



## **RESPONSE TO FEEDBACK RECEIVED – CONSULTATION ON PROPOSED FRAMEWORK FOR SYSTEMICALLY IMPORTANT BANKS IN SINGAPORE**

### **1 Introduction**

1.1 In June 2014, the Monetary Authority of Singapore (MAS) issued a consultation paper on the proposed framework to identify domestic systemically important banks (D-SIBs) in Singapore and address the risks they pose. The consultation closed on 25 July 2014. MAS thanks all respondents for their comments.

1.2 MAS has carefully considered the feedback received, and has incorporated them, where appropriate, in the D-SIB framework. Comments that are of wider interest, together with our responses, are set out below.

### **2 Scope of Assessment**

#### ***(a) Assessment of locally-incorporated banks, including subsidiaries of foreign banks, and branches of foreign banks***

2.1 A number of respondents raised concerns with potential reporting burden arising from the assessment of all banks under the framework. Some respondents suggested alternative approaches to narrow the scope of banks that are subject to assessment. These include:

- (a) excluding branches of global systemically important banks (G-SIBs) operating in Singapore, since their parent banks are already subject to G-SIB policy measures;
- (b) excluding merchant banks, as their operations are primarily non-retail in nature, and pose limited risks to the system, given their restricted activities; and

- (c) introducing a screening process (e.g. based on size) to identify potential D-SIBs for further assessment.

#### MAS' Response

2.2 The objective of the D-SIB framework is to identify banks that are systemically important to Singapore's financial system. While some banks in Singapore may be part of a G-SIB, the G-SIB assessments are undertaken at a global level and do not take into account country-specific externalities. For this reason, the Basel Committee of Banking Supervision (BCBS) recommends for national authorities to develop their own D-SIB frameworks to address jurisdiction-specific considerations.

2.3 To reduce reporting burden, MAS is looking at collecting selected data on a more targeted basis; banks will only need to report selected data if they exceed the reporting thresholds. MAS will finalise and inform of the list of data to be collected, and their respective reporting thresholds after reviewing the feedback received from the consultation of the revised MAS Notice 610 (Submission of Statistics and Returns).

#### **(b) *Assessment of banking groups***

2.4 Some respondents were of the view that each entity in Singapore should be assessed individually, rather than collectively as a group.

#### MAS' Response

2.5 It is important to assess related entities as a group to address the risk of potential contagion that arises within a banking group. This could be precipitated by intra-group exposures or transactions, including intra-group support, which are not uncommon between related entities within the same banking group. MAS will therefore assess all banks on an aggregated basis, taking into account the activities of all related banking entities in Singapore.

**(c) Definition of related banking entities in Singapore**

2.6 Some respondents sought clarification on the definitions of “foreign bank group” and “related banking entities in Singapore”. For example, whether trust companies owned by the banks are included within the definition of “related banking entities”.

MAS’ Response

2.7 “Foreign bank group” refers to a foreign bank with more than one banking entity in Singapore, e.g. where the bank conducts operations via a locally-incorporated subsidiary, branch and/or merchant bank in Singapore. “Related banking entities” includes all banks and merchant banks in Singapore that belong to the same banking group.

**3 Assessment Methodology**

**(a) Indicator-based approach**

3.1 A number of respondents sought clarification on the application of the indicator-based approach. For example, whether an overall score would be computed across the categories, whether indicators under the same category would be assigned specific weights, and how thresholds would be calibrated for the indicators.

MAS’ Response

3.2 As explained in the Consultation Paper, MAS will adopt an indicator-based measurement approach to assess banks’ systemic importance. The assessment will comprise a two-stage process:

- (a) **Stage One – Preliminary Selection:** Banks will be selected once they cross the threshold of any indicator in the *Size*, *Interconnectedness* and *Substitutability* categories. Banks that cross the threshold will be selected for further deliberation in the second stage; and
- (b) **Stage Two – Detailed Consideration:** Banks that are selected in Stage One will be subject to a second stage review by a panel of banking supervisors to mitigate the limitations associated with a mechanistic indicator-based approach. Supervisory judgment will be exercised, together with the consideration of other supplementary indicators.

**(b) Indicators used to assess systemic importance**

*Scope of data*

3.3 Some respondents sought clarification on whether the data used for the assessment of systemic importance are based on consolidated figures from an accounting perspective, or limited to risks regulated by MAS.

MAS' Response

3.4 The scope of data for the D-SIB assessment should be aligned to the “unit of analysis” and calculated based on financial reporting standards, where relevant. Specifically, for locally-incorporated banks headquartered in Singapore, this will be based on consolidated group level positions; for foreign bank groups, this will be based on aggregated positions of all related banking entities in Singapore; and for foreign bank branches, this will be based on branch-level positions. MAS will consider the activities of all related banking entities in Singapore and aggregate such positions where consolidation is not applicable. Prior to the implementation of the revised MAS Notice 610, MAS will rely on data reported in the existing MAS Notice 610 and supplement additional requirements through ad hoc surveys or manual adjustments to address data reporting constraints.

**(c) Size Assessment**

*Share of Total Assets*

3.5 Some respondents sought clarification on the definition of “banking system assets”, for example, whether it includes off-balance sheet items and intra-group assets.

MAS' Response

3.6 “Banking system assets” currently refers to total assets as reported on the balance sheet. MAS agrees that it is important to consider off-balance sheet items and will consider them when such data becomes available after the implementation of the revised MAS Notice 610. While intra-group exposures may have limited impact on the domestic system these data are not currently available across all balance sheet items. MAS will incorporate the necessary changes in the revised MAS Notice 610 and exclude intra-group exposures when the data becomes available.

### *Size as a primary indicator*

3.7 One respondent suggested that a bank's interconnectedness, substitutability and complexity should be assessed in the context of its size. A bank that is not significantly large would have limited impact on Singapore's financial system and broader domestic economy, even if it is highly interconnected to other banks in the system or provides critical or specialised services.

### MAS' Response

3.8 MAS agrees that a bank's relative size in the interbank market and the volume of services provided are relevant considerations when assessing *Interconnectedness* and *Substitutability*. As such, size considerations are taken into account when assessing *Interconnectedness* and *Substitutability* (e.g. through the calculation of the bank's market share in the interbank market or payments system). Identifying a bank which is high in *Interconnectedness* or *Substitutability* only when a certain size threshold is met could result in some banks being omitted, even though they may have significant impact on the domestic system. For instance, a custodian bank or wholesale bank which has significant lending or borrowing with banks operating in Singapore may not necessarily have a large balance sheet. Thus, MAS considers that the two factors, *Interconnectedness* and *Substitutability*, should remain separate and important considerations of systemic impact.

### **(d) *Interconnectedness Assessment***

#### *Network Analysis*

3.9 A number of respondents requested more information about the "network analysis" under the assessment of *Interconnectedness*.

### MAS' Response

3.10 The interconnectedness of banks within the domestic financial system is assessed under the network analysis, which is based on the number of linkages between one bank to another bank, whether a bank is likely to be an intermediary to other banks in the system, and a bank's size of borrowing or lending to other banks.

### *Share of amounts due to and from banks*

3.11 Respondents sought clarification on the definition of “share of amounts due to banks” and “share of amounts due from banks”, for example, whether it includes amounts due to/from banks in Singapore and outside Singapore, and whether the indicators are assessed on a gross or net basis. Respondents also suggested that MAS considers other important exposures for the *Interconnectedness* assessment, such as committed facilities and loans to financial concerns.

#### MAS' Response

3.12 “Amounts due to banks” and “Amounts due from banks” are defined in MAS Notice 610, and include exposures to and from banks in and outside of Singapore. The indicators represent different types of risks and will be assessed on a gross basis, as the chain effect operates differently on the two sides of the balance sheet. MAS agrees that the linkages in other types of exposures are important for the *Interconnectedness* assessment. Given the importance of the linkages from over-the-counter (OTC) derivative exposures, MAS will assess the volume of interconnections in the derivative markets using two proxy measures: “share of derivative receivables” and “share of derivative payables”. MAS will also consider an expansion of the scope of network analysis to study the network structure of other exposures, when more data becomes available.

#### **(e) *Substitutability Assessment***

3.13 A few respondents commented that the USD cheque settlement is not a critical function. One respondent commented that it may not be necessary to consider assets under custody since the custodian bank is not exposed to credit risk as a result of such assets being ring-fenced. The respondent also noted that the share of values of underwritten transactions in debt and equity markets could fluctuate significantly. Such measures are thus not effective for the *Substitutability* assessment.

#### MAS' Response

3.14 MAS agrees that the USD cheque clearing function is not systemically important, in view of its volume and the availability of substitutes for transactions in USD. MAS will remove it as an indicator for the *Substitutability* assessment.

3.15 On custodial activities, MAS considers that the failure of a bank which holds a significant amount of assets on behalf of customers (including other financial firms) could still disrupt the operation of financial markets, with potentially significant negative consequences for the domestic economy. As such, MAS will retain this indicator for the *Substitutability* assessment.

3.16 With regard to underwriting activities, MAS agrees that underwriting markets are generally deep with high turnover and are less time-critical compared to interbank payments, for instance. Hence, MAS will remove it as an indicator for the *Substitutability* assessment, and will instead consider a bank's underwriting role under Stage Two, when assessing a bank's overall systemic importance. See paragraph 3.2 for more details of the two-stage assessment process.

**(f) Complexity Assessment**

3.17 Several respondents requested more details on the type of factors which MAS would consider as affecting a bank's resolvability, and the use of "share of gross OTC derivatives outstanding" for the *Complexity* assessment.

MAS' Response

3.18 MAS is of the view that *Complexity* cannot be easily measured using quantitative indicators. MAS will hence assess resolvability by considering qualitative factors such as:

- (a) The role of the bank within the whole bank group – this is to assess the importance or inter-dependence of an entity to the rest of the group. The failure of a bank which plays an integral role within the group will have severe, and possibly, knock-on consequences for the group's operations, especially so when the bank provides critical services to other entities within its group; and
- (b) The number of jurisdictions in which the bank operates, or the number of business units that the bank operates through – these indicators are meant to assess whether the entity operates diverse types of activities through numerous legal and downstream entities and across borders, which may in turn pose challenges to the resolution process.

3.19 “Share of gross OTC derivatives outstanding” is a proxy measure of the complexity of a bank’s activities, particularly when trades need to be unwound in the case of a resolution. For this measure, the focus will be on OTC derivatives that are not cleared through a central counterparty.

***(g) Use of Supervisory Judgment***

3.20 Most respondents supported the use of supervisory judgment to complement the indicator-based approach. They however requested that MAS put in place guidelines to ensure consistency in the application of supervisory judgment. One respondent asked if MAS would publish or disclose to relevant D-SIBs on the use of such supervisory judgment to override the results of the indicator-based approach.

MAS’ Response

3.21 As explained in paragraph 3.2 above, the use of supervisory judgment in assessing banks’ systemic importance is to mitigate the limitations associated with an otherwise mechanistic indicator-based approach. MAS agrees with the importance of consistency in the application of supervisory judgment and has put in place internal guidelines and procedures, including approvals at appropriate management forums, to ensure proper assessment of all cases. MAS will also communicate the reasons for the designation of a bank as a D-SIB on a bilateral basis.

**4 Policy Measures**

***(a) Criteria for assessing significant retail presence***

4.1 A few respondents noted that the designation of a bank as a D-SIB by virtue of its significant retail presence in Singapore is not in line with the G-SIB framework or BCBS’ D-SIB principles. On the other hand, one respondent suggested that a bank that satisfies either one of the two criteria should be considered as having a significant retail presence in Singapore. Other respondents suggested other criteria for assessment, which MAS has carefully considered before finalising the D-SIB framework.<sup>1</sup>

---

<sup>1</sup> These include the number of retail customers relative to resident population, and the market share of loans and advances for housing and bridging loans as well as to private individuals.



### MAS' Response

4.2 The designation of a bank with a significant retail presence in Singapore as a D-SIB is in line with MAS' objective of retail depositor protection. Given the experience of other jurisdictions, MAS deems it appropriate and essential to consider banks with a significant retail presence in Singapore to be systemically important. The use of the two criteria as set out in the Consultation Paper ensures that only retail-focused banks are identified.

#### **(b) *Definitions of “resident”, “non-bank deposits”, “account” in the context of a custodian bank; and the treatment for multiple accounts under the same name***

4.3 Some respondents sought clarification on the definitions of “resident”, “non-bank deposits” and “account” in the context of a custodian bank. One respondent noted that “non-bank deposits” is not equivalent to retail deposits as it includes non-bank financial institutions and corporate accounts. The respondent also sought clarification on whether multiple accounts under the same name should be aggregated to determine the “number of depositors with accounts less than or equal to S\$250,000”.

4.4 Another respondent suggested that the indicator, “number of depositors with accounts less than or equal to S\$250,000”, should be limited to resident non-bank depositors, consistent with the “share of resident non-bank deposits” indicator.

### MAS' Response

4.5 The required data will be reported under MAS Notice 610 Annex 1B. As such, the relevant treatment and definitions provided under the Notice will apply.

4.6 MAS agrees that the “number of depositors with accounts less than or equal to S\$250,000” should be limited to resident non-bank depositors and will incorporate this into the revised MAS Notice 610.

#### **(c) *Transitional issues arising from local incorporation***

4.7 One respondent sought clarification on the transition period provided for the local incorporation process. Another respondent sought clarity on how a foreign bank branch, which is required to locally incorporate its retail operations, should deal with related issues on capital framework, transition taxation and corporate governance.

### MAS' Response

4.8 MAS recognises the significant changes involved and will not be prescribing a timeline for the local incorporation process. However, MAS expects the relevant banks to complete the process as soon as practicable, and will be engaging banks on the necessary transitional arrangements on a bilateral basis.

#### **(d) Higher loss absorbency (“HLA”) requirement**

##### *Single-tier of HLA requirement*

4.9 A number of respondents suggested that the differences in systemic importance of designated D-SIBs be reflected in the HLA level required instead of a single-tiered HLA requirement. Tiered HLA requirements would also provide D-SIBs with incentives to reduce their systemic importance.

### MAS' Response

4.10 MAS considers the higher CAR requirement of 2% points above the Basel III-minimum to be equally relevant and important for all D-SIBs to mitigate the impact of negative externalities in the event of a failure. A single-tier HLA framework is appropriate in Singapore’s context because there are only a small number of locally-incorporated D-SIBs. As such, MAS will maintain the proposal to impose a single-tier HLA on all D-SIBs.

#### **(e) Transition period to comply with HLA requirement**

4.11 Some respondents suggested that a longer transition period of up to three years be given for banks to comply with the HLA requirement. One respondent proposed that foreign banks be given a three-year transition period to comply with the HLA requirement upon local incorporation.

### MAS' Response

4.12 The D-SIB framework provides for an observation period before confirming the D-SIB status of a bank. A bank will not be designated as a D-SIB if it is assessed to be systemically important for the first time. It will only be designated as a D-SIB if it is assessed to be systemically important in the subsequent year. In addition, upon

designation as a D-SIB, the bank will be given one year to comply with the HLA requirement.

4.13 MAS is of the view that the observation period, combined with the one-year transition period provides sufficient lead time for a locally-incorporated bank to comply with the HLA requirement. For foreign bank branches that are newly designated as D-SIBs, the transition period for local incorporation would similarly provide sufficient time to prepare for the HLA requirement. MAS will maintain the proposal to require compliance with the HLA requirement immediately upon incorporation.

**(f) *Application of HLA on D-SIBs***

4.14 Respondents sought clarification on whether branches identified as D-SIBs (D-SIB branches) will be subject to the HLA requirement. One respondent asked whether, for a bank that is required to locally incorporate its retail operations, the HLA requirement would be applied at the legal entity level, or only to its retail operations.

MAS' Response

4.15 The HLA requirement will apply to D-SIBs that are locally-incorporated at the entity level.

**(g) *HLA in the form of minimum capital requirement and its interaction with capital buffers***

4.16 One respondent sought clarification on the rationale for imposing the HLA requirement as a minimum capital requirement, instead of imposing it as an extension to the capital conservation buffer. Another respondent asked about how the capital conservation buffer and countercyclical buffer would be applied together with the HLA, given that these buffers are required to be maintained in addition to the minimum capital requirements.

MAS' Response

4.17 Imposing the HLA as part of minimum capital requirements is a more prudent approach to address the negative externalities posed by D-SIBs. While minimum capital has to be met at all times, the capital conservation buffer can be drawn down in times of stress. The countercyclical and capital conservation buffers are to be held above the

HLA requirements. The requirements and their relevant phase-in periods are set out in MAS Notice 637.

***(h) Recovery and resolution planning requirement***

4.18 A few respondents sought clarification on MAS' expectation on recovery and resolution plans (RRP) for the local subsidiary or branch, in particular on whether it would take into account the centralized RRP plan instituted by their home office. Respondents also requested clarity on the manner of application of the requirement, including the proportionality principle cited in the Consultation Paper.

MAS' Response

4.19 In the case of a foreign bank identified as a D-SIB, MAS will take into account any recovery and resolution planning work that has been undertaken by the home authority at its Crisis Management Group. D-SIBs may leverage on the head office or group recovery and resolution plans if these plans adequately cover and address the Singapore operations. The proportionality principle in applying the requirement is important to reflect bank-specificities, including the different transmission channels through which the impact of a failure could impact the domestic financial system and broader Singapore economy. MAS will continue our close engagement with the home authorities of D-SIBs in the preparation of resolution plans and implementation of a global resolution strategy.

***(i) Enhanced disclosure requirement***

4.20 A number of respondents noted that branches are already disclosing information relating to their risk profiles in the audited financial statements, and any additional disclosure might increase regulatory costs. Some respondents also suggested that D-SIB branches be exempted from additional disclosure if the information is managed centrally and disclosed by the bank group as part of its disclosure requirement.

MAS' Response

4.21 MAS has taken into consideration the feedback and will not impose additional disclosure requirements on D-SIB branches. MAS will, however, require more timely disclosures of selected Pillar 3 items by locally-incorporated D-SIBs. This is to ensure that information on risks associated with the operations of these D-SIBs will be

disclosed in a timely manner and be readily accessible. MAS targets to consult the locally-incorporated banks on this proposal as part of the Pillar 3 review in 2H2015.

**(j) *Effective risk data aggregation and risk reporting requirement***

4.22 Some respondents requested further guidance on the risk principles that MAS expects D-SIBs to comply with. Some respondents also requested a longer timeframe for local compliance, in order to take into account their parent bank's progress in implementing the risk principles.

MAS' Response

4.23 MAS expects all D-SIBs to work towards strong risk reporting capabilities that will meet the risk principles within three years of their designation as D-SIBs. For D-SIBs whose parent banks are G-SIBs, MAS will take into account their home authorities' assessments when reviewing compliance with the risk principles. MAS will also take into account BCBS' expectations on the implementation of the risk principles by G-SIBs when assessing D-SIBs' compliance with the risk principles.

**5 Regular review of the D-SIB framework**

5.1 One respondent raised concerns of large changes to a bank's score if information on its denominator is not updated regularly and suggested that any major changes in approach be consulted and disclosed adequately in advance.

MAS' Response

5.2 MAS' proposed approach is dissimilar to the G-SIB methodology, which uses a scoring approach. Instead, MAS' D-SIB assessment process first considers if any of the bank's core indicator measure exceeds a pre-defined threshold. While banks that meet or exceed the threshold for any indicator will be selected for further consideration, MAS will make an overall assessment, taking into account all four factors of systemic importance, as well as other supplementary indicators, prior to designating it as a D-SIB. Given the two-stage assessment process, each indicator is therefore not considered in isolation. In addition, MAS has introduced an observation period which provides more time for MAS to confirm the systemic importance of a bank.

5.3 MAS will actively consult industry participants in the review of the D-SIB framework, and will provide for an adequate notice period in implementing revisions to the D-SIB assessment methodology.

Monetary Authority of Singapore

30 April 2015

## LIST OF D-SIB INDICATORS

<b>SIZE</b>
Share of total assets
Share of total non-bank deposits
Share of resident non-bank deposits
No. of depositors with accounts less than or equal to S\$250,000
<b>INTERCONNECTEDNESS</b>
Network analysis of domestic interbank system
Share of amount due to banks
Share of amount due from banks
Share of derivatives receivables
Share of derivatives payables
<b>SUBSTITUTABILITY</b>
Share of MEPS+ payments
Share of assets under custody
<b>COMPLEXITY</b>
Share of gross bilaterally-cleared OTC derivatives outstanding
Factors affecting resolvability