MAS NOTICE 643

12 December 2019

Last revised on ~~28 June 2021*~~ [date]

NOTICE TO BANKS

BANKING ACT~~, CAP 19~~ 1970

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

TRANSACTIONS WITH RELATED PARTIES

PART I: SCOPE OF APPLICATION

Introduction

1 This Notice is issued pursuant to sections 29A(1) and 65(2) of the Banking Act ~~(Cap.19)~~1970 ("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.

2A Part III of this Notice also sets out the limits on exposures arising from related party transactions of a bank incorporated in Singapore, the types of exposures to be included in or excluded from those limits, the basis for computation of exposures, and the approach for aggregation of exposures.

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)~~1967;

"affiliate", in relation to an indirect controller of a bank incorporated in Singapore, means any corporation which is an associate of the indirect controller, other than —

(a) the bank and any entity in which the bank acquires or holds, directly or indirectly, a major stake;

(b) the parent bank of the bank and any entity in which the parent bank acquires or holds, directly or indirectly, a major stake; or

(c) where the bank is the subsidiary of a financial holding company, the financial holding company and any entity in which the financial holding company acquires or holds, directly or indirectly, a major stake;

"associate", in relation to an indirect controller, means —

(a) any corporation in which the indirect controller controls the composition of the board of directors;

(b) any corporation in which the indirect controller controls more than half of the voting power;

(c) any corporation in which the indirect controller holds more than half of the total number of issued shares;

(d) any corporation which is a subsidiary of any other corporation which is an associate by virtue of paragraph (a), (b) or (c);

(e) any corporation in which the indirect controller or any other corporation which is an associate by virtue of paragraph (a), (b), (c) or (d) has, or the indirect controller and such other corporation together have, an interest in shares entitling the beneficial owners thereof the right to cast, whether by proxy or in person, not less than 20% but not more than 50% of the total votes able to be cast at a general meeting of the firstmentioned corporation; or

(f) any corporation (not being a corporation which is an associate by virtue of paragraph (a), (b), (c), (d) or (e)) the policies of which the indirect controller or any other corporation which is an associate by virtue of paragraph (a), (b), (c), (d) or (e) is, or the indirect controller together with such other corporation are, able to control or influence materially;

"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;

"bank regulatory agency" –

(a) means the Authority; and

(b) in relation to a foreign country or jurisdiction, means an authority in the foreign country or jurisdiction exercising any function that corresponds to a regulatory function of the Authority under the Act;

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

"**extended director group**", in relation to a director of a bank in Singapore, means —

(a) all persons in the director group; and

(b) any person who is in a position to exert significant influence on the director and excludes any person who is in a position to exert significant influence on the director's spouse, parent or child but not on the director;

"extended senior management group", in relation to an executive officer of a bank in Singapore, means —

(a) all persons in the senior management group; and

(b) any person who is in a position to exert significant influence on the executive officer;

"holding company" has the same meaning as in section 5 of the Companies Act 1967 except that any reference to "corporation" in that section must be construed as if it did not exclude a co-operative society;

"holding company group", in relation to a bank in Singapore, means a group comprising:

(a) the holding company of the bank that is subject to minimum prudential standards and supervision on a consolidated basis by a bank regulatory agency;

(b) every subsidiary of that holding company;

(c) every branch of that holding company; and

(d) every other entity that is treated as part of that holding company's group of entities for accounting purposes according to Accounting Standards";

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

"indirect controller", in relation to a bank incorporated in Singapore, means any person, whether acting alone or together with any other person, and whether with or without holding shares or controlling voting power –

(a) in accordance with whose directions, instructions or wishes the directors of the bank incorporated in Singapore are accustomed or under an obligation, whether formal or informal, to act; or

(b) who is in a position to determine the policy of the bank incorporated in Singapore;

but does not include any person –

(c) who is a director or other officer of the bank incorporated in Singapore whose appointment has been approved by the Authority; or

(d) in accordance with whose directions, instructions or wishes the directors of the bank incorporated in Singapore are accustomed to act by reason only that they act on advice given by the person in the person's professional capacity.

"indirect controller group", in relation to a bank incorporated in Singapore, means a group comprising —

(a) any indirect controller of the bank;

(b) any family member of the indirect controller of the bank; and

(c) every affiliate of the indirect controller of the bank;

"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, every~~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~~ every 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;

"parent bank", in relation to a bank in Singapore, means a bank incorporated in or outside Singapore of which the firstmentioned bank is a subsidiary;

"parent bank group", in relation to a bank in Singapore, means:

(a) the parent bank of the bank;

(b) every subsidiary of the parent bank;

(c) every branch of the parent bank; and

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

“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, extended director group, key credit approver group, senior management group, or extended 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 or indirect controller 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 extended director group, director group, key credit approver group, major stake entity group, related corporation group, extended senior management group, senior management group, indirect controller 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 Except as otherwise provided for in Part III, ~~F~~for the purposes of this Notice, where a person belongs to more than one related party group~~s~~, 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 or extended director group.

8A For the purposes of section 27(2)(i) of the Act, a person in any of the following groups is a person whose duties or interests are, in the opinion of the Authority, in conflict with the interests of the bank in Singapore:

(a) extended director group;

(b) extended senior management group; and

(c) indirect controller group.

PART II: GOVERNANCE AND TRANSACTIONAL SAFEGUARDS

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 committee[1], excluding any directors required to abstain in accordance with paragraph 19.

Excluded Related Party Transactions

12 For the purpose of this Part~~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:

(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);

[1] ~~For the avoidance of doubt~~To avoid 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.

(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~~of the following entities:

(A) another branch or entity within its bank group, or in the case of a bank incorporated outside Singapore, the head office of the bank;

(B) a branch or entity within the parent bank group of the bank; or

~~(A)~~(C) a branch or entity within the holding company group of the bank, where the holding company is subject to minimum prudential standards and supervision on a consolidated basis by a bank regulatory agency; and

~~(i)~~(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 conditions[2] 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 bank[4], 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

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[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 1947, 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~~To avoid 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, and indirect controllers 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, extended director groups, senior management groups, extended senior management groups, key credit approver groups, indirect controller 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", "indirect controller", and "substantial shareholder" exclude the family members of the respective directors, executive officers, key credit approvers, indirect controllers 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 bank[6];

(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 –

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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 board[7], 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 transaction[8] 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~~To avoid 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 conditions[9] 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 of the following entities:

[7] ~~For the avoidance of doubt~~To avoid 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.

(i) another branch or entity within its bank group, or in the case of a bank incorporated outside Singapore, the head office of the bank;

(ii) a branch or entity within the parent bank group of the bank; or

~~(i)~~(iii) a branch or entity within the holding company group of the bank, where the holding company is subject to minimum prudential standards and supervision on a consolidated basis by a bank regulatory agency~~branch, entity or head office in the related corporation group or major stake entity group of the bank~~; or

~~(a)~~(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 conditions[10];

(ii) transactions where the terms and conditions are the same for all persons within the same class[11];

(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]

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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.

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

(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 sub-paragraph (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.

PART III: LIMITS ON EXPOSURES FROM RELATED PARTY TRANSACTIONS

36 In this Part –

"banking group", in relation to bank incorporated in Singapore, means the bank and its banking group entities;

"banking group entity", in relation to a bank incorporated in Singapore, means any subsidiary or any other entity which is treated as part of the bank's group of entities according to Accounting Standards;

"connected related party group" means –

(a) a group of persons, where –

(i) at least one person in the group is a specified related party ; and

(ii) one person in the group controls every other person in that group[13]; or

(b) a group of persons, where –

(i) at least one person in the group is a specified related party; and

(ii) one person in the group is a person on which every other person in the group is economically dependent;

"**related party exposure limit**" means the respective limits described in paragraphs [40] and [41];

[13] For the purposes of this definition, examples of situations where a person is deemed likely to have a control relationship include –

(a) a person which controls more than half of the voting rights in another person through voting agreements with other shareholders;

(b) a person which has material influence on the appointment or dismissal of the members of another person's administrative or management body, such as the right to appoint or remove a majority of members in those bodies; or

(c) a person which has the power, pursuant to a contract or otherwise, to exercise a controlling influence over the management or policies of another person, for example through consent rights over key decisions.

A bank incorporated in Singapore should also refer to the Accounting Standards for further qualitative guidance when determining a control relationship.

“**related party group**” has the meaning given in paragraph 3 and includes any connected related party group but does not include any related corporation group, director group, or senior management group;

“**specified related party**” means 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 –

(a) 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

(b) that person is in a position to determine the policies of the bank.

37 For the purposes of this Part –

(a) a person *A* is controlled by another person *B* if *A* is —

(i) a person in which *B* holds more than half of the total number of issued shares, whether legally or beneficially;

(ii) a person in which *B* controls more than half of the voting power;

(iii) a person in which *B* controls the composition of the board of directors;

(iv) a subsidiary of a person described in sub-paragraph (i), (ii) or (iii); or

(v) a person the policies of which *B* is in a position to determine; and

(b) a person *A* is economically dependent on another person *B* if *A* is so interconnected with *B* that any inability of *B* to obtain funds or meet *B*’s financial obligations would, or would be likely to, cause *A* to be unable to —

(i) obtain funds; or

(ii) meet *A*'s financial obligations.

38 For the purposes of paragraph 37(a)(iii), a person *B* is deemed to control the composition of the board of directors of another person *A* if *B* has any power exercisable by *B* without the consent or concurrence of any other person, to appoint or remove all or a majority of –

(a) the directors of *A*; or

(b) the equivalent of the directors of *A*.

39 The expressions used in this Part shall, except where defined in this Notice or where the context otherwise requires, have the same meanings as in MAS Notice 656.

Related Party Exposure Limit to a Related Party Group

40 Subject to paragraphs [48] and [49], a bank incorporated in Singapore must not permit, at the bank standalone ("Solo") level, the aggregate of its exposures to any related party group to exceed 25% of its Tier 1 capital.

41 Subject to paragraphs [48] and [49], a bank incorporated in Singapore-–

(a) must aggregate the exposures of the bank and its banking group entities to each extended director group, extended senior management group, indirect controller group, substantial shareholder group, key credit approver group, or connected related party group; and

(b) must not permit, at the Group level, the aggregate of the exposures of the banking group to each extended director group, extended senior management group, indirect controller group, substantial shareholder group, key credit approver group, or connected related party group, individually, to exceed 25% of the Tier 1 capital of the banking group.

42 For the purposes of paragraphs [40] and [41], for a person that belongs to more than one related party group, a bank incorporated in Singapore must include its exposures or exposures of the banking group to that person in each of the related party groups.

43 For the purposes of paragraph [41], a bank incorporated in Singapore –

(a) must exclude exposures of an insurance subsidiary, irrespective of whether these are held for the benefit of a third party, from the aggregate of the exposures of the banking group to any extended director group, any extended senior management group, any indirect controller group, any substantial shareholder group, any key credit approver group, or any connected related party group;

(b) must exclude exposures of a subsidiary, where such exposures arise from assets held in the subsidiary's funds for the benefit of any third party (other than the bank incorporated in Singapore or any other banking group entity), from the aggregate of the exposures of the banking group to any extended director group, any extended senior management group, any indirect controller group, any substantial shareholder group, any key credit approver group, or any connected related party group; and

(c) must not consolidate the assets and liabilities of an insurance subsidiary and must account for the investment in such a subsidiary at cost, when calculating the Tier 1 capital of the banking group at the Group level.

44 Pursuant to paragraphs [41] and [43], and for the purposes of complying with the related party exposure limit at the Group level (other than paragraphs [41] and [43]), all assets, liabilities, Tier 1 capital, transactions, exposures or operations of a banking group entity of a bank incorporated in Singapore (except where excluded under paragraph [43]) must be deemed to be that of the bank.

Aggregation of Counterparties in a Connected Related Party Group

45 A bank incorporated in Singapore must conduct due diligence on a counterparty in a connected related party group (*X*) to identify any person which –

(a) is economically dependent on X; or

(b) X is economically dependent on,

if the aggregate exposures of –

(i) the bank to *X* exceed 5% of the Tier 1 capital of the bank at the Solo level; or

(ii) the banking group to *X* exceed 5% of the Tier 1 capital of the banking group at the Group level.

46 For the purposes of paragraph [45] above, to assess if a counterparty may be economically dependent on another counterparty, a bank incorporated In Singapore must take into account the following matters:

(a) where a counterparty derives 50% or more of its gross receipts or gross expenditures on an annual basis from transactions with the other counterparty;

(b) where a counterparty has fully or partly guaranteed the exposure of the other counterparty, or is liable by other means, and the exposure is so significant that the guarantor is likely to default if a claim occurs;

(c) where a significant part of a counterparty's production or output is sold to the other counterparty, and it cannot be easily replaced by other customers;

(d) when the expected source of funds to repay the loans of two counterparties is the same and neither counterparty has another independent source of income from which the loan may be fully repaid;

(e) where it is likely that the financial problems of a counterparty would cause difficulties for the other counterparty in terms of full and timely repayment of liabilities;

(f) where the default or insolvency of a counterparty is likely to be associated with the default or insolvency of the other counterparty;

(g) where two or more counterparties rely on the same source for the majority of their funding, and in the event of the common provider's default, an alternative provider cannot be found.

47 A bank incorporated In Singapore must maintain documentation of the basis of its determination of a connected related party group and the due diligence conducted pursuant to paragraph [45].

48 Despite a person not being included in an extended director group, an extended senior management group, an indirect controller group, a substantial shareholder group, a key credit approver group, a major stake entity group, or a connected related party group, a bank incorporated in Singapore must aggregate the exposures to such person with that of an extended director group, an extended senior management group, an indirect controller group, a substantial shareholder group, a key credit approver group, a major stake entity group, or a connected related party group, as the case may be, if there are reasons for the bank incorporated in Singapore to regard these exposures as connected in such a way so as to pose a single risk to the bank.

Exclusion from Related Party Exposure Limits

49 For the purposes of complying with the related party exposure limit at the Solo level or the Group level in paragraphs [40] and [41], a bank incorporated in Singapore when aggregating its exposures or exposures of its banking group, as the case may be, -

(a) may exclude one or more exempt exposures set out in paragraph 1 of Annex A of MAS Notice 656, where references to "large exposures limit" shall be read as references to "related party exposure limit";

(b) need not aggregate exposures to a person or a sub-group of persons in a substantial shareholder group or a major stake entity group with exposures to other persons of the group, if the person or sub-group of persons, as the case may be, fulfils the criteria as set out in paragraph 1 or 6 of Annex A of this Notice;

(c) need not aggregate exposures to a person with exposures to another person that the first-mentioned person may possibly be economically dependent on to form a connected related party group, provided that the bank incorporated in Singapore is satisfied that the first-mentioned person is able to overcome financial difficulties, which may arise due to the inability of the other person to meet its financial obligations or the default of the other person, by finding alternative business partners or funding sources within an appropriate time period;

(d) in the case of aggregation as a connected related party group, need not aggregate exposures to the following persons:

(i) a person, K, that is directly controlled by or is directly economically dependent on a central government or central bank, with exposures to that central government, that central bank or any other person that is directly controlled by or is directly economically dependent on that central government or that central bank, as the case may be;

(ii) a sub-group of persons that is controlled by or economically dependent on K with exposures to that central government, that central bank or any other person that is directly controlled by or is directly economically dependent on that central government or that central bank, as the case may be.

50 A bank incorporated In Singapore must maintain documentation of its basis for not aggregating any exposures under paragraph [49(b)] and [(c)] for five years.

Computation of Exposures and Tier 1 Capital

51 For the purposes of paragraphs [40] and [41], a bank incorporated In Singapore must base their computations of exposures and Tier 1 capital as at the same date.

Actions Required in the Event of Breaches

52 Where a bank incorporated in Singapore becomes aware that its exposure to any related party group has breached the related party exposure limit in paragraphs [40] and [41], the bank must –

(a) notify the Authority immediately;

(b) assess the effect of the breach in terms of the risks posed to the bank;

(c) prepare a plan to rectify the situation and inform the Authority of its plan; and

(d) undertake prompt corrective action in accordance with the plan prepared pursuant to sub-paragraph (c).

Measurement of Exposures

53 A bank incorporated in Singapore must apply the basis for computation of exposures set out in Annex B for the purposes of determining compliance with the related party exposure limits in paragraphs [40] and [41].

Effective Date

~~36~~54 This Notice shall take effect on 1 July 2021.

[MAS Notice 643 (Amendment) 2020]

~~37~~55 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
6. MAS Notice 643 (Amendment) 2026 dated [ ] takes effect from [ ]

Annex A

Criteria for Excluding Exposures to Persons in a Substantial Shareholder Group or Major Stake Entity Group

Substantial Shareholder Group

1 In the case of aggregation as a substantial shareholder group ("Group"), a bank incorporated in Singapore ("Reporting Bank") need not aggregate its exposures to a person, *A*, ("person *A*") or a sub-group comprising a person, *A*, and other persons controlled by *A* in the Group ("sub-group *A*"), if the Reporting Bank can demonstrate that corporate governance safeguards and other forms of ring-fencing measures are in place such that –

(a) any linkage aside from equity holding between person *A* or sub-group *A* and other persons within the same Group is limited; and

(b) the risk of contagion due to the failure of any person in the Group, including the substantial shareholder, to person *A* or sub-group *A* (and vice versa) is minimal.

2 Where the substantial shareholder is a foreign government or a central bank of a sovereign country other than Singapore, a Reporting Bank is deemed to have fulfilled the requirements in paragraph 1 of this Annex, if the following criteria are met:

(a) person *A* or each person in sub-group *A* has sufficient financial resources (either on its own or together with the financial resources provided by the other persons in sub-group *A*) to fully service its liabilities, and does not depend on any other person in the Group that does not fall within sub-group *A* ("external group person") for financial assistance in meeting its liabilities[14];

[14] In the case of a loan provided by a shareholder ("shareholder loan") to person A, the accounting treatment may be used as a guide in determining whether person A depends on the shareholder for financial assistance in meeting its liabilities. Where the shareholder loan was accounted for as debt (e.g. amount due to shareholder/amount due from person A), person A would be dependent on the shareholder. On the other hand, where the shareholder

(*cont'd on next page*)

(b) person *A* or each person in sub-group *A* is not depended on by any external group person for financial assistance in meeting the external group person's liabilities;

(c) proceeds received by person *A* or each person in sub-group *A* from the credit facilities granted by the Reporting Bank are only used by person *A* or other persons in sub-group *A* for the operations of person *A* or other persons in sub-group *A*, and are not transferred to any external group person;

(d) person *A* or each person in sub-group *A* does not receive the proceeds of any credit facility, whether in whole or in part, obtained by any external group person from the Reporting Bank;

(e) person *A* or each person in sub-group *A* is not dependent on any external group person, whether singly or in aggregate with other external group persons, for more than 50% of its operating revenues;

(f) subject to paragraph 4 of this Annex, person *A* or each person in sub-group *A* is not depended on by any external group person, either singly or in aggregate with other persons in sub-group *A*, for more than 50% of the external group person's operating revenues;

(g) apart from being in the Group, person *A* or each person in sub-group *A* and any external group person are not economically dependent on each other.

3 Where the substantial shareholder is not a foreign government or central bank of a sovereign country other than Singapore, a Reporting Bank is deemed to have fulfilled the requirements in paragraph 1 of this Annex, if the following criteria are met:

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loan was accounted for as equity (e.g. cost of investment in subsidiary/associated company), a Reporting Bank may treat person A as not dependent on the shareholder, unless there are reasons to suggest otherwise (such as the injection of capital to support a financially weak entity).

(a) subject to paragraph 4 of this Annex, the criteria set out in paragraph 2 of this Annex;

(b) person *A* or each person in sub-group *A* does not use any name, logo or trademark in a manner which indicates or represents that person *A* or any person in sub-group *A* is related to or associated with any external group person;

(c) none of the names, logos or trademarks of person *A* or any person in sub-group *A* is used by any external group person in a manner which indicates or represents that the external group person is related to or associated with person *A* or any person in sub-group *A*;

(d) a majority of the directors of person *A* or each person in sub-group *A* do not fall within any of the following categories:

(i) the substantial shareholder;

(ii) family members of the substantial shareholder;

(iii) employees of the substantial shareholder;

(iv) concurrently directors of the substantial shareholder; or

(v) employees of any other external group person;

(e) no external group person that is a substantial shareholder or family member of such a substantial shareholder, is an executive officer or chairman of the board of directors of person *A* or any person in sub-group *A*;

(f) no chief executive officer of any external group person that is a substantial shareholder is an executive officer or chairman of the board of directors of person *A* or any person in sub-group *A*.

4 Where person *A* or sub-group *A* is held by one or more external group persons which are intermediate holding companies whose primary purpose is to own or hold shares in other companies, paragraph 2(f) of this Annex does not apply with respect to the intermediate holding companies for the purposes of determining whether exposures to person *A* or sub-group *A* need not be aggregated under paragraph 2 or 3(a) of this Annex.

5 For the purposes of paragraphs 1 to 4 of this Annex –

(a) "foreign government" refers to a foreign central government, a regional government of a foreign country or jurisdiction or a local authority of a foreign country or jurisdiction, that is able to exercise one or more functions of the foreign central government at the regional or local level; and

(b) "substantial shareholder" has the same meaning as in section 81 of the Companies Act 1967.

Major stake entity group

6 In the case of aggregation as a major stake entity group, a Reporting Bank need not aggregate its exposures to a non-subsidiary major stake entity, *B*, ("person *B*") or a sub-group comprising a non-subsidiary major stake entity, *B*, and other non-subsidiary major stake entities controlled by *B* in its major stake entity group ("sub-group *B*"), if the Reporting Bank can demonstrate that corporate governance safeguards and other forms of ring-fencing measures are in place such that –

(a) any linkage aside from equity holding between person *B* or sub-group *B* and other persons within the major stake entity group are limited; and

(b) the risk of contagion due to the failure of any person in the major stake entity group to person *B* or sub-group *B* (and vice versa) is minimal.

7 A Reporting Bank is deemed to have fulfilled the requirements in paragraph 6 of this Annex if the following criteria are met:

(a) person *B* or each non-subsidiary major stake entity in sub-group *B* has sufficient financial resources (either on its own or together with the financial resources provided by the other non-subsidiary major stake entities in sub-group *B*) to fully service its liabilities, and does not depend on any other person in the major stake entity group that does not fall within sub-group *B* ("external major stake entity group person") for financial assistance in meeting its liabilities[15];

(b) person *B* or each non-subsidiary major stake entity in sub-group *B* is not depended on by any external major stake entity group person for financial assistance in meeting the external major stake entity group person's liabilities;

(c) proceeds received by person *B* or each non-subsidiary major stake entity in sub-group *B* from the credit facilities granted by the Reporting Bank are only used by person *B* or other non-subsidiary major stake entities in sub-group *B* for the operations of person *B* or other non-subsidiary major stake entities in sub-group *B*, and are not transferred to any external major stake entity group person;

(d) person *B* or each non-subsidiary major stake entity in sub-group *B* does not receive the proceeds of any credit facility, whether in whole or in part, obtained by any external major stake entity group person from the Reporting Bank;

(e) person *B* or each non-subsidiary major stake entity in sub-group *B* is not dependent on any external major stake entity group person, whether singly or in aggregate with other external major stake entity group persons, for more than 50% of its operating revenues;

(f) subject to paragraph 8 of this Annex, person *B* or each non-subsidiary major stake entity in sub-group *B* is not depended on by any external major stake entity group person, either singly or in aggregate with other non-subsidiary major stake entities in sub-

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[15] In the case of a loan provided by a shareholder ("shareholder loan") to person B, the accounting treatment may be used as a guide in determining whether person B depends on the shareholder for financial assistance in meeting its liabilities. Where the shareholder loan was accounted for as debt (e.g. amount due to shareholder/amount due from person B), person B would be dependent on the shareholder. On the other hand, where the shareholder loan was accounted for as equity (e.g. cost of investment in subsidiary/associated company), a Reporting Bank may treat person B as not dependent on the shareholder, unless there are reasons to suggest otherwise (such as the injection of capital to support a financially weak entity).

group *B*, for more than 50% of the external major stake entity group person's operating revenues;

(g) apart from being in the major stake entity group, person *B* or each non-subsidiary major stake entity in sub-group *B* and any external major stake entity group person are not economically dependent on each other;

(h) person *B* or each non-subsidiary major stake entity in sub-group *B* does not use any name, logo or trademark in a manner which indicates or represents that person *B* or any non-subsidiary major stake entity in sub-group *B* is related to or associated with the Reporting Bank or any external major stake entity group person;

(i) none of the names, logos or trademarks of person *B* or any non-subsidiary major stake entity in sub-group *B* is used by the Reporting Bank or any external major stake entity group person in a manner which indicates or represents that the Reporting Bank or external major stake entity group person is related to or associated with person *B* or any of the non-subsidiary major stake entities in sub-group *B*;

(j) a majority of the directors of person *B* or each non-subsidiary major stake entity in sub-group *B* do not fall within any of the following categories:

(i) employees of the Reporting Bank;

(ii) concurrently directors of the Reporting Bank; or

(iii) employees of any other external major stake entity group person.

8 Where person *B* or sub-group *B* is held by one or more external major stake entity group persons which are intermediate holding companies whose primary purpose is to own or hold shares in other companies, paragraph 7(f) of this Annex does not apply with respect to the intermediate holding companies for the purposes of determining whether exposures to person *B* or sub-group *B* need not be aggregated under paragraph 7 of this Annex.

Annex B

Measurement of Exposures

Section 1: General measurement principles

1.1 For the purposes of measuring the exposures of a bank incorporated in Singapore ("Reporting Bank") to a counterparty, the Reporting Bank must –

(a) include –

(i) all on- and off-balance sheet exposures in the banking book and the trading book; and

(ii) exposures arising from instruments with counterparty credit risk under MAS Notice 637;

(b) subject to paragraph 1.2 of this Annex, exclude an exposure value to the counterparty that is deducted from capital under Part VI of MAS Notice 637; and

(c) must not add an exposure value that is deducted from capital to other exposures to that counterparty.

1.2 Where only a portion of an exposure to a counterparty is subject to deduction from capital under Part VI of MAS Notice 637, the Reporting Bank must –

(a) exclude only the exposure value deducted from capital; and

(b) except where the exposure is an exempt exposure set out in paragraph 1 of Annex A of MAS Notice 656, include the remaining part of the exposure in the computation of its total exposures to that counterparty.

1.3 A Reporting Bank must –

(a) include an exposure value that is subject to a 1250% risk weight in MAS Notice 637; and

(b) add the exposure value in sub-paragraph (a) to any other exposures to the same counterparty, except where the exposure is an exempt exposure set out in paragraph 1 of Annex A of MAS Notice 656.

Section 2: Calculation of exposure value for banking book positions and pre-settlement counterparty exposures arising from derivative transactions and long settlement transactions

Banking book on-balance sheet non-derivative assets

2.1 A Reporting Bank must calculate the exposure value of its banking book on-balance sheet non-derivative assets based on the carrying amount of such assets as determined in accordance with the Accounting Standards, where such amounts are –

(a) net of specific allowances and accounting valuation adjustments attributable to such assets; or

(b) gross of any specific allowance and accounting valuation adjustments.

Pre-settlement counterparty exposure for derivative transactions and long settlement transactions

2.2 A Reporting Bank must calculate the exposure value for the pre-settlement counterparty exposure to a counterparty arising from the following:

(a) OTC derivative transactions;

(b) exchange-traded derivative transactions;

(c) long settlement transactions that are not SFTs,

whether or not such transactions are classified as banking book or trading book exposures based on the SA-CCR set out in Annex 7D to Part VII of MAS Notice 637.

Pre-settlement counterparty exposure for securities financing transactions

2.3 A Reporting Bank must calculate the exposure value for a pre-settlement counterparty exposure to a counterparty arising from an SFT, whether or not such a transaction is classified as a banking book or trading book exposure in accordance with paragraph 7.2.41 of Part VII of MAS Notice 637. Where the Reporting Bank recognises the effect of any eligible financial collateral taken for the SFT pursuant to paragraph 2.7 of this Annex and subject to paragraphs 2.9, 2.10(a), 2.10(d) and 2.11 of this Annex, the Reporting Bank must do so based on the FC(CA) in accordance with paragraphs 7.2.42, 7.2.46 and 7.2.47 of Part VII of MAS Notice 637. To avoid doubt, the Reporting Bank must not use the FC(SA) or VaR models set out in Annex 7F of MAS Notice 637 to recognise the effect of eligible financial collateral for any SFT.

Off-balance sheet items

2.4 Subject to paragraph 2.5 of this Annex, except for pre-settlement counterparty exposures arising from derivative transactions, long settlement transactions or SFTs, a Reporting Bank must calculate the exposure values of all other off-balance sheet items by multiplying the notional amount of each item with the applicable standardised credit conversion factors set out in Table 7B-1 of Annex 7B to Part VII of MAS Notice 637, with a floor of 10%.

2.5 For the purposes of paragraph 2.4 of this Annex, any reference to "commitment" in Annex 7B of MAS Notice 637 has the meaning as set out in paragraph 4 of MAS Notice 656.

On-balance sheet netting

2.6 A Reporting Bank must recognise the effect of a qualifying on-balance sheet netting agreement for loans and deposits, whenever the Reporting Bank has recognised the effect of the on-balance sheet netting agreement to compute credit RWA pursuant to paragraphs 7.2.9 and 7.2.10 of Part VII of MAS Notice 637.

Eligible credit risk mitigation

2.7 A Reporting Bank must recognise the effect of CRM in the calculation of an exposure whenever the Reporting Bank has recognised the effect of CRM to compute credit RWA for the exposure in MAS Notice 637, and the following conditions are met:

(a) the credit risk mitigant meets the requirements set out in Annex 7H to Part VII of MAS Notice 637 for the recognition of eligible credit protection and eligible financial collateral under the SA(CR);

(b) the Reporting Bank meets the conditions and requirements for recognition of such CRM in accordance with paragraphs 2.8 to 2.11, 4.24 and 4.25 of this Annex.

2.8 A Reporting Bank must not recognise the following:

(a) other forms of collateral that are only eligible under the IRBA as set out in paragraph 2.11 of Annex 7H to Part VII of MAS Notice 637 to reduce exposure values;

(b) the effects of CRM of any collateral for an exposure that has a maturity mismatch if the Reporting Bank has applied the FC(SA) under MAS Notice 637;

(c) the effects of CRM if the Reporting Bank has not recognised this effect in the computation of credit RWA for the exposure in MAS Notice 637.

2.9 Subject to paragraph 2.8(b) of this Annex, for an exposure that has a maturity mismatch with the credit risk mitigant, a Reporting Bank may recognise the effect of CRM pursuant to paragraph 2.7 of this Annex only where the credit risk mitigant has an original maturity of at least one year and a residual maturity of more than 3 months. A Reporting Bank must calculate the value of the CRM adjusted for any maturity mismatch in accordance with Section 7 of Annex 7H to Part VII of MAS Notice 637.

2.10 A Reporting Bank must reduce the value of the exposure to the counterparty by the following amounts of eligible credit protection or eligible financial collateral recognised for the calculation of credit RWA under MAS Notice 637:

(a) the value of the protected portion in the case of eligible credit protection;

(b) the value of the portion of claim collateralised by the market value of the eligible financial collateral when the Reporting Bank applies the FC(SA) for calculating the effect of CRM under Sub-divisions 4 and 5 of Division 2 of Part VII of MAS Notice 637;

(c) the value of the eligible financial collateral as recognised in the calculation of the exposure value for the pre-settlement counterparty exposure to a single counterparty arising from OTC derivative transactions, exchange-traded derivative transactions, or long settlement transactions that are not SFTs based on the same approach that the Reporting Bank has adopted in accordance with paragraphs 2.2 and 2.3 of this Annex; or

(d) in the case of eligible financial collateral when the Reporting Bank applies the FC(CA) for recognising the effect of eligible financial collateral or when the Bank has adopted the IRBA for the calculation of credit RWA, under MAS Notice 637, the value of the eligible financial collateral adjusted after applying the standard supervisory haircuts in accordance with paragraphs 2.1 to 2.5 of Annex 7J to Part VII of MAS Notice 637.

2.11 Where a Reporting Bank recognises a reduction of the exposure to the counterparty due to the effects of CRM, arising from eligible financial collateral or eligible credit protection, the Reporting Bank must recognise an exposure to the issuer of the eligible financial collateral or to the eligible protection provider, as the case may be. Subject to paragraph 3.12(a) of this Annex, the Reporting Bank must assign to the issuer of the eligible financial collateral or to the eligible protection provider the amount by which the exposure to the original counterparty is reduced.

Section 3: Calculation of exposure value for trading book positions

3.1 A Reporting Bank must calculate –

(a) the exposure value of the positions that meet the conditions under paragraph 3.2 of this Annex in accordance with paragraphs 3.3 to 3.15 of this Annex; and

(b) its aggregate exposure to a counterparty by adding any exposure to that counterparty arising from any position that meets the conditions under paragraph 3.2 of this Annex held in its trading book to any other exposure to that counterparty held in its banking book.

3.2 The conditions referred to under paragraphs 3.1(a) and (b) of this Annex are as follows:

(a) the position is exposed to risk associated with the default of that counterparty;

(b) the position is not a position in a commodity or currency.

3.3 For a position that meets the conditions under paragraph 3.2 of this Annex and where a Reporting Bank has assigned this position to the non-securitisations component in accordance with paragraph 8.2.159 of Part VIII of MAS Notice 637, the Reporting Bank must calculate the exposure value of this position based on its gross JTD position by applying paragraphs 8.2.168 to 8.2.170 and 8.2.172 to 8.2.175 of Part VIII of MAS Notice 637. To avoid doubt, the Reporting Bank must not apply the maturity-weighting set out in paragraphs 8.2.176 to 8.2.179 of Part VIII of MAS Notice 637 for the purposes of this calculation.

3.4 For the purposes of paragraph 3.3 of this Annex, a Reporting Bank must –

(a) use an LGD value of 100% in its calculation of the gross JTD position of the position;

(b) apply paragraph 8.2.164 of Part VIII of MAS Notice 637 in the case of a multi-underlying instrument or an index instrument[16]; and

(c) apply paragraph 8.2.163 of Part VIII of MAS Notice 637 in determining the counterparty to assign the exposure arising from a non-securitisation credit derivative or an equity derivative.

3.5 A Reporting Bank must calculate exposures arising from positions hedged by credit derivatives in accordance with paragraphs 3.11 and 3.12 of this Annex, where the Reporting Bank chooses to recognise such hedges.

3.6 A Reporting Bank must calculate the exposure value of an investment in index positions, securitisations, hedge funds or investment funds held in the trading book applying the same approach as for similar instruments held in the banking book in accordance with paragraphs 4.4 to 4.16 of this Annex.

[16] For example, an index option.

Accordingly, the Reporting Bank may assign the amount invested in a particular structure to –

(a) the structure itself, where it is defined as a distinct counterparty;

(b) the counterparties corresponding to the underlying assets; or

(c) the unknown client described in paragraph 4.11(b) of this Annex.

3.7 A Reporting Bank may offset long and short positions in –

(a) an identical[17] issue of any instrument held in the trading book; or

(b) different issues of any instrument held in the trading book issued by a counterparty when –

(i) the short position is junior to the long position; or

(ii) the long and short positions are of the same seniority.

3.8 For the purposes of paragraph 3.7 of this Annex, the Reporting Bank may calculate its exposure value to the counterparty issuing such instruments based on a net position.

3.9 For the purposes of determining the relative seniority of positions under paragraph 3.7(b) of this Annex, a Reporting Bank may allocate securities held in the trading book into broad buckets of degrees of seniority[18].

3.10 Where a Reporting Bank has chosen not to allocate securities to different buckets based on relative seniority, the Reporting Bank must not recognise any offsetting of long and short positions in different issues of any instrument held in the trading book relating to the same counterparty.

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[17] Two issues are defined as identical if the issuer, seniority, coupon, currency and maturity are identical.

[18] For example, the broad buckets may be "Equity", "Subordinated Debt" and "Senior Debt".

3.11 In the case of positions held in the trading book hedged by credit derivatives, a Reporting Bank may recognise the hedge, provided the underlying instrument of the hedge and the position hedged meet the requirements set out in paragraphs 3.7(b), 3.9 and 3.10 of this Annex.

3.12 Where a Reporting Bank recognises a hedge of a position held in the trading book through the use of credit derivatives pursuant to paragraph 3.11 of this Annex and recognises a reduction of the exposure value to the counterparty due to the hedge, the Reporting Bank must –

(a) in the case where the Reporting Bank bought credit protection in the form of a credit default swap to hedge positions held in the trading book and either the credit default swap provider or the referenced entity is not a financial entity, calculate the exposure value arising from the credit default swap based on paragraph 2.2 of this Annex and assign this exposure value to the eligible protection provider; and

(b) in all other cases, recognise a corresponding increase in the exposure value to the eligible protection provider.

3.13 For the purposes of paragraph 3.12(a) of this Annex, a "financial entity" refers to –

(a) a financial institution that is subject to minimum prudential standards that are consistent with international standards and supervision by a financial services regulatory authority ("regulated financial institution");

(b) where the regulated financial institution referred to in sub-paragraph (a) is substantial in a consolidated group, the parent and subsidiaries of the regulated financial institution;

(c) a financial institution that is not subject to minimum prudential standards that are consistent with international standards and supervision by a financial services regulatory authority; or

(d) any other financial institution as may be specified by the Authority from time to time.

3.14 A Reporting Bank must not offset positions held in the banking book with positions held in the trading book or vice versa.

3.15 Where offsetting positions held in the trading book results in a net short position, a Reporting Bank must not include the net short position in calculating its aggregate exposures to a particular counterparty. To avoid doubt, for the purposes of aggregating the exposure value for trading book positions an extended director group, an extended senior management group, an indirect controller group, a major stake entity group, a substantial shareholder group, a key credit approver group, or a connected related party group, the Reporting Bank must only aggregate the exposure value arising from net long positions to each person in the extended director group, the extended senior management group, the indirect controller group, the major stake entity group, the substantial shareholder group, the key credit approver group, or the connected related party group.

Section 4: Treatment of specific exposure types

Covered bond exposures

4.1 Subject to paragraph 4.2 of this Annex, a Reporting Bank must assign to the issuer of a covered bond an exposure value of 100% of the nominal value of the Reporting Bank's holding in a covered bond, regardless of whether the covered bond is held in the Reporting Bank's banking book or trading book. To avoid doubt, where a covered bond is issued by a bank or a mortgage institution through an SPV, the Reporting Bank must assign the exposure value arising from its holdings in that covered bond to the bank or the mortgage institution.

4.2 A Reporting Bank may assign an exposure value of at least 25% of the nominal value of the Reporting Bank's holding in a qualifying covered bond, regardless of whether the qualifying covered bond is held in the Reporting Bank's banking book or the trading book, to the issuer of the qualifying covered bond.

4.3 For the purposes of paragraph 4.2 of this Annex, a qualifying covered bond refers to a covered bond that meets the following conditions at the inception date of the covered bond and throughout its remaining maturity:

(a) the cover pool of the covered bond consists of assets that constitute –

(i) exposures which would fall within the central government and central bank asset class, PSE asset class or MDB asset class under the SA(CR) in accordance with paragraph 7.3.1(b) to (d) of Part VII of MAS Notice 637;

(ii) regulatory RRE exposures which would fall within the regulatory real estate asset sub-class under the SA(CR) in accordance with paragraph 7.3.1(k)(ii) of Part VII of MAS Notice 637 that would –

(A) qualify for a 35% or lower risk weight under the SA(CR) set out in paragraphs 7.3.91 to 7.3.92 and subject to paragraph 7.3.96 of Part VII of MAS Notice 637; and

(B) have a loan-to-value ratio of 80% or lower, calculated in accordance with paragraph 7.3.17(g) of Part VII of MAS Notice 637;

(iii) regulatory CRE exposures which would fall within the regulatory real estate asset sub-class under the SA(CR) in accordance with paragraph 7.3.1(k)(ii) of Part VII of MAS Notice 637 that that would –

(A) qualify for a 100% or lower risk weight under the SA(CR) set out in paragraph 7.3.93 to 7.3.96 of Part VII of MAS Notice 637; and

(B) have a loan-to-value ratio of 60% or lower, calculated in accordance with paragraph 7.3.17(g) of Part VII of MAS Notice 637;

(b) the nominal value of the cover pool assigned to the covered bond by its issuer exceeds the nominal outstanding value of the covered bond issuance (“over-collateralisation requirement”) by at least

10%[19], and for the purposes of meeting this over-collateralisation requirement of at least 10% –

(i) where the relevant legislative framework governing the issuance of such covered bonds does not stipulate an over-collateralisation requirement of at least 10%, the Reporting Bank must ensure that the issuer of the covered bond publicly discloses on a regular basis that the cover pool meets the over-collateralisation requirement of 10% at all times; and

(ii) in addition to the primary assets set out in sub-paragraph (a), the assets used to meet this over-collateralisation requirement may include substitution assets that are cash or short-term liquid and high quality assets held in substitution of the primary assets to top up the cover pool for management purposes, and derivatives entered into for the purposes of hedging the risks arising in the covered bond programme.

Exposures to collective investment schemes, securitisation vehicles and other structures

4.4 For the purposes of the related party exposure limit, a Reporting Bank must calculate the exposure value for exposures arising from structures[20] that the Reporting Bank has invested in, regardless of whether such exposures are held in the banking book or trading book, in accordance with paragraphs 4.5 to 4.16 of this Annex.

4.5 Without prejudice to paragraph 4.15 of this Annex, a Reporting Bank may calculate the exposure value based on the amount[21] it invests in a structure,

[19] For this purpose, the value of the cover pool does not need to be that required by the relevant legislative framework governing the issuance of such covered bonds.

[20] Such structures include collective investment schemes, closed-end funds, securitisations, investments in index positions and other structures with underlying assets.

[21] This is the carrying amount of the investment as determined in accordance with the Accounting Standards.

defined as a distinct counterparty, and assign the exposure value to the structure, if –

(a) the Reporting Bank had demonstrated to the Authority that it has not been influenced by regulatory arbitrage considerations in deciding not to apply LE-LTA to calculate the exposure value to the structure[22]; and

(b) the Reporting Bank's –

(i) exposure value to each underlying asset of the structure is smaller than 0.25% of the Reporting Bank's Tier 1 capital; or

(ii) whole investment in a structure is below 0.25% of the Reporting Bank's Tier 1 capital.

4.6 Where the Reporting Bank has not chosen to apply the approach in paragraph 4.5 of this Annex, the Reporting Bank must apply the LE-LTA to look through the structure to identify the underlying assets of the structure and apply the exposure measurement approach set out in paragraphs 4.12 to 4.14 of this Annex.

4.7 For the purposes of calculating the Reporting Bank's exposure value to each underlying asset in paragraph 4.5(b)(i) of this Annex, the Reporting Bank must include only exposures to underlying assets of the structure that result from the Reporting Bank's investment in the structure and use the exposure measurement approach set out in paragraphs 4.12 to 4.14 of this Annex as though the LE-LTA is applied.

4.8 Where a Reporting Bank's exposure to each underlying asset of a structure is equal to or above 0.25% of the Reporting Bank's Tier 1 capital, the Reporting Bank must apply –

(a) the LE-LTA to look through the structure to identify the underlying assets of the structure; and

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[22] For example, the Reporting Bank has not circumvented the related party exposure limit by investing in several individually immaterial transactions with identical underlying assets.

(b) the exposure measurement approach set out in paragraphs 4.12 to 4.14 of this Annex.

4.9 For the purposes of paragraphs 4.6 and 4.8 of this Annex, the Reporting Bank must –

(a) identify the counterparty corresponding to each of the underlying assets; and

(b) aggregate the exposures arising from such underlying assets to any other direct or indirect exposure to that counterparty.

4.10 Where the Reporting Bank has applied the approach set out in paragraphs 4.8 and 4.9 of this Annex for underlying assets of a structure that are each equal to or above 0.25% of the Reporting Bank's Tier 1 capital, the Reporting Bank may assign the exposure value arising from other underlying assets of the structure that are each below 0.25% of the Reporting Bank's Tier 1 capital to the structure[23].

4.11 Without prejudice to paragraph 4.15 of this Annex, where a Reporting Bank is unable to identify the underlying assets of the structure, the Reporting Bank must –

(a) if the total amount of a Reporting Bank's exposure to a structure does not exceed 0.25% of the Reporting Bank's Tier 1 capital, assign the total exposures arising from the structure based on the amount it invests in a structure, to the structure as the relevant counterparty; and

(b) if the total amount of a Reporting Bank's exposure to a structure is above 0.25% of the Reporting Bank's Tier 1 capital, aggregate its exposures to all such structures and assign the aggregated amount, based on the amount it invests in the structures, to a hypothetical single counterparty, referred to as the unknown client. The Reporting Bank must apply the requirements set out in paragraphs 40 and 41 of this Notice on the related party exposure limit and paragraph 10 of MAS Notice 643A on regulatory reporting, to the unknown client as a single counterparty.

[23] A partial use of the LE-LTA is permitted.

4.12 Where the LE-LTA is applied in the case of a structure where all investors rank pari passu, a Reporting Bank must calculate the exposure value to a counterparty corresponding to each underlying asset in accordance with the formula *P* x *V*, where –

(a) *P* is the pro rata share that the Reporting Bank holds in the structure; and

(b) *V* is the value of the underlying asset in the structure[24].

4.13 Where the LE-LTA is applied in the case of a structure with different seniority levels among investors[25], a Reporting Bank must calculate the exposure value arising from the underlying assets for each tranche within the structure[26].

4.14 For the purposes of paragraph 4.13 of this Annex, the Reporting Bank must calculate the exposure value arising from each underlying asset in accordance with the formula V_L x P_T, where –

(a) V_L is the lower of the values of –

(i) the tranche in which the Reporting Bank invests; and

(ii) the nominal value of each underlying asset included in the underlying portfolio of assets; and

(b) P_T is the pro rata share of the Reporting Bank's investment in the tranche.

[24] For example, a Reporting Bank holding a 1% share of a structure that invests in 20 assets each with a value of 5 must assign an exposure of 0.05 to each of the counterparties.

[25] For example, securitisations.

[26] This assumes a pro rata distribution of losses amongst investors in a single tranche.

4.15 A Reporting Bank must determine if there are, and if so, identify one or more of the following third parties[27] who constitute an additional risk factor inherent in a structure itself rather in the underlying assets:

(a) originators;

(b) fund managers;

(c) liquidity providers;

(d) eligible protection providers;

(e) any other person that the Reporting Bank deems to be a material risk factor.

4.16 For the purposes of paragraph 4.4 of this Annex, the Reporting Bank must –

(a) aggregate its exposures in investments in structures with a common additional risk factor associated with each third party identified pursuant to paragraph 4.15 of this Annex, and apply the related party exposure limit to the aggregate of the exposures associated with each third party[28];

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[27] For example, in the case of short-term structured finance programmes, such as asset-backed commercial paper conduits and structured investment vehicles, a Reporting Bank may consider whether a liquidity provider or sponsor constitutes an additional risk factor. In the case of synthetic deals, a Reporting Bank may consider whether an eligible protection provider (e.g. sellers of credit protection by means of credit default swaps and guarantees) constitutes an additional risk factor.

[28] For example –

(a) in the case where a fund manager of funds, which the Reporting Bank is invested in, is identified to constitute a common additional risk factor, the Reporting Bank should calculate the exposure value that is subject to the related party exposure limit as the total value of the Reporting Bank's investments in the funds. In certain cases, the Reporting Bank may choose not to identify a fund manager as an additional risk factor. Such cases could be where the legal framework governing the regulation of particular funds requires

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(b) assess on a case-by-case basis whether the exposures to such structures associated with a third party that constitutes an additional risk factor are to be added to any other exposures the Reporting Bank has to the third party, depending on the specific features of such structure and on the role of the third party; and

(c) aggregate its exposures to such structures to other exposures[29] it has to that third party, and apply the related party exposure limit to the aggregate of the exposures, where the Reporting Bank has assessed this to be necessary under sub-paragraph (b).[30]

separation between the legal person that manages the fund and the legal person that has custody of the fund's assets.

(b) in the case where a liquidity provider or sponsor of short-term programmes (for example, asset-backed commercial paper conduits and structured investment vehicles), which the Reporting Bank is invested in, is identified to constitute a common additional risk factor, the Reporting Bank should calculate the exposure value that is subject to the related party exposure limit as the amount that the Reporting Bank invested in the structured finance products;

(c) in the case of investments in synthetic deals, where such structures are composed of credit protection such as credit default swaps or guarantees, and where the eligible protection provider of such credit protection is identified to constitute a common additional risk factor, the Reporting Bank should assign to the eligible protection provider the exposure value that corresponds to the percentage value of the underlying portfolio of each structure that the eligible protection provider is contractually obligated to cover.

[29] For example, a loan.

[30] For example, in the case of an eligible protection provider of a structure that is identified to constitute an additional risk factor, a Reporting Bank should add its exposure arising from the investment in the structure to its direct exposures to the eligible protection provider. Both exposures might crystallise into losses in the event that the eligible protection provider defaults. By ignoring the part of the exposures that is guaranteed by credit protection or secured by collateral, the Reporting Bank may be subject to a high concentration risk exposure to issuers of collateral or providers of credit protection.

Exposures to CCPs

4.17 A Reporting Bank must calculate, and subject to the related party exposure limit, the exposure value for –

(a) exposures not related to clearing activities ("non-clearing exposures") that are to a qualifying CCP, in accordance with paragraph 4.23 of this Annex;

(b) exposures to a CCP which is not a qualifying CCP.

4.18 A Reporting Bank must calculate the exposure value for the exposures referred to in paragraph 4.17(b) of this Annex in accordance with the formula, *C* + *N*, where –

(a) "*C*" is the exposure related to clearing activities calculated in accordance with paragraphs 4.21 and 4.22 of this Annex; and

(b) "*N*" is the non-clearing exposures calculated in accordance with paragraph 4.23 of this Annex.

4.19 In the case of exposures related to clearing activities to a CCP, a Reporting Bank must not aggregate its exposures related to clearing activities to a CCP with exposures to other persons included in the same related party group.

4.20 In the case of non-clearing exposures to a CCP, a Reporting Bank must determine whether the CCP is included in the same related party group as other counterparties of the Reporting Bank. Where the CCP is included in the same related party group as other counterparties of the Reporting Bank, the Reporting Bank must aggregate its non-clearing exposures to the CCP with its exposures to the other counterparties included in the same related party group, and subject the aggregate exposure value to the related party exposure limit.[31]

[31] As an example, if a Reporting Bank has exposures to a qualifying CCP for a total of 100 made up of 50 trade exposures, 10 default fund contributions and 40 liquidity lines, the Reporting Bank must report 60 under exposures related to clearing activities. For the other 40, the Reporting Bank should check whether the qualifying CCP is connected to the Reporting Bank's other counterparties, including other CCPs. Assuming that the qualifying CCP is also part of a

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4.21 A Reporting Bank must identify its exposures related to clearing activities to a CCP and calculate the exposure value of such exposures, in accordance with the treatment set out in Table B-1 –

Table B-1 – Exposures related to clearing activities

Type of exposure	**Applicable treatment**
Trade exposures	Exposure value calculated using the exposure measurement approaches prescribed in this Annex.
Posted segregated initial margin	Exposure value is zero[32].
Posted non-segregated initial margin	Exposure value is the nominal amount of initial margin posted by the Reporting Bank.
Pre-funded default fund contributions	Exposure value is the nominal amount of the funded contribution.
Unfunded default fund contributions	Exposure value is zero.
Equity stakes	Exposure value is the nominal amount of the Reporting Bank's equity stake, except in the case where such equity stakes are deducted from the Reporting Bank's capital on which the related party exposure limit is based, in which case the exposure value is zero.

single counterparty group, the Reporting Bank should add the 40 from the liquidity line to other exposures to counterparties within the same related party group. The Reporting Bank must subject the sum of these exposures to the related party exposure limit.

32 When the initial margin posted is bankruptcy remote from the CCP, in the sense that it is segregated from the CCP's own accounts when for example, such initial margin is held by a third-party custodian, this amount cannot be lost by the Reporting Bank if the CCP defaults. Therefore, the initial margin posted by the Reporting Bank is exempted from the related party exposure limit.

4.22 A Reporting Bank must assign the exposure value of the exposures relating to clearing activities[33] calculated in accordance with paragraph 4.21 of this Annex, to the counterparty determined in accordance with the treatment set out in Division 7 of Part VII of MAS Notice 637.

4.23 A Reporting Bank must calculate the exposure value of non-clearing exposures[34] provided by a CCP in accordance with Sections 1 to 4 of this Annex.

Exposures guaranteed or secured by specific exposures

4.24 Subject to paragraph 2.7 of this Annex, a Reporting Bank may exclude any portion of an exposure for which credit protection, whether held in its banking book or trading book, is provided by persons in paragraph 1(a), (b), (c), (d) or (g) of Annex A d, or secured by financial instruments which constitute exposures included in paragraph 1(a), (b), (c), (d) or (g) of Annex A of MAS Notice 656.

4.25 Where a Reporting Bank has an exposure mentioned in paragraph 1(a), (b), (c), (d) or (g) of Annex A of MAS Notice 656 that is –

(a) secured by eligible financial collateral or protected by eligible credit protection, and the Reporting Bank recognises the effects of CRM pursuant to paragraph 2.7 of this Annex, the Reporting Bank must recognise a corresponding exposure to the issuer of the eligible financial collateral or the eligible protection provider, as the case may be; or

(b) hedged by a credit derivative, and the Reporting Bank recognises the hedge pursuant to paragraph 3.11 of this Annex, the Reporting Bank must recognise a corresponding exposure to the eligible protection provider referred to in paragraph 3.12 of this Annex.

Section 5: Exposures to persons in a Reporting Bank's major stake entity group

[33] The Reporting Bank may be acting as a CCP's clearing member or as a client of a CCP's clearing member.

[34] Such exposures include funding facilities, credit facilities, and guarantees.

5.1 For the purposes of complying with the related party exposure limit applied to a Reporting Bank's major stake entity group, the Reporting Bank may, in computing the aggregate of the Reporting Bank's exposures to its major stake entity group, exclude the amount of capital investments in persons in its major stake entity group that has not already been deducted from capital under Part VI of MAS Notice 637, provided that the Reporting Bank, in its calculation of the utilisation of the related party exposure limit applied to the Reporting Bank's major stake entity group, correspondingly reduces the Tier 1 capital of the Reporting Bank by the amount of those capital investments.

5.2 For the purposes of paragraph 5.1 of this Annex, "capital investments" means –

(a) investments referred to in paragraph 6.1.5(p)(iii) of Part VI of MAS Notice 637; and

(b) PE/VC investments and investments in unconsolidated major stake entities that are not financial institutions in the form of any of the following:

(i) ordinary shares;

(ii) preference shares;

(iii) investments classified as equity under the Accounting Standards.

5.3 To avoid doubt, a Reporting Bank must not apply paragraph 5.1 of this Annex for the purposes of compliance with the related party exposure limit applied separately to –

(a) exposures to a person in a Reporting Bank's major stake entity group; or

(b) exposures to a person that is not aggregated with exposures to other persons of the Reporting Bank's major stake entity group pursuant to paragraph 20(b).