting Bank shall determine the risk weights and CCFs for all its securitisation exposures in the banking book as set out in Annex G, unless the bank is required, pursuant to section 4, to include the underlying pool of exposures of the securitisation in the calculation of its Credit RWA pursuant to MAS Notice 637.

5.2 Notwithstanding the requirements in paragraphs 4.1 to 4.9 and 5.1, a Reporting Bank shall be subject to a maximum capital requirement in respect of the role(s) it performs in a securitisation or any securitisation exposure it has equal to the capital requirement that would apply had the exposure or pool of exposures of the securitisation been on its balance sheet.

6 Guidelines on responsibilities of banks

6.1 The guidelines in paragraphs 6.2 to 6.6 are relevant to all banks in Singapore, while those in paragraphs 6.7 and 6.8 are relevant only to Reporting Banks.

6.2 The senior management of the bank is responsible for the bank's participation in securitisations. A bank should fully understand the range of risks involved. A bank should have clear strategies and approved policies governing securitisations and appropriate internal systems and controls to identify, monitor and manage the risks that arise from its involvement in securitisations.

6.3 A bank acting as an ABCP programme sponsor, a manager or an originator faces risks such as —

- (a) operational, legal or other risks;
- (b) reputational risk, i.e. pressure to support a securitisation, beyond any legal obligation, in order to protect its reputation; or
- (c) for a bank acting as an originator, the securitisation of high quality assets may lead to deterioration in the average quality of its assets if funds received from securitisation are reinvested in assets of a lower quality vis-à-vis those transferred.

6.4 A key mitigation for reputational risk is disclosure. While this Notice sets out minimum disclosure requirements, a bank undertaking a role in a securitisation should always satisfy itself that it is not subject to reputational risk, and where appropriate, disclose its obligations in order to mitigate that risk.

6.5 A bank with securitisation exposures has risk exposures to the underlying pool of exposures. These should be taken into consideration when determining overall exposures

to any particular obligor, industry or geographic area for the purpose of managing concentration risks

6.6 Any bank providing credit enhancement should assess the risk thereof on an arm's length basis in accordance with its normal credit approval and review processes. Such a review may refer to one or more of the following factors:

- (a) the class and quality of the underlying pool of exposures held by the SPE;
- (b) the history of default and loss rates on the underlying pool of exposures;
- (c) the output of any statistical or other models used to assess expected losses on the underlying pool of exposures;
- (d) the types of activity that the SPE is permitted to undertake;
- (e) the quality of the parties providing credit enhancement ranking junior to the position the bank is contemplating assuming; or
- (f) the opinions provided by reputable third parties such as rating agencies regarding the adequacy of any credit enhancement ranking junior to that position.

6.7 A Reporting Bank should implement policies and processes to ensure the appropriate classification of securitisation exposures in the banking book or trading book. The Authority considers it inappropriate to classify exposures in the banking book or trading book in order to minimise capital requirements.

6.8 A Reporting Bank should assess the adequacy of the minimum capital requirements stated in this Notice and all relevant and prevailing legislation and Notices as may be in force from time to time, for the risks arising from its involvement in securitisations.

7 Policy review

7.1 The Authority will monitor market developments and review its policy as and when necessary to guide the prudent conduct of securitisations by banks. As such, the Authority may issue such directions to a bank as the Authority deems fit, e.g., supervisory limits on the volume or types of assets which may be securitised or to obtain appropriate separation between the bank and an SPE and to make appropriate disclosures.

7.2 The Authority may, from time to time, require transaction-specific capital requirements, in respect of particular securitisations a Reporting Bank conducts or particular securitisation exposures that a Reporting Bank assumes.

7.3 In assessing the appropriateness of bank-specific capital adequacy requirements, the Authority will consider whether the totality of a Reporting Bank's activities suggests that its overall level or concentration of risk has become excessive relative to its capital position, or if there is reason to believe that the Reporting Bank has classified

securitisation exposures in either the banking or trading book in order to minimise capital requirements.

8 Effective Date

This Notice shall take effect on 1 October 2005.

9 Transitional Provision

A Reporting Bank may, with the prior approval of the Authority, comply with the requirements specified in MAS Notice 628 dated 6 September 2000 (last revised on 20 August 2002) in respect of transactions which have been subject to the same requirements immediately before 1 October 2005.

*** Note on History of Amendments**

1. MAS Notice 628 (Amendment) 2005 with effect from 1 Jan 2006.
2. MAS Notice 628 (Amendment) 2006 with effect from 1 Aug 2006.

Annex A: Separation Requirements

A.1 Any bank acting as an ABCP programme sponsor, a manager or an originator shall not, in relation to the SPE used in the securitisation, —

- (a) in the case where the SPE is a corporation, own any share capital in the SPE, including ordinary or preference shares, or in the case where the SPE is a trust, own any share capital in the trustee or be a beneficiary of the SPE;
- (b) name the SPE in such manner as to imply any connection with the bank;
- (c) have any director, officer or employee on the board of the SPE unless —
 - (i) the board is made up of at least three members the majority of whom are independent directors; and
 - (ii) the officer representing the bank does not have veto powers;
- (d) directly or indirectly control the SPE; or
- (e) provide implicit support or bear any of the recurring expenses of the securitisation.

A.2 Notwithstanding paragraph A.1(a), such a bank may hold preference shares issued pursuant to a securitisation provided —

- (a) the bank does not directly or indirectly control the SPE or its securitised underlying pool of exposures; and
- (b) the Authority is satisfied that the preference shares have debt-like characteristics⁵.

A.3 All transactions, e.g., interest rate swaps and currency swaps, between the bank and the SPE shall be conducted at arm's length and on market terms and conditions.

⁵ **Guideline:** In determining whether the preference shares exhibit debt-like characteristics, the Authority may, without prejudice to any other matter it may consider relevant, have regard to their redemption features, convertibility into ordinary share capital, voting rights and subscription exclusivity.

Annex B: Disclosure Requirements

B.1 Any bank acting as an ABCP programme sponsor, a manager or an originator shall disclose to investors in writing —

- (a) that the securities they purchase do not represent deposits with or other liabilities of, the bank or any other entity treated as part of the bank's group of companies as defined in paragraph 3(b) of MAS Notice 637 ("banking group companies");
- (b) that their holdings of securities are subject to investment risk, including prepayment risk, interest rate risk and credit risk;
- (c) that neither the bank nor any of its banking group companies in any way stand behind the capital value or performance of the securities issued in connection with the securitisation, or of the underlying pool of exposures, except to the extent that the bank or any other entities to which it is related provide credit enhancement; and
- (d) if the bank also acts in any other capacity in the securitisation, the extent of its contractual obligations in that other capacity.

B.2 The written disclosures referred to in this Annex shall be clearly communicated to prospective investors.

B.3 The requirements in this Annex apply in addition to any other disclosure requirement under any applicable law.

Annex C: Reporting Forms

C.1 The notification to the Authority required under paragraph 3.1(b) of this Notice shall contain the following:

- (a) a diagram that illustrates the structure of the securitisation, including the payment flows between the relevant parties to the securitisation;
- (b) a description of the securitisation structure that details the key elements of the transaction, including the origination of the exposures and the redemption of the notes at maturity;
- (c) a description of the role(s) played by each of the relevant parties to the securitisation and the amounts, if any, of the securities that each party will be acquiring;
- (d) a description of the different tranches in the securitisation and the loss distribution according to the priority of payment of the relevant parties to the securitisation;
- (e) a description of the securities issued, which shall include, but not be limited to, the class, credit rating (if applicable), currency, issue size, issue date and maturity date;
- (f) a description of the underlying pool of exposures, including the type of asset, the credit rating (if applicable), currency and market value;
- (g) a description of the target market(s) to which the securities will be marketed;
- (h) a memorandum of compliance (see example at Appendix 1) that sets out the applicable requirements in this Notice and references to relevant documents which indicate compliance with those requirements; and
- (i) the following documents in soft-copy format:
 - (i) the term sheet;
 - (ii) the offering memorandum or an equivalent document;
 - (iii) the seller of exposures agreement, servicing agreement, management agreement, trust deed, liquidity facility agreement, credit default swap agreement and foreign currency swap agreement, where applicable; and
 - (iv) any other document referred to in paragraph (h) above.

Appendix 1: Sample Excerpt of Memorandum of Compliance

Annex B: Disclosure Requirements			
Requirements		Where complied with or disclosed in the contractual documents	
Reference	Text	Section(s)	Reference
B.1	Any bank acting as an ABCP programme sponsor, a manager or an originator shall disclose to investors in writing	-	-
(a)	that the securities they purchase do not represent deposits with or other liabilities of, the bank or any other entity treated as part of the bank’s group of companies as defined in paragraph 3(b) of MAS Notice 637 (“banking group companies”);	Set out in the Offering Memorandum	Pg 10, Para 1(a)
(b)

Annex D: Requirements for a Servicer

D.1 A bank in Singapore acting as a servicer shall ensure that —

- (a) there is a written agreement with its customer which specifies —
 - (i) the services to be provided by the bank in its capacity as a servicer and all required standards of performance (“the servicing agreement”); and
 - (ii) that there is no recourse to the bank beyond the contractual obligations specified therein⁶;
- (b) the duration of the servicing agreement is limited to the earlier of the date on which —
 - (i) all claims connected with the securities issued by the SPE are paid out; or
 - (ii) the bank is replaced as servicer,

unless the servicer is able, at its absolute discretion, to withdraw from its commitments at any time after giving a reasonable period of notice;
- (c) the obligations of the bank under the servicing agreement are standalone from its obligations under any other facility, commitment or undertaking provided by the bank;
- (d) it has written opinions from its legal advisors that the terms of the servicing agreement protect the bank from any liability to the investors in the securitisation or to the SPE, except in relation to its contractual obligations pursuant to the servicing agreement;
- (e) it is not under any obligation⁷ to remit funds to the SPE or investors unless such funds are received from the underlying pool of exposures, except where it is also the provider of an eligible liquidity facility, i.e. a bank acting as a servicer and a provider of an eligible liquidity facility which remits funds to the SPE in the latter capacity prior to the receipt of such funds will not contravene this requirement; and
- (f) if it is entitled to receive a performance-related payment or benefit from any surplus income generated, i.e. any surplus income generated by the underlying pool of exposures of the SPE after meeting all payment obligations of the securities issued, operating costs of the SPE or losses or bad debts on the underlying assets in addition to a base fee, the base fee shall be on market terms and conditions and any performance-related

⁶ **Guideline:** For avoidance of doubt, this requirement does not limit other forms of recourse to the bank arising from a breach of its fiduciary duties.

⁷ **Guideline:** For avoidance of doubt, this requirement does not limit other forms of recourse to the bank arising from a breach of its fiduciary duties.

payment shall not commit it to any additional obligation. In the case of a Reporting Bank, a performance-related payment shall be included in Deductions from Tier 1 Capital if it has not been irrevocably received.

Annex E: Requirements for a Provider of Liquidity Facilities or Credit Enhancement

E.1 A bank in Singapore providing a liquidity facility or a credit enhancement (“the facility”) shall ensure that —

- (a) the nature and extent of any undertaking provided to the investors or SPE are clearly specified in a written agreement such that there is no recourse to the bank beyond the contractual obligations specified therein⁸;
- (b) the facility is limited to a specified amount;
- (c) the duration of the facility is limited to the earlier of the date on which —
 - (i) all claims connected with the securities issued by the SPE are paid out; or
 - (ii) the bank’s obligations are otherwise terminated,unless the bank is able, at its absolute discretion, to withdraw from its commitments at any time within a reasonable period of notice;
- (d) the obligations of the bank under the facility are standalone from its obligations under any other facility, commitment or undertaking provided by the bank; and
- (e) the facility is given at the inception of the securitisation.

⁸ **Guideline:** For avoidance of doubt, this requirement does not limit other forms of recourse to the bank arising from a breach of its fiduciary duties.

Annex F: Requirements for Exclusion of Underlying Exposures from Credit RWA

F.1 A Reporting Bank shall ensure that —

- (a) the securities issued pursuant to the securitisation are not obligations of the Reporting Bank and any investor who purchases the securities shall have a claim only against the underlying pool of exposures;
- (b) the securities are issued by an SPE and the holders of the beneficial interests in that SPE have the right to pledge or exchange their said beneficial interests without restriction;
- (c) the securitisation documents do not contain any clauses other than step-up features incorporated in relation to the underlying exposures of the securitisation, that increase the yield payable to parties other than the Reporting Bank, such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the underlying pool of exposures;
- (d) it is not legally obligated to make a market in the securities issued by the SPE; and
- (e) it shall not hold more than 20 per cent of the aggregate original amount of all securities issued by the SPE (including preference shares as permitted in Annex A of this Notice) and all transactions shall be conducted at arm's length and on market terms and conditions⁹.

Traditional Securitisations

F.2 In the case of a traditional securitisation, a Reporting Bank shall ensure that —

- (a) except as provided for in paragraphs F.1(e) and F.2(d)(i), the risks associated with the underlying pool of exposures are fully transferred to third parties;
- (b) it does not have any effective or indirect control¹⁰ over the underlying pool of exposures;

⁹ **Guideline:** This requirement does not apply where a Reporting Bank acquires securities in the SPE pursuant to an underwriting arrangement, provided that the Reporting Bank complies with the 20 per cent limit no later than 8 weeks after the date on which the securities were acquired. The Reporting Bank must calculate its Credit RWA for the securities acquired pursuant to the underwriting arrangement in accordance with Annex G.

¹⁰ **Guideline:** A Reporting Bank is deemed to have maintained effective control over the transferred exposures if -

- (a) it is able to repurchase from the transferee the previously transferred exposures in order to realise their benefits; or
- (b) it is obligated to retain the risk of the transferred exposures.

In this regard, a Reporting Bank's role as a servicer in respect of the exposures will not necessarily constitute indirect control of the exposures.

- (c) it obtains an opinion from its legal advisors confirming that the underlying pool of exposures are beyond the reach of the Reporting Bank or its creditors, even in an insolvency situation or receivership;
- (d) the securitisation documents do not contain any clauses that —
 - (i) other than clean-up calls, obliges the Reporting Bank to repurchase any exposure in the underlying pool of exposures, at any time, except where that obligation arises from the exercise of a representation or warranty given by the Reporting Bank. The Reporting Bank may give a representation or warranty solely in respect of the nature or existing state of facts of any exposure in the underlying pool of exposures, that is capable of being verified, at the time of its transfer¹¹;
 - (ii) requires it to alter systematically the underlying pool of exposures such that the weighted average credit quality of the pool is improved unless this is achieved by selling exposures to independent and unaffiliated third parties at market prices¹²; or
 - (iii) allows for increases in a retained first loss position or credit enhancement provided by the Reporting Bank after the inception of the securitisation;
- (e) where there is a transfer of the risks of the exposures being securitised by the transfer of the underlying pool of exposures or through sub-participation, such transfer or sub-participation does not contravene the terms and conditions of any underlying agreement in respect of the underlying pool of exposures and where applicable, all the necessary consents for the transfer or sub-participation have been obtained;
- (f) where there is a transfer of the risks of the exposures being securitised by the transfer of the underlying pool of exposures or through sub-participation, the documented terms of the transfer or sub-participation specify that, if cash flows relating to the underlying pool of exposures are rescheduled or renegotiated, the SPE, and not the Reporting Bank, would be subject to the rescheduled or renegotiated terms; and
- (g) it receives a fixed amount of consideration¹³ for the underlying pool of exposures.

¹¹ **Guideline:** In addition, the Reporting Bank should undertake appropriate due diligence prior to giving any such representation or warranty.

¹² **Guideline:** For avoidance of doubt, this requirement does not preclude the substitution of non-defaulted assets which have been fully amortised.

¹³ **Guideline:** For avoidance of doubt, the amount of consideration received in the form of a fixed amount of securities in the SPE would generally be regarded as meeting this requirement if the transaction is conducted at arm's length and on market terms and conditions.

Synthetic Securitisations

F.3 In the case of a synthetic securitisation, a Reporting Bank shall ensure that —

- (a) where credit protection is achieved by way of a contingent claim on an entity, that entity has a risk weight in Schedule II of Annex 4 in MAS Notice 637 of not more than 20% and meets all applicable requirements in MAS Notice 627 regarding the recognition of credit protection;
- (b) it transfers all material credit risk associated with the underlying pool of exposures to third parties;
- (c) the instrument used to transfer credit risk does not contain terms or conditions that limit the amount of credit risk transferred, including any clause that —
 - (i) materially limits the credit protection or credit risk transference (e.g. significant materiality thresholds below which credit protection is deemed not to be triggered even if a credit event occurs or those that allow for the termination of the protection due to deterioration in the credit quality of the underlying pool of exposures);
 - (ii) requires the Reporting Bank to alter the underlying pool of exposures to improve the weighted average credit quality of the pool¹⁴;
 - (iii) increases the cost of credit protection to the Reporting Bank in response to deterioration in the overall credit quality of the pool of underlying exposures; or
 - (iv) provides for increases in a retained first loss position or credit enhancement provided by the Reporting Bank after the transaction's inception; and
- (d) it obtains an opinion from its legal advisors that confirms the enforceability of the contracts in all relevant jurisdictions.

Securitisation Containing Clean-up Calls

F.4 If a securitisation includes a clean-up call, the Reporting Bank that has the ability to exercise the clean-up call shall ensure that —

- (a) the exercise of the clean-up call by the Reporting Bank is at its discretion;

¹⁴ **Guideline:** For avoidance of doubt, this requirement does not preclude the substitution of non-defaulted assets which have been fully amortised.

- (b) the clean-up call is not structured to avoid allocating losses to credit enhancements or positions held by investors or otherwise structured to provide credit enhancement; and
- (c) the clean-up call is exercisable by the Reporting Bank only when 10% or less of the original underlying exposures, or securities issued remain, or, for synthetic securitisations, when 10% or less of the original reference portfolio value remains.

Annex G: Capital Requirements for a Reporting Bank Assuming Securitisation Exposures

General Treatment of Securitisation Exposures

G.1.1 The applicable risk weights for securitisation exposures for the purposes of computing Credit RWA pursuant to MAS Notice 637 are in Table 1 and Table 2. For off-balance sheet securitisation exposures, a Reporting Bank shall apply a CCF as per paragraphs G.1.4 and G.3.5 and then apply the appropriate risk weight to the resultant credit equivalent amount.

Table 1: Securitisation exposure with a long term rating

Eligible external credit assessment	Eligible MBS – Investment-grade	Other securitisation exposures – Investment-grade	Non-investment-grade or unrated
Regulatory capital treatment	Apply 50% risk weight or such other risk weight as may be determined by the Authority ^{14A}	Apply 100% risk weight or such other risk weight as may be determined by the Authority ^{14A}	Include in Deductions from Total Capital with the exception of the circumstances described in paragraphs G.3.1 to G.3.6

Table 2: Securitisation exposure with a short term rating

Eligible external credit assessment	F3/P-3/A-3 or above	All other ratings or unrated
Regulatory capital treatment	Apply 100% risk weight or such other risk weight as may be determined by the Authority ^{14A}	Include in Deductions from Total Capital with the exception of the circumstances described in paragraphs G.3.1 to G.3.6

[MAS Notice 628 (Amendment) 2006]

G.1.2 Notwithstanding the risk weights set out in paragraph G.1.1 —

- (a) where guarantees or collateral are provided directly to an SPE and are reflected in the eligible external credit assessment assigned to a securitisation exposure(s), the risk weight associated with that external credit assessment shall be used and no additional capital recognition shall be permitted, provided the guarantees or collateral represent claims on entities with a risk weight of not more than 20% in Schedule II of Annex 4 in MAS Notice 637 (in all other cases, the securitisation exposure covered by the guarantees or collateral shall be treated as if it were unrated); and

^{14A} **Guideline:** The prescribed risk weight would apply unless there are mitigating considerations, in which case the Reporting Bank should consult with the Authority.

[MAS Notice 628 (Amendment) 2006]

- (b) where guarantees or collateral are not obtained by the SPE but rather applied to a specific securitisation exposure with a given structure, the bank shall treat the exposure as if it were unrated and then recognise such guarantees or collateral to the extent they represent claims on entities with a risk weight not more than 20 per cent in Schedule II of Annex 4 in MAS Notice 637.

G.1.3 A Reporting Bank using eligible external credit assessments shall apply these assessments consistently across a given type of securitisation exposure. Furthermore, a Reporting Bank shall not use the credit assessments issued by one ECAI for one or more tranches and those of another ECAI for other positions (whether retained or purchased) within the same securitisation structure that may or may not be rated by the first ECAI. Where two or more ECAs have been used and these ECAs assess the credit risk of the same securitisation exposure differently, the Reporting Bank shall apply the higher of the two lowest risk weights.

G.1.4 A Reporting Bank shall use a 100% CCF for any off-balance sheet securitisation exposure that is not an eligible liquidity facility.

Eligible External Credit Assessments

G.2.1 An eligible external credit assessment is one that —

- (a) is provided by an ECAI;
- (b) has taken into account and reflects the entire amount of credit risk exposure the Reporting Bank has with regard to all payments owed to it¹⁵; and
- (c) is published in an accessible form and included in the transition matrix of the ECAI. Ratings that are made available only to the parties to a transaction do not satisfy this requirement.

Eligible MBS

G.2.2 For the purposes of Table 1 above, an eligible MBS refers to the most senior securitisation exposure of an MBS where —

- (a) the loans underlying the MBS are fully secured by mortgages on residential properties at the origination of the MBS;
- (b) the mortgage loans are not classified (as defined in MAS Notice 612) at the time they are transferred to the SPE that issues the MBS; and

¹⁵ **Guideline:** For example, if a Reporting Bank is owed both principal and interest, the assessment should normally take into account and reflect the credit risk associated with timely repayment of both principal and interest. A Reporting Bank should consult the Authority if it is in doubt.

- (c) the SPE issuing the MBS holds only “qualifying” loans secured against mortgages on residential properties (as defined in MAS Notice 637).

Exceptions to Requirement to Deduct Unrated Securitisation Exposures

Unrated most senior securitisation exposures

G.3.1 A Reporting Bank that holds or guarantees an unrated securitisation exposure that is the most senior securitisation exposure in a traditional securitisation or synthetic securitisation, may determine the risk weight to be applied to such a securitisation exposure by applying the “look-through” treatment described in paragraph G.3.2, provided the composition of the underlying pool of exposures is known at all times and it is able to determine the risk weights assigned to the exposures in the underlying pool of exposures. A Reporting Bank is not required to consider interest rate or currency swaps when determining whether a securitisation exposure is the most senior in a securitisation for the purpose of applying the “look-through” approach.

G.3.2 Under the look-through treatment, a Reporting Bank shall apply the average risk weight of the underlying pool of exposures to the securitisation exposure.

Exposures in a second loss position or better in ABCP programmes

G.3.3 A Reporting Bank that is an ABCP programme sponsor and holds an unrated securitisation exposure to the ABCP programme may apply a risk weight of 100 per cent to the securitisation exposure where it is able to demonstrate to the satisfaction of the Authority upon request, that the securitisation exposure satisfies the following requirements:

- (a) the securitisation exposure is economically in a second loss position or better and the first loss position provides significant credit protection to the second loss position;
- (b) the associated credit risk is the equivalent to that of:
 - (i) a security with an original maturity of 1 year or more and which is rated investment grade; or
 - (ii) a security with an original maturity of less than 1 year and which is rated F3/P-3/A-3 or above; and
- (c) the bank holding the unrated securitisation exposure does not retain or provide the first loss position in the securitisation.

Eligible liquidity facilities

G.3.4 For any eligible liquidity facility as defined in paragraph G.3.6 that is unrated, a Reporting Bank may apply to the securitisation exposure the highest risk weight pursuant to MAS Notice 637 that would be assigned to any of the individual exposures in the underlying pool of exposures covered by the facility.

G.3.5 For any eligible liquidity facility as defined in paragraph G.3.6, a Reporting Bank may apply a 20% CCF to the undrawn amount of the eligible liquidity facility if the

facility has an original maturity of less than 1 year, or a 50% CCF if the facility has an original maturity of 1 year or more. However, if the risk-weight of the eligible liquidity facility is less than 100%, as determined in paragraph G.3.4, a 100% CCF shall be applied.

G.3.6 A Reporting Bank may treat an off-balance sheet securitisation exposure as an eligible liquidity facility if—

- (a) the facility documentation clearly identifies the nature, purpose and extent of any undertaking or commitment provided to the SPE, and this is consistent with smoothing the timing differences faced by the SPE between the receipt of cash flows connected with the underlying pool of exposures and the payments to be made to investors in the securitisation;
- (b) the facility is limited to a specified amount and duration, unless the bank is able to withdraw, at its absolute discretion, the facility at any time with a reasonable period of notice;
- (c) the obligations of the bank under the facility are standalone from its obligations under any other facility, commitment or undertaking provided by the bank;
- (d) the facility documentation clearly identifies and limits the circumstances under which it may be drawn;
- (e) any draws made under the facility is provided to the SPE and not directly to investors, and is limited to the amount that is likely to be repaid fully from the liquidation of the underlying pool of exposures and any seller-provided credit enhancements;
- (f) the facility does not cover any losses incurred in the underlying pool of exposures prior to a draw, or be structured such that draw-down is certain (as indicated by regular or continuous draws or continuous revolving funding);
- (g) the facility is subject to an asset quality test that precludes it from being drawn to cover credit risk exposures where the obligor(s) are not able to meet their contractual repayment terms;
- (h) if the exposures that a liquidity facility is required to fund are securities with an eligible external credit assessment, the facility is used to fund only securities that are investment grade or rated F3/P-3/A-3 or above at the time of funding;
- (i) the facility cannot be drawn after all applicable (e.g. transaction-specific and programme-wide) credit enhancements from which the liquidity would benefit have been exhausted;

- (j) in a case where the facility is provided to an ABCP programme, repayment of draws on the facility is not subordinated to any interests of any note holder in the programme or subject to deferral or waiver;
- (k) in a case where the facility is provided to a traditional or synthetic securitisation, repayment of draws on the facility ranks at least pari passu with any investment grade tranche in all respects; and
- (l) either —
 - (i) an independent third party co-provides 25% of the liquidity facility that is to be drawn and re-paid on a pro-rata basis;
 - (ii) all the exposures in the underlying pool of exposures of the SPE are investment-grade or rated F3/P-3/A-3 or above and the facility documentation expressly provides that the Reporting Bank may reduce (and ultimately withdraw) its funding if the quality of the exposures is no longer investment-grade or F3/P-3/A-3 or above; or
 - (iii) the Reporting Bank must include in Deductions from Total Capital, an amount of the liquidity facility that is equivalent to the amount of the underlying exposures of the securitisation which are below investment-grade or rated below F3/P-3/A-3, capped at the amount of liquidity facility provided.