

**RESPONSE TO
FEEDBACK RECEIVED**

November 2015

**Response to Feedback Received –
Proposed Notice on Liquidity
Coverage Ratio (“LCR”) and
Minimum Liquid Assets (“MLA”)
Requirements for Merchant Banks**

MAS

Monetary Authority of Singapore

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1 Preface

1.1 In August 2015, MAS issued a consultation paper to seek industry comments on the Proposed Notice on Liquidity Coverage Ratio (“LCR”) and Minimum Liquid Assets (“MLA”) Requirements for Merchant Banks (“Merchant Bank Notice”) which prescribes new liquidity requirements for merchant banks in Singapore, and the corresponding reporting forms.¹

1.2 The consultation period closed on 4th September 2015, and MAS would like to thank all respondents for their contributions. The list of respondents is in Annex A and the full submissions are provided in Annex B.²

1.3 MAS has considered all feedback received, and is responding to feedback deemed to be of wider interest as detailed below. Areas not covered in this document will be addressed directly with the respondents involved. MAS will be incorporating all relevant adjustments arising from the industry consultation into the final Merchant Bank Notice.

2 Timeline for Implementation

2.1 MAS had proposed that the new liquidity requirements for merchant banks would commence on 1 January 2016, in line with the implementation timeline for banks. A number of respondents highlighted that they would have difficulties meeting the 1 January 2016 deadline and asked for a delay of 6 to 12 months.

2.2 The main reason cited was that unlike banks, merchant banks were not previously required to meet the Singapore Dollar (“SGD”) MLA requirements. More time would therefore be needed to put in place appropriate processes and to automate the daily monitoring of the all-currency and SGD MLA or LCR requirements as prescribed under the proposed Merchant Bank Notice.

¹ The consultation paper can be assessed [here](#).

² Some names and submissions are omitted on request of confidentiality by respondents.

MAS' Response

2.3 MAS agrees that compared to the banks, merchant banks may need more time to prepare and implement the necessary systems to meet the new liquidity requirements.

2.4 MAS will delay the implementation of the new liquidity requirements for merchant banks to 1 January 2017, to allow merchant banks a reasonable period of time to implement the needed systems to support daily liquidity monitoring and reporting.

2.5 To facilitate MAS' understanding of merchant banks' liquidity positions before the Merchant Bank Notice is effective from January 2017, merchant banks will be required to submit the month-end headline all-currency and SGD MLA or LCR figures on a monthly basis starting from 1 January 2016. Merchant banks should submit the all-currency and SGD MLA or LCR headline figures to MAS through liquidity@mas.gov.sg not later than 10 calendar days after the last day of each month.³

3 Time Given for Monthly Submissions

3.1 MAS had proposed that merchant banks be given 10 calendar days after the last day of each month to submit the required liquidity information to MAS. Some respondents provided feedback that 10 calendar days to prepare the monthly submission would be operationally challenging.

3.2 Some respondents who planned to apply for LCR compliance on a country-level group level also highlighted that more time would be needed to produce the additional set of submission for the country level group, on top of the entity level submissions.⁴

MAS' Response

3.3 The timeliness of the liquidity report affects its relevance and usefulness to both the merchant banks and MAS. MAS is of the view that a 10 calendar day delay for submitting information which should be monitored on an ongoing (i.e. daily) basis

³ The headline figures need only be produced on a best effort basis based on available internal information. The first reporting date would be 10 February 2016. The template to be used for the submission is published [here](#).

⁴ Entities that are approved to comply with LCR on a country-level group basis need to submit the country-level forms to ensure regulatory compliance, and also the entity-level forms for information.

sufficiently balances the potential operational challenges with the need for timeliness. This is also the same standard as is applied to banks.

3.4 For entities complying with LCR on a Group level or are approved for country-level group compliance and hence which may require more time to generate the additional set of information, we will allow entity-level forms to be submitted no later than 20 calendar days after the end of each month. The Group and country-level group forms will still need to be submitted not later than 10 calendar days after the end of each month. This treatment will apply to both banks and merchant banks that comply with LCR on a Group level or are approved for country-level group compliance of LCR.⁵

4 Notification Regime

4.1 MAS also received feedback that the requirement for merchant banks to notify MAS of their intent to utilize their liquid assets under the MLA or LCR framework may reduce their operational responsiveness during a stress situation and may create unintended negative externalities which exacerbate rather than help dissipate the liquidity stress. It was suggested that a less formal approach such as a verbal notification could be adopted.

MAS' Response

4.2 The proposed notification regime allows a merchant bank to provide MAS with a timely alert before utilizing its liquid assets. This notification regime is similarly applied to banks under MAS 649. It is not an approval regime and therefore, there is no requirement for a merchant bank to wait for an acknowledgement from MAS before utilization of liquid assets. As such, the notification regime would not reduce merchant banks' responsiveness in a crisis situation and MAS will not be making any changes to the proposed notification regime.

5 Scope of Implementation

5.1 Some respondents either sought clarification as to what constituted "headquartered in Singapore" or erroneously interpreted that locally incorporated

⁵ This applies to banks and merchant banks incorporated and headquartered in Singapore and are required to comply with LCR on a Group level, as well as banks and merchant banks that are approved to comply with LCR on a country-level group basis.

merchant banks would be caught by the definition of “locally incorporated and headquartered in Singapore”.

MAS’ Response

5.2 We would like to clarify that “locally incorporated and headquartered in Singapore”, in the context of the Merchant Bank Notice, refers to merchant banks which are owned by a parent group based in Singapore or has a group head office in Singapore.

MONETARY AUTHORITY OF SINGAPORE

26 November 2015

Annex A

**List of Respondents to the Proposed Notice on Liquidity Coverage Ratio
and Minimum Liquid Assets Requirements for Merchant Banks**

1. ASEAN Finance Corporation Limited
2. DB International (Asia) Limited
3. KPMG Services Pte Ltd
4. Respondent A who requested for confidentiality of identity
5. Respondent B who requested for confidentiality of identity
6. Respondent C who requested for confidentiality of identity
7. Respondent D who requested for confidentiality of identity
8. Respondent E who requested for confidentiality of identity
9. Respondent F who requested for confidentiality of identity
10. Respondent G who requested for confidentiality of identity
11. Respondent H who requested for confidentiality of identity
12. Respondent I who requested for confidentiality of identity
13. Respondent J who requested for confidentiality of identity
14. Respondent K who requested for confidentiality of identity
15. Respondent L who requested for confidentiality of identity

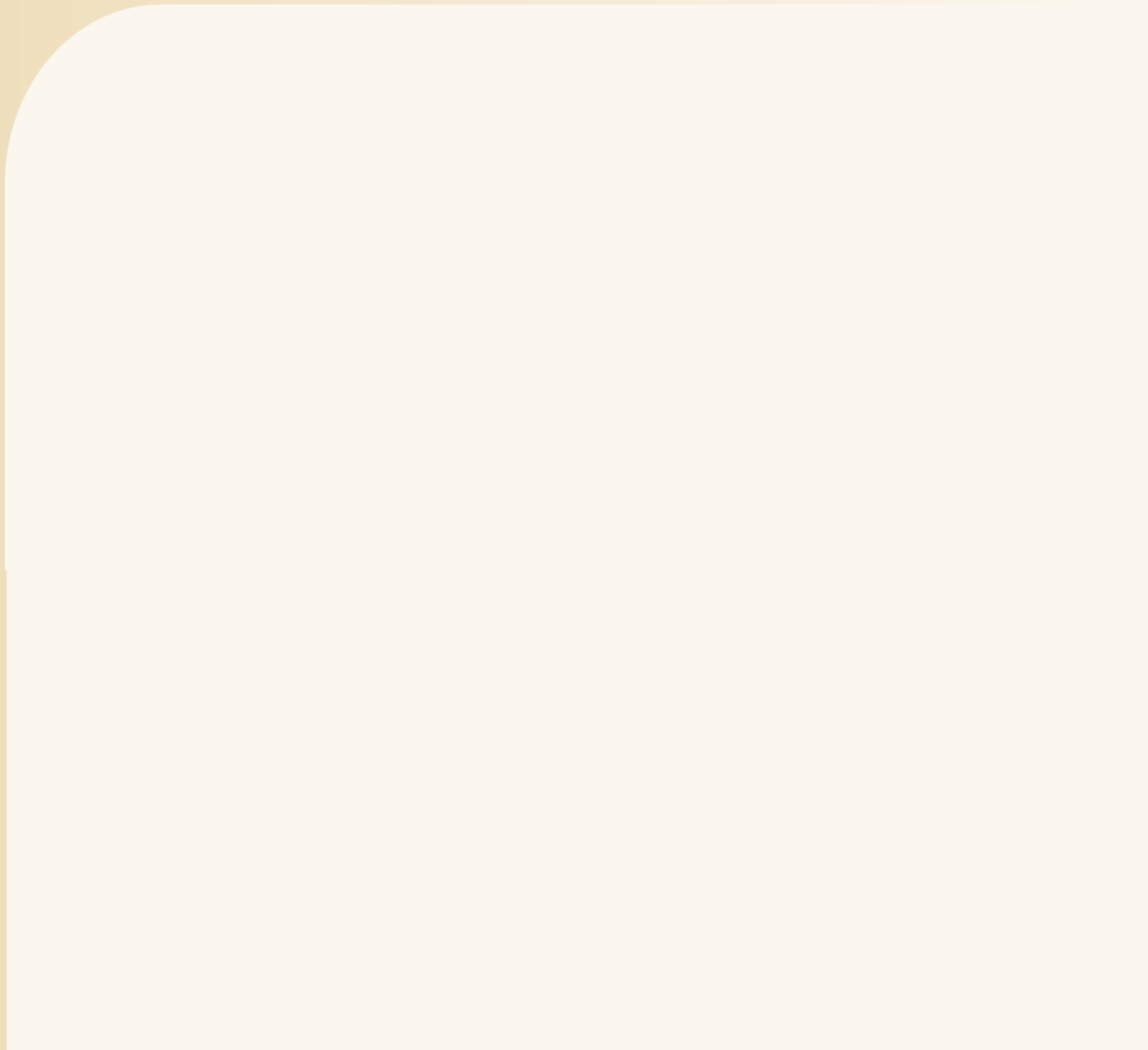
Annex B**Full Submissions from Respondents to the Proposed Notice on Liquidity Coverage Ratio and Minimum Liquid Assets Requirements for Merchant Banks**

S/N	Respondent	Full Responses from Respondent
1	ASEAN Finance Corporation Limited	<p>1. Page 2 of the Consultation Paper on Proposed Notice indicates that ‘merchant banks will be subject to the same liquidity requirements as banks from 1 January 2016’</p> <p>i) Is the first reporting period at the close of business on 31 January 2016 or 31 December 2015?</p> <p>ii) Is the merchant bank required to maintain a data base on a daily basis for the maintenance of the LCR ratio such that the merchant bank has to manage ad-hoc movements in cashflow and make adjustments for the 30 days forward since this is an ongoing compliance LCR?</p> <p>2. Paragraph 2 (page 1 of the Proposed MAS Notice) - Given Part II LCR of the Notice apply to locally incorporated merchant bank and headquartered in Singapore or a merchant bank which has been notified by the Authority as a domestic systemically important bank, can a merchant bank, while fulfilling the criteria of the former but does not fit into the prerequisite of the latter, apply for an exemption of the LCR and opt for MLA instead?</p> <p>3. Paragraph 18 (page 12) - The effective date for a Singapore Dollar LCR of at least 100% and an all currency LCR of at least 60% is stated to be from 1 January 2015 with the repeat of same in Table 1. However it differs from Paragraph 114 which states the effective date of this Notice to be 1 January 2016.</p> <p>4. Paragraph 20 (page 12) - Can excess liquid assets denominated in Singapore Dollars over the Singapore Dollar LCR requirement be used to satisfy the requirement of total net cash outflows denominated in other currencies or can a merchant bank maintain a combined portfolio of liquid assets denominated in Singapore dollars</p>

		<p>and other currencies to fulfil the all currency LCR requirement?</p> <p>5. Paragraph 21 (pages 12 -18) - Assets approved as "Liquid Assets"</p> <p>i) Sub-paragraphs d) i), e) i) and g) apply to risk-weight rules in MAS Notice 637. Shouldn't MAS Notice 1111 on Risk Based Capital Adequacy Requirements applying standardised approach for merchant banks incorporated in Singapore be used instead?</p> <p>ii) Sub-paragraphs f) i), i) iii), j) iii) and k) ii) permit the use of internal ratings if it does not have a credit assessment by a recognised ECAI. Are there any other alternatives as the use of internal rating is presently not provided in MAS Notice 1111 which applies standardised approach only?</p>
2	DB International (Asia) Limited	<p>Valuation of Liquid Assets: Under the current MAS Notice 613, liquid assets are marked to market daily based on the value as at computation day (rather than maintenance day). Please confirm if the same applies to valuation of liquid assets under the proposed liquidity requirements for merchant banks complying with MLA instead of LCR.</p> <p>Month-End Forms: We noted differences between the proposed notice and the original MAS Notice 649 issued on 1 November 2014, and seek clarification as follows:</p> <p>a) Form 1 Section 1 "Assets and Liabilities by Currency", Note 2: "(i) A bank shall also exclude asset and liability positions arising from transactions that involve a future exchange of notional or principal in different currencies. (ii) Non-deliverable transactions should be reported as an asset or liability in the settlement currency."</p> <p>- Does (i) mean that all on balance sheet mark-to-market values of swap transactions should not be included in this form, except for (ii)?</p> <p>- Does (ii) mean that only the net amounts of mark-to-market values of swap transactions involving non-deliverable currencies be included in the form?</p>

		b) Form 2 Section 3, Part 1 “Residual Maturity Analysis of on and off-balance sheet items”. Does Note 1(d) mean that the mark-to-market values of derivatives should be reported under (i) assets and liabilities, as well as (ii) off balance sheet items (i.e., report MTM instead of notional values)
3	Respondent A	<p>Can the MB use the eligible assets held for AMR purpose as MLA liquid assets?</p> <p>Can the “2 business days” gap between computation day and maintenance day be extended to a longer term, say 5 business days? Or in line with the existing MAS640/AMR requirement?</p>
4	Respondent B	<p>1. We noted the proposed rule applies to Merchant Banks with effective date from 01/01/2016, and would like to propose an implementation period of 6 months from the effective date, the proposal is made consideration of: i) Currently, Merchant Banks do not need to meet the SGD MLA requirements unlike Commercial Banks. Thus, time will be required to put in place a process/automate the daily monitoring of all currencies & SGD MLA requirements; ii) Cashflow analysis of on and off-balance sheet items (Contractual Basis) involves future contractual cashflows to be reported. Data sourcing for future contractual cashflows will also involve considerable time and effort.</p> <p>2. Can a Bank utilize eligible assets under the Asset Maintenance Requirements for LCR/MLA purposes?</p> <p>3. Specifically for LCR, with regards to the operational requirements for HQLA, if a Bank’s Contingency Funding Plan specifically outlines the ALCO or Treasurer’s control over the Bank’s assets during a liquidity crisis, and the CFP action steps are tested regularly, would this suffice to include eligible Level 1 or Level 2 assets currently in the trading book as HQLA?</p>
5	Respondent C	1. Form 1 - Section 2 - Given our systems architecture, obtaining the aggregation of an individual's share in a joint account with his own accounts in our banking system cannot be automated. Therefore we need to do links with our central file which implies substantial additional manual work. As this would be a very complicated and

		<p>tedious process which involves resources from various departments to implement, we would suggest to report at the account holder level without considering the beneficial owner dimension.</p> <p>2. Form 1 - Section 3 - Same comments as in Section 2 for corporate depositors.</p> <p>3. For PIC account, trust account and foundation account, we would ask MAS to clarify whether we should consider it as Individual depositor or Corporate depositor.</p> <p>4. 10 calendar days deadline for the monthly report is too tight for us as the data will only be ready on the 3rd business day after month end closing. We would suggest having the deadline set to one month instead of 10 calendar days.</p> <p>5. Given that Merchant Banks are subject to the new MLA report for the first time, additional resources need to be allocated. We will need to engage a service provider to implement the automation of the report with the help of our IT which is located in our Head Office. The implementation involves solving the issues for Section 2 and Section 3 of Form 1 as mentioned above, the interface mapping, testing of the report and modifications to the report which may take at least 6 to 12 months to implement depending on the resources. The last quarter of the year is also the busy period for Finance/Accounting for the budgeting, auditing and year end closing. As such, we would request MAS to kindly consider postponing the commencement date for reporting for another year.</p>
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Monetary Authority of Singapore