

# RESPONSE TO FEEDBACK RECEIVED

Oct 2016

## Response to Feedback Received – Proposed Amendments to MAS Notice 637 to Implement Revisions to the Basel III Capital Framework

MAS

Monetary Authority of Singapore

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## 1 Preface

1.1 On 9 October 2015, MAS issued a consultation paper on Proposed Amendments to MAS Notice 637 to Implement Revisions to the Basel III Capital Framework. The consultation period ended on 4 December 2015. MAS would like to thank all respondents for their contributions.

1.2 MAS has revised MAS Notice 637 to implement requirements for Singapore-incorporated banks that are consistent with the following final standards issued by the Basel Committee on Banking Supervision –

- (a) “Capital requirements for Banks’ Equity Investments in Funds” (press release: <http://www.bis.org/press/p131213.htm>);
- (b) “The Standardised Approach for Measuring Counterparty Credit Risk Exposures” (press release: <http://www.bis.org/press/p140331.htm>);
- (c) “Capital Requirements for Bank Exposures to Central Counterparties” (press release: <http://www.bis.org/press/p140410.htm>); and
- (d) “Revised Pillar 3 Disclosure Requirements” (press release: <http://www.bis.org/bcbs/publ/d309.htm>).

1.3 The amendments will enhance the risk capture of banks’ equity exposures and counterparty credit risk exposures. The revised Pillar 3 disclosure requirements will improve the comparability and consistency of disclosures and enable market participants to better assess a bank’s capital adequacy. Revisions have also been made to align the regulatory capital treatment for investments in unconsolidated major stake entities that are not financial institutions and private equity and venture capital investments, with the treatment of significant investments in commercial entities under the Basel capital framework.

1.4 The amendments will take effect from 1 January 2017. For the amendments related to the Standardised Approach for Measuring Counterparty Credit Risk Exposures (“SA-CCR”), and Capital Requirements for Bank Exposures to Central Counterparties (“CCPs”), transitional arrangements are provided to allow more time for implementation. For Pillar 3 disclosure requirements, the disclosures required under the revised framework will be for the reporting periods ending on or immediately after 1 January 2017 for the majority of disclosure templates and 1 January 2018 for the remaining templates.

1.5 MAS has considered carefully the feedback received in finalising the revised MAS Notice 637. Comments that are of wider interest, together with MAS’ responses are set out below.

## **2 Capital Requirements for Banks' Equity Investment in Funds**

### Scope of "funds"

2.1 Clarification was sought on whether holdings of units in real estate investment trusts and business trusts should be treated as holdings in a single equity security for the purpose of risk-weighting.

### MAS' Response

2.2 For the purpose of the new Sub-division 5 of Division 5 of Part VII, "funds" shall include collective investment schemes and closed-end funds as defined in the Securities and Futures Act (Chapter 289), except for real estate investment trusts as defined under section 295A of the Securities and Futures Act and business trusts as defined under the Business Trust Act. A Reporting Bank's holdings of units in real estate investment trusts as defined under section 295A of the Securities and Futures Act and business trusts as defined under the Business Trust Act shall be treated as holdings in a single equity security for the purpose of risk-weighting.

## **3 Standardised Approach for Measuring Counterparty Credit Risk Exposures**

### Treatment of Collateral for OTC Derivative Transactions

3.1 Clarification was sought on whether paragraphs 1.2 and 1.3 of Annex 7J should be applied to collateralised OTC derivative transactions.

### MAS' Response

3.2 Paragraphs 1.2 and 1.3 of Annex 7J do not apply to OTC derivative transactions. The effect of eligible collateral under a qualifying bilateral netting agreement and margin agreement are reflected in the exposure calculated in accordance with Annex 7O. The effect of eligible collateral that are not under a qualifying bilateral netting agreement and margin agreement may be recognised under paragraph 7.2.21B.

### Treatment of Collateral under Single Margin Agreement for Multiple Netting Sets

3.3 Clarification was sought on whether under paragraph 4.2(b) of Annex 7O, collateral should be apportioned in the computation of the multiplier within the computation of  $PFE^{\text{unmargined}}_{NS}$ .

MAS' Response

3.4 Collateral under a single margin agreement is not apportioned between multiple individual netting sets under paragraph 4.2 of Annex 7O. Collateral under the single margin agreement is included in the computation of replacement cost in paragraph 4.2(a) of Annex 7O, and excluded from the computation of potential future exposure in paragraph 4.2(b) of Annex 7O.

Treatment of Cross Currency Swaps

3.5 Clarification was sought on whether cross currency swaps should be treated as interest rate derivatives, and if so, how to treat the different currency legs.

MAS' Response

3.6 Derivative transactions are to be allocated to one of the five asset classes on the basis of the primary risk factor in accordance with paragraphs 3.3 and 3.4 of Annex 7O. On this basis, cross currency swaps would generally be allocated to the foreign exchange asset class.

Supervisory Delta Adjustment for Exotic Options

3.7 Clarification was sought on whether exotic options could be subject to a supervisory delta adjustment of +1 or -1.

MAS' Response

3.8 Exotic options that are not amenable to be treated under the formulas for options in paragraph 3.17 of Annex 7O are subject to a supervisory delta adjustment of +1 or -1, as applicable.

Categorisation of Gold

3.9 Clarification was sought on whether gold should be categorised under the commodity asset class - metals subclass, for determining the appropriate supervisory parameters in Table 7O-1 of Annex 7O to be applied, and for reporting in Schedule 5B.

MAS' Response

3.10 Gold is to be categorised under the commodity asset class - metals subclass, for determining the appropriate supervisory parameters in Table 7O-1 of Annex 7O to be applied, and for reporting in Schedule 5B.

### Reporting Schedules

3.11 Clarification was sought on whether transactions allocated to more than one asset class should be reported in Schedule 5B under only one of the asset class categories. Clarification was also sought on whether eligible financial collateral should be reported in Column (j) in Schedules 2-2A to 2-2G, and in Schedule 5E.

### MAS' Response

3.12 Where a transaction is allocated to more than one asset class, the transaction is to be reported in Schedule 5B under the asset class corresponding to the primary risk factor.

3.13 Only eligible financial collateral that are not under a qualifying bilateral netting agreement and margin agreement are to be reported in Columns (g) or (h) under the header "CRM Adjustments" in Schedule 2-1A, or in Column (j) under the header "Eligible financial collateral" in Schedule 2-2A to Schedule 2-2G, as applicable, and in Schedule 5E. Eligible collateral under a qualifying bilateral netting agreement and margin agreement are reflected in the exposure calculated in accordance with Annex 7O, and should not be reported in the aforementioned input fields.

## **4 Revised Pillar 3 Disclosure Requirements**

### Frequency of disclosures

4.1 Several respondents requested the Pillar 3 disclosure requirements set out in Sub-divisions 2 to 7 of Division 3 in Part XI to be on a semi-annual (half-yearly) basis instead of a quarterly basis, citing the resource burden from having to produce and audit the relevant quarterly disclosure reports; a desire to provide more time for senior management and the Board to review the reports; the immateriality of changes in banks' portfolios from quarter to quarter; and competitiveness concerns if other financial centres do not require the same frequency of disclosures.

### MAS' Response

4.2 The required frequency of disclosures set out in Sub-divisions 2 to 7 of Division 3 in Part XI is consistent with the frequency set out in BCBS' Revised Pillar 3 disclosure requirements, which had considered feedback from users of Pillar 3 reports pointing to the lower frequency of disclosures in the existing Pillar 3 framework as a shortcoming.

#### Implementation timeline

4.3 Several respondents requested more time to operationalise systems to meet certain disclosure requirements that are more challenging to implement such as those relating to linkages between the financial statements and regulatory exposures.

#### MAS' Response

4.4 MAS has taken note of the feedback received. To provide banks with more time to operationalise their systems to implement the revised disclosure requirements, a majority of the disclosure requirements set out in Sub-divisions 2 to 7 of Division 3 in Part XI are to be disclosed from 1 January 2017. The detailed timelines for specific disclosure requirements are set out in Table 11-1 in Division 3 in the revised MAS Notice 637.

#### Overview of Risk Weighted Assets (RWA)

4.5 Clarification was sought on whether the information to be disclosed under row 10a (“Equity Investments in funds – partial use of an approach”) in Table 11-3 of Division 3 should be included in the RWA amount to be disclosed in row 25 (“Total”). One respondent noted that the item (n) in Table 11-3A did not specifically indicate that row 10a should be included as part of the Total RWA and Minimum Capital Requirements.

#### MAS' Response

4.6 Row 10a in Table 11-3 of Division 3 should be included in the calculation of row 25 of Table 11-3. This has been clarified in Table 11-3A of the revised MAS Notice 637.

### **5 Revisions to regulatory capital treatment of investments in unconsolidated entities**

5.1 The consultation paper proposed to align the capital treatment of investments in unconsolidated major stake companies that are not financial institutions, with the current capital treatment of private equity and venture capital (PE/VC) investments.

5.2 Most respondents were of the view that the capital treatment of investments in unconsolidated major stake companies that are not financial institutions should be aligned with the capital treatment for significant investments in commercial entities under the Basel capital framework.

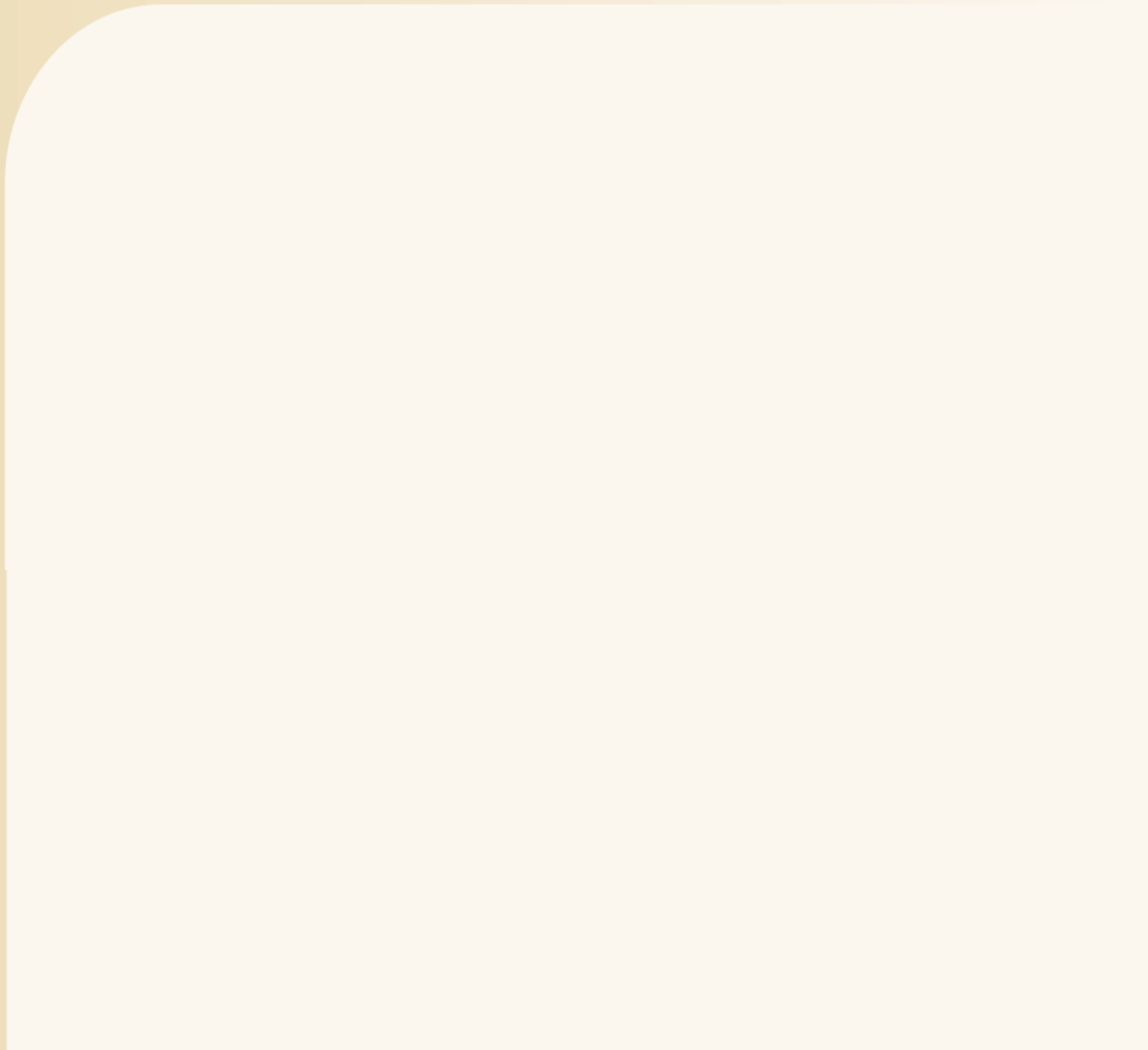
MAS' Response

5.3 MAS has considered the feedback provided and aligned the capital treatment of PE/VC investments, and investments in unconsolidated major stake companies that are not financial institutions, with the capital treatment for significant investments in commercial entities under the Basel capital framework.

**MONETARY AUTHORITY OF SINGAPORE**

17 Oct 2016





Monetary Authority of Singapore