

RESPONSE TO FEEDBACK RECEIVED

September 2021

Proposed Implementation of the Final Basel III Reforms in Singapore – Market Risk Capital Requirements

MAS

Monetary Authority of Singapore

Contents

1	Preface	3
2	Use of the Simplified Standardised Approach for Market Risk [SSA(MR)]	3
3	Annex A	5
4	Annex B	6

1 Preface

1.1 On 7 May 2019, the Monetary Authority of Singapore (MAS) consulted on the proposed implementation of the final Basel III reforms in Singapore.

1.2 This document sets out MAS' response to feedback received on the consultation paper published on 7 May 2019 regarding the proposals on market risk capital requirements. MAS thanks all respondents for their feedback. The list of respondents is in Annex A. Full submissions of respondents that did not request confidentiality are in Annex B.

1.3 MAS has carefully considered the feedback received, and where appropriate, has incorporated them into the draft standards for market risk capital requirements for Singapore-incorporated banks¹ issued for consultation today. MAS' response to a comment of wider interest is set out below.

2 Use of the Simplified Standardised Approach for Market Risk [SSA(MR)]

2.1 MAS proposed to permit banks that maintain small and simple market risk portfolios to use the SSA(MR) for calculating market risk capital requirements, subject to approval by MAS. To assess whether a bank's market risk portfolio is small as part of the determination of whether to grant approval to a bank to use the SSA(MR), MAS will consider the size of a bank's risk-weighted assets (RWA) for market risk, in absolute terms and as a proportion of the bank's total RWA.

2.2 Most respondents supported or had no comments on the proposal. One respondent suggested setting a quantitative threshold to assess the size of a bank's market risk portfolio.

¹ MAS' consultation paper on draft standards for market risk capital requirements for Singapore-incorporated banks, can be found at <https://www.mas.gov.sg/-/media/MAS/News-and-Publications/Consultation-Papers/Consultation-Paper-on-Draft-Standards-for-Market-Risk-Capital-and-Capital-Reporting-Requirements.pdf>.

MAS' Response

2.3 MAS agrees with the suggestion. In this regard, MAS will generally consider a bank's market risk portfolio to be small if its RWA for market risk (excluding CVA RWA) using the SSA(MR) is S\$200 million or less, or is 2% or less of the bank's total RWA.

MONETARY AUTHORITY OF SINGAPORE

13 SEPTEMBER 2021

Annex A

**LIST OF RESPONDENTS TO THE CONSULTATION PAPER ON
PROPOSED IMPLEMENTATION OF THE FINAL
BASEL III REFORMS IN SINGAPORE**

1. Global Foreign Exchange Division of the Global Financial Markets Association
2. International Swaps and Derivatives Association, Inc. and Asia Securities Industry and Financial Markets Association
3. Oversea-Chinese Banking Corporation Limited

6 other respondents requested confidentiality of identity.

Annex B

**SUBMISSIONS FROM RESPONDENTS TO THE CONSULTATION PAPER
ON PROPOSED IMPLEMENTATION OF THE FINAL
BASEL III REFORMS IN SINGAPORE**

Note: The table below only includes submissions for which respondents did not request confidentiality of their responses. The table below also only includes comments from the respondents relating to market risk capital or credit valuation adjustment requirements, and their responses to the following questions of the consultation paper published on 7 May 2019, which pertains to market risk capital requirements:

- **Question 15.** MAS seeks comments on the proposal to exercise the national discretion to assign a 0% default risk weight under the revised SA(MR) to claims on sovereigns, PSEs and MDBs that would receive a 0% risk weight under the revised SA(CR).
- **Question 16.** MAS seeks comments on its proposed considerations in assessing whether to grant approval for a bank to use the Simplified SA.

S/N	Respondent	Response from Respondent
1	International Swaps and Derivatives Association, Inc. and Asia Securities Industry and Financial Markets Association	<p>Extract from “General comments and policy considerations”</p> <p>B. General comments and policy considerations</p> <p>The Associations consider it important that the final Basel III and FRTB standards are implemented in a way that drives a robust and effective banking sector, whilst supporting the growth and development of the real economy in Singapore and the Asia Pacific region. In doing so, we urge the MAS to assess the proposals in the Consultation against the overarching BCBS commitment to not significantly increase capital requirements, and ensure the MAS carries out an impact analysis that goes beyond the aggregate analysis undertaken by the BCBS. The Associations would also appreciate clarification on the implementation process, including timelines for second-round consultations on the technical guidelines and impact analysis or quantitative impact</p>

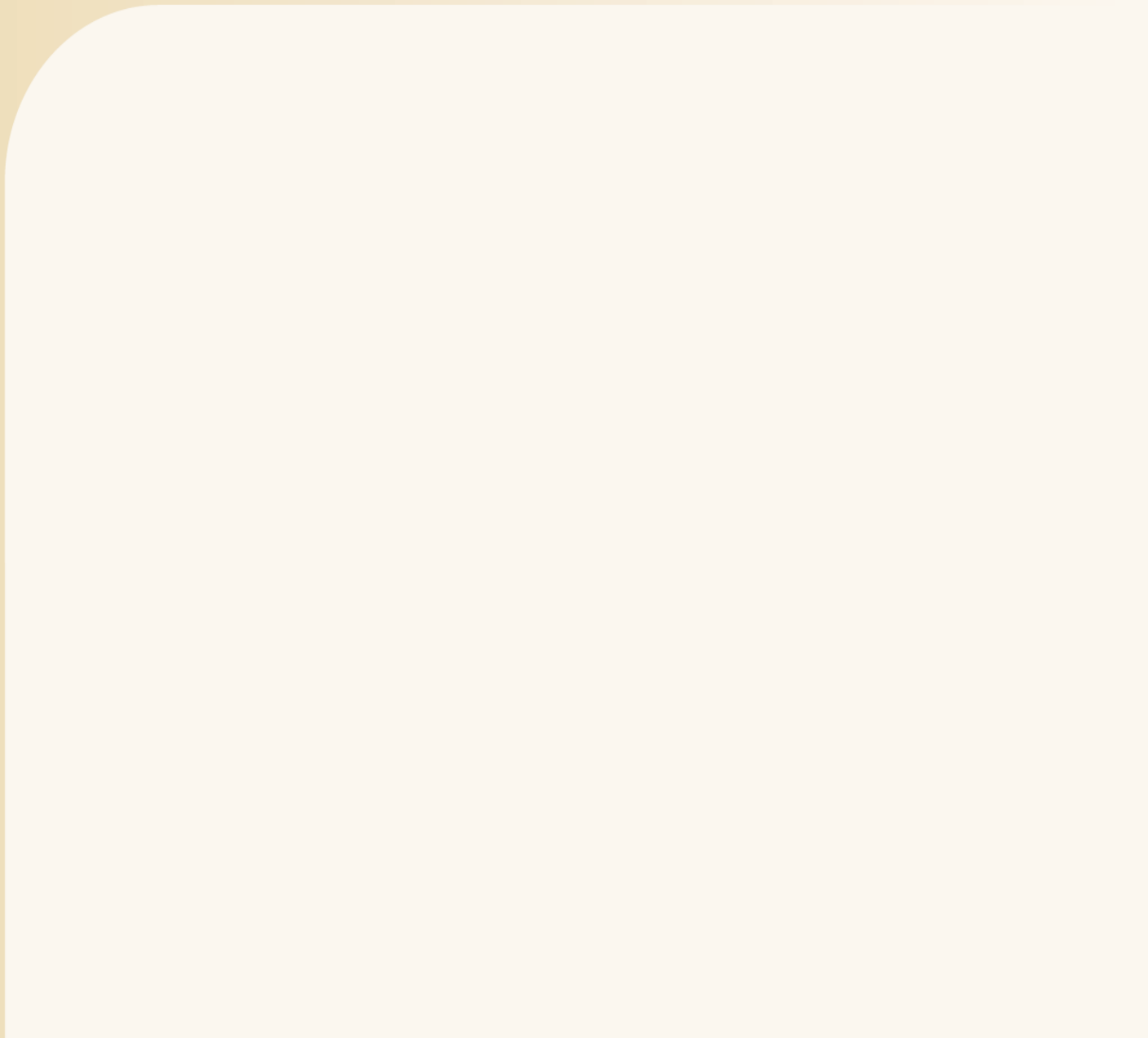
		<p>studies, and the timing and sequence of the publication of draft rules.</p> <p>The Associations are broadly supportive of the approach outlined by MAS, and of proposals which do not deviate from the BCBS standards in calibration and timeline. However, in finalizing the Consultation proposals, we also request MAS consider international developments in this area and monitor the adoption status in other key jurisdictions. Some areas that the Associations feel warrant further study are:</p> <p><i>i. Lack of international consistency and the risk of fragmentation</i></p> <p>The Associations consider it important that international standards such as Basel III and FRTB are applied consistently across jurisdictions, enabling banks to operate on a global level-playing field whilst also reflecting the specific financial and economic circumstances of Singapore and the Asia Pacific region. Furthermore, it is important for globally active banks that international standards are implemented in a coordinated way, including following a consistent timeline across jurisdictions, transitional arrangements, and with a reasonable implementation period for banks once the legislative process is finalised.</p> <p>There are concerns that the MAS implementation process will front-run the implementation process in other key jurisdictions such as the United States and European Union. The European Union has already indicated that implementation of the FRTB under CRR II and CRD V will follow a two-step approach. The European Union approach will start with reporting requirements, moving subsequently to binding capital requirements which will form part of a separate legislative proposal which is expected to be published in June 2020, making it highly uncertain that the European Union will adhere to the BCBS timeline</p>
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		<p>of January 2022 for FRTB capital binding requirements.</p> <p>This will lead to the real risk of divergence and regulatory fragmentation, and consequently implementation challenges for globally active banks if the MAS finalises the Basel III and FRTB frameworks. ISDA has discussed these fragmentation challenges, with a specific focus on FRTB, for Asia Pacific and emerging market economies in a report published in April 2019². We request that the MAS consider these fragmentation concerns and monitor the adoption status in other jurisdictions before finalizing the Basel III and FRTB frameworks.</p> <p><i>iii. Clarity on other areas of the Basel III and FRTB reforms expected to be reviewed by BCBS</i></p> <p>The Associations would like to highlight some areas of the Basel III and FRTB standards that are expected to be reviewed by the BCBS and are not covered in the Consultation, but require further clarity from MAS. We urge the MAS to consult the industry in these areas in due course, and hope our comments provided in advance will assist the MAS in formulating these policy proposals.</p> <p><i>b. Credit Valuation Adjustment (“CVA”)</i></p> <p>The revised CVA capital framework was finalised as part of the overall Basel III reforms in December 2017³. However, next to the overall calibration of the CVA framework, a key area of concern with the current framework is the limited recognition of hedges, which could be further amplified for banks in the Asia Pacific region by the difficulty</p>
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² <https://www.isda.org/a/eleME/The-Fundamental-Review-of-the-Trading-Book-and-Emerging-Markets.pdf>, ISDA, The Fundamental Review of the Trading Book and Emerging Markets.

³ https://www.bis.org/basel_framework/index.htm?export=pdf&pdfid=15602572224168506, BCBS, The Basel Framework Consultative Document (Apr. 2019).

		<p>of hedging exposure to less liquid counterparties. The risk weights used as part of the CVA framework will be informed by the revised FRTB SA framework, so it is possible that further refinements to the CVA framework may be needed, and we urge the MAS to consult on such refinements.</p>
2	<p>Global Foreign Exchange Division (“GFXD”) of the Global Financial Markets Association (“GFMA”)</p>	<p>The GFXD strongly believes that it is crucial for international standards such as Basel III and FRTB to be applied consistently across jurisdictions, enabling banks to operate on a global level-playing field. There is a concern that an uncoordinated approach to the implementation of Basel III and FRTB by jurisdictions will lead to the risk of divergence and regulatory fragmentation, and consequently implementation challenges for globally active banks. As such, the GFXD requests that the MAS carefully consider these fragmentation concerns and monitor the adoption status in other key jurisdictions before finalizing the Basel III and FRTB frameworks in Singapore.</p>



Monetary Authority of Singapore