

MAS NOTICE FHC-N637

29 June 2022

NOTICE TO DESIGNATED FINANCIAL HOLDING COMPANIES FINANCIAL HOLDING COMPANIES ACT 2013

RISK BASED CAPITAL ADEQUACY REQUIREMENTS

1 This Notice is issued pursuant to section 3(1), section 36(1), section 37(1), section 38(2) and section 60(1) of the Financial Holding Companies Act 2013 (the “Act”) and applies to all financial holding companies that –

- (a) have a subsidiary that is a bank incorporated in Singapore; and
- (b) are predominantly banking DFHCs,

(referred to in this Notice as an “FHC”).

Definitions

2.1 Subject to paragraph 3, the Glossary in Annex 2A of Notice 637 on Risk Based Capital Requirements for Banks Incorporated in Singapore (“Notice 637”) applies for the purposes of interpreting this Notice, including the provisions of Notice 637 as applied by this Notice, except that –

- (a) the definitions of “banking group”, “banking group entity”, “CDR”, “internationally active bank” and “Reporting Bank” are omitted;
- (b) the definitions of “chief executive”, “corporation”, “executive officer”, “financial holding company”, “holding company” and “related corporation” are included to have the same respective meanings as in section 2(1) of the Act;
- (c) the following definitions are included:
 - “FHC group”, in relation to an FHC, means the FHC and its FHC group entities;
 - “FHC group entity”, in relation to an FHC, means its subsidiary or any other entity that is treated as part of the FHC’s group of entities according to Accounting Standards;

“internationally active FHC” means an FHC that has been notified by the Authority that the Authority considers it to be internationally active, taking into consideration whether the FHC has one or more FHC group entity established or incorporated in a foreign country or jurisdiction that is approved, licensed, registered or otherwise regulated by a bank regulatory agency in the foreign country or jurisdiction to carry on banking business under the laws of the foreign country or jurisdiction, and whether the FHC group entity’s operations are significant in that foreign country or jurisdiction;

“major stake” has the same meaning as in section 31(10) of the Act;

“predominantly banking DFHC” has the same meaning as in regulation 3 of the Financial Holding Companies Regulations;

- (d) the definitions of “major stake company”, “PE/VC investments”, “recognised ECAI” and “subsidiary” are deleted and replaced with the following definitions:

“major stake company”, in relation to an FHC, means any company in which the FHC holds a major stake;

“PE/VC investments”, in relation to an FHC group entity that is a bank, has the same meaning as in MAS Notice 630;

“recognised ECAI” means an ECAI referred to in Annex 7RA of Notice 637;

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

- (e) the reference to a financial holding company in footnote B is to a holding company.

2.2 The expressions used in this Notice (including a provision of Notice 637 as applied by this Notice), except where defined in paragraph 2.1 or where the context otherwise requires, have the same meanings as in the Banking Act 1970.

Application of provisions of Notice 637 in this Notice

3 Where any provision in Notice 637 (called in this paragraph an incorporated provision) is incorporated by reference in this Notice, whether with or without modifications, then, in addition to any specific modifications set out in this Notice –

- (a) the incorporated provision applies with the necessary modifications;
- (b) a reference in the incorporated provision to another incorporated provision is to that other provision as applied by this Notice;
- (c) a reference in the incorporated provision to a Reporting Bank is to an FHC;

- (d) a reference in the incorporated provision to a banking group is to an FHC group;
- (e) a reference in the incorporated provision to a banking group entity is to an FHC group entity;
- (f) a reference in the incorporated provision to bank-wide is to group-wide;
- (g) a reference in the incorporated provision to bank-specific is to FHC-specific;
- (h) a reference in the incorporated provision to a Reporting Bank that is designated by the Authority as a domestic systemically important bank (“D-SIB”) is to an FHC that is an entity within a group that is designated by the Authority as a domestic systemically important bank (“D-SIB”);
- (i) a reference in the incorporated provision to where the Reporting Bank is not designated by the Authority as a D-SIB is to where the FHC is not an entity within a group that is designated by the Authority as a D-SIB;
- (j) a reference in the incorporated provision to an internationally active bank is to an internationally active FHC;
- (k) a reference in the incorporated provision to any of the following:
 - (i) at both the Solo and Group levels;
 - (ii) (a) at the Solo level; and (b) at the Group level;
 - (iii) at the Solo or Group level, as the case may be,
 is to at the Group level;
- (l) a reference in the incorporated provision to section 10(3) of the Banking Act is to section 36(2) of the Act;
- (m) a reference in the incorporated provision to section 29(1)(a) of the Banking Act is to section 28(2)(a) of the Act;
- (n) a reference in the incorporated provision to section 29(3) of the Banking Act is to section 28(4) of the Act;
- (o) a reference in the incorporated provision to a major stake approved under s32 of Banking Act is to a major stake approved under section 31 of the Act;

- (p) a reference in the incorporated provision to MAS Notice 651 is to MAS Notice FHC-N651 on Liquidity Coverage Ratio Disclosure; and
- (q) a reference in the incorporated provision to MAS Notice 653 is to MAS Notice FHC-N653 on Net Stable Funding Ratio Disclosure.

Application of provisions in Part I of Notice 637

4 Subject to paragraph 3, Part I of Notice 637 applies to or in relation to an FHC as the part applies to or in relation to a Reporting Bank, except that paragraphs 1.1.1 and 1.1.5 of Part I are omitted.

PART III: SCOPE OF APPLICATION

Division 1: Capital Adequacy Ratio Requirements

Requirements to Apply at the Group Level

5.1 An FHC must comply with the capital adequacy ratio requirements in this Notice at the consolidated (“Group”) level, which measure the capital adequacy of an FHC based on its capital strength and risk profile after consolidating the assets and liabilities of its FHC group entities, taking into account –

- (a) any exclusions of certain FHC group entities provided for under paragraphs 5.2 and 5.3; and
- (b) any adjustments pursuant to Division 6 of Part VII of Notice 637.

Non-consolidation of Certain Subsidiaries at the Group Level

5.2 An FHC must –

- (a) not consolidate the assets and liabilities of an insurance subsidiary; and
- (b) account for the investment in such a subsidiary at cost,

when preparing the consolidated financial statements of the FHC group for the purposes of calculating its capital adequacy ratio requirements at the Group level.

5.3 Subject to paragraph 5.2 and Part VI of Notice 637, an FHC may exclude from consolidation the assets and liabilities of any other subsidiary when preparing the

consolidated financial statements of the FHC group for the purposes of calculating its capital adequacy ratio requirements at the Group level only where such non-consolidation is expressly permitted under the Accounting Standards. Despite the provisions set out in this paragraph, the exemption for an entity that is a parent from presenting consolidated financial statements in paragraph 4(a) of FRS 110 does not apply to the FHC for the purposes of complying with paragraph 5.1.

5.4 Pursuant to paragraphs 5.1, 5.2 and 5.3, and for the purposes of the capital adequacy ratio requirements in this Notice (other than paragraphs 5.1, 5.2 and 5.3), an FHC must deem

–

- (a) all assets, customers, liabilities, equity, transactions, exposures and operations of an FHC group entity of an FHC to be that of the FHC (per the scope of consolidation in paragraphs 5.1, 5.2 and 5.3); and
- (b) all collateral held by an FHC group entity of an FHC to be collateral held by the FHC (per the scope of consolidation in paragraphs 5.1, 5.2 and 5.3).

Issuers of covered bonds

5.5 Where an FHC group entity that is a bank incorporated in Singapore issues covered bonds (as defined in MAS Notice 648), the FHC must continue to hold capital against its exposures in respect of the assets included in a cover pool (as defined in MAS Notice 648) in accordance with this Notice. Where the FHC group entity uses an SPE to issue covered bonds or to hold the cover pool, the FHC must apply a “look through” approach for the purposes of computing capital requirements under this Notice. Under the “look through” approach, the FHC must treat the FHC and the SPE as a single entity for the purposes of this Notice by –

- (a) deeming the assets of the cover pool held in the SPE (if any) as assets of the FHC; and
- (b) eliminating transactions between the FHC or FHC group entity and the SPE.

Division 2: Leverage Ratio Requirements

Requirements to Apply at the Group Level

5.6 An FHC must comply with the leverage ratio requirements in this Notice at the consolidated (“Group”) level, which measures the leverage ratio of an FHC based on its capital strength after consolidating the assets and liabilities of its FHC group entities, taking into account –

- (a) any exclusions of certain FHC group entities provided for under paragraphs 5.7 and 5.8; and
- (b) any adjustments pursuant to Division 6 of Part VII of Notice 637.

Non-consolidation of Certain Subsidiaries at the Group Level

5.7 An FHC must –

- (a) not consolidate the assets and liabilities of an insurance subsidiary; and
- (b) account for the investment in such a subsidiary at cost,

when preparing the consolidated financial statements of the FHC group for the purposes of calculating its leverage ratio at the Group level.

5.8 Subject to paragraph 5.7 and Part VI of Notice 637, an FHC may exclude from consolidation the assets and liabilities of any other subsidiary when preparing the consolidated financial statements of the FHC group for the purposes of calculating its leverage ratio at the Group level only where such non-consolidation is expressly permitted under the Accounting Standards. Notwithstanding the provisions set out in this paragraph, the exemption for an entity that is a parent from presenting consolidated financial statements in paragraph 4(a) of FRS 110 does not apply for the purposes of complying with paragraph 5.6.

5.9 Pursuant to paragraphs 5.6, 5.7 and 5.8, and for the purposes of the leverage ratio requirements in this Notice (other than paragraphs 5.6, 5.7 and 5.8), an FHC must deem –

- (a) all assets, customers, liabilities, equity, transactions, exposures and operations of an FHC group entity of an FHC to be that of the FHC (per the scope of consolidation in paragraphs 5.6, 5.7 and 5.8); and
- (b) all collateral held by an FHC group entity of an FHC to be collateral held by the FHC (per the scope of consolidation in paragraphs 5.6, 5.7 and 5.8).

Division 3: Deemed Approvals in Respect of FHC Group Entities that are Banks Incorporated in Singapore

5.10 Any approval granted by the Authority under any paragraph or footnote in Notice 637 to an FHC group entity of an FHC that is a bank incorporated in Singapore is treated as an approval granted by the Authority to the FHC in respect of that FHC group entity under that

paragraph or footnote in Notice 637 as applied by this Notice, each approval being a “deemed approval”.¹

5.11 A deemed approval –

- (a) shall lapse if the approval granted by the Authority to that FHC group entity under Notice 637 lapses, is revoked, or is otherwise withdrawn; and
- (b) shall be suspended or otherwise does not apply for the duration that the approval granted by the Authority to that FHC group entity under Notice 637 is suspended or otherwise does not apply.

Application of provisions in Parts IV-VI of Notice 637

6.1 Subject to paragraph 3 and the modifications specified in paragraph 6.2, Parts IV-VI of Notice 637 apply to or in relation to an FHC as those parts apply to or in relation to a Reporting Bank.

6.2 The modifications mentioned in paragraph 6.1 are –

- (a) the words “and, where applicable, paragraph 6.1.3A” in paragraph 5.1.3A(b) are omitted;
- (b) the words “and, where applicable, paragraph 6.1.3B” in paragraph 5.1.6(b)(i) are omitted;
- (c) the words “At the Solo level, deferred tax assets may be netted with associated deferred tax liabilities prior to being deducted in the calculation of CET1 Capital, only if offsetting is permitted by the relevant tax authority. The deferred tax liabilities permitted to be netted against deferred tax assets shall exclude amounts that have been netted against the deduction of goodwill, intangible assets and defined benefit pension assets pursuant to sub-paragraphs (a), (b) and (h) respectively of this paragraph.” in paragraph 6.1.3(c) are omitted;
- (d) the words “subject to paragraphs 6.1.3A and 6.1.3B,” in paragraph 6.1.3(p)(i) are omitted; and
- (e) paragraphs 6.1.3A, 6.1.3B and 6.1.3C are omitted.

¹ For example, if an FHC group entity is a bank incorporated in Singapore and has been granted approval by the Authority to adopt the IRBA under paragraph 7.4.10 of Notice 637, this is treated as an approval granted by the Authority to the FHC to adopt the IRBA in respect of that FHC group entity under paragraph 7.4.10 of Notice 637 as applied by paragraph 7.1 of this Notice.

Application of provisions in Parts VII-XII of Notice 637

7.1 Subject to paragraph 3 and the modifications specified in paragraph 7.2, Parts VII-XII of Notice 637 apply to or in relation to an FHC as those parts apply to or in relation to a Reporting Bank.

7.2 The modifications mentioned in paragraph 7.1 are –

- (a) paragraphs 7.1.1(f) and 7.1.1A are omitted;
- (b) sub-division 5 of Division 3 of Part VII is omitted;
- (c) in Annex 7RA, the words ““Recognised ECAIs” means” apply in place of the words “The following entities are recognised as ECAIs by the Authority pursuant to paragraph 7.3.53”;
- (d) the reference to paragraph 3.1.1(b) of Part III in paragraph 11.2.1 of Part XI is to paragraph 5.1 of this Notice;
- (e) the following paragraph applies in place of paragraph 11.2.2 of Part XI:

“11.2.2 An FHC need not comply with the requirements in this Part if it is a subsidiary of –

 - (a) another FHC that is subject to the requirements in this Part; or
 - (b) a bank that is subject to the requirements in Part XI.”;
- (f) the following paragraph applies in place of paragraph 11.2.3A of Part XI:

“11.2.3A Notwithstanding paragraph 11.2.3(a), where an FHC is not an entity within a group that is designated by the Authority as a D-SIB and –

 - (a) has not been notified by the Authority that it is an internationally active FHC; or
 - (b) is a subsidiary of a financial holding company or a bank incorporated outside Singapore,

the FHC may make the disclosures required under Sub-divisions 2 to 7 and 10 to 13 of Division 3 of this Part, except for disclosure requirements set out in Table 11-1A, as follows –

- (i) where the frequency of disclosure for a disclosure requirement set out in Table 11-1 is on a quarterly basis, the FHC may make such disclosures on a semi-annual basis; and
 - (ii) where the frequency of disclosure for a disclosure requirement set out in Table 11-1 is on a semi-annual basis, the FHC may make such disclosures on an annual basis.”;
- (g) the following paragraph applies in place of paragraph 11.2.15 of Part XI:
- “11.2.15 An FHC may omit disclosures required under any item in this Part, marked as qualitative disclosures, if the FHC –
- (a) is a subsidiary of a financial holding company, or a subsidiary of a bank that is incorporated outside Singapore, and the financial holding company or the bank is subject to disclosure requirements similar to those set out in this Part on a consolidated basis that is inclusive of the operations of the FHC; and
 - (b) makes clear reference in the standalone Pillar 3 report to the location of the relevant disclosures made by the financial holding company or the bank referred to in sub-paragraph (a).”;
- (h) Annex 12F of Part XII is replaced with Annex 12F of this Notice.

Effective Date

8 This Notice takes effect on 1 July 2022.

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NOTICE ON RISK BASED CAPITAL ADEQUACY REQUIREMENTS

Reporting Schedules

Name of FHC:

Statement as at:

We certify that:

1. The information provided in the reporting schedules is, to the best of our knowledge and belief, accurate and complete.
2. The capital adequacy ratios were at no time less than that specified under Part IV of MAS Notice 637 as applied by paragraph 6.1 of MAS Notice FHC-N637.

Signature of Chief Financial Officer

Name of Chief Financial Officer

Date