



MAS NOTICE 643

12 December 2019

Last revised on 28 June 2021*

NOTICE TO BANKS

BANKING ACT, CAP 19

(MAS Notice 643 dated 21 November 2016 is cancelled with effect from 12 December 2019.)

TRANSACTIONS WITH RELATED PARTIES

Introduction

1 This Notice is issued pursuant to section 29A(1) of the Banking Act (Cap.19) (“the Act”) and applies to all banks in Singapore.

[MAS Notice 643 (Amendment) 2021]

- 2 This Notice sets out requirements relating to –
- (a) related party transactions of banks in Singapore; and
 - (b) responsibilities of banks in Singapore in relation to related party transactions of branches or entities in their bank groups.

The requirements seek to minimise the risk of abuse arising from conflicts of interest in such transactions.

Definitions

3 For the purposes of this Notice —

“Accounting Standards” has the same meaning as in section 4(1) of the Companies Act (Cap. 50);

“authorised person”, in relation to a bank incorporated outside Singapore, means one or more persons, or a committee of such persons, as may be authorised by the board of the bank to exercise any of its powers or perform any of its functions or duties under this Notice, either generally or in a particular case;

“bank group”, in relation to a bank in Singapore, means a group comprising —

(a) in the case of a bank incorporated in Singapore —

(i) every subsidiary of the bank;

(ii) every branch of the bank located outside Singapore; and

(iii) every other entity that is treated as part of the bank’s group of entities for accounting purposes according to Accounting Standards; or

(b) in the case of branches and offices located within Singapore of a bank incorporated outside Singapore —

(i) every subsidiary of the bank that is reflected as an investment in the balance-sheet of a branch of the bank located within Singapore; and

(ii) every other entity that —

(A) is treated as part of the bank’s group of entities for accounting purposes according to Accounting Standards; and

(B) is reflected as an investment in the balance-sheet of a branch of the bank located within Singapore;

“board”, in relation to an entity, means the board of directors of the entity;

“independent director” has the same meaning as in regulation 2 of the Banking (Corporate Governance) Regulations 2005;

“key credit approver”, in relation to a bank in Singapore means —

- (a) in the case of a bank incorporated in Singapore, any person who, whether alone or jointly with any other person or persons, has the highest level of authority to approve credit facilities that will be reflected in the balance-sheet or profit and loss accounts of the bank in Singapore or any branch or entity in its bank group; and
- (b) in the case of branches and offices located within Singapore of a bank incorporated outside Singapore, any person who —
 - (i) whether alone or jointly with any other person or persons, has the highest level of authority to approve credit facilities that will be reflected in the balance-sheet or profit and loss accounts of any branch of the bank located within Singapore or any branch or entity in the bank group of the branches and offices located within Singapore of the bank incorporated outside Singapore; and
 - (ii) takes part in the operations of the branches located within Singapore of the bank on a day to day basis;

“key credit approver group”, in relation to a bank in Singapore, means a group comprising —

- (a) any key credit approver of the bank;
- (b) any family member of a key credit approver of the bank;
- (c) any firm or limited liability partnership in or for which the key credit approver of the bank, or a family member of a key credit approver of the bank, is a partner, a manager, an agent, a guarantor or a surety;
- (d) any individual for whom a key credit approver of the bank, or a family member of a key credit approver of the bank, is a guarantor or surety;

- (e) any company for which a key credit approver of the bank, or a family member of a key credit approver of the bank, is a guarantor or surety;
- (f) any company of which a key credit approver of the bank, or a family member of a key credit approver of the bank, is an executive officer;
- (g) any company in which a key credit approver of the bank, or a family member of a key credit approver of the bank, owns more than half of the total number of issued shares, whether legally or beneficially;
- (h) any company in which a key credit approver of the bank, or a family member of a key credit approver of the bank, controls more than half of the voting power; or
- (i) any company the composition of the board of directors of which is controlled by a key credit approver of the bank, or a family member of a key credit approver of the bank;

“major stake” has the same meaning as in section 32(7) of the Act;

“major stake entity group”, in relation to a bank in Singapore, means a group comprising —

- (a) in the case of a bank incorporated in Singapore, any entity in which the bank holds, directly or indirectly, a major stake; and
- (b) in the case of branches and offices located within Singapore of a bank incorporated outside Singapore, any entity in which the bank incorporated outside Singapore holds, directly or indirectly, a major stake that is reflected as an investment in the balance-sheet in Singapore of the bank;

“related corporation group”, in relation to a bank in Singapore, means a group comprising —

- (a) any related corporation of the bank;
- (b) any branch of the bank located outside Singapore; and
- (c) in the case of a bank incorporated outside Singapore, the head office of the bank incorporated outside Singapore;

“related party”, in relation to a bank in Singapore, means —

- (a) any person in a director group, key credit approver group or senior management group, any entity in a major stake entity group, or any branch, entity or head office in a related corporation group, or in the case of a bank incorporated in Singapore, any person in a substantial shareholder group of the bank;
- (b) any person whose duties or interests are in conflict with the interests of the bank, as determined by the bank in accordance with the policies and procedures that a bank must establish and implement under paragraphs 13(a) and 14; or
- (c) any person specified by the Authority by written notice to the bank whose duties or interests are, in the opinion of the Authority, in conflict with the interests of the bank and —
 - (i) the bank is accustomed or under an obligation, whether formal or informal, to act in accordance with that person’s directions, instructions or wishes; or
 - (ii) that person is in a position to determine the policies of the bank;

“related party group”, in relation to a bank in Singapore, means any director group, key credit approver group, major stake entity group, related corporation group, senior management group or substantial shareholder group of the bank;

“related party transaction”, in relation to a bank in Singapore, means any of the following:

- (a) a credit facility from the bank or any branch or entity in its bank group to any related party of the bank;
- (b) an exposure of the bank or any branch or entity in its bank group to any related party of the bank;
- (c) a transaction of the bank or any branch or entity in its bank group with any related party of the bank,

and “non-related party transaction” shall be construed accordingly.

“**senior management group**”, in relation to a bank in Singapore, means a group comprising —

- (a) any executive officer of the bank;
- (b) any family member of an executive officer of the bank;
- (c) any firm or limited liability partnership in or for which an executive officer of the bank, or a family member of an executive officer of the bank, is a partner, a manager, an agent, a guarantor or a surety;
- (d) any individual for whom an executive officer of the bank, or a family member of an executive officer of the bank, is a guarantor or surety;
- (e) any company for which an executive officer of the bank, or a family member of an executive officer of the bank, is a guarantor or surety;
- (f) any company of which an executive officer of the bank, or a family member of an executive officer of the bank, is an executive officer;
- (g) any company in which an executive officer of the bank, or a family member of an executive officer of the bank, owns more than half of the total number of issued shares, whether legally or beneficially;
- (h) any company in which an executive officer of the bank, or a family member of an executive officer of the bank, controls more than half of the voting power; or
- (i) any company the composition of the board of directors of which is controlled by an executive officer of the bank, or a family member of an executive officer of the bank;

4 The expressions used in this Notice, shall, except where defined in this Notice or where the context otherwise requires, have the same meanings as in the Act, including the Fifth Schedule to the Act. In the case where there is any inconsistency between the meaning in the Act and the Banking Regulations, the meaning in the Act shall prevail.

5 For the purposes of the definition of “key credit approver group”, a key credit approver of a bank is deemed to control the composition of the board of directors of a company if he has any power, exercisable by him without the consent or concurrence of any other person, to appoint or remove all or a majority of the directors of the company.

6 For the purposes of the definition of “senior management group”, an executive officer of a bank is deemed to control the composition of the board of directors of a company if he has any power, exercisable by him without the consent or concurrence of any other person, to appoint or remove all or a majority of the directors of the company.

Related Party Groups

7 For the purposes of this Notice, where a person belongs to more than one related party groups, a bank in Singapore may regard the person as belonging to only one related party group. If the bank subsequently regards the person as belonging to another related party group, the bank must document the reasons for the change and submit such document to the Authority upon the Authority’s request.

8 In the case of a bank incorporated outside Singapore, where the bank is in full compliance with the law in the place of its incorporation, formation or establishment on related party transactions that are applicable to transactions of the bank with any director of the bank, the bank in Singapore does not need to comply with this Notice in respect of its director group.

General Principle Governing Related Party Transactions

9 A bank in Singapore must ensure that every related party transaction is conducted free of conflicts of interest, and that every branch and entity in its bank group does the same.

Authorisation and Delegation by Boards

10 For the purpose of complying with this Notice other than paragraph 19, in the case of a bank incorporated outside Singapore, the bank in Singapore may replace any reference to –

- (a) the board of the bank, with an authorised person of the bank; and
- (b) a special majority of three-fourths of the board of the bank, with a simple majority of an authorised person, where the authorised person is a committee.

11 For the purpose of paragraphs 14, 16, 26, 29, 31, 33 and 34, a board may delegate its powers, functions or duties to a board committee comprising a majority of independent directors. Where such powers, functions or duties have been delegated to a board committee, any reference to a special majority of three-fourths of the board will be a reference to a simple majority of the board committee, which must be determined based on the total number of directors on the board committee¹, excluding any directors required to abstain in accordance with paragraph 19.

Excluded Related Party Transactions

12 For the purpose of this Notice, any requirement that a bank in Singapore has to comply with (or ensure that every branch and entity in its bank group complies with, as the case may be) in relation to a related party transaction need not apply to the following related party transactions:

- (a) where the transaction –
 - (i) is between a bank in Singapore or a branch or entity in its bank group and an employee or director of the bank; and
 - (ii) relates to the remuneration of, or staff benefits granted to, the employee or director, as the case may be, pursuant to the human resource policy of the bank or any policy of the bank that pertains to such remuneration or staff benefits, and such policy has been approved by:

¹ For the avoidance of doubt, the total number of directors on the board committee is the number of directors appointed to the board committee, and not the number of directors on the board committee who are present and voting at any board committee meeting.

- (A) the board of the bank; or
 - (B) a board committee that comprises a majority of independent directors, where the board of the bank has delegated the power to approve such policy to the board committee;
- (b) where the value of the transaction is below the nominal threshold set by the bank in Singapore (or branch or entity in its bank group, as the case may be) pursuant to paragraph 13(e);
- (c) where the transaction –
 - (i) is between a bank in Singapore or a branch or entity in its bank group and any branch, entity or head office in the related corporation group of the bank; and
 - (ii) arises from a central risk or liquidity management function or pertains to centrally coordinated services.

Implementation of Policies, Procedures and Controls on Related Party Transactions

13 Every bank in Singapore must establish and implement policies and procedures, and ensure that each branch and entity in its bank group establishes and implements policies and procedures, on related party transactions (referred to in this Notice as “RPT PP”), for the purposes of –

- (a) determining the persons in the bank’s related party groups and identifying every person in relation to whom a conflict of interest may arise vis-à-vis the bank but who is not already caught under a related party group;

- (b) ensuring that every related party transaction which it enters into is on terms and conditions² that are not more favourable than a similar non-related party transaction of the bank under similar circumstances.³ In the case where there is no similar non-related party transaction made under similar circumstances, the bank (or the branch or entity in its bank group, as the case may be) must have, in good faith, been prepared to offer or apply those same terms and conditions to a similar type of non-related party transaction had it been made under similar circumstances;
- (c) setting out the materiality thresholds for related party transactions where exposures arise for any related party group of the bank⁴, and processes for independent approval or review for such related party transactions that exceed the materiality thresholds and are subject to approval or review under this Notice;
- (d) setting out the materiality thresholds for related party transactions in which no exposure arises (referred to in this Notice as “non-exposure transaction”), other than for write-offs, and processes for independent approval or review for such non-exposure

² These terms and conditions shall include those relating to credit assessment, loan tenure, interest rates, fees, amortisation and collateral. Where a related party transaction conducted at arm’s length satisfies the Inland Revenue Authority of Singapore’s “Transfer Pricing Guidelines” issued in relation to section 34D of the Income Tax Act, the transaction may be considered to have satisfied the requirements of the policy in paragraph 13(b).

³ For the purpose of paragraph 13(b), a related party transaction for which lower costs will be incurred (for instance, because no sales and marketing costs have to be incurred) shall be compared with a non-related party transaction of a similar type with a similar cost. For example, if the related party charges the bank \$100,000 for the lease of its building, which has factored in a \$10,000 discount as no commission was incurred, the terms and conditions of that transaction shall be compared against the lease of a building from a non-related party which would have cost the bank \$100,000.

⁴ A bank may choose to set thresholds for exposures on an aggregate or a more granular basis for any related party group. For example, granular thresholds may be set according to product class for a related party group, or per counterparty within a related party group.

transactions that exceed the materiality thresholds and are subject to approval or review under this Notice;

- (e) setting out the nominal thresholds for a related party transaction, below which such transaction may be excluded as a related party transaction for the purposes of compliance with this Notice;
- (f) preventing any person who may, or whose family member may, benefit directly or indirectly, from a related party transaction, from being part of the approval process for the related party transaction;
- (g) ensuring that sample audit checks are conducted periodically to ensure the related party transactions entered into are consistent with its RPT PP, with the frequency of such audit checks to be determined by the Audit Committee of the bank (or that of the branch or entity in its bank group, as the case may be);
- (h) identifying all related party transactions; and
- (i) ensuring that every exception to, and non-compliance with the RPT PP of the bank (or the branch or entity in its bank group, as the case may be), is escalated for independent review by one or more appropriate executive officers of the bank (or that of the branch or entity in its bank group, as the case may be) and, where the executive officer has assessed that there is a risk of conflict of interest, to the board of the bank (or that of the branch or entity in its bank group, as the case may be) for timely action.⁵

14 In addition to paragraph 13, a bank in Singapore must, after identifying every person in relation to whom a conflict of interest may arise vis-à-vis the bank but who is not already caught under a related party group, include in its RPT PP, policies and procedures requiring its board to specify that such a person must be

⁵ For the avoidance of doubt, the independent review here does not replace the requirement for the prior approval of the board. If the related party transaction is one which requires prior approval of the board, the bank must still obtain the board's approval before entering into the related party transaction, unless paragraph 34 applies.

considered a related party for the purposes of this Notice and to classify and treat each person so specified as a person in a particular related party group.

15 For the purposes of complying with paragraph 13, a bank in Singapore and any branch or entity in its bank group may rely on the RPT PP established by the bank's head office if the RPT PP imposes on the bank (or any branch or entity in its bank group, as the case may be) requirements equivalent to, or more stringent requirements than, that set out in this Notice.

16 A bank in Singapore must ensure that its board reviews, on a regular basis, the bank's RPT PP to ensure that it complies with this Notice, and ensure that every branch and entity in its bank group ensures that that entity's board does the same.

Exceptions to or Non-compliance with RPT PP

17 A bank in Singapore must subject (and ensure that every branch and entity in its bank group subjects) every proposed related party transaction that will be an exception to its RPT PP to independent review by one or more appropriate executive officers of the bank prior to the bank (or the branch or entity in its bank group, as the case may be) entering into the related party transaction, unless the exception had been approved by the board of the bank (or that of the branch or entity in its bank group, as the case may be).

18 The bank must report (and ensure that every branch and entity in its bank group reports) every related party transaction that is an exception to or does not comply with the RPT PP of the bank (or that of the branch or entity in its bank group, as the case may be) to the board of the bank (or that of the branch or entity in its bank group, as the case may be), on a quarterly basis.

Ensuring Independent Approval or Review Process

19 A bank in Singapore must ensure that any director with an interest in a related party transaction for which approval is required to be sought from the board abstains from voting, and ensure that every branch and entity in its bank group does the same. In the case of a bank incorporated outside Singapore, where any authorised person has an interest in the related party transaction, the bank incorporated outside Singapore must seek approval from its board or, from an

alternate authorised person who is at least of the same seniority as the authorised person who is interested in the related party transaction.

20 For purposes of paragraphs 13(i) and 17, a bank in Singapore must ensure that the executive officer of the bank conducting the independent review of a related party transaction recuse himself from conducting the review if he has any interest in the related party transaction and ensure that every branch and entity in its bank group does the same.

Identification of Related Parties

21 A bank in Singapore must exercise due care in determining the persons in its related party groups and identifying every person in relation to whom a conflict of interest may arise vis-à-vis the bank but who is not already caught under a related party group, and fully document its efforts to do so.

22 A bank in Singapore must require its directors, executive officers, key credit approvers and substantial shareholders to declare once every calendar year (referred to in this paragraph as “annual declaration”) to its board –

- (a) all persons whose interests may conflict with those of the bank. Such persons must include, at the minimum, all persons in the bank’s director groups, senior management groups, key credit approver groups and substantial shareholder groups; and
- (b) the applicable limb of the definition of “related party” which the person would come under.

23 A bank in Singapore may rely on the annual declarations and such other information as may come to its attention to identify its related parties and be considered to have complied with the requirements in paragraph 21 where it does so. For the purpose of paragraph 22, “director”, “executive officer”, “key credit approver” and “substantial shareholder” exclude the family members of the respective directors, executive officers, key credit approvers and substantial shareholders respectively.

Materiality Thresholds to be Established

24 For the purposes of paragraphs 13(c) and 13(d), the bank must, at the minimum –

- (a) set separate materiality thresholds for exposures to each related party group of the bank⁶;
- (b) set separate materiality thresholds for each type of non-exposure transaction (other than write-offs) with a related party;
- (c) take into account the nature, scope, frequency, value of and risks associated with its related party transactions when setting the materiality thresholds;
- (d) on an annual basis, seek the approval of the board for the materiality thresholds that the bank sets pursuant to sub-paragraphs (a) and (b). The bank must ensure that in assessing whether to approve the thresholds, the board has regard to the factors stated in sub-paragraph (c); and
- (e) where approval is given in accordance with sub-paragraph (d) by the board, document the reasons given by the board in giving the approval and submit such document to the Authority upon the Authority's request;

and ensure that all branches and entities in its bank group does the same.

Nominal Thresholds to be Established

25 In relation to paragraph 13(e), the bank must –

⁶ A bank may choose to set thresholds for exposures on an aggregate or a more granular basis for any related party group. For example, granular thresholds may be set according to product class for a related party group, or per counterparty within a related party group. Aggregate exposures to related party groups are still to be reported in accordance with MAS Notice 643A.

- (a) set separate nominal thresholds for each type of related party transaction;
- (b) take into account the nature, scope, frequency, value of and risks associated with each type of related party transaction in setting such nominal thresholds;
- (c) on an annual basis, seek the approval of the board for the nominal thresholds that are set for each type of related party transaction. The bank must ensure that in assessing whether to approve the nominal thresholds, the board has regard to the factors stated in sub-paragraph (b); and
- (d) where approval is given under sub-paragraph (c) by the board, document the reasons given by the board in giving the approval and submit such document to the Authority upon the Authority's request;

and ensure that all branches and entities in its bank group does the same.

Related Party Transactions Requiring Prior Approval of the Board

26 A bank in Singapore must –

- (a) obtain the approval of a special majority of three-fourths of its board; and
- (b) ensure that every branch and entity in its bank group obtains the approval of a special majority of three-fourths of the entity's board,

before the bank (or the branch or entity in its bank group, as the case may be) –

- (i) enters into a related party transaction which exceeds the applicable materiality threshold set pursuant to paragraph 13(c) or (d), as the case may be; or
- (ii) writes off any of its exposures to any of the bank's related parties.

27 The special majority of three-fourths of the board in paragraphs 26, 29, 31, 33 and 34 must be determined based on the total number of directors on the board⁷, excluding any directors required to abstain in accordance with paragraph 19.

28 Where approval of a related party transaction is obtained under paragraph 26, 29, 31, 33 or 34, a bank in Singapore must ensure that the approval is given in relation to all the terms and conditions of the related party transaction⁸ and ensure that every branch and entity in its bank group does the same.

29 For the purpose of paragraph 26, a bank in Singapore (or a branch or entity in its bank group) may seek the pre-approval from a special majority of three-fourths of its board for particular related party transaction types. For the avoidance of doubt, where the bank (or the branch or entity in its bank group, as the case may be) has obtained the pre-approval of its board for all the terms and conditions⁹ of that particular related party transaction type, the bank (or the branch or entity in its bank group, as the case may be) does not need to obtain approval (under paragraph 26) before entering into each of these related party transactions.

30 Notwithstanding paragraph 26, a bank in Singapore (or a branch or entity in its bank group, as the case may be) does not need to obtain the approval referred to in that paragraph where –

- (a) the bank (or the branch or entity in its bank group, as the case may be) enters into a related party transaction with any branch, entity

⁷ For the avoidance of doubt, the total number of directors on the board is the number of directors appointed to the board, and not the number of directors on the board who are present and voting at any board meeting.

⁸ This would include the terms and conditions relating to the loan tenure, interest rate, fees and collateral, where applicable.

⁹ This would also include those relating to loan tenure, interest rate, fees and collateral, where applicable.

or head office in the related corporation group or major stake entity group of the bank; or

- (b) the bank (or any branch or entity in its bank group, as the case may be) enters into any of the following non-exposure transactions:
 - (i) transactions that are offered on standard terms and conditions¹⁰;
 - (ii) transactions where the terms and conditions are the same for all persons within the same class¹¹;
 - (iii) transactions for which the bank (or any branch or entity in its bank group, as the case may be) does not determine any of the terms and conditions governing the transaction.¹²

31 Where a related party transaction has been approved in accordance with paragraph 26, 29, 33 or 34, a bank must obtain the approval of a special majority of three-fourths of its board (and, where the related party transaction is entered into by a branch or entity in its bank group, ensure that that entity obtains the approval of three-fourths majority of the entity's board) before any increase in the existing exposure of the transaction (the "proposed increase") or change to the terms and conditions governing the transaction unless –

- (a) the change is within a year from the initial approval of the transaction or the most recently approved increase in exposure (if any), whichever is later; and

¹⁰ Examples of such non-exposure transactions are deposit-taking services, brokerage services, custody services, and the sale of investment products.

¹¹ For example, making the same dividend payments to all shareholders who hold shares of the same class in the bank.

¹² An example would be where the bank acts as an intermediary to the transaction between two or more parties, such as the customer's purchase of insurance products from an insurer through the bank or a branch or entity in its bank group, as the case may be.

- (b) the change in terms and conditions is not material; and
- (c) if the change is an increase in exposure –
 - (i) the proposed increase is less than 5%; and
 - (ii) the total increase in exposure (including the proposed increase) over the preceding 12 months is less than 5%.

32 For related party transactions pre-approved under paragraph 29, the date of approval for the purposes of paragraph 31 will be taken to be the date that the transaction was entered into.

33 In the case of a related party transaction which is entered into with –

- (a) a person prior to him becoming a related party; or
- (b) a related party prior to the effective date of this Notice,

a bank must obtain (and, where the transaction is entered into by a branch or entity in its bank group, ensure that that entity obtains) the approval of a special majority of three-fourths of the board of the bank (or that of the branch or entity in its bank group, as the case may be) before increasing or writing-off the exposure or changing any terms and conditions governing the transaction where –

- (i) the transaction is one which exceeds the applicable materiality threshold set pursuant to paragraph 13 (c) or (d), as the case may be; or
- (ii) the transaction involves a write-off.

34 Notwithstanding paragraph 26, a bank in Singapore (or a branch or entity in its bank group, as the case may be) may obtain the approval of a special majority of three-fourths of its board (or that of the entity's board, as the case may be) no later than one month after entering into a related party transaction, where–

- (a) the bank (or the branch or entity in its bank group, as the case may be) had to enter into the transaction on an urgent basis;
- (b) the terms and conditions governing the transaction allows the bank (or the branch or entity in its bank group, as the case may be) to

terminate or void the transaction without any conditions and penalties in the event that such approval is not obtained within the required time; and

- (c) the bank (or the branch or entity in its bank group, as the case may be) has procedures in place to ensure that it is able to exercise its right to terminate or void the transaction in accordance with subparagraph (b).

35 Where a bank (or a branch or entity in its bank group, as the case may be) is unable to obtain the approval referred to in paragraph 34 and does not immediately terminate and void the related party transaction, the bank must immediately inform the Authority.

Effective Date

36 This Notice shall take effect on 1 July 2021.

[MAS Notice 643 (Amendment) 2020]

37 MAS Notice 643 dated 21 November 2016 is cancelled with effect from 12 December 2019.

***Notes on History of Amendments**

1. MAS Notice 643 dated 2 April 2013 is cancelled with effect from 21 November 2018
2. MAS Notice 643 dated 21 November 2016 is cancelled with effect from 12 December 2019
3. MAS Notice 643 dated 12 December 2019 takes effect from 1 October 2020
4. MAS Notice 643 (Amendment) 2020 takes effect from 1 October 2020
5. MAS Notice 643 (Amendment) 2021 dated 28 June 2021 takes effect from 1 July 2021