



RESPONSE TO FEEDBACK RECEIVED – CONSULTATION ON LEVERAGE RATIO DISCLOSURE REQUIREMENTS FOR BANKS INCORPORATED IN SINGAPORE

1 Introduction

1.1 On 6 August 2014, MAS issued a consultation paper on proposed amendments to MAS Notice 637 on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore (“the Notice”) to implement Basel III leverage ratio disclosure requirements issued by the Basel Committee on Banking Supervision (“BCBS”) in January 2014¹.

1.2 The revisions to the Notice on 14 October 2014 to implement the leverage ratio disclosure requirements for Singapore-incorporated banks (“Reporting Banks”) will enhance the transparency and comparability of disclosures relating to the composition of the leverage ratio across banks. These revisions will take effect from 1 January 2015, in line with the BCBS’ timeline for implementation of the leverage ratio disclosure requirements.

1.3 The objective of the leverage ratio is to complement the existing risk-based capital framework by a non-risk based measure that limits the build-up of leverage in the banking sector. The minimum leverage ratio will be decided and announced at a later date, as the BCBS is monitoring and assessing the appropriate calibration of the ratio for internationally active banks.

1.4 MAS has also made other revisions to enhance the clarity of our capital rules, which will similarly be implemented from 1 January 2015. Leverage ratio

¹ Please refer to “Basel III leverage ratio framework and disclosure requirements” published by the Basel Committee in January 2014 (refer to press release <http://www.bis.org/press/p140112a.htm>).

supervisory reporting requirements will be implemented from 31 December 2015. MAS' responses to those comments that are of wider interest are set out below.

1.5 We thank all respondents for their comments.

1 Treatment of cash portion of variation margin for derivatives

1.1 A respondent asked if the condition in paragraph 3.10(c) of Annex 4A of the draft Notice would be satisfied if the variation margin calculated based on mark-to-market valuation takes into consideration the foreign exchange component of the currency of settlement of the derivative contract.

MAS' Response

1.2 The cash portion of the variation margin has to be received in the same currency as the currency of settlement of the derivative contract, in accordance with paragraph 2.11(c) of Annex 4A of the revised Notice.

2 Centrally cleared derivatives

2.1 A respondent sought confirmation that where a Reporting Bank is acting as a clearing member of a qualifying central counterparty ("CCP") and is not, based on the contractual arrangements with the client, obligated to reimburse the client for any losses suffered due to changes in the value of its transactions in the event that the qualifying CCP defaults, the Reporting Bank need not recognise the resulting CCP trade exposures to the qualifying CCP in its exposure measure.

MAS' Response

2.2 A Reporting Bank may exclude CCP trade exposures to a qualifying CCP as defined in Annex 7AJ from the calculation of its derivative exposure measure if the Reporting Bank is not, based on the contractual arrangements with the client, obligated to reimburse the client for any losses suffered due to changes in the value of its transactions in the event that the qualifying CCP defaults. This is set out in paragraph 2.13 of Annex 4A of the revised Notice.

3 Treatment of centrally cleared affiliate exposures to derivatives

3.1 A respondent sought clarifications on the treatment of centrally cleared affiliate exposures to derivatives.

MAS' Response

3.2 Where an affiliate is within the scope of application set out in paragraphs 1.2 to 1.4 of Annex 4A of the revised Notice:

- the trade between the affiliate and Reporting Bank would have been eliminated in the course of consolidation. As such, the exposures between the consolidated affiliate and Reporting Bank are not included in the Reporting Bank's exposure measure; and
- the Reporting Bank still has the trade exposure to the CCP. Therefore, the trade will be considered proprietary and must be included in the exposure measure.

3.3 Where an affiliate is outside the scope of application set out in paragraphs 1.2 to 1.4 of Annex 4A of the revised Notice:

- the trade between the affiliate and Reporting Bank is not eliminated in the course of consolidation. As such, the exposures between the affiliate and Reporting Bank are to be included in the Reporting Bank's exposure measure; and
- for the purpose of paragraph 2.13 of Annex 4A of the revised Notice, the Reporting Bank may consider the affiliate as a client and exclude the CCP trade exposures to a qualifying CCP subject to the conditions in the paragraph.

4 Calculation of potential future exposure of derivative transactions

4.1 A respondent asked that MAS replace the use of the Current Exposure Method in the calculation of potential future exposure of derivative transactions,

with the Standardised Approach for measuring Counterparty Credit Risk (“SA-CCR”).

MAS’ Response

4.2 MAS will monitor the developments at the BCBS on the incorporation of the SA-CCR into the leverage ratio framework when considering revisions to the calculation of potential future exposures of derivative transactions.

5 Public Disclosure Requirements - Clarification on Table 11F-1

5.1 A respondent sought clarification that row 8 of Table 11F-1 should be consistent with row 21 of Table 11G-1.

MAS’ Response

5.2 Yes, row 8 of Table 11F-1 should be consistent with row 21 of Table 11G-1. This is clarified in the explanatory notes of Table 11F-2.

6 Supervisory Reporting Requirements – Schedule 1C

6.1 Some respondents requested a delay in the implementation of Schedule 1C in view of enhancements required to reporting systems to implement the requirements. Respondents also requested that MAS consider the need for certain proposed reporting requirements, such as the granular breakdown of exposure measures under the leverage ratio by asset classes used for capital adequacy calculations.

MAS’ Response

6.2 MAS has taken into account the feedback and has streamlined and adjusted the information to be submitted under Schedule 1C. To provide banks with more time to operationalise their systems to implement the reporting

requirements, supervisory reporting for Schedule 1C will be implemented from 31 December 2015.

Monetary Authority of Singapore
14 October 2014