



## **RESPONSE TO FEEDBACK RECEIVED – CONSULTATION ON PROPOSED AMENDMENTS TO MAS NOTICE 637 TO IMPLEMENT DISCLOSURE AND SUBMISSION REQUIREMENTS FOR ASSESSING GLOBAL SYSTEMICALLY IMPORTANT BANKS AND POINT OF NON-VIABILITY REQUIREMENTS**

### **1 Introduction**

1.1 On 4 October 2013, MAS issued a consultation paper inviting Singapore-incorporated banks (“Reporting Banks”) and interested parties to comment on proposed amendments to MAS Notice 637 (the “Notice”), which incorporated disclosure and submission requirements for assessing global systemically important banks (“G-SIBs”), and further considerations on the requirements to ensure loss absorbency at the point on non-viability (the “PONV” requirement).

1.2 The revisions to MAS Notice 637 to allow the Basel Committee on Banking Supervision (“BCBS”) to assess the systemic importance of Singapore-incorporated banks, as well as to set out further considerations on assessing the point of non-viability, will be implemented on 31 December 2013. Comments received from the consultation relating to these areas that are of wider interest and MAS’ responses are set out below.

1.3 We thank all respondents for their comments.

## **2 CONSIDERATIONS IN ASSESSING THE POINT OF NON-VIABILITY**

### **2.1 Considerations and Thresholds**

2.1.1 A few banks commented that it may not be appropriate to consider a Reporting Bank's ability to obtain short term funding in assessing the point of non-viability, given that increased capital is not the right tool to address a liquidity concern. One bank commented that certain considerations, such as the failure to pay any liability that has become due, are worded too broadly. Another bank asked if the considerations are applicable only at the bank solo level. These banks expressed concerns on the qualitative nature of some considerations and that the lack of pre-specified thresholds could lead to speculation on the timing of the trigger. These banks suggested that MAS establishes and agrees with the banks on the thresholds for each consideration, where appropriate, to guide the assessment of a Reporting Bank's viability.

#### MAS' Response

2.1.2 The PONV requirements are intended to ensure loss absorbency at the point of non-viability, i.e. the provision under paragraph 1.1 of Annex 6B of Part VI of the Notice is a late-stage tool available to MAS and is not meant to address a temporary incident of distress. In line with the aim of the PONV requirements, MAS will take into account prevailing conditions and specific circumstances of the Reporting Bank in assessing its viability. For example, a severe liquidity stress may threaten the viability of the Reporting Bank in the event that the liquidity problem escalates into a solvency problem that undermines confidence in the institution.

2.1.3 The considerations set out in paragraph 1.5 of Annex 6B of Part VI of the Notice are not meant to be mechanically applied. MAS recognises that the assessment of a Reporting Bank's viability should be as clear as possible in order to achieve the intended policy outcomes. Nevertheless, a completely mechanical trigger will not be able to address all potential failure situations that could occur in the future. Hence, it is neither feasible nor desirable to rely on pre-specified thresholds for the purpose of ensuring loss absorbency at the point

of non-viability. In line with the Financial Stability Board's ("FSB") consultative document on the *Assessment Methodology for the Key Attributes of Effective Resolution Regimes for Financial Institutions*, MAS will exercise appropriate judgment in assessing a Reporting Bank's viability based on clear and transparent considerations set out in paragraph 1.5 of Annex 6B of Part VI of the Notice.

## **2.2 Communication of MAS' Assessment and Decision to Trigger**

2.2.1 One bank sought confirmation that MAS will communicate any concerns relevant to the assessment of the point of non-viability to the Reporting Bank in advance, and provide sufficient time for the Reporting Bank to rectify these concerns. Another bank sought confirmation that MAS will engage the home regulator before triggering the loss-absorption mechanism, in cases where the Reporting Bank is a subsidiary of a bank incorporated outside Singapore.

### MAS' Response

2.2.2 As part of its ongoing prudential supervision, MAS regularly engages the Reporting Banks to identify potential risks that may impact the safety and soundness of the institution. In line with existing practice, this will include, where necessary, an assessment of their viability for the purpose of paragraph 1.5 of Annex 6B of Part VI of the Notice.

2.2.3 For foreign banks operating in Singapore, MAS engages their home regulators through bilateral exchanges and supervisory colleges for effective cross-border supervision and handling of crises. In line with existing practice, this will include working with home regulators wherever possible in assessing the point of non-viability of a Reporting Bank which is a subsidiary of a bank incorporated outside Singapore.

## **2.3 Discretion Not to Trigger**

2.3.1 One bank sought clarification on when MAS may choose not to trigger the provisions under paragraph 1.1 of Annex 6B even if the Reporting Bank is assessed to have ceased, or is about to cease, to be viable. The bank also suggested that the implementation and determination of the considerations set out in paragraph 1.5 of Annex 6B of Part VI of the Notice be delayed until the FSB publishes its proposal on bail-in powers.

### MAS' Response

2.3.2 MAS has a broad range of powers and resolution tools to maintain financial stability, address serious problems in a financial institution that threaten its viability, and resolve an institution that is no longer viable. In determining the appropriate measures, including the requirements to ensure loss absorbency at the point on non-viability under Annex 6B, MAS seeks to avoid unnecessary destruction of value and minimise the overall impact of a Reporting Bank's failure on financial stability.

2.3.3 The PONV requirements are part of MAS' implementation of the Basel III capital standards in accordance with international timelines agreed by the BCBS. MAS will continue to monitor developments and seek to ensure that the implementation of PONV requirements keep pace with international standards, where applicable.

## **3 DISCLOSURE AND SUBMISSION REQUIREMENTS FOR ASSESSING G-SIBs**

### **3.1 Definition of Leverage Ratio Exposure Measure**

3.1.1 A few banks requested that the definition of leverage ratio exposure measure for the purpose of Part XIA be aligned with that used under Part IV of the same Notice.

## MAS' Response

3.1.2 A consistent definition of leverage ratio exposure measure, as defined by the BCBS, is used for the purpose of Part XIA given that the assessment of G-SIBs is conducted on a global basis. Where appropriate, MAS will finalise the definition of leverage ratio exposure measure for the purpose of Part IV, taking into account BCBS' definition and domestic circumstances of Singapore. MAS acknowledges the feedback received and will monitor international developments on an ongoing basis.

### **3.2 Supervisory Discretion**

3.2.1 A few banks sought clarification on the circumstances where MAS may require a Reporting Bank to comply with the public disclosure and submission requirements set out under paragraphs 11A.1.2 and 11A.1.3 of the Notice.

## MAS' Response

3.2.2 National supervisory authorities are guided by BCBS' criteria on the nomination of banks to participate in the G-SIB assessment exercise. These criteria provide for the use of supervisory judgement to add banks to the exercise so as to ensure that the largest banks in the world that have become/are becoming more systemically important will be assessed. MAS will consider these criteria in exercising the supervisory discretion set out under paragraph 11A.1.4.

### **3.3 Scope of Application**

3.3.1 One bank sought clarification on whether the requirements set out in Part XIA apply only to Reporting Banks which are identified as G-SIBs.

### MAS' Response

3.3.2 The requirements set out in Part XIA will apply to all Reporting Bank regardless of their G-SIB status. For the avoidance of doubt, the scope of application has been set out in Division 1 of Part XIA.

### **3.4 Timing and Location of Disclosure**

3.4.1 One bank sought confirmation that a Reporting Bank with financial year-end 31 December is required to publish the disclosures by 30 April the following year. The bank also asked if the Reporting Bank could determine the location of disclosure.

### MAS' Response

3.4.2 A Reporting Bank with financial year-end 31 December is required to publish the disclosure by 30 April the following year. As set out in paragraph 11A.1.5 of the Notice, a Reporting Bank shall disclose the information required under Part XIA in either its published financial statements or, at a minimum, provide a direct link in its published financial statements to the complete disclosure on its website or on publicly available regulatory reports.

### **3.5 Notional Amount of Over-The-Counter (“OTC”) Derivatives**

3.5.1 One bank sought confirmation that “OTC derivatives” excludes exchange-traded derivatives.

### MAS' Response

3.5.2 This is affirmative. The definition of “OTC derivative transaction” is set out in Part II of the Notice