

CONSULTATION PAPER

P007 - 2011
August 2011

Proposed Amendments to MAS Notice 637 on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore

MAS

Monetary Authority of Singapore

PREFACE

On 1 July 2011, the Basel Committee on Banking Supervision (“BCBS”) issued the “Pillar 3 Disclosure Requirements for Remuneration” to support the disclosure of clear, timely and easily comparable information on compensation practices in banks. (Refer to press release: <http://www.bis.org/press/p110701.htm>).

This consultation paper sets out proposed amendments to MAS Notice 637 (“the Notice”), incorporating the BCBS’ Pillar 3 disclosure requirements on remuneration. The draft amendments to the Notice are appended in Annex 1.

MAS invites comments from Singapore-incorporated banks and other interested parties. Please note that any comments received may be made public unless confidentiality is specifically requested. Electronic submission is encouraged.

The public consultation period will close on 14 September 2011.

Please direct comments to -

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OVERVIEW

1. The proposed Pillar 3 remuneration disclosure requirements in the Notice will support market discipline and are consistent with:

- (i) the supplemental Pillar 2 guidance in the BCBS' July 2009 package of measures to enhance the Basel II Framework, which includes the principle that *"firms must disclose clear, comprehensive and timely information about their compensation practices to facilitate constructive engagement by all stakeholders, including in particular shareholders."*¹
- (ii) the Financial Stability Board's ("FSB") "Peer Review Report on Compensation", published in March 2010, which promotes greater specificity and convergence in compensation disclosures.

2. The proposed amendments will require Singapore-incorporated banks to disclose qualitative and quantitative information about their remuneration practices and policies covering the following areas:

- (i) governance structures overseeing remuneration;
- (ii) design/operation of remuneration structure and frequency of review;
- (iii) independence of remuneration for staff in risk and compliance functions;
- (iv) risk adjustment methodologies;
- (v) the link between remuneration and performance;
- (vi) long-term performance measures (i.e. deferral, malus, clawback); and
- (vii) types of remuneration (i.e. cash or equity; fixed or variable remuneration)

3. The proposed amendments are set out in Part XI of the Notice.

¹ Please see Supplemental Pillar 2 Guidance ("Sound compensation practices" section) in the BCBS' July 2009 report, "Enhancements to the Basel II Framework", available at <http://www.bis.org/publ/bcbs157.htm>

ANNEX 1

DRAFT REVISED MAS NOTICE 637

Disclaimer: This version of the Notice is in draft form and is subject to change.

PART XI: PUBLIC DISCLOSURE REQUIREMENTS

Division 1: Introduction

11.1.1 The purpose of the requirements in this Part is to ensure that minimum public disclosures are made available to market participants to assist them in forming an opinion on the risk profile and capital adequacy of a Reporting Bank. Beyond the disclosure requirements set out in Division 3 of Part XI, the Authority expects a Reporting Bank to convey its actual risk profile to market participants. The information it discloses shall be adequate to fulfill this objective.

[MAS Notice 637 (Amendment) 2011]

Division 2: General Requirements

Subdivision 1: Scope of Application

11.2.1 This Part shall apply to a Reporting Bank at the Group level, in accordance with paragraph 3.1.1(b) of Part III unless otherwise stated.

11.2.2 A Reporting Bank need not comply with the requirements in this Part if it is a subsidiary of another Reporting Bank or of a Financial Holding Company, that is subject to the requirements of this Part.

Subdivision 2: Frequency of Disclosures

11.2.3 Any disclosure required under this Part shall be made at least once a year, other than item (g) in Table 11-3, which shall be made on a quarterly basis.

Subdivision 3: Location and Form of Disclosures

11.2.4 Subject to paragraph 11.2.5, a Reporting Bank shall disclose the information required in Division 3 of this Part in its annual report and periodic financial statements.

11.2.5 A Reporting Bank may disclose the items marked as quantitative disclosures in Table 11-4 and Tables 11-5 to 11-15 in Division 3 of this Part in an appropriate medium or location, other than its annual report and periodic financial statements, with the prior approval of the Authority.

[\[MAS Notice 637 \(Amendment No. 2\) 2011\]](#)

11.2.6 A Reporting Bank shall provide in its annual report and periodic financial statements, explicit references to the location of all disclosures required under this Part.

11.2.7 A Reporting Bank has the discretion to determine the form of the disclosures required in this Part, and may choose to use either graphical or such other forms or both, that the Reporting Bank deems appropriate to assist market participants in forming an opinion on the risk profile and capital adequacy of the Reporting Bank.

Subdivision 4: Omissions

11.2.8 Subject to paragraph 11.2.9, a Reporting Bank may omit certain disclosures in this Part if -

- (a) the omitted item is not material, in accordance with the concept of materiality under the applicable Accounting Standards, or
- (b) the omitted item is proprietary or confidential in nature, and would seriously prejudice the position of the Reporting Bank, if disclosed.

11.2.9 A Reporting Bank which omits disclosure of an item pursuant to paragraph 11.2.8(b) that is marked as a quantitative disclosure in Division 3 of this Part shall provide a reason for the omission and disclose general qualitative information about the subject matter of the requirement.

11.2.10 A Reporting Bank may omit disclosures required under paragraph 11.3.1 and any other items in this Part marked as qualitative disclosures, if -

- (a) the ultimate holding company as defined under section 5A of the Companies Act (Cap. 50) of the Reporting Bank is incorporated, formed or established outside Singapore and disclosure requirements similar to those set out in this Part apply to the ultimate parent company on a consolidated basis that is inclusive of the operations of the Reporting Bank, and
- (b) the Reporting Bank makes clear reference in an appropriate medium or location as may be approved by the Authority to the location of the relevant disclosures made by the ultimate parent company.

Subdivision 5: Disclosure Policy

11.2.11 A Reporting Bank shall have in place a written disclosure policy which sets out the approach of the Reporting Bank for determining which disclosures it will make and the internal controls over the disclosure process, and this policy shall be approved by the Board of the Reporting Bank.

11.2.12 A Reporting Bank shall take all reasonable steps to secure the accuracy and correctness of all disclosure items required under this Part.

11.2.13 A Reporting Bank shall ensure that appropriate and independent verification, whether internal or external, is performed in relation to all disclosure items required under this Part.

11.2.14 To the extent that any of the disclosures required in this Part are substantially similar to those required of the Reporting Bank in accordance with applicable Accounting Standards, the Reporting Bank may rely on its compliance with such accounting disclosures as meeting the requirements of this Part.

Division 3: Specific Disclosure Requirements

Subdivision 1: Introduction

11.3.1 For the purposes of Subdivision 2 of this Division, a Reporting Bank shall describe its risk management objectives and policies for each risk area identified in Subdivisions 3 to 89 of this Part. The description for each risk area shall include:

- (a) its strategies and processes;
- (b) the structure and organisation of the relevant risk management function;
- (c) the scope and nature of risk reporting and measurement systems; and
- (d) its policies for hedging and mitigating risk and processes for monitoring the continuing effectiveness of such policies.

[\[MAS Notice 637 \(Amendment No. 2\) 2011\]](#)

11.3.2 A Reporting Bank shall, when disclosing any item in Tables 11-1 to 11-1415 that refers to the 'corporate asset sub-class' under the IRBA, include each of the following asset sub-classes as set out in Subdivision 4 of Division 4 of Part VII:

- (a) corporate asset sub-class;
- (b) corporate small business asset sub-class;
- (c) SL asset sub-class;
- (d) HVCRE asset sub-class; and
- (e) purchased corporate receivables asset sub-class and purchased corporate small business receivables asset sub-class.

[\[MAS Notice 637 \(Amendment No. 2\) 2011\]](#)

11.3.3 A Reporting Bank shall, when disclosing any item in Tables 11-1 to 11-1415 that refers to 'other retail exposures asset sub-class' under the IRBA, include each of the following asset sub-classes as set out in Subdivision 4 of Division 4 of Part VII:

- (a) other retail exposures asset sub-class; and
- (b) purchased retail receivables asset sub-class.

[\[MAS Notice 637 \(Amendment No. 2\) 2011\]](#)

11.3.4 For the purposes of Tables 11-4 to 11-8, the value of an 'exposure' or a 'credit exposure' refers to –

- (a) E, or where applicable E*, for items that relate to the SA(CR);
- (b) EAD, or where applicable EAD*, for items that relate to IRBA; and
- (c) the gross accounting exposure for items (b)-(h) in Table 11-4.

11.3.5 For the purposes of Table 11-13, 'equity exposure' shall have the meaning attributed to it in accordance with the Accounting Standards, with the exception of item (f) of Table 11-13 to which the definition in Division 5 of Part VII shall apply.

Subdivision 2: Scope of Application

11.3.6 A Reporting Bank shall disclose the items set out in the Table 11-1 as applicable.

Table 11-1: Scope of Application

Qualitative Disclosures	(a)	The name of the Reporting Bank to which this Part applies.
	(b)	A description of differences in the basis of consolidation for regulatory purposes compared to that required for compliance with Accounting Standards. The description shall include a brief description of the entities – <ul style="list-style-type: none"> (i) that are fully consolidated; (ii) that are consolidated on a pro-rata basis; (iii) that are equity-accounted; (iv) that are included as Deductions from Tier 1 Capital and Deductions from Tier 2 Capital; (v) from which surplus capital is recognised, if any; and (vi) that are not consolidated and not deducted.
	(c)	Any restrictions or impediments on transfer of funds or regulatory capital within the banking group.

Subdivision 3: Capital

11.3.7 A Reporting Bank shall disclose the items set out in Table 11-2 and Table 11-3.

Table 11-2: Capital Structure

Qualitative Disclosures	(a)	A description of the terms and conditions of the main features of all capital instruments included within Eligible Total Capital, particularly in relation to IT1, and other complex or hybrid capital instruments.
Quantitative Disclosures	(b)	Elements of Eligible Tier 1 Capital as follows: <ul style="list-style-type: none"> (i) paid-up ordinary share capital; (ii) disclosed reserves; (iii) paid-up non-cumulative preference shares; (iv) minority interests; (v) IT1; (vi) any other instruments; (vii) deductions of goodwill, intangible assets and deferred tax assets; and (viii) Deductions from Tier 1 Capital.

	(c)	Tier 2 Capital subject to Limits, including the amount of Upper Tier 2 Capital and Lower Tier 2 Capital.
	(d)	Deductions from Tier 2 Capital.
	(e)	Eligible Total Capital.

Table 11-3: Capital Adequacy

Qualitative Disclosures	(a)	A description of the approach to assessing the adequacy of its capital to support current and future activities.
Quantitative Disclosures	(b)	Credit RWA (excluding IRBA(EQ) RWA): (i) for each asset class under SA(CR); (ii) for equity exposures under SA(EQ); [MAS Notice 637 (Amendment) 2010] (iii) for each of the following categories under IRBA: (A) corporate asset sub-class, sovereign asset-sub-class and bank asset sub-class; (B) residential mortgage asset sub-class; (C) QRRE ⁸⁰¹ asset sub-class; and (D) other retail exposures asset sub-class; and (iv) securitisation exposures under SA(SE) and IRBA(SE).
	(c)	IRBA(EQ) RWA for equity exposures under one of the following methods: (i) the simple risk weight method; (ii) the internal models method; and (iii) the PD/LGD method.
	(d)	Market RWA calculated under the following approaches, where applicable: (i) SA(MR); (ii) IMA; or (iii) both (i) and (ii).
	(e)	Operational RWA calculated under the following approaches, where applicable: (i) BIA; (ii) SA(OR); (iii) ASA; (iv) AMA; or (v) a combination of any of the above.
	(f)	Total RWA and minimum capital requirements at the Group level.

⁸⁰¹ A Reporting Bank may combine the QRRE asset sub-class and the other retail exposures asset sub-class if either is insignificant in size relative to total credit exposures, and the risk profile of each asset sub-class is sufficiently similar such that separate disclosure would not assist in understanding the risk profile of the retail business of the Reporting Bank.

	(g)	Eligible Tier 1 Capital, Eligible Total Capital, Tier 1 CAR and Total CAR at the Group level.
	(h)	Tier 1 CAR and Total CAR for each significant ⁸⁰² banking subsidiary ⁸⁰³ .

Subdivision 4: Credit Risk

11.3.8 A Reporting Bank shall disclose the items set out in Tables 11-4 to 11-9.

Table 11-4: Credit risk – general disclosures⁸⁰⁴

Qualitative Disclosures	(a)	A description of the policies of the Reporting Bank in relation to – (i) past due and impaired loans in accordance with the Accounting Standards; (ii) assessment of the level of individual and collective impairment allowances in accordance with the Accounting Standards; [MAS Notice 637 (Amendment) 2011] (iii) credit risk management; and (iv) for a Reporting Bank that has not fully adopted IRBA, the nature of the exposures within each asset class that is under the SA(CR), within each asset-sub-class that is under the F-IRBA and A-IRBA, and the intentions and timing for migrating SA(CR) exposures to the IRBA.
Quantitative Disclosures	(b)	Total gross credit exposures, and average ⁸⁰⁵ gross credit exposures over the reporting period, broken down by major types of credit exposure ⁸⁰⁶ .
	(c)	Geographic distribution of credit exposures, broken down in significant areas by major types of credit exposure.
	(d)	Industry or counterparty-type distribution of credit exposures, broken down by major types of credit exposure.

⁸⁰² A significant banking subsidiary may be determined in several ways, for example, in terms of revenue contribution to the banking group.

⁸⁰³ A Reporting Bank shall provide disclosures in relation to a significant subsidiary on a Solo basis, but may choose to disclose such information on a sub-consolidated basis providing that capital adequacy requirements are imposed on this basis and that an explanatory note to this effect is provided by the Reporting Bank. In the case of a significant overseas subsidiary, the required disclosures may be made on the basis of the capital adequacy rules that are applied to the subsidiary in the overseas jurisdiction, provided that this is disclosed in an explanatory note that includes a description of the basis of the calculation and the approaches applied to each major risk type in the overseas jurisdiction.

⁸⁰⁴ For avoidance of doubt, Table 11-4 does not apply to equity exposures or securitisation exposures.

⁸⁰⁵ Where the average value is representative of the period-end value a Reporting Bank may choose not to disclose average values, provided that an explanatory note is provided with the other items in this Table which also indicates the basis on which the omitted period average was calculated (eg. daily, monthly).

⁸⁰⁶ For example, credit exposures may be broken down into the following types: loans, off-balance sheet items, debt securities and OTC derivative transactions.

	(e)	Residual contractual maturity broken down by major types of credit exposure.
	(f)	By major industry or counterparty-type: (i) amount of classified loans under MAS 612; (ii) amount of past due loans under MAS 612; (iii) individual and collective impairment allowances; and (iv) charges for individual impairment allowances and charge-offs during the period. [MAS Notice 637 (Amendment) 2011]
	(g)	By significant geographic area: (i) amount of classified loans under MAS 612; (ii) amount of past due loans under MAS 612; and (iii) individual and collective impairment allowances, where feasible. [MAS Notice 637 (Amendment) 2011]
	(h)	Reconciliation of changes in the allowances for loan impairment, and separate disclosures for charge-offs and recoveries that are recorded directly to the income statement. [MAS Notice 637 (Amendment) 2011]
	(i)	For each asset class or asset sub-class, whichever is applicable, the amount of credit exposures under the SA(CR), F-IRBA and A-IRBA.

Table 11-5: Credit risk - disclosures for asset classes under the SA(CR) and exposures subject to supervisory risk weights under the IRBA

Qualitative Disclosures	(a)	For each asset class under SA(CR): (i) the name of each recognised ECAI which ratings are used by the Reporting Bank, and the reasons for any changes in the use of a recognised ECAI; (ii) the types of exposure for which ratings of each recognised ECAI are used; (iii) a description of the process used to transfer public issue ratings onto comparable assets in the banking book; and (iv) the alignment of the alphanumeric scale of each recognised ECAI used by the Reporting Bank with relevant risk weights ⁸⁰⁷ .
Quantitative Disclosures	(b)	An analysis by risk-weights (including deducted exposures) for –

⁸⁰⁷ Reference to publicly disclosed supervisory mapping and its location may be made as an alternative to the reproduction of the alignment data.

		<p>(i) the total rated and unrated credit exposures after taking into account the effects of CRM under the SA(CR), equity exposures after taking into account the effects of CRM under the SA(EQ); and [MAS Notice 637 (Amendment) 2010]</p> <p>(ii) the total IRBA credit exposures subject to supervisory risk weights, including exposures within the SL asset sub-class and HVCRE asset sub-class under the supervisory slotting criteria, and equity exposures under the simple risk weight method.</p>
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Table 11-6: Credit risk - disclosures for asset sub-classes under the IRBA

Qualitative Disclosures	(a)	<p>A description of -</p> <p>(i) the structure of internal rating systems and the relationship between internal and external ratings;</p> <p>(ii) the use of internal estimates other than for IRBA capital purposes;</p> <p>(iii) the process for managing and recognising CRM; and</p> <p>(iv) the control mechanisms for the rating system including independence, accountability, and rating system review.</p>
	(b)	<p>A separate description of the internal ratings process for each of the following categories:</p> <p>(i) corporate asset sub-class, sovereign asset sub-class and bank asset sub-class;</p> <p>(ii) equity exposures (under the PD/LGD method);</p> <p>(iii) residential mortgages asset sub-class;</p> <p>(iv) QRRE⁸⁰⁸ asset sub-class; and</p> <p>(v) other retail exposures asset sub-class.</p> <p>The description shall include, for each category -</p> <p>(A) the types of exposure included within the category;</p> <p>(B) the definitions, methods and data for estimation and validation of PD, (and for exposures under IRBA) LGD and EAD, including assumptions employed in the derivation of these parameters⁸⁰⁹; and</p> <p>(C) a description of permitted material deviations from the reference definition of default in Annex 7X of Part VII, including the broad segments of the category affected by such deviations.</p>

⁸⁰⁸ A Reporting Bank may combine the QRRE asset sub-class and the other retail exposures asset sub-class if either is insignificant in size relative to total credit exposures, and the risk profile of each asset sub-class is sufficiently similar such that separate disclosure would not assist in understanding the risk profile of the retail business of the Reporting Bank.

⁸⁰⁹ A Reporting Bank shall provide a broad overview of the model approach, describing definitions of the parameters, and methods for estimating and validating those parameters set out in the quantitative disclosures below. This should be done for each of the above categories. Banks should draw out any significant differences in approach to estimating these parameters within each category.

Quantitative disclosures: risk assessment	(c)	<p>For each category as defined in (b)(i) and (ii) above, the following items shall be disclosed across a sufficient number of PD grades (including default) to allow for a meaningful differentiation of credit risk⁸¹⁰:</p> <ul style="list-style-type: none"> (i) total exposures (sum of outstanding loans and EAD for undrawn commitments, where applicable); (ii) exposure-weighted average risk-weight; and (iii) exposure-weighted average LGD (expressed as a percentage) for asset sub-classes under the A-IRBA. <p>For each asset sub-class within the IRBA retail asset class (as defined in (b)(iii) to (v) above) the above items may be disclosed on a pool basis. Alternatively, total exposures (sum of outstanding loans and EAD for undrawn commitments, where applicable) may be disclosed on a pool basis across a sufficient number of EL grades to allow for a meaningful differentiation of credit risk.</p> <p>For exposures under the A-IRBA, the amount of undrawn commitments for each category, together with an exposure-weighted average EAD for each category.</p>
Quantitative disclosures: historical results	(d)	<p>Actual losses (e.g. charge-offs and specific impairment allowances) in the preceding period for each category (as defined above) and how this differs from past experience. A description of the factors that impacted on the loss experience in the preceding period — for example, higher than average default rates, or higher than average LGDs and EADs.</p> <p style="text-align: right;">[MAS Notice 637 (Amendment) 2011]</p>
	(e)	<p>For periods ending on or after 31 December 2009, loss estimates against actual outcomes over a longer period of time. At a minimum, this shall include information on estimates of losses against actual losses in each category (as defined above) over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each portfolio. Where appropriate and particularly if material differences have arisen, a Reporting Bank shall also provide an analysis of PD and, in relation to exposures on A-IRBA, LGD and EAD outcomes against the estimates of the Reporting Bank.</p>

⁸¹⁰ The PD, LGD and EAD should reflect the effects of CRM where applicable. Where a Reporting Bank merges PD grades for the purposes of disclosure, it should be representative of the distribution of PD grades used in the IRBA.

Table 11-7: CRM - disclosures for SA(CR) and IRBA⁸¹¹

Qualitative Disclosures	(a)	A description of the following items with respect to CRM: (i) policies and procedures for, and an indication of the extent to which the Reporting Bank makes use of, on- and off-balance sheet netting; (ii) policies and procedures for collateral valuation and management; (iii) the main types of collateral taken by the Reporting Bank; (iv) the main types of guarantor or credit derivative counterparty and their creditworthiness; (v) information about market or credit risk concentrations within the mitigation taken; and (vi) an indication of the IRBA parameters that are affected by the recognition of CRM, according to the approaches used by the Reporting Bank.
Quantitative Disclosures	(b)	For each separately disclosed asset class under the SA(CR) or category under the F-IRBA, the extent to which credit exposures are covered by - (i) eligible financial collateral; and (ii) other eligible IRBA collateral, after the application of haircuts.
	(c)	For each separately disclosed asset class under the SA(CR) or category under the F-IRBA, the amount by which credit exposures have been reduced by eligible credit protection.

Table 11-8: General disclosures for exposures related to CCR

Qualitative Disclosures	(a)	A description of the following items in relation to OTC derivative transactions and CCR: (i) methodologies used to assign economic capital and credit limits for counterparty credit exposures; (ii) policies for securing collateral and establishing credit reserves; (iii) policies with respect to exposures that give rise to general or specific wrong-way risk; and (iv) impact of the amount of collateral the Reporting Bank would have to provide given a credit rating downgrade.
Quantitative Disclosures	(b)	Gross positive fair value of contracts, netting benefits, netted current credit exposure, amount and type of collateral held, and the net derivatives credit exposure ⁸¹² .

⁸¹¹ Credit derivatives and other forms of credit risk mitigation that are treated as part of securitisation structures shall be excluded from the CRM disclosures and included within those relating to securitisation in Table 11-9.

[MAS Notice 637 (Amendment) 2011]

⁸¹² This refers to the credit exposure on OTC derivative transactions after taking into account the effects of legally enforceable netting agreements and collateral arrangements.

		<p>EAD or exposure amounts calculated under the current exposure method, the CCR standardised method and CCR internal models method, whichever is applicable.</p> <p>The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure⁸¹³.</p>
	(c)	<p>Credit derivative transactions that create exposures to CCR (notional value), segregated between use for the credit portfolio of the Reporting Bank and the intermediation activities of the Reporting Bank, including the distribution of credit derivatives used, analysed further in terms of protection bought and sold within each type of credit derivative.</p>
	(d)	<p>The estimate of α if the Reporting Bank has received supervisory approval to estimate α.</p>

Table 11-9: Securitisation exposures

Qualitative Disclosures ^{813A}	(a)	<p>A description of the following items with respect to securitisation (including synthetic securitisation):</p> <ul style="list-style-type: none"> (i) objectives of the Reporting Bank in relation to its securitisation, including the extent to which the securitisation transfers credit risk of the underlying securitised exposures away from the Reporting Bank to other entities and including the types of risks assumed and retained with resecuritisation activity^{813B}; (ii) the nature of other risks (e.g. liquidity risk) inherent in securitised assets; (iii) the various roles played by the Reporting Bank in the securitisation process^{813C} and an indication of the extent of the involvement of the Reporting Bank in each of them; (iv) the processes in place to monitor changes in the credit and market risk of securitisation exposures (e.g., how the behaviour of the underlying assets impacts securitisation exposures) including how those processes differ for resecuritisation exposures;
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⁸¹³ For example, credit exposures may be broken down into the following types: exchange rate contracts, interest rate contracts, equity contracts, precious metal contracts, other commodity contracts and credit derivatives.

^{813A} Where relevant, the Reporting Bank shall provide separate qualitative disclosures for banking book and trading book exposures.

[MAS Notice 637 (Amendment) 2011]

^{813B} For example, if a Reporting Bank is particularly active in the market of senior tranches of resecuritisations of mezzanine tranches related to securitisations of residential mortgages, it should describe the structure of resecuritisations (e.g. senior tranche of mezzanine tranche of residential mortgage) and this description should be provided for the main categories of resecuritisation products in which the Reporting Bank is active.

[MAS Notice 637 (Amendment) 2011]

^{813C} For example: originator, investor, servicer, provider of credit enhancement, sponsor, liquidity provider, swap provider, protection provider.

[MAS Notice 637 (Amendment) 2011]

	<p>(v) the Reporting Bank’s policy governing the use of credit risk mitigation to mitigate the risks retained through securitisation and resecuritisation exposures;</p> <p>(vi) the regulatory capital approaches applied to the securitisation activities of the Reporting Bank, including the type of securitisation exposures to which each approach applies^{814A}; and</p> <p>(vii) where a Reporting Bank provides implicit support to a securitisation, a statement that it has provided non-contractual support and a description of the capital impact of doing so.</p> <p>[MAS Notice 637 (Amendment) 2011]</p>
(b)	<p>A list of:</p> <p>(i) the types of SPEs that the Reporting Bank, as sponsor^{813D}, uses to securitise third party exposures, indicating whether the Reporting Bank has exposure to these SPEs, either on or off-balance sheet; and</p> <p>(ii) affiliated entities that the Reporting Bank manages or advises that invest either in the securitisation exposures that the Reporting Bank has securitised or in SPEs that the Reporting Bank sponsors.^{813E}</p> <p>[MAS Notice 637 (Amendment) 2011]</p>
(c)	<p>A summary of the accounting policies of the Reporting Bank for securitisation, including:</p> <p>(i) whether the securitisation is treated as sales or financings;</p> <p>(ii) recognition of gain-on-sale;</p> <p>(iii) methods and key assumptions (including inputs) for valuing positions retained or purchased^{813F};</p> <p>(iv) changes in methods and key assumptions from the previous period and the impact of such changes;</p> <p>(v) treatment of synthetic securitisation if this is not covered by other accounting policies (e.g. on derivatives);</p> <p>(vi) how exposures intended to be securitised (e.g. in the pipeline or warehouse) are valued and whether they are recorded in the banking book or the trading book; and</p> <p>(vii) policies for recognising liabilities on the balance sheet for arrangements that could require the Reporting Bank</p>

^{813D} A Reporting Bank would generally be considered a “sponsor” if it, in fact or in substance, manages or advises the programme, places securities into the market, or provides liquidity and/or credit enhancements. The programme may include, for example, ABCP conduit programmes and structured investment vehicles.

[MAS Notice 637 (Amendment) 2011]

^{813E} For example, money market mutual funds, to be listed individually, and personal and private trusts, to be noted collectively.

[MAS Notice 637 (Amendment) 2011]

^{813F} Where relevant, the Reporting Bank is encouraged to differentiate between valuation of securitisation exposures and resecuritisation exposures.

[MAS Notice 637 (Amendment) 2011]

		to provide financial support for securitised assets. [MAS Notice 637 (Amendment) 2011]
	(d)	In the banking book, the names of recognised ECAIs used for securitisations and the types of securitisation exposure for which each agency is used. [MAS Notice 637 (Amendment) 2011]
	(e)	A description of the IAM process, including: <ul style="list-style-type: none"> (i) structure of the internal assessment process and relation between internal assessment and external ratings, including information on ECAIs as referenced in Table 11-9 (d); (ii) use of internal assessment other than for IAM capital purposes; (iii) control mechanisms for the internal assessment process including discussion of independence, accountability, and internal assessment process review; (iv) the exposure type^{813G} to which the internal assessment process is applied; and (v) stress factors used for determining credit enhancement levels, by exposure type.^{813G} [MAS Notice 637 (Amendment) 2011]
	(f)	An explanation of significant changes to any of the quantitative information (e.g. amounts of assets intended to be securitised, movement of assets between banking book and trading book) since the last reporting period. [MAS Notice 637 (Amendment) 2011]

^{813G} For example, credit cards, home equity, auto, and securitisation exposures detailed by underlying exposure type and security type (e.g. residential mortgage-backed securities, commercial mortgage-backed securities, asset-backed securities, collateralised debt obligations) etc.

[MAS Notice 637 (Amendment) 2011]

Quantitative Disclosures: Banking Book	(g)	The total amount of outstanding exposures securitised ^{813H} by the Reporting Bank and defined under the securitisation framework set out in Division 6 of Part VII, broken down in terms of traditional and synthetic, and by exposure type ^{813G, 813I} , separately for securitisations of third-party exposures for which the Reporting Bank acts only as sponsor ^{813D} . [MAS Notice 637 (Amendment) 2011]
	(h)	For exposures securitised ^{813H} by the Reporting Bank and defined under the securitisation framework set out in Division 6 of Part VII ^{813I} - <ul style="list-style-type: none"> (i) the amount of securitised assets that are classified or past due under MAS Notice 612, broken down by exposure type^{813G}; and (ii) losses recognised by the Reporting Bank during the current period broken down by exposure type^{813G,814}. [MAS Notice 637 (Amendment) 2011]
	(i)	The total amount of outstanding exposures intended to be securitised broken down by exposure type ^{813G, 813I} . [MAS Notice 637 (Amendment) 2011]
	(j)	Summary of securitisation of the current period, including the total amount of exposures securitised ^{813H} by exposure type ^{813G} , and the recognised gain or loss on sale by exposure type ^{813G, 813I} . [MAS Notice 637 (Amendment) 2011]
	(k)	Aggregate amount of <ul style="list-style-type: none"> (i) on-balance sheet securitisation exposures retained or purchased broken down by exposure type^{813G}; and (ii) off-balance sheet securitisation exposures broken down by exposure type^{813G}. [MAS Notice 637 (Amendment) 2011]

^{813H} "Exposures securitised" include underlying exposures originated by the Reporting Bank, whether generated by them or purchased into the balance sheet from third parties and third-party exposures included in sponsored schemes. Securitisation transactions (including underlying exposures originally on the Reporting Bank's balance sheet and underlying exposures acquired by the Reporting Bank from third-party entities) in which the originating bank does not retain any securitisation exposure should be shown separately but need only be reported for the year of inception.

[MAS Notice 637 (Amendment) 2011]

^{813I} Reporting Banks are required to disclose exposures regardless of whether there is a capital charge under Pillar 1.

[MAS Notice 637 (Amendment) 2011]

⁸¹⁴ For example, charge-offs or allowances where the assets remain on the balance sheet of the Reporting Bank, or write-downs of interest-only strips and other residual interests, as well as recognition of liabilities for probable future financial support required of the Reporting Bank with respect to securitised assets.

	(l)	<p>Aggregate amount of securitisation exposures retained or purchased and the associated capital charges, broken down between securitisation and resecuritisation exposures and further broken down into a meaningful number of risk weight bands for each regulatory capital approach. Exposures included as Deductions from Tier 1 Capital, credit-enhancing interest only strips and other exposures included as Deductions from Tier 1 Capital and Deductions from Tier 2 Capital shall be disclosed separately by exposure type^{813G}.</p> <p>[MAS Notice 637 (Amendment) 2011]</p>
	(m)	<p>For securitisation subject to the early amortisation treatment, the following items by exposure type^{813G} for securitised facilities:</p> <ul style="list-style-type: none"> (i) the aggregate drawn exposures attributed to the interests of the seller and the investor; (ii) the aggregate capital charges incurred by the Reporting Bank against its retained (i.e. the seller's) shares of the drawn balances and undrawn lines; and (iii) the aggregate capital charges incurred by the Reporting Bank against the shares of drawn balances and undrawn lines of the investor. <p>[MAS Notice 637 (Amendment) 2011]</p>
	(n)	<p>Aggregate amount of resecuritisation exposures retained or purchased broken down according to:</p> <ul style="list-style-type: none"> (i) exposures to which credit risk mitigation is applied and those not applied; and (ii) exposures to guarantors broken down according to guarantor credit worthiness categories or guarantor name. <p>[MAS Notice 637 (Amendment) 2011]</p>
Quantitative disclosures: Trading book	(o)	<p>The total amount of outstanding exposures securitised^{813H} by the Reporting Bank and defined under the securitisation framework set out in Division 6 of Part VII, broken down in terms of traditional and synthetic, and by exposure type^{813G, 813I}, separately for securitisations of third-party exposures for which the Reporting Bank acts only as sponsor^{813D}.</p> <p>[MAS Notice 637 (Amendment) 2011]</p>
	(p)	<p>The total amount of outstanding exposures intended to be securitised broken down by exposure type^{813G, 813I}.</p> <p>[MAS Notice 637 (Amendment) 2011]</p>

	(q)	<p>Summary of securitisation of the current period, including the total amount of exposures securitised^{813H} by exposure type^{813G}, and the recognised gain or loss on sale by exposure type^{813G, 813I}.</p> <p>[MAS Notice 637 (Amendment) 2011]</p>
	(r)	<p>Aggregate amount of exposures securitised^{813H} by the Reporting Bank for which the Reporting Bank has retained some exposures and which is subject to the market risk approach, broken down in terms of traditional and synthetic, by exposure type^{813G}.</p> <p>[MAS Notice 637 (Amendment) 2011]</p>
	(s)	<p>Aggregate amount of</p> <ul style="list-style-type: none"> (i) on-balance sheet securitisation exposures retained or purchased broken down by exposure type^{813G}; and (ii) off-balance sheet securitisation exposures broken down by exposure type^{813G}. <p>[MAS Notice 637 (Amendment) 2011]</p>
	(t)	<p>Aggregate amount of securitisation exposures retained or purchased separately for:</p> <ul style="list-style-type: none"> (i) securitisation exposures retained or purchased subject to the comprehensive risk measure for specific risk; and (ii) securitisation exposures subject to the securitisation framework for specific risk broken down into a meaningful number of risk weight bands for each regulatory capital approach. <p>[MAS Notice 637 (Amendment) 2011]</p>
	(u)	<p>Aggregate amount of:</p> <ul style="list-style-type: none"> (i) the capital requirements for the securitisation exposures subject to the comprehensive risk measure, broken down into appropriate risk classifications (e.g. default risk, migration risk and correlation risk)^{814A}, (ii) the capital requirements for the securitisation exposures (resecuritisation or securitisation), subject to the securitisation framework broken down into a meaningful number of risk weight bands for each regulatory capital approach, and (iii) securitisation exposures that are included as Deductions from Tier 1 Capital, credit enhancing interest-only strips and other exposures included as Deductions from Tier 1 Capital and Deductions from Tier 2 Capital disclosed separately by exposure type^{813G}.

^{814A} See Table 11-10 for market risk approach used.

		[MAS Notice 637 (Amendment) 2011]
	(v)	<p>For securitisation subject to the early amortisation treatment, the following items by exposure type^{813G} for securitised facilities:</p> <ul style="list-style-type: none"> (i) the aggregate drawn exposures attributed to the interests of the seller and the investor; (ii) the aggregate capital charges incurred by the Reporting Bank against its retained (i.e. the seller's) shares of the drawn balances and undrawn lines; and (iii) the aggregate capital charges incurred by the Reporting Bank against the shares of drawn balances and undrawn lines of the investor. <p>[MAS Notice 637 (Amendment) 2011]</p>
	(w)	<p>Aggregate amount of resecuritisation exposures retained or purchased broken down according to:</p> <ul style="list-style-type: none"> (i) exposures to which credit risk mitigation is applied and those not applied; and (ii) exposures to guarantors broken down according to guarantor creditworthiness categories or guarantor name. <p>[MAS Notice 637 (Amendment) 2011]</p>

Subdivision 5: Market Risk

11.3.9 A Reporting Bank shall disclose the items set out in Table 11-10 and Table 11-11.

Table 11-10: Market risk - disclosures for the SA(MR)

Qualitative Disclosures	(a)	A description of risk management objectives and policies as set out in paragraph 11.3.1 for market risk including the portfolios covered by the SA(MR) in Part VIII.
Quantitative Disclosures	(b)	<p>The capital requirements for the following risks computed under the SA(MR) as set out in Division 2 of Part VIII:</p> <ul style="list-style-type: none"> (i) interest rate risk^{814B}; (ii) equity position risk; (iii) foreign exchange risk; and (iv) commodity risk.

^{814B} Separate disclosures are required for the capital requirements on securitisation positions under Table 11-9.
[MAS Notice 637 (Amendment) 2011]

Table 11-11: Market risk - disclosures for the IMA

Qualitative Disclosures	(a)	A description of the extent of compliance with Annex 8N of Part VIII, and the valuation methodologies employed by the Reporting Bank, in addition to the general disclosures set out in paragraph 11.3.1 on market risk.
	(b)	A description of the soundness standards on which the internal capital adequacy assessment of the Reporting Bank is based, as well as the methodologies used to achieve a capital adequacy assessment that is consistent with those soundness standards.
	(c)	For each portfolio covered by the IMA - (i) the characteristics of the models used; (ii) a description of stress testing applied to the portfolio; and (iii) a description of the approach used for backtesting and validating the accuracy and consistency of the internal models and modelling processes.
	(d)	The scope of approval by the Authority.
	(e)	A description of the methodologies used and the risks measured through the use of internal models for the incremental risk capital charge and the comprehensive risk capital charge. Included in the qualitative description should be: (i) the approach used by the Reporting Bank to determine liquidity horizons; (ii) the methodologies used to achieve a capital assessment that is consistent with the required soundness standard; and (iii) the approaches used in the validation of the models. [MAS Notice 637 (Amendment) 2011]
Quantitative Disclosures	(f)	For trading portfolios under the IMA - (i) the high, mean and low VaR values over the reporting period and period-end; (ii) the high, mean and low stressed VaR values over the reporting period and period-end; (iii) the high, mean and low incremental and comprehensive risk capital charges over the reporting period and period-end; and (iv) a comparison of VaR estimates with actual gains or losses experienced by the Reporting Bank, with analysis of outliers in backtest results. [MAS Notice 637 (Amendment) 2011]

Subdivision 6: Operational Risk

11.3.10 A Reporting Bank shall disclose the items set out in Table 11-12 where applicable in accordance with Part IX.

Table 11-12: Operational risk

Qualitative Disclosures	(a)	A description of the regulatory approach or approaches to the calculation of operational risk capital requirements.
	(b)	A description of the AMA, if used by the Reporting Bank, including a discussion of relevant internal and external factors considered in the measurement approach of the Reporting Bank, and in the case of partial use, the scope and coverage of the different approaches used.
	(c)	For a Reporting Bank that uses the AMA for calculating operational risk capital requirements, a description of any use of insurance for the purpose of mitigating operational risk.

Subdivision 7: Equity Exposures

11.3.11 A Reporting Bank shall disclose the items set out in Table 11-13.

Table 11-13: Equity exposures - disclosures for banking book positions

Qualitative Disclosures	(a)	A description of the following items with respect to credit risk arising from equity exposures: (i) differentiation between holdings on which capital gains are expected and those taken for other objectives including for relationship and strategic reasons; and (ii) policies in relation to the valuation and accounting treatment of equity holdings in the banking book. This should cover the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.
Quantitative Disclosures	(b)	The value of equity exposures held in the balance sheet of the Reporting Bank, and the fair value of those investments if it differs from the value of the exposures in the balance sheet.
	(c)	The types and nature of equity exposures, including the amount that can be classified as - (i) publicly traded; and (ii) privately held.
	(d)	The realised gains or losses arising from sales and liquidations of equity exposures in the reporting period.

	(e)	Total unrealised gains or losses that have not been reflected in the income statement of the Reporting Bank, and the extent to which these have been included in Tier 1 Capital or Tier 2 Capital.
	(f)	An analysis of equity exposures analysed in terms of appropriate equity groupings and exposure-weighted average risk weights, consistent with the methodology employed by the Reporting Bank. Equity exposures that are deducted shall also be disclosed in an accompanying note. An explanation of any material difference between the value of equity exposures calculated in accordance with the Accounting Standards and the regulatory definition of equity exposures as defined in Part VII.

Subdivision 8: Interest Rate Risk in the Banking Book

11.3.12 A Reporting Bank shall disclose the items set out in Table 11-14.

Table 11-14: Interest rate risk in the banking book

Qualitative Disclosures	(a)	A description of the key assumptions made by the Reporting Bank, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency with which interest rate risk in the banking book is measured, in addition to the general disclosures set out in paragraph 11.3.1 in respect of interest rate risk in the banking book.
Quantitative Disclosures	(b)	The changes in earnings or economic value (or relevant measure used by the Reporting Bank) for upward and downward rate shocks according to the internal method of the Reporting Bank for measuring interest rate risk in the banking book, broken down by currency, where applicable.

Subdivision 9: Remuneration

11.3.13 A Reporting Bank shall disclose the items set out in Table 11-15.

11.3.14 A Reporting Bank shall, for the purposes of Table 11-15, include quantitative disclosures that only cover senior management and material risk takers and which are broken down between these two categories.

Table 11-15: Remuneration

<u>Qualitative Disclosures</u>	<u>(a)</u>	<u>A description of the following:</u> <u>(i) name, composition and mandate of the main body overseeing remuneration;</u> <u>(ii) external consultants whose advice has been sought, the body by which they have been commissioned, and</u>
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		<p><u>the areas of the remuneration process they have been providing advice on;</u></p> <p><u>(iii) a description of the scope of the Reporting Bank’s remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches; and</u></p> <p><u>(iv) a description of the types of employees considered as senior management and material risk takers including the number of employees in each group.</u></p>
	(b)	<p><u>A description of the design and structure of remuneration processes, including:</u></p> <p><u>(i) an overview of the key features and objectives of remuneration policy;</u></p> <p><u>(ii) where the remuneration committee reviewed the Reporting Bank’s remuneration policy during the past year, an overview of any changes that were made; and</u></p> <p><u>(iii) a discussion of how the Reporting Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.</u></p>
	(c)	<p><u>A description of the ways in which current and future risks are taken into account in the remuneration processes, including:</u></p> <p><u>(i) an overview of the key risks that the Reporting Bank takes into account when implementing remuneration measures;</u></p> <p><u>(ii) an overview of the nature and type of the key measures used to take account of these risks, including risks that are difficult to measure (values need not be disclosed);</u></p> <p><u>(iii) a discussion of the ways in which these measures affect remuneration; and</u></p> <p><u>(iv) a discussion of how the nature and type of these measures has changed over the past year, reasons for the change, as well as the impact of changes on remuneration.</u></p>
	(d)	<p><u>A description of the ways in which the Reporting Bank seeks to link performance during a performance measurement period with levels of remuneration, including:</u></p> <p><u>(i) an overview of main performance metrics for the Reporting Bank, top-level business lines and individuals;</u></p> <p><u>(ii) a discussion of how amounts of individual remuneration are linked to bank-wide and individual performance; and</u></p> <p><u>(iii) a discussion of the measures the Reporting Bank will implement to adjust remuneration in the event that performance metrics are weak⁸¹⁵.</u></p>

⁸¹⁵ This should include the Reporting Bank’s criteria for determining “weak” performance metrics.

	(e)	<u>A description of the ways in which the Reporting Bank seeks to adjust remuneration to take account of longer-term performance, including:</u> (i) <u>a discussion of the Reporting Bank’s policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance; and</u> (ii) <u>a discussion of the Reporting Bank’s policy and criteria for adjusting deferred remuneration before vesting and after vesting through clawback arrangements.</u>
	(f)	<u>A description of the different forms of variable remuneration that the Reporting Bank utilises and the rationale for using these different forms, including:</u> (i) <u>an overview of the forms of variable remuneration offered (i.e. cash, shares and share-linked instruments and other forms of remuneration⁸¹⁶); and</u> (ii) <u>a discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees, a description of the factors that determine the mix and their relative importance.</u>
<u>Quantitative Disclosures</u>	(g)	<u>The number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its members.</u>
	(h)	<u>For each financial year,</u> (i) <u>the number of employees that have received a variable remuneration award;</u> (ii) <u>the number and total amount of guaranteed bonuses awarded;</u> (iii) <u>the number and total amount of sign-on awards made; and</u> (iv) <u>the number and total amount of severance payments made.</u>
	(i)	<u>The total amount of:</u> (i) <u>outstanding deferred remuneration, broken down into cash, shares and share-linked instruments and other forms of remuneration; and</u> (ii) <u>deferred remuneration paid out in the financial year.</u>
	(j)	<u>A breakdown of the amount of remuneration awards for the financial year to include:</u> (i) <u>fixed and variable remuneration;</u>

⁸¹⁶ A description of the elements corresponding to other forms of variable remuneration (if any) should be provided.

		<p><u>(ii) deferred and non-deferred remuneration; and</u> <u>(iii) the different forms of remuneration used (i.e. cash, shares and share-linked instruments and other forms of remuneration).</u></p> <p><u>Table 11A-1 of Annex 11A of this Part illustrates how the breakdown of remuneration awards should be presented for each financial year.</u></p>
	(k)	<p><u>A description of employees' exposure to implicit adjustments (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. malus, clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration. This should include the total amount of:</u></p> <p><u>(i) outstanding deferred remuneration and retained remuneration exposed to ex-post explicit and/or implicit adjustments;</u> <u>(ii) reductions during the financial year due to ex-post explicit adjustments; and</u> <u>(iii) reductions during the financial year due to ex-post implicit adjustments.</u></p>

[MAS Notice 637 (Amendment No. 2) 2011]

BREAKDOWN IN REMUNERATION DISCLOSURES FOR SENIOR MANAGEMENT AND MATERIAL RISK TAKERS

Table 11A-1 – Amount of Remuneration Awards for Current Financial Year⁸¹⁷

Category		Unrestricted	Deferred
Fixed remuneration	Cash-based	x	x
	Shares and share-linked instruments	x	x
	Other forms of remuneration	x	x
Variable remuneration	Cash-based	x	x
	Shares and share-linked instruments	x	x
	Other forms of remuneration	x	x

[\[MAS Notice 637 \(Amendment No. 2\) 2011\]](#)

⁸¹⁷ Separate tables should be completed for (a) senior management and (b) material risk takers.



Monetary Authority of Singapore