MAS Notice 1012

22 May 2026

NOTICE TO MERCHANT BANKS
BANKING ACT 1970

Exposures to Single Counterparty Groups for Merchant Banks Incorporated in Singapore

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Introduction

1 This Notice is issued pursuant to section 55ZE(1) and section 65A(2) of the Banking Act and applies to all Merchant Banks.

2 This Notice sets out the limits on exposures of a Merchant Bank to a single counterparty group, the types of exposures to be included in or excluded from those limits, the basis for computation of exposures, the eligible credit risk mitigation techniques, and the approach for aggregation of exposures.

Definitions

3 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 Banking Act.

4 For the purposes of this Notice –

"Accounting Standards" has the same meaning as in section 4(1) of the Companies Act 1967;

"asset class" has the same meaning as in MAS Notice 1111;

"associated company" has the same meaning as "associate" under the Accounting Standards;

"bank" means –

(a) any company which holds a valid licence under section 7 or 79 of the Banking Act; or

(b) any entity established or incorporated in a foreign country or jurisdiction which is approved, licensed, registered or otherwise regulated by a bank regulatory agency of the foreign country or jurisdiction to carry on banking business under the laws of the foreign country or jurisdiction;

"Banking Act" means the Banking Act 1970;

"banking book" has the same meaning as in MAS Notice 1111;

"banking group" in relation to a Merchant Bank, means the Merchant Bank and its banking group entities;

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

"bank regulatory agency" 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 Banking Act;

"CCP" or "central counterparty" has the same meaning as in MAS Notice 637;

"**CCP trade exposures**" has the same meaning as in MAS Notice 637;

"clearing member" has the same meaning as in MAS Notice 637;

"client" in relation to a clearing member, has the same meaning as in MAS Notice 637;

"closed-end fund" has the same meaning as in section 2 of the Securities and Futures Act 2001;

"collective investment scheme" has the same meaning as in section 2 of the Securities and Futures Act 2001;

"connected counterparty group" means –

(a) a group of persons, where –

(i) at least one person in the group is a counterparty to the Merchant Bank or a banking group entity; and

(ii) one person in the group (called in this Notice the controlling person) controls every other person in that group[1]; or

(b) a group of persons, where –

[1] For the purposes of this definition, examples of situations where counterparties are deemed likely to have a control relationship include –

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

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

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

A Merchant Bank should also refer to the Accounting Standards for further qualitative guidance when determining a control relationship.

(i) at least one person in the group is a counterparty to the Merchant Bank or a banking group entity; and

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

"counterparty" means –

(a) at the Merchant Bank standalone ("Solo") level, a person –

(i) who has an obligation to the Merchant Bank as a result of the Merchant Bank's contractual or other arrangements; or

(ii) in relation to whom the Merchant Bank is at risk as a result of the Merchant Bank's contractual or other arrangements or investments; and

(b) at the consolidated ("Group") level, a person –

(i) who has an obligation to the Merchant Bank or any of its banking group entities, as a result of the contractual or other arrangements of the Merchant Bank or banking group entity; or

(ii) in relation to whom the Merchant Bank or any of its banking group entities is at risk, as a result of the contractual or other arrangements or investments of the Merchant Bank or banking group entity.

"counterparty credit risk" means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows;

"cover pool" in relation to an issuance of covered bonds, means a pool of assets that are –

(a) legally or beneficially owned or legally and beneficially owned by a bank, a mortgage institution or an SPV;

(b) held by a bank or a mortgage institution as trustee, or a replacement trustee, on behalf of an SPV; or

(c) both,

for the purposes of securing the payment of –

(i) the liabilities to the holders of the covered bonds;

(ii) any liabilities arising from the enforcement of the rights of the holders of the covered bonds; and

(iii) any liabilities to third party service providers appointed for the operation and administration of the covered bonds programme;

“covered bond” means any bond, note or other debenture issued by a bank or a mortgage institution, whether directly or through an SPV, and that meets all of the requirements set out in paragraph 5;

“CRE” means commercial real estate;

“credit derivative” has the same meaning as in MAS Notice 1111;

“credit RWA” has the same meaning as in MAS Notice 1111;

“CRM” or “credit risk mitigation” has the same meaning as in MAS Notice 1111;

“current exposure method” has the same meaning as in MAS Notice 1111;

“D-SIB” or “Domestic Systemically Important Bank” means any Domestic Systemically Important Bank in Singapore as designated by the Authority[2];

“default fund” has the same meaning as in MAS Notice 637;

“director” has the same meaning as in section 2(1) of the Banking Act;

“ECAI” or “external credit assessment institution” has the same meaning as “ECAI” in MAS Notice 1111;

“eligible credit protection” has the same meaning as in MAS Notice 1111;

“eligible financial collateral” has the same meaning as in MAS Notice 1111;

“eligible protection provider” has the same meaning as in MAS Notice 1111;

“exempt exposure” means any exposure set out in paragraph 1 of Annex A;

“FC(CA)” or “financial collateral comprehensive approach” has the same meaning as in MAS Notice 1111;

“FC(SA)” or “financial collateral simple approach” has the same meaning as in MAS Notice 1111;

“family member” has the same meaning as in the Fifth Schedule to the Banking Act, as applied by sections 55R and 55ZL of the Banking Act;

“financial assistance” includes the making of a loan, the giving of a guarantee, the provision of security and the release of an obligation or a debt;

“financial institution” has the same meaning as in Annex 2A of MAS Notice 637;

“G-SIB” or “global systemically important bank” means any Global Systemically Important Bank identified and published by the Financial Stability Board;

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2 A Merchant Bank should refer to the Authority’s D-SIB framework and the list of designated D-SIBs published on the Authority’s website.

"G-SIFI" or "global systemically important financial institution" means any G-SIB or any global systemically important insurer identified by the Financial Stability Board;

"higher level client" has the same meaning as in MAS Notice 637;

"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;

"initial margin" has the same meaning as in MAS Notice 637;

"insurance subsidiary" has the same meaning as in MAS Notice 1111;

"large exposure" means –

(a) at the Solo level, the aggregate of the exposures of the Merchant Bank to a single counterparty group which is equal to or above 10% of the Tier 1 capital of the Merchant Bank; or

(b) at the Group level, the aggregate of the exposures of the banking group to a single counterparty group which is equal to or above 10% of the Tier 1 capital of the banking group;

"large exposures limit" means the respective limits described in paragraphs 9, 10 and 11;

"LE-LTA" or "look through approach" in relation to a structure, means the approach to identify each underlying asset of the structure;

"long settlement transaction" has the same meaning as in MAS Notice 1111;

"lower level client" has the same meaning as in MAS Notice 637;

"market RWA" has the same meaning as in MAS Notice 1111;

"maturity mismatch" has the same meaning as in MAS Notice 1111;

"**MDB" or "multilateral development bank"** means an institution which –

(a) is created by two or more countries or jurisdictions;

(b) provides financing and professional advice, for economic and social development projects; and

(c) has its own independent legal and operational status;

"Merchant Bank" means a merchant bank incorporated in Singapore;

"mortgage institution" means any financial institution that provides a loan to a borrower for the purchase of any real estate, where the real estate is used as a security for that loan;

"multi-level client structure" has the same meaning as in MAS Notice 637;

“netting” has the same meaning as in MAS Notice 1111;

“netting agreement” has the same meaning as in MAS Notice 1111;

“offsetting transaction” has the same meaning as in MAS Notice 637;

“originator” has the same meaning as in MAS Notice 1111;

“OTC” means over-the-counter;

“OTC derivative transaction” has the same meaning as in MAS Notice 1111;

“PSE” or “public sector entity” has the same meaning as in MAS Notice 1111;

“qualifying MDB” has the same meaning as in MAS Notice 1111**;**

“recognised ECAI” has the same meaning as in MAS Notice 1111;

“reference obligation” has the same meaning as in MAS Notice 1111;

“risk weight” has the same meaning as in MAS Notice 1111;

“SA(CR)” or “standardised approach to credit risk” has the same meaning as in MAS Notice 1111;

“securities” has the same meaning as in section 2 of the Securities and Futures Act 2001;

“securities firm” has the same meaning as in MAS Notice 637;

“securitisation” has the same meaning as in MAS Notice 1111;

“SFT” or “securities financing transaction” has the same meaning as “SFT” in MAS Notice 1111;

“single counterparty group” means a counterparty to the Merchant Bank or a banking group entity, or a connected counterparty group;

“specific allowance” has the same meaning as in MAS Notice 1111;

“SPV” means any special purpose vehicle incorporated or established for the primary purpose of issuing covered bonds or holding the cover pool in relation to such covered bonds or both;

“structure” means a financial instrument or investment entity that a Merchant Bank has invested in that itself has exposures to underlying assets;

“Tier 1 capital”, in relation to –

(a) a Merchant Bank, has the same meaning as “Eligible Tier 1 Capital” in MAS Notice 1111, at the Solo level; or

(b) a banking group, has the same meaning as "Eligible Tier 1 Capital" in MAS Notice 1111, at the Group level;

"trading book" has the same meaning as in MAS Notice 1111;

"tranche" has the same meaning as in MAS Notice 1111.

5 For the purposes of the definition of "covered bond" in paragraph 4, the qualifying requirements are –

(a) the bond, note or debenture must be subject to a law, whether in Singapore or outside Singapore, that protects all holders of the bond, note or debenture;

(b) the proceeds derived from the issuance of the bond, note or debenture must be invested in conformity with the law mentioned in sub-paragraph (a) in assets that form a cover pool, where –

(i) the aggregate value of the assets can satisfy all claims attached to the bond, note or debenture, during the duration of the validity of the bond, note or debenture; and

(ii) in the event that the issuer defaults on the bond, note or debenture, the assets will be used on a priority basis for the reimbursement of the principal, and the payment of the accrued interest, to the holder of the bond, note or debenture; and

(c) a holder of the bond, note or debenture may enforce his rights against, and recover any payment owed to him by, the issuer of the bond, note or debenture.

6 For the purposes of the definition of "connected counterparty group" in paragraph 4, and paragraph 7(a), a reference to a controlling person or person B shall, where the controlling person or person B is an individual, include a reference to a family member of the controlling person or person B, as the case may be.

7 For the purposes of this Notice –

(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;

(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.

8 For the purposes of paragraph 7(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*.

Large Exposures Limit to a Single Counterparty Group

9 Subject to paragraphs 11, 22 and 23, a Merchant Bank must not permit, at the Solo level, the aggregate of its exposures to any single counterparty group to exceed 25% of its Tier 1 capital.

10 Subject to paragraphs 11, 22 and 23, a Merchant Bank –

(a) must aggregate the exposures of the Merchant Bank and its banking group entities to the same single counterparty group; and

(b) must not permit, at the Group level, the aggregate of the exposures of the banking group to any single counterparty group to exceed 25% of the Tier 1 capital of the banking group.

11 Subject to paragraph 12, where a single counterparty group includes one or more banks or merchant banks rated at least AA- for an issuer external credit assessment by a recognised ECAI, a Merchant Bank may permit –

(a) at the Solo level, the aggregate of its exposures to the single counterparty group to exceed the limit set out in paragraph 9 but without exceeding the amount of its Tier 1 capital, provided that the aggregate of its exposures to all persons in the single counterparty group other than banks or merchant banks rated at least AA- for an issuer external credit assessment by a recognised ECAI does not exceed 25% of its Tier 1 capital; and

(b) at the Group level, the aggregate of the exposures of the Merchant Bank and its banking group entities to the same single counterparty group to exceed the limit set out in paragraph 10(b) but without exceeding the amount of Tier 1 capital of the banking group, provided that the aggregate of the exposures of the Merchant Bank and its banking group entities to all persons in the single counterparty group other than banks or merchant banks rated at least AA- for an issuer external credit assessment by a recognised ECAI does not exceed 25% of the Tier 1 capital of the banking group.

12 A Merchant Bank may apply paragraph 11 where all the following conditions are met:

(a) the Merchant Bank and, where applicable, the banking group, must not have a Tier 1 capital exceeding S$500 million; and

(b) each holding company of the Merchant Bank must not have a Tier 1 capital at the Solo level exceeding S$500 million or its equivalent in any other currency or, where any holding company does not maintain or report Tier 1 capital at the Solo level, the total equity of that holding company must not exceed S$500 million or its equivalent in any other currency.

13 Where a Merchant Bank applies paragraph 11–

(a) the Merchant Bank must notify the Authority of each single counterparty group, where the Merchant Bank intends to apply paragraph 11 in relation to the Merchant Bank's exposures to that single counterparty group, prior to the application of paragraph 11;

(b) the Merchant Bank must notify the Authority immediately when it becomes aware that –

(i) the Tier 1 capital of the Merchant Bank or, where applicable, the Tier 1 capital of the banking group, is projected to exceed S$500 million within the next 6 months;

(ii) the Tier 1 capital or, where applicable, the total equity of any holding company of the Merchant Bank is projected to exceed S$500 million or its equivalent in any other currency within the next 6 months;

(iii) a recognised ECAI has assigned a "Rating Watch Negative" status for any bank or merchant bank within the single counterparty group in sub-paragraph (a) which may result in an issuer external credit assessment of below AA-, where that bank or merchant bank is rated at least AA- for an issuer external credit assessment by the same recognised ECAI; or

(iv) a recognised ECAI has downgraded the issuer external credit assessment of any bank or merchant bank within the single counterparty group in sub-paragraph (a) to below AA-, where that bank or merchant bank was last rated at least AA- for an issuer external credit assessment by the same recognised ECAI.

14 For the purposes of paragraphs 12(b) and 13(b)(ii), a reference to the Tier 1 capital of a holding company of a Merchant Bank refers to the equivalent of "Eligible Tier 1 Capital" in MAS Notice 1111 under the risk-based capital standards applied to the holding company by the bank regulatory agency in the country or jurisdiction where that holding company is incorporated.

15 A Merchant Bank must set internal limits on the exposures of the Merchant Bank at the Solo level and the banking group at the Group level to a G-SIFI or a D-SIB.

16 For the purposes of paragraphs 9, 10 and 11, for a person that belongs to more than one single counterparty group, a Merchant Bank must include its exposures or exposures of the banking group to that person in each of the single counterparty groups.

17 For the purposes of paragraphs 10 and 11(b), a Merchant Bank –

(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 single counterparty 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 Merchant Bank or any other banking group entity), from the aggregate of the exposures of the banking group to any single counterparty 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.

18 Pursuant to paragraphs 10, 11(b) and 17, and for the purposes of complying with the large exposures limit at the Group level (other than paragraphs 10, 11(b) and 17), all assets, liabilities, Tier 1 capital, transactions, exposures or operations of a banking group entity of a Merchant Bank (except where excluded under paragraph 17) must be deemed to be that of the Merchant Bank.

Aggregation of Counterparties

19 A Merchant Bank must conduct due diligence on a counterparty (*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 Merchant Bank to *X* exceed 10% of the Tier 1 capital of the Merchant Bank at the Solo level; or

(ii) the banking group to *X* exceed 10% of the Tier 1 capital of the banking group at the Group level.

20 To assess if a counterparty may be economically dependent on another counterparty, a Merchant Bank 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) when 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.

21 A Merchant Bank must maintain documentation of the basis of its determination of a connected counterparty group and the due diligence conducted pursuant to paragraph 19.

22 Despite a person not being included in a connected counterparty group, a Merchant Bank must aggregate the exposures to one or more persons with that of a connected counterparty group, as the case may be, if there are reasons for the Merchant Bank to regard these exposures as connected in such a way so as to pose a single risk to the Merchant Bank.

Exclusion from Large Exposures Limit

23 For the purposes of complying with the large exposures limit at the Solo level or the Group level in paragraphs 9, 10 and 11, a Merchant Bank when aggregating its exposures or the 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;

(b) need not aggregate exposures to a person or a sub-group of persons in a connected counterparty 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 of Annex B;

(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 counterparty group, provided that the Merchant Bank 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) need not aggregate exposures to its subsidiaries with exposures to its other related corporations as a connected counterparty group. To avoid doubt, where the Merchant Bank does not aggregate exposures to its subsidiaries with exposures to its other related corporations as a connected counterparty group, the Merchant Bank must aggregate its exposures to its subsidiaries as a connected counterparty group, and must aggregate its exposures to its related corporations, other than its subsidiaries, as a separate connected counterparty group, unless the exposures are not aggregated pursuant to sub-paragraph (b); and

(e) in the case of aggregation as a connected counterparty 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.

24 Despite paragraph 23(e), if the persons that are directly controlled by or are directly economically dependent on the same central government or the same central bank are connected with each other based on other control relationship or economic dependence relationship, the Merchant Bank must aggregate the exposures to such persons as a connected counterparty group[3].

25 A Merchant Bank must maintain documentation of its basis for not aggregating any exposures under paragraph 23(b) and (c) for five years.

26 A Merchant Bank must treat exposures to any person or any sub-group of persons that is not aggregated pursuant to paragraph 23(b), (c) and (e) as exposures to a single counterparty group for the purposes of complying with paragraphs 9, 10 and 11.

Monitoring of Compliance with Large Exposures Limit

27 For the purposes of paragraphs 9, 10, 11 and 33, a Merchant Bank must base their computations of exposures and Tier 1 capital as at the same date.

Actions Required in the Event of Breaches

28 Where a Merchant Bank becomes aware that its exposure to any single counterparty group has breached the large exposures limit in paragraphs 9, 10 and 11, the Merchant Bank must –

(a) notify the Authority immediately;

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

[3] For example, if single counterparty groups *Y* and *Z* are both not aggregated with a central government under paragraph 23(e), but *Y* is economically dependent on *Z*, exposures to *Y* and *Z* are required to be aggregated for the purposes of complying with paragraphs 9, 10 and 11.

(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

29 A Merchant Bank must apply the basis for computation of exposures set out in Annex C for the purposes of determining compliance with –

(a) the large exposures limit in paragraphs 9, 10 and 11; and

(b) regulatory reporting requirements in paragraph 33.

30 In view of potential changes to the shareholding structure of a counterparty and its financial relationship with other persons, a Merchant Bank must review the profile of its counterparties at least once every 15 months[4].

Restrictions on Granting of Credit Facilities

31 A Merchant Bank must not –

(a) permit the aggregate of its unsecured credit facilities to any of the following persons, to exceed S$5,000:

(i) any of its directors or their family members, or a firm in which it or any of its directors or their family members, has an interest (as a partner, manager or agent) or to any individual or firm whereby any of its directors or their family members is a guarantor;

(ii) any related corporation that is not a bank; or

(b) permit the aggregate of its unsecured credit facilities to any of its employees other than a director, to exceed one year's emolument of that employee.

32 For the purposes of paragraph 31, "unsecured credit facilities" means, credit facilities granted without security, or in respect of any credit facility granted with security, any part thereof which at any time exceeds the market value of the assets constituting that security, or where the Authority is satisfied that there is no established market value, on the basis of a valuation approved by it.

Submission of Semi-Annual Reports

33 A Merchant Bank must submit to the Authority a report containing the following exposures as at 30 June and 31 December, no later than the 14th day of the second month from 30 June and 31 December each year, respectively, or such other period as the Authority may approve, at the Solo

[4] As a matter of best practice, a Merchant Bank should conduct the review once every 12 months. A Merchant Bank should also monitor more closely, developments affecting its counterparties with larger exposures, particularly those with exposures that are close to the large exposures limit in paragraphs 9, 10 and 11.

level and the Group level, in accordance with the instructions and format of the reporting schedules set out in Annex D:

(a) all large exposures, including exempt exposures set out in paragraph 1 of Annex A (except exempt exposures set out in paragraph 1(f) of Annex A), measured in accordance with Annex C;

(b) all exposures, excluding exempt exposures set out in paragraph 1 of Annex A, that are equal to or above 10% of the Tier 1 capital of the Merchant Bank, measured in accordance with Annex C and without the effect of CRM set out in paragraphs 2.5 to 2.9, 3.14, 3.15, 4.33 and 4.34 of Annex C;

(c) the 20 largest exposures to a single counterparty group, excluding the exempt exposures set out in paragraph 1 of Annex A, measured in accordance with Annex C, irrespective of the values of these exposures relative to the Tier 1 capital of the Merchant Bank;

(d) exposures to any person or any sub-group of persons in a connected counterparty group which are not aggregated with exposures to other persons of the group pursuant to paragraph 23(b), where the exposures to the group would otherwise have breached the large exposures limit if such exposures were aggregated, and the supporting reasons for not aggregating the exposures.

Transitional arrangements

34 Despite paragraphs 9 to 11, a Merchant Bank's exposure to a single counterparty group may, with the Authority's prior written approval, temporarily exceed the large exposures limit for the period granted by the Authority where the Merchant Bank's application for the approval was made before 1 Jan 2027, and subject to the further conditions and restrictions that the Authority may specify in its approval. In considering any application, the Authority will take into account whether the Merchant Bank is able to demonstrate to the Authority's satisfaction that there are clear impediments[5] to complying with the large exposures limit from the effective date set out in paragraph 35.

Effective Date

35 This Notice shall take effect on 1 June 2027. MAS Notice 1012 dated 11 June 2021 is cancelled with effect from 1 June 2027.

[5] For example, where there are legal or contractual impediments that restrict the Merchant Bank from reducing such exposures.

Exempt Exposures

1 For the purposes of the large exposures limit, the following exposures are exempt exposures:

(a) an exposure to the Singapore Government[6] or to the Authority;

(b) an exposure to a central government or a central bank of a sovereign country other than Singapore –

(i) that is denominated in the domestic currency of the sovereign country;

(ii) that is denominated in a currency other than the domestic currency of the sovereign country, where that sovereign country is rated at least AA- for a foreign currency external credit assessment by a recognised ECAI; or

(iii) where the exposure is to meet statutory liquidity and reserve requirements or other statutory requirements imposed by the Authority or by an authority in a foreign country or jurisdiction exercising any function that corresponds to a regulatory function of the Authority under the Banking Act;

(c) an exposure to any of the following PSEs:

(i) a PSE in Singapore that is subject to a 0% risk weight in Table 6-3 in paragraph 6.3.25 of Part VI of MAS Notice 1111;

(ii) a PSE outside Singapore –

(A) that is subject to a 0% risk weight in Table 6-3 in paragraph 6.3.25 of Part VI of MAS Notice 1111; and

(B) where the exposure is denominated in the domestic currency of the sovereign country where the PSE is established;

(d) an exposure to the Bank for International Settlements, the International Monetary Fund, the European Central Bank, the European Union, the European Stability Mechanism or the European Financial Stability Facility;

(e) an exposure to a qualifying MDB;

(f) an intraday exposure to a bank, up to 2 business days from the date of transaction where the Merchant Bank has fulfilled its obligation under the transaction but the counterparty bank has not due to reasons other than the occurrence of any of the following:

[6] To avoid doubt, an exposure to a statutory board in Singapore is not considered an exposure to the Singapore Government, except where paragraph 1(c)(i) of this Annex applies.

(i) the bankruptcy, insolvency or inability of the counterparty bank to pay its debts, or its failure or admission in writing of its inability to pay its debts as they become due;

(ii) the restructuring of any exposure to the counterparty bank involving forgiveness or postponement of principal, interest or fees that results in a write-off, specific allowance or other similar debit to the Merchant Bank's profit and loss account;

(iii) any circumstance where the Merchant Bank makes a write-off of or a specific allowance for any exposure to the counterparty bank due to a decline in the credit quality of the counterparty bank that is perceived by the Merchant Bank as significant, subsequent to the Merchant Bank taking on any exposure to the counterparty bank;

(iv) any circumstance where the Merchant Bank has placed any exposure to the counterparty bank on a non-accrued status;

(v) any circumstance where the Merchant Bank has accelerated repayment of any of its exposures to the counterparty bank;

(vi) the revocation of the counterparty bank's authorisation, licence, registration or approval to operate as a bank;

(g) an exposure to a qualifying CCP related to clearing activities as set out in Table C-2 in paragraph 4.23 of Annex C;

(h) an exposure to a related corporation that is –

(i) a holding company of the Merchant Bank, and –

(A) a bank; or

(B) part of a group that is subject to minimum prudential standards, including risk-based capital standards and liquidity standards, and supervision on a consolidated basis by the Authority or a bank regulatory agency, equivalent to those applied to a bank in Singapore by the Authority or in the foreign country or jurisdiction by the bank regulatory agency, respectively;

(ii) a subsidiary of the Merchant Bank, and –

(A) a bank;

(B) a merchant bank in Singapore; or

(C) a securities firm or other financial institution incorporated in a foreign country or jurisdiction that is subject to minimum prudential standards, including risk-based capital standards and liquidity standards, and supervision by a bank regulatory agency, equivalent to those applied to a bank in that country or jurisdiction;

where the residual maturity of the exposure must not exceed one year; or

(iii) a subsidiary (the "Subsidiary") of a holding company of the Merchant Bank, and is not also a subsidiary of the Merchant Bank, where –

(A) the Subsidiary is –

(I) a bank;

(II) a merchant bank in Singapore; or

(III) a securities firm or other financial institution incorporated in a foreign country or jurisdiction that is subject to minimum prudential standards, including risk-based capital standards and liquidity standards, and supervision by a bank regulatory agency, equivalent to those applied to a bank in that country or jurisdiction; and

(B) the holding company is one that fulfils sub-paragraph (h)(i)(A) or (B).

2 For the purposes of paragraph 1(b)(ii) of this Annex, where there are two external credit assessments for a counterparty, a Merchant Bank must use the poorer external credit assessment for that counterparty. Where there are more than two external credit assessment for a counterparty, a Merchant Bank must use the higher of the two poorest external credit assessments.

Annex B

<u>Criteria for Excluding Exposures to Persons in a Connected Counterparty Group</u>

1 In the case of aggregation as a connected counterparty group due to control relationships ("Group"), a Merchant Bank need not aggregate its exposures to a person, *A*, ("person *A*") or a sub-group comprising person *A*, and other persons controlled by *A* in the Group ("sub-group *A*"), if the Merchant 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 controlling person, to person *A* or sub-group *A* (and vice versa) is minimal.

2 Where the controlling person is a foreign government or a central bank of a sovereign country other than Singapore, a Merchant 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[7];

(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 Merchant 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 Merchant 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;

[7] 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 loan was accounted for as equity (e.g. cost of investment in subsidiary/associated company), a Merchant 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).

(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 controlling person is not a foreign government or central bank of a sovereign country other than Singapore, a Merchant Bank is deemed to have fulfilled the requirements in paragraph 1 of this Annex, if the following criteria are met:

(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 controlling person;

(ii) family members of the controlling person;

(iii) employees of the controlling person;

(iv) concurrently directors of the controlling person; or

(v) employees of any other external group person;

(e) no external group person that is a controlling person or family member of such a controlling person, 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 controlling person 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, “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.

Annex C

<u>**Measurement of Exposures**</u>

Section 1: General measurement principles

1.1 For the purposes of measuring a Merchant Bank's exposures to a counterparty, the Merchant 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 1111;

(b) subject to paragraph 1.2 of this Annex, exclude an exposure value to the counterparty that is deducted from capital under Part V of MAS Notice 1111; and

(c) 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 V of MAS Notice 1111, the Merchant 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, include the remaining part of the exposure in the computation of its total exposures to that counterparty.

1.3 A Merchant Bank must –

(a) include an exposure value that is subject to a 1250% risk weight in MAS Notice 1111; 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.

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

<u>Banking book on-balance sheet non-derivative assets</u>

2.1 A Merchant 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 net of specific allowances and accounting valuation adjustments attributable to such assets.

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

2.2 A Merchant 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 current exposure method set out in Annex 6K to Part VI of MAS Notice 1111.

Pre-settlement counterparty exposure for SFTs

2.3 A Merchant 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 6.2.25 of Part VI of MAS Notice 1111. Where the Merchant Bank recognises the effect of any eligible financial collateral taken for the SFT pursuant to paragraph 2.5 of this Annex, subject to paragraphs 2.7, 2.8(a), 2.8(d) and 2.9 of this Annex, the Merchant Bank must do so based on the FC(CA) in accordance with paragraphs 6.2.30 and 6.2.31 of Part VI of MAS Notice 1111. To avoid doubt, the Merchant Bank must not use the FC(SA) to recognise the effect of eligible financial collateral for any SFT.

Off-balance sheet items

2.4 Except for pre-settlement counterparty exposures arising from derivative transactions, long settlement transactions or SFTs, a Merchant Bank must calculate the exposure values of all other off-balance sheet items by multiplying the notional amount of each item with the applicable credit conversion factors set out in Annex 6A to Part VI of MAS Notice 1111, with a floor of 10%.

Eligible credit risk mitigation

2.5 A Merchant Bank must recognise the effect of CRM in the calculation of an exposure whenever the Merchant Bank has recognised the effect of CRM to compute credit RWA for the exposure in MAS Notice 1111, and the following conditions are met:

(a) the credit risk mitigant meets the requirements set out in Annex 6D to Part VI of MAS Notice 1111 for the recognition of eligible credit protection and eligible financial collateral under the SA(CR);

(b) the Merchant Bank meets the conditions and requirements for recognition of such CRM in accordance with paragraphs 2.6 to 2.9, 4.33 and 4.34 of this Annex.

2.6 A Merchant Bank must not recognise the following:

(a) the effects of CRM of any collateral for an exposure that has a maturity mismatch if the Merchant Bank has applied the FC(SA) under MAS Notice 1111;

(b) the effects of CRM if the Merchant Bank has not recognised this effect in the computation of credit RWA for the exposure in MAS Notice 1111.

2.7 Subject to paragraph 2.6(a) of this Annex, for an exposure that has a maturity mismatch with the credit risk mitigant, a Merchant Bank may recognise the effect of CRM pursuant to paragraph 2.5

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 Merchant Bank must calculate the value of the CRM adjusted for any maturity mismatch in accordance with Section 6 of Annex 6D to Part VI of MAS Notice 1111.

2.8 A Merchant 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 1111:

(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 Merchant Bank applies the FC(SA) for calculating the effect of CRM under Sub-divisions 4 and 5 of Division 2 of Part VI of MAS Notice 1111;

(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 Merchant Bank has adopted in accordance with paragraph 2.2 of this Annex; or

(d) in the case of eligible financial collateral when the Merchant Bank applies the FC(CA) for recognising the effect of eligible financial collateral, under MAS Notice 1111, 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 6G to Part VI of MAS Notice 1111.

2.9 Where a Merchant 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 Merchant 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 3.15(a) of this Annex, the Merchant 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 Merchant 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 3.18 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 A Merchant Bank must calculate the exposure value of debt instruments and equity instruments held in the trading book based on the value[8] calculated in accordance with the Accounting Standards.

3.4 A Merchant Bank must convert[9] –

(a) interest-rate related derivatives instruments held in the trading book into notional positions in the relevant underlying instruments in accordance with paragraph 7.2.7 and Annex 7A of MAS Notice 1111;

(b) credit derivatives into notional positions in the relevant reference obligations in accordance with paragraph 7.2.8 and Annex 7B of MAS Notice 1111; and

(c) equity derivative instruments into notional positions in the relevant underlying equity instruments in accordance with paragraph 7.2.33 and Annex 7E of MAS Notice 1111,

and then calculate the exposure value of the instruments based only on the positions representing exposures captured under paragraph 3.2 of this Annex.

3.5 Where a Merchant Bank has provided credit protection through credit derivative transactions held in the trading book, the Merchant Bank acquires exposure to the reference asset and must calculate the exposure value to the reference asset based on the amount that is due in the case the reference asset triggers the instrument, minus the absolute value of the credit protection. In the case that the market value of the sold credit derivative is positive from the perspective of the Merchant Bank, the Merchant Bank must add the positive market value of the credit derivative to other exposures to the protection buyer.

3.6 Where a Merchant Bank has provided credit protection through holding credit-linked notes, the Merchant Bank must calculate the exposure value arising from positions both in the bond of the credit-linked note issuer and in the underlying instrument referenced by the credit-linked note.

3.7 A Merchant Bank must calculate exposures arising from positions hedged by credit derivatives in accordance with paragraphs 3.14 and 3.15 of this Annex, where the Merchant Bank chooses to recognise such hedges.

3.8 A Merchant Bank must calculate the exposure value for options held in the trading book based on the change in option prices that would result from a default of the respective underlying instrument in accordance with Table C-1.[10] The Merchant Bank must aggregate resulting positions in options with other exposures to the relevant counterparties of such option positions and floor the net exposures at zero.

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8 Based on the current market value of the instruments.

9 For example, a future on stock *X* is decomposed into a long position in stock *X* and a short position in a risk-free interest rate exposure in the respective funding currency, or a typical interest rate swap is represented by a long position in a fixed and a short position in a floating interest rate exposure or vice versa.

10 The measurement of exposure values of options in Table C-1 differs from the measurement of exposure values of options under MAS Notice 1111.

Table C-1 – Exposure measurement of options

Option position	Exposure measurement approach
Long call option	Option market value
Short call option	Option market value
Long put option	Option strike price minus option market value
Short put option	Option strike price minus option market value

3.9 A Merchant 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. Accordingly, the Merchant 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.

3.10 A Merchant Bank may offset long and short positions in –

(a) an identical[11] 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.

3.11 For the purposes of paragraph 3.10 of this Annex, the Merchant Bank may calculate its exposure value to the counterparty issuing such instruments based on a net position.

3.12 For the purposes of determining the relative seniority of positions under paragraph 3.10(b) of this Annex, a Merchant Bank may allocate securities held in the trading book into broad buckets of degrees of seniority[12].

3.13 Where a Merchant Bank has chosen not to allocate securities to different buckets based on relative seniority, the Merchant 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.

3.14 In the case of positions held in the trading book hedged by credit derivatives, a Merchant Bank may recognise the hedge, provided the underlying instrument of the hedge and the position hedged meet the requirements set out in paragraphs 3.10(b), 3.12 and 3.13 of this Annex.

3.15 Where a Merchant Bank recognises a hedge of a position held in the trading book through the use of credit derivatives pursuant to paragraph 3.14 of this Annex and recognises a reduction of the exposure value to the counterparty due to the hedge, the Merchant Bank must –

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

12 For example, the broad buckets may be "Equity", "Subordinated Debt" and "Senior Debt".

(a) in the case where the Merchant 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 derivative 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.

3.16 For the purposes of paragraph 3.15(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.

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

3.18 Where offsetting positions held in the trading book results in a net short position, a Merchant 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 to a connected counterparty group, the Merchant Bank must only aggregate the exposure value arising from net long positions to each person in the connected counterparty group.

Section 4: Treatment of specific exposure types

Covered bond exposures

4.1 Subject to paragraph 4.2 of this Annex, a Merchant Bank must assign to the issuer of a covered bond an exposure value of 100% of the nominal value of the Merchant Bank's holding in a covered bond, regardless of whether the covered bond is held in the Merchant 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 Merchant Bank must assign the exposure value arising from its holdings in that covered bond to the bank or the mortgage institution.

4.2 A Merchant Bank may assign an exposure value of at least 25% of the nominal value of the Merchant Bank's holding in a qualifying covered bond, regardless of whether the qualifying covered bond is held in the Merchant 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 6.3.1(b) to (d) of Part VI of MAS Notice 1111;

(ii) exposures which would fall within the residential mortgage asset class that would qualify for a 35% risk weight under the SA(CR) set out in paragraph 6.3.39 of Part VI of MAS Notice 1111 and have a loan-to-value ratio of 80% or lower, calculated in accordance with paragraphs 6.3.40 and 6.3.41 of Part VI of MAS Notice 1111; and

(iii) exposures which would fall within the CRE asset class that would qualify for a 100% risk weight under the SA(CR) set out in paragraph 6.3.43 of Part VI of MAS Notice 1111 and with a loan-to-value ratio of 60% or lower, where this is calculated in the same manner as set out in paragraphs 6.3.40 and 6.3.41 of Part VI of MAS Notice 1111;

(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% [13] 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 Merchant 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.

<u>Exposures to collective investment schemes, securitisation vehicles and other structures</u>

4.4 For the purposes of the large exposures limit, a Merchant Bank must calculate the exposure value for exposures arising from structures[14] that the Merchant 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.

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[13] 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.

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

4.5 Without prejudice to paragraph 4.15 of this Annex, a Merchant Bank may calculate the exposure value based on the amount[15] it invests in a structure, defined as a distinct counterparty, and assign the exposure value to the structure, if –

(a) the Merchant 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[16]; and

(b) the Merchant Bank's –

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

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

4.6 Where the Merchant Bank has not chosen to apply the approach in paragraph 4.5 of this Annex, the Merchant 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 Merchant Bank's exposure value to each underlying asset in paragraph 4.5(b)(i) of this Annex, the Merchant Bank must include only exposures to underlying assets of the structure that result from the Merchant 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 Merchant Bank's exposure to each underlying asset of a structure is equal to or above 0.25% of the Merchant Bank's Tier 1 capital, the Merchant Bank must apply –

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

(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 Merchant 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 Merchant 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 Merchant Bank's Tier 1 capital, the Merchant Bank may assign the exposure value arising from other underlying assets of the structure that are each below 0.25% of the Merchant Bank's Tier 1 capital to the structure[17].

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

[16] For example, the Merchant Bank has not circumvented the large exposures limit by investing in several individually immaterial transactions with identical underlying assets.

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

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

(a) if the total amount of a Merchant Bank's exposure to a structure does not exceed 0.25% of the Merchant 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 Merchant Bank's exposure to a structure is above 0.25% of the Merchant 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 Merchant Bank must apply the requirements set out in paragraphs 9 and 10 on the large exposures limit and paragraph 33 on regulatory reporting, to the unknown client as a single counterparty.

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

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

(b) V is the value of the underlying asset in the structure[18].

4.13 Where the LE-LTA is applied in the case of a structure with different seniority levels among investors[19], a Merchant Bank must calculate the exposure value arising from the underlying assets for each tranche within the structure[20].

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

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

(i) the tranche in which the Merchant 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 Merchant Bank's investment in the tranche.

4.15 A Merchant Bank must determine if there are, and if so, identify one or more of the following third parties[21] who constitute an additional risk factor inherent in a structure itself rather than in the underlying assets:

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18 For example, a Merchant 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.

19 For example, securitisations.

20 This assumes a pro rata distribution of losses amongst investors in a single tranche.

21 For example, in the case of short-term structured finance programmes, such as asset-backed commercial paper conduits and structured investment vehicles, a Merchant Bank may consider whether a liquidity provider or sponsor constitutes an additional risk factor. In the case of synthetic deals, a Merchant Bank

(a) originators;

(b) fund managers;

(c) liquidity providers;

(d) eligible protection providers;

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

4.16 For the purposes of paragraph 4.4 of this Annex, the Merchant 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 large exposures limit to the aggregate of the exposures associated with each third party[22];

(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 Merchant 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[23] it has to that third party, and apply the large exposures limit to the aggregate of the exposures, where the Merchant Bank has assessed this to be necessary under sub-paragraph (b).[24]

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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.

22 For example –

(a) in the case where a fund manager of funds, which the Merchant Bank is invested in, is identified to constitute a common additional risk factor, the Merchant Bank should calculate the exposure value that is subject to the large exposures limit as the total value of the Merchant Bank's investments in the funds. In certain cases, the Merchant 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 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 Merchant Bank is invested in, is identified to constitute a common additional risk factor, the Merchant Bank should calculate the exposure value that is subject to the large exposures limit as the amount that the Merchant 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 Merchant 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.

23 For example, a loan.

24 For example, in the case of an eligible protection provider of a structure that is identified to constitute an additional risk factor, a Merchant 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

Exposures to CCPs

4.17 A Merchant Bank must calculate, and subject to the large exposures 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 4.32 of this Annex; and

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

4.18 For the purposes of paragraph 4.17 of this Annex, a Merchant Bank must ensure that a CCP meets all of the following requirements in order to be treated as a qualifying CCP:

(a) the CCP holds a licence to operate as a CCP (including a licence granted by way of confirming an exemption), and is permitted by a financial services regulatory authority to operate as a CCP with respect to the products it offers;

(b) the CCP is based and subject to prudential standards and supervision in a country or jurisdiction where the financial services regulatory authority has established, and publicly indicated that the financial services regulatory authority applies to the CCP on an ongoing basis, domestic rules and regulations that are consistent with the CPSS-IOSCO Principles for Financial Market Infrastructures;

(c) where the Merchant Bank has default fund contributions to the CCP, the CCP meets the following requirements in relation to the calculation of the hypothetical capital requirement of a CCP ("K_{CCP}"), the total prefunded default fund contributions from all clearing members ("DF_{CM}^{pref}"), and the CCP's prefunded own resources ("DF_{CCP}"):

(i) the CCP, the financial services regulatory authority supervising the CCP or any other entity with access to the required data calculates K_{CCP}, DF_{CM}^{pref} and DF_{CCP}, and where the calculation is performed by the CCP or any other entity, the CCP or any other entity confirms to the Merchant Bank that the calculation is performed in a manner to permit the financial services regulatory authority supervising the CCP to oversee the calculation;

(ii) the CCP, the financial services regulatory authority supervising the CCP or any other entity performing the calculations of K_{CCP}, DF_{CM}^{pref} and DF_{CCP} makes available information of the calculation results to the Merchant Bank.

4.19 For the purposes of paragraph 4.18(c) –

(a) K_{CCP} is the hypothetical capital requirement of a CCP due to its counterparty credit risk exposures to all its clearing members and their clients, and is calculated in accordance with paragraph 7.7.41 of MAS Notice 637; and

(b) DF_{CCP} is the CCP's prefunded own resources comprising contributed capital, retained earnings and other resources approved by the financial services regulatory authority supervising the CCP, which are contributed to the default waterfall, where these are junior or *pari passu* to prefunded default fund contributions of the CCP's clearing members.

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by credit protection or secured by collateral, the Merchant Bank may be subject to a high concentration risk exposure to issuers of collateral or providers of credit protection.

4.20 A Merchant 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 paragraph 4.23 of this Annex; and

(b) "*N*" is the non-clearing exposures calculated in accordance with paragraph 4.32 of this Annex.

4.21 In the case of exposures related to clearing activities to a CCP, a Merchant Bank must not aggregate its exposures related to clearing activities to a CCP with exposures to other persons included in the same single counterparty group.

4.22 In the case of non-clearing exposures to a CCP, a Merchant Bank must determine whether the CCP is included in the same single counterparty group as other counterparties of the Merchant Bank. Where the CCP is included in the same single counterparty group as other counterparties of the Merchant Bank, the Merchant Bank must aggregate its non-clearing exposures to the CCP with its exposures to the other counterparties included in the same single counterparty group, and subject the aggregate exposure value to the large exposures limit.[25]

4.23 A Merchant 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 C-2 –

Table C-2 – Exposures related to clearing activities

Type of exposure	**Applicable treatment**
CCP trade exposures, excluding initial margin	Exposure value calculated using the exposure measurement approaches prescribed in this Annex.
Posted segregated initial margin	Exposure value is zero[26].
Posted non-segregated initial margin	Exposure value is the nominal amount of initial margin posted by the Merchant 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 Merchant Bank's equity stake, except in the case where such equity

[25] As an example, if a Merchant Bank has exposures to a qualifying CCP for a total of 100 made up of 50 CCP trade exposures, 10 default fund contributions and 40 liquidity lines, the Merchant Bank must report 60 under exposures related to clearing activities. For the other 40, the Merchant Bank should check whether the qualifying CCP is connected to the Merchant Bank's other counterparties, including other CCPs. Assuming that the qualifying CCP is also part of a single counterparty group, the Merchant Bank should add the 40 from the liquidity line to other exposures to counterparties within the same single counterparty group. The Merchant Bank must subject the sum of these exposures to the large exposures limit.

[26] When the initial margin posted is bankruptcy remote from the CCP, in that it is segregated from the CCP's proprietary accounts (including where such initial margin is held by a third-party custodian), the Merchant Bank is not exposed to loss of the initial margin if the CCP defaults and is therefore excluded from the large exposures limit.

	stakes are deducted from the Merchant Bank's capital on which the large exposures limit is based, in which case the exposure value is zero.

Treatment of CCP trade exposures excluding initial margin to qualifying CCPs

4.24 Where a Merchant Bank is a client of a clearing member or a lower level client in a multi-level client structure, and enters into a transaction with the clearing member or a higher level client acting as a financial intermediary (i.e. the clearing member or higher level client completes an offsetting transaction with a qualifying CCP or clearing member), the Merchant Bank may assign to the qualifying CCP the exposure arising from the transaction with the clearing member or higher level client, if the following conditions are met, subject to paragraphs 4.25 and 4.26 of this Annex:

(a) the Merchant Bank must confirm that the offsetting transaction is identified by the qualifying CCP as a client transaction;

(b) the Merchant Bank must obtain a written independent legal opinion which concludes[27] that –

(i) the collateral is held by the qualifying CCP or the clearing member, or both, to support the offsetting transaction, under one or more arrangements that prevent any losses to the Merchant Bank due to –

(A) the default or insolvency of the clearing member;

(B) the default or insolvency of the other clients of the clearing member; and

(C) the joint default or insolvency of the clearing member and any of its other clients;

(ii) under the arrangements in sub-paragraph (b)(i), upon the insolvency of the clearing member, there is no legal impediment (other than the need to obtain a court order to which the client is entitled) to the transfer of the collateral belonging to clients of a defaulting clearing member of the qualifying CCP, to one or more other surviving clearing members of the qualifying CCP, or to clients or their respective nominees[28]; and

(iii) the arrangements in sub-paragraph (b)(i) are binding on all relevant parties and legally enforceable in all relevant countries or jurisdictions within the meaning of paragraph 3.1(a) of Annex 6J of MAS Notice 1111;

[27] While a Merchant Bank may use either an in-house or external legal counsel for the purposes of obtaining a written independent legal opinion, it should consider whether or not an in-house counsel opinion is appropriate. In the case of an in-house legal counsel, the Merchant Bank should ensure that the in-house legal counsel is independent of the parties originating the transactions which the Reporting Bank enters into with a clearing member, higher level client or CCP as specified in paragraph 4.24 of this Annex.

[28] The Merchant Bank should consult the Authority to determine if this is achieved based on particular facts.

(c) the Merchant Bank must ensure that the arrangements in sub-paragraph (b)(i) do not cease to be enforceable and there continues to be no legal impediment under sub-paragraph (b)(ii);

(d) the Merchant Bank must ensure that the laws, regulation, rules, contractual arrangements and administrative arrangements, that govern the transaction between the Merchant Bank and the clearing member, higher level client or qualifying CCP, as the case may be –

(i) provide that the offsetting transaction with a clearing member that has defaulted, or an insolvent clearing member, will continue to be indirectly transacted through the qualifying CCP, or by the qualifying CCP, should the clearing member default or become insolvent; and

(ii) allow for the Merchant Bank's positions and collateral placed with the qualifying CCP to be transferred at market value unless the Reporting Bank requests to close out at market value.

4.25 For the purposes of paragraph 4.24(d) of this Annex, a Merchant Bank must consider all of the following factors when assessing if offsetting transactions will continue to be indirectly transacted:

(a) whether there is a precedent for transactions being ported to another clearing member of the qualifying CCP;

(b) whether there is any reason for the Merchant Bank to believe that the industry practice for such precedent to continue, will be changed.

The Merchant Bank must not determine that the criteria in paragraph 4.24(d)(i) and (ii) of this Annex are met solely on the basis that there is no prohibition against the porting of client trades in any documentation provided by the qualifying CCP, including in rules imposed by or agreements entered into with, the qualifying CCP, that govern transactions transacted with or through the qualifying CCP.

4.26 Where a Merchant Bank is a client of a clearing member of a qualifying CCP or lower level client in a multi-level client structure, the Merchant Bank may assign to the qualifying CCP exposures arising from transactions with the clearing member or a higher level client acting as a financial intermediary if all conditions set out in paragraph 4.24 of this Annex, other than paragraph 4.24(b)(i)(C) of this Annex, are met.

4.27 Where a Merchant Bank is a client of a clearing member of a qualifying CCP or lower level client in a multi-level client structure and cannot meet the conditions to apply the approach in paragraphs 4.24 and 4.26 of this Annex, the Merchant Bank must assign its exposure arising from transactions with the clearing member or the higher level client to the clearing member or to the higher level client respectively.

4.28 To avoid doubt, a Merchant Bank must assign exposures to –

(a) a CCP, where such exposures arise from transactions with the CCP;

(b) in the case where the Merchant Bank is acting as a clearing member or a higher level client in a multi-level client structure, to a client or a lower level client, where such exposures arise from transactions with the client or the lower level client, as the case may be.

Treatment of non-segregated initial margin

4.29 Where a Merchant Bank acts as a clearing member of a qualifying CCP, and posts initial margin with the qualifying CCP that is held at the qualifying CCP and is not held in a bankruptcy remote manner, the Reporting Bank must assign exposures arising from such initial margin to the qualifying CCP. However, where a Reporting Bank acts as a clearing member of a qualifying CCP and collects initial margin from a client and posts it to the qualifying CCP, and the collateral is not held in a bankruptcy remote manner, the Merchant Bank need not assign any exposure to the qualifying CCP arising from such posted collateral if the Merchant Bank is not obligated to reimburse the client for any loss of such posted collateral in the event that the qualifying CCP defaults.

4.30 Where a Merchant Bank posts initial margin as a client of a clearing member of the qualifying CCP or as a lower level client and the initial margin is held at the qualifying CCP on the Merchant Bank's behalf and is not held in a bankruptcy remote manner, the Merchant Bank must assign exposures arising from such initial margin to –

(a) the qualifying CCP, where the Merchant Bank can meet the conditions to apply the approach in paragraphs 4.24 and 4.26 of this Annex;

(b) the clearing member or higher level client, as the case may be, where the Merchant Bank cannot meet the conditions to apply the approach in paragraphs 4.24 and 4.26 of this Annex.

4.31 Where a Merchant Bank posts initial margin as a client of a clearing member of the qualifying CCP or as a lower level client in a multi-level client structure, and the collateral is held at the clearing member or higher level client and is not held in a bankruptcy remote manner, the Merchant Bank must assign exposures arising from such posted initial margin to the clearing member or higher level client, as the case may be.

Treatment of non-clearing exposures

4.32 A Merchant Bank must calculate the exposure value of non-clearing exposures[29] provided to a CCP in accordance with Sections 1 to 4 of this Annex.

Exposures guaranteed or secured by specific exposures

4.33 Subject to paragraph 2.7 of this Annex, a Merchant 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), (e) or (h) of Annex A, or secured by financial instruments which constitute exposures included in paragraph 1(a), (b), (c), (d), (e) or (h) of Annex A.

4.34 Where a Merchant Bank has an exposure mentioned in paragraph 1(a), (b), (c), (d), (e) or (h) of Annex A that is –

(a) secured by eligible financial collateral or protected by eligible credit protection, and the Merchant Bank recognises the effects of CRM pursuant to paragraph 2.5 of this Annex, the Merchant 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

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

(b) hedged by a credit derivative, and the Merchant Bank recognises the hedge pursuant to paragraph 3.14 of this Annex, the Merchant Bank must recognise a corresponding exposure to the eligible protection provider referred to in paragraph 3.15 of this Annex.

Annex D

__Reporting Template__
(Refer to Excel file on MAS website)

__Reporting Instructions__

General

1 For the purposes of the reporting form –

(a) "Gross Exposures" refer to exposures measured in accordance with Annex C, without the effect of credit risk mitigation set out in paragraphs 2.5 to 2.9, 3.14, 3.15, 4.33 and 4.34 of Annex C; and

(b) "Net Exposures" refer to exposures measured in accordance with Annex C, after the effect of credit risk mitigation set out in paragraphs 2.5 to 2.9, 3.14, 3.15, 4.33 and 4.34 of Annex C.

2 A Merchant Bank must report its Gross Exposures and Net Exposures in terms of millions of Singapore dollars.

Section 1: Large Exposures (excluding exempt exposures)

3 In the Section 1 worksheet of the reporting form, a Merchant Bank must measure in accordance with Annex C and report, the following exposures, excluding exempt exposures set out in paragraph 1 of Annex A:

(a) the 20 largest exposures to a single counterparty group, ranked based on Net Exposures;

(b) all other exposures to a single counterparty group that meet the definition of a large exposure, based on Net Exposures;

(c) all other exposures to a single counterparty group that are equal to or above 10% of Tier 1 capital, based on Gross Exposures;

(d) where the Merchant Bank has applied paragraph 11 in respect of exposures to a single counterparty group reported under sub-paragraphs (a), (b) or (c) of this paragraph, the aggregate of the Merchant Bank's exposures to all persons in the single counterparty group other than banks or merchant banks rated at least AA- for an issuer external credit assessment by a recognised ECAI .

Section 2: Exempt Exposures

4 In the Section 2 worksheet of the reporting form, a Merchant Bank must report all exempt exposures set out in paragraphs 1(a) to (e), (g) and (h) of Annex A that meet the definition of a large exposure.

5 A Merchant Bank must indicate the type of exempt exposures as follows:

(a) "Central Government / Central Bank" for exempt exposures pursuant to paragraph 1(a) and (b) of Annex A;

(b) "Public Sector Entity" for exempt exposures pursuant to paragraph 1(c) of Annex A;

(c) "Specified Entity" for exempt exposures pursuant to paragraph 1(d) and (e) of Annex A;

(d) "Qualifying Central Counterparty" for exempt exposures pursuant to paragraph 1(g) of Annex A;

(e) "Specified Related Corporation" for exempt exposures pursuant to paragraph 1(h) of Annex A.

Section 3: Exposures to Persons in a Connected Counterparty Group which are not aggregated pursuant to paragraph 23(b)

6 Where the exposures to a person or sub-group of persons in a connected counterparty group would have resulted in a breach of the large exposures limit if such exposures were aggregated, a Merchant Bank must report, in the Section 3 worksheet of the reporting form, exposures to the person or sub-group of persons in the connected counterparty group which are not aggregated with exposures to other persons of the respective groups pursuant to paragraph 23(b).

7 The Merchant Bank must provide additional justifications for not aggregating exposures to each person pursuant to paragraph 23(b), if any of the criteria in paragraphs 2 and 3 of Annex B is not met.