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# EMERGENCY LIQUIDITY ASSISTANCE IN SINGAPORE

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**Monetary Authority of Singapore**

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## Contents

1	Introduction.....	1
2	The Rationale for Articulating the ELA Framework.....	2
3	ELA – Definition, Legal Basis and Objectives of ELA.....	3
	Box 1: Section 26 of the MAS Act .....	3
4	Eligibility and Modes of ELA .....	4
5	Guiding Principles of the ELA Framework .....	6
	Principle 1: Lend only to viable entities.....	6
	Principle 2: Lend against a wider set of collateral .....	6
	Principle 3: Lend at a premium above BAU market interest rates.....	7
6	ELA Disclosure Policy .....	8
7	Interaction with Resolution or Liquidation .....	9
8	Summary.....	10

## 1 Introduction

1.1 This Monograph outlines the approach taken by the Monetary Authority of Singapore (MAS) in providing Emergency Liquidity Assistance (ELA) to financial institutions (FIs).

1.2 As a central bank, MAS conducts money market operations daily to ensure that there is an appropriate amount of liquidity in the banking system. To reduce interest rate volatility and to facilitate the smooth functioning of S\$ payment systems, MAS also operates two liquidity facilities<sup>1</sup> – the MAS Intra-day Liquidity Facility (ILF) and the MAS Standing Facility (SF). These facilities allow eligible FIs to obtain intra-day or overnight S\$ liquidity on a collateralised basis. Details of MAS' liquidity management framework are set out in the [monograph on Monetary Policy Operations in Singapore](#).

1.3 In extraordinary situations where FIs come under liquidity stress, MAS is empowered by the [Monetary Authority of Singapore Act \(Cap. 186\)](#) (MAS Act) to provide loans or advances to FIs to safeguard the stability of, or public confidence in, the financial system. This role of providing ELA is commonly referred to, in central banking literature, as the Lender of Last Resort (LOLR). To be clear, ELA does not include liquidity provided to FIs via the ILF and SF.

1.4 This Monograph, which sets out the key parameters of the ELA framework, is intended to inform FIs' planning for liquidity stress and crisis management, particularly relating to the extent of central bank liquidity support. Notwithstanding, the ELA framework does not constrain MAS' powers and discretion to take additional actions if necessary.

1.5 This Monograph is structured as follows:

- (a) [Section 2](#) explains MAS' rationale for articulating the ELA framework;
- (b) [Section 3](#) details the definition, legal basis and objectives of ELA;
- (c) [Section 4](#) outlines the eligibility and modes of ELA;
- (d) [Section 5](#) sets out the guiding principles underpinning the ELA framework;
- (e) [Section 6](#) states MAS' disclosure policy in the provision of ELA;
- (f) [Section 7](#) describes the interaction between ELA and resolution or liquidation; and
- (g) [Section 8](#) summarises the ELA framework.

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<sup>1</sup> FIs are encouraged to utilise these facilities for liquidity management purposes, if needed.

## 2 The Rationale for Articulating the ELA Framework

2.1 Prior to the Global Financial Crisis (GFC), central banks adopted a stance of “constructive ambiguity” on their role as the LOLR to reduce moral hazard. After the GFC, central banks have moved towards providing more clarity on the broad parameters of their ELA frameworks. The GFC demonstrated that “constructive ambiguity” can become counter-productive during periods of stress, where the lack of information on the mode and availability of central bank assistance can add to market uncertainty. This can potentially lead to liquidity hoarding and widespread market disruption, making it harder for central banks to manage risk aversion and liquidity stress.

2.2 In contrast, the move towards “constructive clarity” aims to provide adequate information to FIs on an *ex-ante* basis to support planning for liquidity stress and crisis management. This will also address possible issues that FIs may face when approaching a central bank in times of need.

2.3 Post-GFC, MAS has also implemented measures to enhance the resilience of FIs, and facilitate their recovery and resolution planning. For example, MAS has strengthened liquidity and capital requirements for banks as part of the Basel III reforms. This does not however, eliminate the need for a credible and responsive source of backstop liquidity in times of stress. The provision of ELA by MAS can help alleviate liquidity stress and preserve financial stability.

2.4 MAS believes that providing greater clarity on the ELA framework can complement recovery and resolution planning, as well as prudential policies, in enhancing financial stability. In addition, increased transparency on the parameters for ELA, such as eligibility criteria and collateral policy, will enable eligible FIs to put in place operational processes to access ELA. This will improve the overall effectiveness and efficiency of ELA provision during times of stress.

### 3 ELA – Definition, Legal Basis and Objectives of ELA

3.1 MAS views ELA as the provision of short-term backstop S\$ liquidity to address idiosyncratic or system-wide liquidity stress in extraordinary situations<sup>2</sup>.

3.2 MAS has powers to provide ELA under section 26 of the MAS Act, as set out in Box 1 below. It allows MAS to make any loan or advance to an FI where MAS deems it necessary to safeguard the stability of, or public confidence in, the financial system. The provision of ELA is however, not intended to be a form of support for FIs that are not viable, as resolution or liquidation of such FIs would be more appropriate.

#### Box 1: Section 26 of the MAS Act

***“Special loans to banks and financial institutions, etc.***

*The Authority may, if it thinks such action is necessary to safeguard –*

*(a) the stability of the financial system; or*

*(b) public confidence in the financial system,*

*make any loan or advance to any bank carrying on business under the Banking Act (Cap. 19) or to such financial institutions or class of financial institutions or such other persons as the Authority may from time to time determine, on such terms and conditions as the Authority thinks fit.”*

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<sup>2</sup> There is no internationally-agreed definition of ELA, as the extent, nature and form of ELA in each jurisdiction depend on the legal powers, objectives and mandate of the respective central bank.

## 4 Eligibility and Modes of ELA

4.1 Banks<sup>3</sup> play an important role in financing the real economy. They perform maturity transformation by accepting short-term deposits and tapping short-term wholesale market borrowings, and making long-term loans. This role exposes banks to liquidity risk on a stand-alone basis, or due to market-wide stress (e.g. banks are subject to the risk of runs and disruption of wholesale funding markets, with financial and macroeconomic stability implications). Banks are also key intermediaries in the S\$ real-time gross settlement system, where they make payments, settle transactions, or transfer funds to other banks or FIs, either on behalf of themselves or their clients. The failure of one bank to make payments in a timely manner can have knock-on implications on the ability of other banks to settle their payments on time, potentially causing gridlocks in the payments system.

4.2 In particular, where an otherwise healthy bank faces a liquidity run, its viability can quickly become impaired. Given the interconnectedness amongst banks and also between banks and other FIs, there can also be contagion effects when banks come under liquidity stress, with widespread implications on financial stability and public confidence.

4.3 Banks therefore meet the eligibility considerations for ELA. MAS expects to provide ELA to banks via two modes:

- (a) **Market-wide ELA provision:** This can take the form of a liquidity facility with standardised terms of access to address a sudden and system-wide seizing-up of funding markets. Such a facility can be open to all banks or a specified group of banks e.g. Full Banks, Wholesale Banks, etc.

Liquidity conditions in wholesale funding markets depend on the willingness of market participants to transact and provide funding to one another. In a system-wide crisis, banks may pull back from lending to each other due to heightened counterparty risk. Banks can exacerbate the situation by hoarding liquidity to increase their precautionary buffers. These factors can quickly cause the wholesale funding market to seize up and destabilise the broader financial system. The introduction of market-wide ELA during such situations would allow eligible banks to obtain

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<sup>3</sup> In this Monograph, a bank is as defined under section 2 of the Banking Act (Cap. 19) and excludes a merchant bank. Please refer to MAS' [FI Directory](#) for the list of banks operating in Singapore.

liquidity so long as they have the necessary collateral, thereby addressing such liquidity stress and supporting market confidence.

- (b) **Bespoke ELA provision:** This relates to loans extended to one or a few domestic systemically important banks (D-SIBs)<sup>4</sup> facing institution-specific liquidity stress, given the critical role of a D-SIB in the financial system, as well as the broader economy. Such liquidity assistance is intended to limit contagion to the broader financial system or to support public confidence in the Singapore financial system, before wider market issues develop.

A liquidity run on a viable D-SIB could lead to possible widespread contagion, weakening public confidence in the financial system. Without central bank support, such liquidity runs could propagate rapidly and spread to the entire financial system. Under this scenario, a bespoke provision of liquidity can directly address the liquidity stress faced by the D-SIB, thereby supporting public confidence and mitigating the impact on broader financial stability.

Given its bespoke nature, the collateral and loan tenor for such arrangements are wider and more flexible than those for market-wide ELA.

4.4 Other types of FIs are not granted *ex-ante* ELA eligibility, but MAS has the powers to provide such liquidity assistance to any FI in extraordinary situations to safeguard the stability of, or public confidence in, the financial system.

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<sup>4</sup> D-SIBs are banks that are assessed to have a significant impact on the stability of the financial system and proper functioning of the broader economy. All banks in Singapore will be assessed for their systemic importance annually based on their size, interconnectedness, substitutability and complexity. For more information, please refer to the monograph on [MAS' Framework for Impact and Risk Assessment of Financial Institutions](#).

## 5 Guiding Principles of the ELA Framework

5.1 MAS' ELA framework is underpinned by three guiding principles which support the ELA objectives, while minimising the risk to its balance sheet.

Principle 1: Lend only to viable entities

5.2 MAS will only provide ELA to a bank that is assessed to be viable<sup>5</sup>. As viability is assessed on a forward-looking basis, a bank would not be eligible for ELA if it is already assessed to be either (a) non-viable or (b) likely to be no longer viable; and has no reasonable prospect of becoming viable in the future.

Principle 2: Lend against a wider set of collateral

5.3 MAS' collateral policy seeks to protect MAS from counterparty credit risk, by accepting collateral with appropriate haircuts.

5.4 Under the ILF and SF, only high quality collateral<sup>6</sup> are accepted. In view of the extraordinary situations under which ELA will be extended, MAS is prepared to accept a wider pool of eligible collateral, as set out in three broad categories:

- (a) **Category I** – Category I collateral is generally accepted under the SF and includes both S\$ denominated and certain foreign currency denominated cash and debt securities. Highly-rated government-related and non-financial corporate debt securities, and covered bonds are accepted.
- (b) **Category II** – Category II comprises additional S\$ denominated and certain foreign currency denominated assets, such as other government-related and non-financial corporate debt securities, covered bonds, and listed equities on SGX. S\$ denominated debt securities issued by FIs are also included<sup>7</sup>.
- (c) **Category III** – In order for ELA to be effective as a backstop, it should aim to provide liquidity against as wide a universe of financial collateral as possible. In practice, eligibility criteria will include quality, availability, assignability among other considerations. As a start, MAS will consider residential mortgage loans.

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<sup>5</sup> Please refer to paragraph 2.5 of the monograph on [MAS' Approach to Resolution of Financial Institutions in Singapore](#) for additional information on the definition of viability.

<sup>6</sup> The eligible collateral for ILF and SF are published on the [MAS website](#).

<sup>7</sup> For avoidance of doubt, self-issued debt securities are not accepted.



5.5 The list of eligible collateral for market-wide ELA comprises Category I and II assets, while bespoke ELA is provided against a wider set of financial assets such as loans in Category III<sup>8</sup>. Given that loans (such as residential mortgages) make up a significant proportion of D-SIBs' assets in Singapore, acceptance of such collateral will potentially enable MAS to provide more ELA through bespoke arrangements. An indicative list of ELA eligible collateral within each of the three categories can be found on the [MAS website on ELA](#).

Principle 3: Lend at a premium above BAU market interest rates

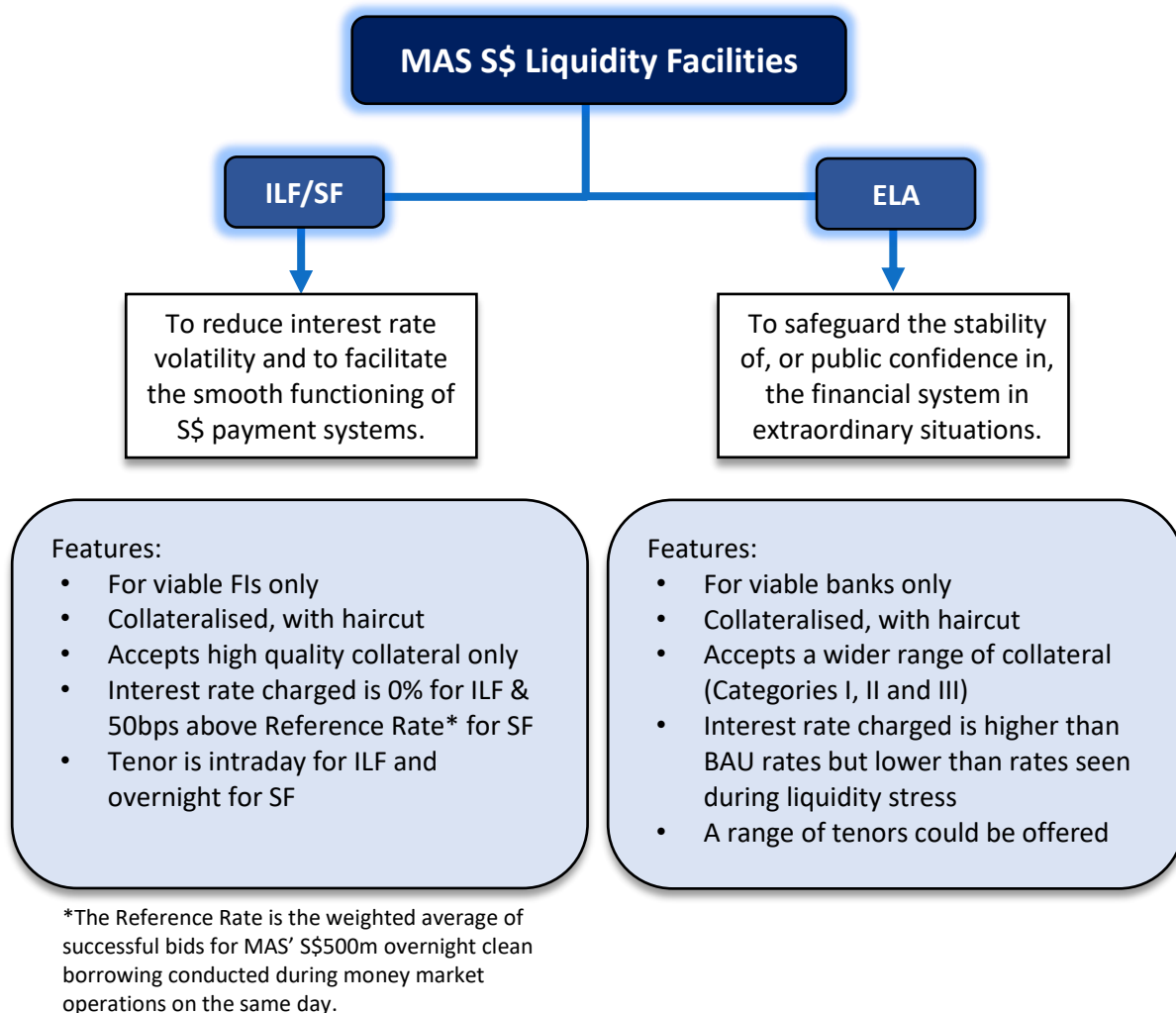
5.6 MAS will charge a premium over market interest rates in BAU conditions, but the interest rate charged will likely be lower than levels that are expected to prevail during liquidity stress events. This is in line with the intent for MAS' ELA provision to function as a backstop, while not overly penalising recipient banks and exacerbating the liquidity stress. Charging above BAU market interest rates is also intended to encourage prompt repayment, and reduce reliance on ELA after stability and market functionality have been restored.

5.7 Figure 1 provides an overview of all the S\$ liquidity facilities provided by MAS.

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<sup>8</sup> MAS will work with D-SIBs to facilitate this.

Figure 1: MAS S\$ Liquidity Facilities



## 6 ELA Disclosure Policy

6.1 As a policy, MAS will not disclose information on the ELA provided to banks. This is in line with MAS' practice of maintaining confidentiality over the usage of ILF and SF.

6.2 In exceptional circumstances, such as where there are legal or strong public interest grounds to justify such disclosure, the information relating to the provision of ELA to banks can be disclosed on a delayed basis. When assessing the timing and extent of disclosure, MAS will take into account the implications of such disclosure on financial stability and benefits of doing so.

## 7 Interaction with Resolution or Liquidation

7.1 Banks may be placed into resolution or liquidation if they are assessed by MAS to be either (a) non-viable or (b) likely to be no longer viable; and have no reasonable prospect of becoming viable in the future. Any liquidation of a bank could also be initiated by the bank itself or its creditors.

7.2 ELA will not be provided to a bank under resolution or liquidation. The provision of ELA is not intended to be a form of support for banks that are not viable, as resolution or liquidation of such banks would be more appropriate. Any funding required to support resolution measures<sup>9</sup> would be provided through resolution funding arrangements. However, any exercise of resolution powers on a bank would not constitute an event of default or trigger early termination of outstanding ELA, provided that the bank continues to perform its substantive obligations under the terms and conditions of the ELA provision (e.g. delivery of collateral).

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<sup>9</sup> Please refer to Section 8 of [MAS' Approach to Resolution of Financial Institution in Singapore](#) for further elaboration on resolution funding.

## 8 Summary

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8.1 An ELA framework that provides clarity on its key principles can complement recovery and resolution planning, as well as prudential policies, in enhancing financial stability.

8.2 MAS has powers under section 26 of the MAS Act to extend ELA to safeguard the stability of, or public confidence in, the financial system. The provision of ELA is however, not intended to be a form of support for banks that are not viable as resolution or liquidation measures would be the more appropriate tools.

8.3 Banks meet eligibility considerations for ELA given their important roles in the economy and that they are subject to liquidity risk with financial stability implications. If needed, MAS can also provide ELA to any FI, where such assistance is required to safeguard the stability of, or public confidence in, the financial system.

8.4 MAS can provide ELA to banks via two modes. First, market-wide ELA can be provided to all banks or a specified groups of banks, to address a system-wide seizure in funding markets. Second, bespoke ELA can be provided to one or a few D-SIBs facing institution-specific liquidity stress, given the critical roles these banks play in the financial sector, as well as the broader economy.

8.5 MAS is prepared to accept a wider set of collateral under the ELA framework, including financial assets such as loans. In line with the intent for MAS' ELA provision to function as a backstop, while not overly penalising recipient banks and exacerbating the liquidity stress, the pricing for ELA will be set at a premium over BAU market interest rates, but will be lower than levels that are expected to prevail during liquidity stress periods.

8.6 MAS will not disclose details of the ELA provision unless there are legal or strong public interest grounds for doing so. Under such circumstances, the disclosure can be made on a delayed basis, taking into account the implications on broader financial stability.