

**RESPONSE TO
FEEDBACK RECEIVED**

November 2018

**Proposed Regulatory
Capital Treatment of
Banks' Holdings of Total
Loss-Absorbing Capacity
(TLAC) Liabilities in MAS
Notice 637**

MAS

Monetary Authority of Singapore

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1 Preface

1.1 On 9 April 2018, MAS consulted on the proposed regulatory capital treatment of banks' holdings of total loss-absorbing capacity (TLAC) liabilities in MAS Notice 637 on Risk-based Capital Adequacy Requirements for Banks Incorporated in Singapore.

1.2 The consultation closed on 9 May 2018. MAS would like to thank all respondents for their feedback. The list of respondents is in Annex A and the full submissions are provided in Annex B.

1.3 The revisions to MAS Notice 637 relating to the proposals in the 9 April 2018 consultation paper will take effect from 1 January 2019.

1.4 MAS has considered the feedback received carefully and where appropriate, has incorporated them into the revised MAS Notice 637. Feedback of wider interest, together with MAS' responses, is set out below.

2 Response to Feedback

Scope of Other TLAC Liabilities

2.1 Respondents sought clarification whether the scope of other TLAC liabilities included TLAC-eligible instruments issued by non G-SIBs and TLAC-eligible instruments issued by G-SIBs that are not subject to a minimum TLAC requirement.

MAS' Response

2.2 The regulatory adjustments relating to TLAC holdings:

- (a) shall apply to TLAC-eligible instruments issued by G-SIBs from the date at which the issuing G-SIB becomes subject to a minimum TLAC requirement by its home authority; and
- (b) shall not apply to TLAC-eligible instruments issued by non G-SIBs that are subject to minimum TLAC requirements.

Size of Capital Deduction Threshold

2.3 Respondents generally supported the proposal to include other TLAC liabilities within the 10% threshold previously applicable for regulatory capital holdings only and to introduce an additional 5% TLAC-specific threshold. A respondent suggested MAS to set a higher capital deduction threshold. The respondent was of the view that the proposed capital treatment of other TLAC liabilities did not take into consideration the creditor

hierarchy for the bail-in of TLAC-eligible instruments. For example, senior non-preferred bonds and subordinated Tier 2 bonds are subject to the same Tier 2 deduction approach under the proposal even though senior non-preferred bonds have a lower probability of being bailed in under resolution.

MAS' Response

2.4 MAS will keep the size of the TLAC-specific threshold at 5% which is aligned with the Basel Committee on Banking Supervision's (BCBS) TLAC holdings standard. In sizing the additional threshold, BCBS had already taken into consideration the importance of there being deep and liquid secondary markets for TLAC instruments, as well as the calibration of TLAC requirements in the FSB TLAC Term Sheet.

2.5 MAS will continue to require deduction of non-regulatory capital TLAC instruments from Tier 2 capital to provide a single treatment that can be applied consistently by both G-SIBs and non-G-SIBs.

Use of the Additional 5% TLAC-specific Threshold

2.6 A respondent sought clarification whether MAS' approval is required for the designation of other TLAC liabilities under the additional 5% TLAC-specific threshold.

MAS' Response

2.7 Reporting Banks are not required to obtain MAS' approval but are required to report the amount of other TLAC liabilities designated for the 5% threshold under Reporting Schedule 1A Part A.

MONETARY AUTHORITY OF SINGAPORE

13 November 2018

Annex A

**LIST OF RESPONDENTS TO THE CONSULTATION PAPER ON PROPOSED
REGULATORY CAPITAL TREATMENT OF BANKS' HOLDINGS OF TLAC
LIABILITIES IN MAS NOTICE 637**

1. Oversea-Chinese Banking Corporation Limited
2. Standard Chartered Bank (Singapore) Limited

One respondent requested confidentiality of identity.

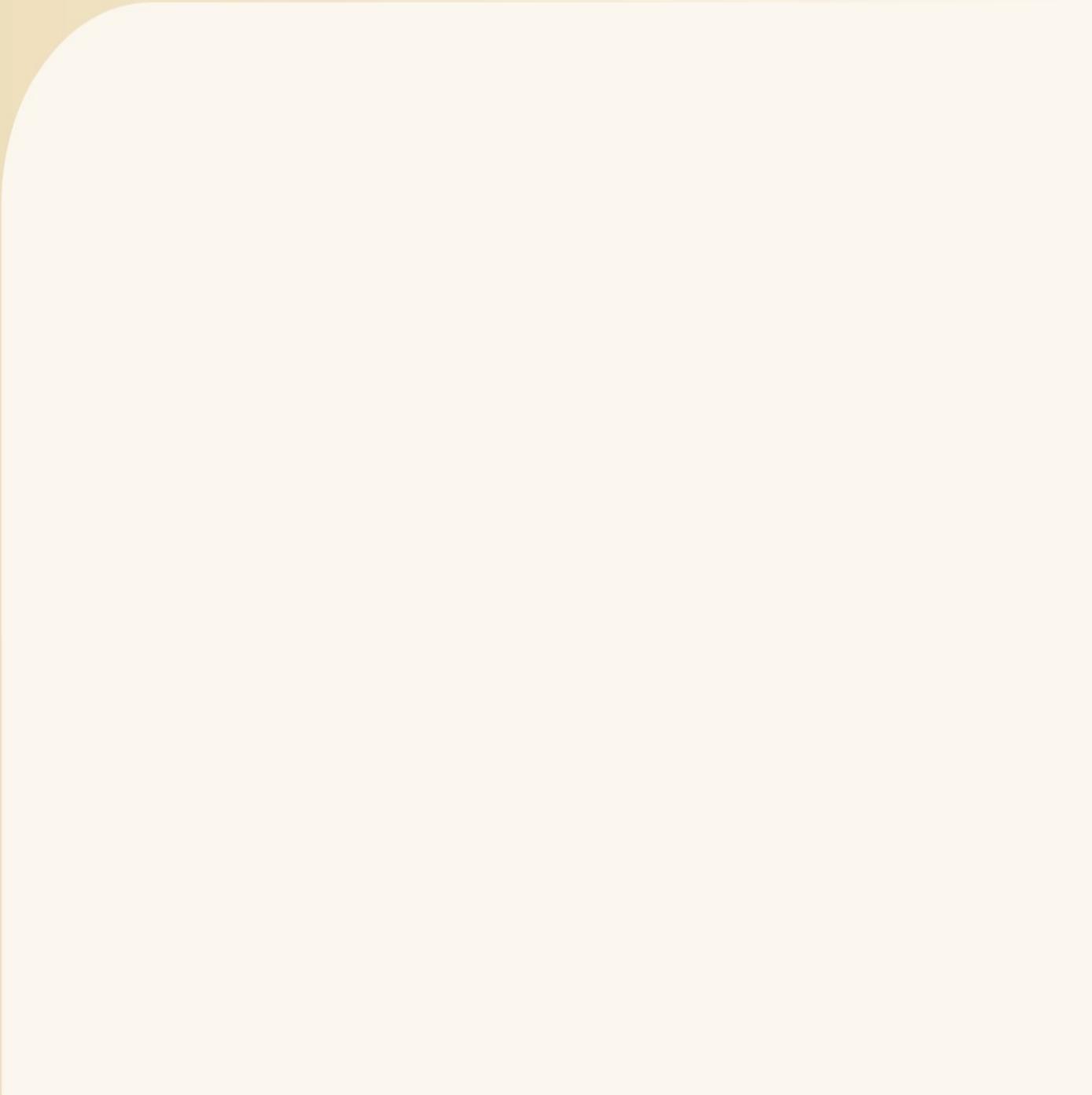
Annex B

**SUBMISSIONS FROM RESPONDENTS TO THE CONSULTATION PAPER ON
PROPOSED REGULATORY CAPITAL TREATMENT OF BANKS' HOLDINGS OF
TLAC LIABILITIES IN MAS NOTICE 637**

Note: The table below only includes submissions for which respondents did not request confidentiality.

S/N	Respondent	Feedback from respondent
1	Standard Chartered Bank (Singapore) Limited	<p>We support the implementation of the BCBS standard on TLAC holdings for locally incorporated banks. However, we believe that the TLAC disclosure requirements¹ should be implemented first in all key BCBS jurisdictions, with the TLAC cross holding requirements to be implemented at a later stage. There is indeed a dependency on other banks' information for locally incorporated banks to accurately and consistently implement the requirements. A staggered implementation will also assist with supervisory reviews of the governance and control framework to meet the requirements.</p> <p>The primary objective of the TLAC holdings deduction approach is to reduce a significant source of contagion in the banking system. The standard however recognises "the importance of there being deep and liquid secondary markets for TLAC instruments" [BCBS standard], and introduces an additional threshold to facilitate market-making and short-term holding of TLAC by banks.</p> <p>The ability for banks to identify and continuously monitor other banks TLAC instruments with certainty is paramount to meet the requirements and to be comfortable using the thresholds to provide liquidity to the market. At present, there is no existing mechanism or process to provide that certainty, which is likely to lead banks to manage their TLAC cross holdings significantly below the optimum level for the market. This, in turn, could make TLAC instrument issuance more difficult and expensive.</p> <p>The issue would be greatly alleviated once banks are required to provide detailed information on their TLAC liabilities (MREL in the case of the European Union) as part of the enhanced Pillar 3 disclosure requirements. The disclosure could then be used to build and maintain central database allowing effective and efficient identification. For instance, market service providers could set up and integrate a common identifier as part of their platforms, which banks could use when designing the necessary governance and control processes.</p> <p>We note that, as per the BCBS agreed international timetable, both the TLAC holding and related disclosure standards are expected to be implemented from 1 January 2019. This alignment poses practical and operational challenges, in view of the need for the necessary TLAC</p>

		<p>information to be publicly available before banks could accurately monitor and comply with cross-holding thresholds. We would instead suggest a phased-in approach, where banks first provide the necessary transparency to the market and are given adequate time to operationalise the requirements on TLAC holdings. The status of implementation in other key BCBS jurisdictions should also be a key consideration when setting those implementation dates. We note for instance that it is unlikely that the EU will finalise the treatment of TLAC cross holding by 1 January 2019 given the status of the legislative process.</p> <p><i>Note 1: March 2016 BCBS standard "Pillar 3 Disclosure requirements - consolidated and enhanced framework"</i></p>
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