

MAS NOTICE 832 (AMENDMENT) 2017

Issued on: 28 December 2017

RISK BASED CAPITAL ADEQUACY REQUIREMENTS FOR FINANCE COMPANIES INCORPORATED IN SINGAPORE

Introduction

1 This document reflects technical adjustments made to MAS Notice 832 in consideration of the new accounting treatment of provisions.

2 For presentational purposes, the amendments in this document are compared with the version of MAS Notice 832 issued on 31 December 2013 (the "Original Notice").

3 This document can be interpreted as follows:

- (a) Text which is coloured and struck through represent deletions;
- (b) Text which is coloured and underlined represent insertions;
- (c) Text which is highlighted in yellow are annotations to describe changes, and will not be included in the non-marked up version of MAS Notice 832. For instance, portions of the Original Notice which are deleted in entirety are accompanied by the following explanatory text in yellow highlights:

[The previous Division xx / Sub-division xx / Annex xx / Paragraph xx / Table xx is deleted.];

- (d) Any inserted portions are inserted in numerical or alphabetical order (as appropriate) with the existing text in the Original Notice;
- (e) Any inserted definitions in the Glossary at Annex 2A are inserted in alphabetical order with the existing definitions in the Original Notice; and
- (f) Portions of the Original Notice which are not reflected in this document are unchanged.

4 The amendments reflected in this document shall take effect from 1 January 2018.

5 In the event of discrepancies between the amendments in this document and the published version of MAS Notice 832 revised on 28 December 2017, the published version of MAS Notice 832 shall prevail. This document is to be used for reference only.

Amendments to Part II

PART II: DEFINITIONS

2.1.1 The expressions used in this Notice are defined in the Glossary at Annex 2A.

2.1.2 The expressions used in this Notice shall, except where defined in this Notice or where the context otherwise requires, have the same meanings as in the Banking Act.

2.1.3 Any reference to a paragraph, Sub-division, Division, Part or Annex is a reference to a paragraph, Sub-division, Division, Part or Annex in this Notice unless otherwise specified.

GLOSSARY

α	means in relation to the BIA, 15%;
β	means in relation to the CCR standardised method, the fixed beta factor set out in paragraph 1.1 of Annex 7P of Part VII;
ABCP programme or asset-backed commercial paper programme	means a programme where commercial paper with an original maturity of one year or less which is backed by assets or other exposures held in a bankruptcy-remote SPE is predominantly issued;
ABCP programme sponsor	means an entity which – (a) establishes an ABCP programme; (b) approves the sellers of exposures permitted to participate in an ABCP programme; (c) approves the asset pools to be purchased by an ABCP programme; or (d) administers the ABCP programme by monitoring the assets backing the asset-backed commercial paper, arranging for the placement of securities, compiling monthly reports or ensuring compliance with the ABCP programme documents and with the credit and investment policy of the ABCP programme;
Accounting Standards	has the same meaning as in section 4(1) of the Companies Act (Cap. 50);
affiliate	means, for purposes of this Notice, (a) an entity that has a beneficial interest in 20% or more of the total number of ordinary shares or controls 20% or more of the voting power in the Finance Company, or (b) an entity in which the Finance Company has a beneficial interest in 20% or more of the total number of ordinary shares or controls 20% or more of the voting power in the entity, or (c) an entity in which a related corporation of the Finance Company has a beneficial interest in 20% or more of the number of ordinary shares or controls 20% or more of the voting power in the entity;
AFS	means available for sale;
asset class	means, in relation to the SA(CR), one of the classes of exposures set out in Sub-division 1 of Division 3 of Part VII;
associate	has the same meaning as “associate” under the Accounting Standards;
Banking Act	means Banking Act (Cap. 19);

banking book	means all on-balance sheet and off-balance sheet exposures of a Finance Company other than its trading book positions;
banking institution	means – (a) any bank licensed under the Banking Act; (b) any finance company licensed under the Finance Companies Act; or (c) any entity which is approved, licensed, registered or otherwise regulated by a bank regulatory agency in a foreign jurisdiction to carry on banking business as defined in the Banking Act;
bank regulatory agency	in relation to a foreign jurisdiction, means an authority in the foreign jurisdiction exercising any function that corresponds to a regulatory function of the Authority under the Banking Act;
BCBS	means the Basel Committee on Banking Supervision;
BIA or basic indicator approach	means the approach for calculating operational risk capital requirements set out in Division 2 of Part IX;
Board	means the Board of directors, or a designated committee of the Board;
capital instrument	means any of the capital instruments set out in paragraph 6.1.1(a);
capital investments	in relation to a Finance Company, means all exposures of a capital nature, including – (a) any ordinary share; (b) any preference share; (c) any instrument treated as regulatory capital in relation to any financial institution approved, licensed, registered or otherwise regulated by a regulatory agency; (d) any lending on non-commercial terms or which is not at arm’s length; and (e) any guarantee issued to third parties for the benefit of subsidiaries and associates on non-commercial terms or which is not at arm’s length;
CCF	means credit conversion factor;
CCR or counterparty credit risk	means the risk that the counterparty to a transaction could default before the final settlement of the transaction’s cash flows;
CCR standardised method	means the method for calculating E for any pre-settlement counterparty exposure arising from any OTC derivative transaction or long settlement transaction set out in Annex 7P of Part VII or, if the reference is to any regulatory requirements of, or

	administered by, a bank regulatory agency other than the Authority, the equivalent under those requirements;
central counterparty	means an approved clearing house in respect of a clearing facility as defined in the Securities and Futures Act (Cap. 289) which is regulated by the Authority, or a clearing house utilised by an exchange referred to in the Securities and Futures (Recognised Securities Exchange) Order 2005 in respect of a clearing facility which is regulated by a financial services regulatory authority of a country or territory other than Singapore;
clean-up call	means an option which permits the securitisation exposures to be called before all of the underlying exposures or securitisation exposures have been repaid. In the case of a traditional securitisation, this is generally accomplished by repurchasing the remaining securitisation exposures once the underlying exposures or the outstanding securities issued have fallen below some specified level. In the case of a synthetic securitisation, the clean-up call may take the form of a clause that extinguishes the credit protection;
controlled early amortisation provision	means an early amortisation provision where the following requirements are complied with: <ul style="list-style-type: none"> (a) the originator has an appropriate capital and liquidity plan in place to ensure that it has sufficient capital and liquidity available in the event of an early amortisation; (b) throughout the duration of the transaction there is a pro-rata sharing of interest and principal, expenses, losses and recoveries based on the proportion of the originator's interests and the investors' interests in the receivables outstanding at the beginning of the month; (c) the amortisation period is sufficient for at least 90% of the total debt outstanding at the beginning of the amortisation period to have been repaid or recognised as in default; and (d) the speed of repayment is not more rapid than would be achieved by straight-line amortisation over the period set out in item (c);
core market participant	means any of the entities listed in Annex 7L of Part VII;
corporate exposure	means, in relation to the SA(CR), an exposure that falls within the definition in paragraph 7.3.1(f);
correlation trading portfolio	means a portfolio that incorporates – <ul style="list-style-type: none"> (a) securitisation exposures and n-th-to-default credit derivatives meeting the following criteria: <ul style="list-style-type: none"> (i) the positions are neither resecuritisation positions, nor derivatives of securitisation exposures that do not

provide a pro-rata share in the proceeds of a securitisation tranche (therefore excluding options on a securitisation tranche, or a synthetically leveraged super-senior tranche);

- (ii) all reference entities are single-name products, including single-name credit derivatives, for which a liquid two-way market exists. This will include commonly traded indices based on these reference entities;
- (iii) the positions do not reference an underlying exposure that would be treated as an SA(CR) exposure in the regulatory retail asset class, an SA(CR) exposure in the residential mortgage asset class, or an SA(CR) exposure in the CRE asset class; and
- (iv) the positions do not reference a claim on a special purpose entity, including any special purpose entity instrument backed, directly or indirectly, by a position that would itself be excluded if held by a Finance Company directly,

and

- (b) positions that hedge the securitisation exposures and n-th-to-default credit derivatives described in paragraph (a) above, where –

- (i) the positions are neither securitisation exposures nor n-th-to-default credit derivatives; and
- (ii) a liquid two-way market exists for the instrument by which the position is taken or its underlying exposures,

and for the purpose of this definition, a two-way market is deemed to exist where there are independent bona fide offers to buy and sell so that a price reasonably related to the last sales price or current bona fide competitive bid and offer quotations can be determined within one day and trades settled at such price within a relatively short time conforming to trade custom;

CPF means the Central Provident Fund Board constituted under section 3 of the Central Provident Fund Act (Cap. 36);

CRE means commercial real estate;

credit derivative means any contract which transfers the credit risk of a reference obligation or set of reference obligations from the protection buyer to the protection seller, such that the protection seller has an exposure to the reference obligation(s);

credit enhancement means a contractual arrangement in which a Finance Company retains or assumes a securitisation exposure that, in substance, provides some degree of credit protection to other parties to the securitisation;

credit facilities	means (a) the granting by a finance company of advances, loans and other facilities whereby a customer of the finance company has access to funds or financial guarantees; or (b) the incurring by a finance company of other liabilities on behalf of a customer;
credit RWA	means the sum of all credit risk-weighted exposure amounts in respect of all credit exposures calculated as set out in paragraph 7.1.1;
credit-enhancing interest only strip	means an on-balance sheet asset that represents a valuation of cash flows related to future margin income and is subordinated to the other securitisation exposures in a securitisation;
CRM or credit risk mitigation	means any technique used by a Finance Company to reduce the credit risk associated with any exposure which the Finance Company holds;
currency mismatch	means a situation where an exposure and the collateral or credit protection provided in support of it are denominated in different currencies;
current exposure	means the larger of zero, or the market value of a transaction or portfolio of transactions within a netting set with a counterparty that would be lost upon the default of the counterparty, assuming no recovery on the value of those transactions in a bankruptcy or insolvency;
current exposure method	means the method for calculating E for any pre-settlement counterparty exposure arising from any OTC derivative transaction or long settlement transaction set out in Annex 70 of Part VII or, if the reference is to any regulatory requirements of, or administered by, a bank regulatory agency other than the Authority, the equivalent under those requirements;
Deductions from Total Capital	means the sum of the items set out in paragraph 6.1.10;
DvP	means delivery-versus-payment;
early amortisation exposure	means any securitisation exposure or class of securitisation exposures for which a Finance Company is subject to the early amortisation treatment in accordance with Sub-division 6 of Division 6 of Part VII;
early amortisation provision	means a contractual clause which requires on the occurrence of defined events, an investor's position to be redeemed prior to the original maturity of the securities issued;

ECAI	means an external credit assessment institution;
eligible credit protection	means any guarantee (or other instrument as the Authority may allow) or credit derivative where the requirements and guidelines set out in Annex 7F of Part VII are satisfied;
eligible financial collateral	<p>means –</p> <p>(a) in relation to the FC(SA), one or more types of collateral set out in paragraph 2.2 of Annex 7F of Part VII; and</p> <p>(b) in relation to the FC(CA), one or more types of collateral set out in paragraph 2.3 of Annex 7F of Part VII,</p> <p>where the requirements and guidelines set out in Annex 7F of Part VII are satisfied;</p>
eligible liquidity facility	<p>in relation to the SA(SE), means a liquidity facility where the following requirements are complied with –</p> <p>(a) the facility documentation clearly identifies the nature, purpose and extent of any undertaking or commitment provided to the SPE, and limits the circumstances under which it may be drawn;</p> <p>(b) the facility is limited to a specified amount and duration, unless the Finance Company is able to withdraw, at its absolute discretion, the facility at any time with a reasonable period of notice;</p> <p>(c) any draw made under the facility is provided to the SPE and not directly to investors, and is limited to the amount that is likely to be repaid fully from the liquidation of the underlying exposures and any seller-provided credit enhancements;</p> <p>(d) the facility does not cover any losses incurred in the underlying exposures prior to a draw, and is not structured such that draw-down is certain (as indicated by regular or continuous draws or continuous revolving funding);</p> <p>(e) the facility is subject to an asset quality test that precludes it from being drawn to cover credit risk exposures where the obligor(s) are in default;</p> <p>(f) if the exposures that the liquidity facility is required to fund are securities with an external credit assessment by a recognised ECAI, the facility is used to fund only securities that have a credit quality grade of “8” or better or a short-term credit quality grade of “III” or better as set out in Tables 7R-3 and 7R-4, respectively, of Annex 7R of Part VII at the time of funding;</p> <p>(g) the facility cannot be drawn after all applicable (e.g. transaction-specific and programme-wide) credit enhancements from which the facility would benefit have been exhausted;</p> <p>(h) repayment of draws on the facility is not subordinated to any interests of any note holder in the programme or subject to deferral or waiver;</p> <p>(i) the obligations of the Finance Company under the facility are standalone from its obligations under any other facility,</p>

	commitment or undertaking provided by the Finance Company; and
	(j) either –
	(i) an independent third party co-provides 25% of the liquidity facility that is to be drawn and re-paid on a pro-rata basis; or
	(ii) all the underlying exposures have a credit quality grade of “3” or better or a short-term credit quality grade of “III” or better as set out in Tables 7R-1 and 7R-2, respectively, of Annex 7R of Part VII, and the facility documentation expressly provides that the Finance Company may reduce (and ultimately withdraw) its funding if the external credit assessment of the exposures falls to a credit quality grade of “4” or worse or to a short-term credit quality grade of “IV” as set out in Tables 7R-1 and 7R-2, respectively, of Annex 7R of Part VII;
eligible protection provider	means, in the case of a Finance Company using the SA(CR), SA(EQ) or SA(SE), a guarantor or protection seller which is –
	(a) a central government, a central bank, the Bank for International Settlements, the International Monetary Fund, the European Central Bank or the European Community;
	(b) an MDB;
	(c) a PSE;
	(d) a banking institution; or
	(e) any other entity with a credit quality grade of “2” or better as set out in Table 7R-1 of Annex 7R of Part VII;
Eligible Total Capital	has the meaning in paragraph 4.1.2;
equity exposure	has the meaning in Sub-division 1 of Division 5 of Part VII;
ESR or excess spread ratio	in relation to securitisation exposures with early amortisation features, means the ratio of the 3-month average excess spread to the point at which a Finance Company is required to trap excess spread as economically required by the structure, expressed as a percentage;
excess spread	means any gross finance charge collections and other income received by the trust or SPE after deducting certificate interest, servicing fees, charge-offs, and other senior trust or SPE expenses;
FC(CA) or financial collateral comprehensive approach	means the method for calculating the effects of CRM arising from eligible financial collateral set out in Annex 7I of Part VII;

FC(SA) or financial collateral simple approach	means the method for calculating the effects of CRM arising from eligible financial collateral set out in Sub-division 4 of Division 3 of Part VII;
Finance Company	means a company licensed under section 6 of the Finance Companies Act (Cap. 108) to carry on financing business;
finance company group	means the Finance Company and its finance company group entities;
finance company group entity	means any subsidiary or any other entity treated as part of the Finance Company's group of entities according to Accounting Standards;
Finance Companies Act	means Finance Companies Act (Cap. 108);
FRA	means a forward rate agreement;
FRS 39109	means the Singapore Financial Reporting Standard 39109 ;
funded credit protection	means a CRM where the reduction of the credit risk of an exposure of a Finance Company is derived from the right of the Finance Company, in the event of the default of a counterparty or on the occurrence of other specified credit events relating to the counterparty, to liquidate, to obtain transfer or appropriation of, or to retain, certain assets or amounts;
FVOCI	means fair value through other comprehensive income;
gain-on-sale	means any increase in the equity capital of a Finance Company which is an originator resulting from the sale of underlying exposures in a securitisation;
hedging set	means a group of risk positions from the transactions within a single netting set for which only their balance is relevant for determining E under the CCR standardised method;
implicit support	means any support that a Finance Company provides to a securitisation in excess of its predetermined contractual obligations;
ISDA	means the International Swaps and Derivatives Association;
insurance subsidiary	means a subsidiary which carries on insurance business as an insurer;
IOSCO	means the International Organisation of Securities Commissions;
IT	means information technology;

long settlement transaction	means any transaction where a counterparty undertakes to deliver a security, a commodity or a foreign exchange amount against cash, other financial instruments or commodities, or vice versa, at a settlement or delivery date which is contractually specified as more than the lower of the market standard for this particular transaction type and five business days after the date on which the Finance Company enters into the transaction;
margin lending transaction	means a transaction in which a Finance Company extends credit in connection with the purchase, sale, carrying or trading of securities, where the loan amount is collateralised by securities whose value is generally greater than the amount of the loan, and does not include other loans that happen to be collateralised by securities;
market RWA	means the risk-weighted assets for market risks determined in the manner set out in Part VIII;
maturity mismatch	means a situation where the residual maturity of the credit risk mitigant is less than the residual maturity of the underlying credit exposure;
MDB	means a multilateral development bank;
n-th-to-default credit derivative	means a contract where – (a) the payoff is based on the n-th asset to default in a basket of underlying reference instruments; and (b) the transaction terminates and is settled once the n-th default occurs;
netting	means bilateral netting, including – (a) netting by novation, where obligations between two counterparties to deliver a given currency on a given value date under a transaction are automatically amalgamated with all other obligations under other transactions to deliver on the same currency and value date, thereby extinguishing former transactions with a single legally binding new transaction; and (b) close-out netting, where some or all of the ongoing transactions between two counterparties are terminated due to the default of either counterparty or upon the occurrence of a termination event as defined in the netting agreement, whereupon the values of such transactions are combined and reduced to a single payable sum, but does not include payments netting which is designed to reduce the operational cost of daily settlements, where the gross obligations of the counterparties are not in any way affected;

netting agreement	means any agreement which effects netting between two counterparties, or any other arrangement to effect netting, which does not contain a walkaway clause ¹ ;
netting set	means a group of transactions between two counterparties that is subject to a qualifying bilateral netting agreement; any transaction which is not subject to a qualifying bilateral netting agreement shall be deemed as its own netting set;
NGR	means the ratio of the net current replacement cost to the gross current replacement cost;
non-controlled early amortisation provision	means an early amortisation provision where the requirements of a controlled early amortisation provision are not complied with;
operational risk	means the risk of loss resulting from – (a) inadequate or failed internal processes; (b) actions or omissions of persons; (c) systems; or (d) external events, including legal risk ² , but does not include strategic or reputational risk;
operational RWA	means the risk-weighted assets for operational risks determined in the manner set out in Part IX;
originator	means – (a) an entity which, either itself or through related entities, directly or indirectly, creates the exposure being securitised ³ ; or (b) any entity which purchases or advises or causes an SPE to purchase the exposures of a third party, which are then used in a securitisation (for avoidance of doubt, selling credit protection such that the entity or the SPE has a long position in the credit risk of the obligor is equivalent to purchasing exposures) ⁴ ;

¹ "Walkaway clause" means any provision which permits a party to a netting agreement that is not in default to make limited payments or no payments at all, to a defaulting party under the same netting agreement, even if the party that is in default is a net creditor under the netting agreement.

² Legal risk includes exposures to fines, penalties, or punitive damages resulting from criminal prosecution, regulatory or supervisory actions, as well as such damages or other sums payable resulting from civil claims or settlements.

³ Where an entity lends to an SPE with a view to enabling that SPE to make loans which are then used in a securitisation, the entity will generally be deemed to be acting as an originator.

⁴ An entity which advises or causes an SPE to purchase the exposures of a third party, which are then used in a securitisation will generally not be deemed to be acting as an originator if –

(a) the entity has not advised or caused the SPE to purchase any exposures which are then used in a securitisation before the date of issue of securities effecting the transfer of credit risk of those exposures to the investors in the securitisation;

(b) the entity will not be liable for any losses incurred by the SPE arising from the exposures (for avoidance of doubt, the entity may still be liable for losses arising from a breach of its fiduciary duties); and

(c) the entity does not undertake to achieve a minimum performance for the exposures.

OTC	means over-the-counter;
OTC derivative transaction	means an exchange rate contract, interest rate contract, equity contract, precious metal or other commodity contract or credit derivative contract which is not traded on an exchange;
preference share	has the same meaning as in section 4(1) of the Companies Act (Cap. 50);
PSE or public sector entity	means – (a) a regional government or local authority that is able to exercise one or more functions of the central government at the regional or local level; (b) an administrative body or non-commercial undertaking responsible to, or owned by, a central government, regional government or local authority, which performs regulatory or non-commercial functions; (c) a statutory board in Singapore (other than the Authority); or (d) a town council in Singapore established pursuant to the Town Councils Act (Cap. 392A);
qualifying bilateral netting agreement	means a bilateral netting agreement where the requirements set out in Annex 7N of Part VII are complied with;
qualifying MDB	means an MDB listed in Annex 7S of Part VII;
qualifying SFT	means an SFT where the requirements set out in Annex 7K of Part VII are complied with;
recognised ECAI	means an ECAI referred to in Annex 7R of Part VII;
recognised group A exchange	has the same meaning as in regulation 2 of the Securities and Futures (Financial and Margin Requirements for Holders of Capital Markets Services Licenses) Regulations;
reference obligation	means any obligation specified under a credit derivative contract used for purposes of either determining cash settlement value or the deliverable obligation;
repo	means a repurchase transaction;
resecuritisation exposure	means a securitisation exposure in which the risk associated with an underlying pool of exposures is tranching and at least one of the underlying exposures is a securitisation exposure, and includes an exposure to one or more resecuritisation exposures;
risk position	means a risk number which is assigned to a transaction under the CCR standardised method following a predetermined algorithm;

risk weight	in relation to an exposure, means a degree of risk expressed as a percentage assigned to that exposure;
RWA	means risk-weighted assets;
RWE	means risk-weighted exposure;
SA(CR) or standardised approach to credit risk	means the approach for calculating credit risk-weighted exposure amounts set out in Division 3 of Part VII or, if the reference is to any regulatory requirements of, or administered by, a bank regulatory agency other than the Authority, the equivalent under those requirements;
SA(CR) exposure	means any exposure for which a Finance Company is using the SA(CR) to calculate its credit risk-weighted exposure amount;
SA(EQ) or standardised approach for equity exposures	means the approach for calculating credit risk-weighted exposure amounts for equity exposures set out in Sub-division 3 of Division 5 of Part VII or, if the reference is to any regulatory requirements of, or administered by, a bank regulatory agency other than the Authority, the equivalent under those requirements;
SA(EQ) exposure	means any equity exposure for which a Finance Company is using the SA(EQ) to calculate its credit risk-weighted exposure amount;
SA(MR) or standardised approach to market risk	means the approach for calculating market risk capital requirements set out in Division 2 of Part VIII or, if the reference is to any regulatory requirements of, or administered by, a bank regulatory agency other than the Authority, the equivalent under those requirements;
SA(OR) or standardised approach to operational risk	means the approach for calculating operational risk capital requirements set out in Division 3 of Part IX or, if the reference is to any regulatory requirements of, or administered by, a bank regulatory agency other than the Authority, the equivalent under those requirements;
SA(SE) or standardised approach for securitisation exposures	means the approach for calculating credit risk-weighted exposure amounts for securitisation exposures set out in Sub-division 4 of Division 6 of Part VII or, if the reference is to any regulatory requirements of, or administered by, a bank regulatory agency other than the Authority, the equivalent under those requirements;
SA(SE) exposure	means any securitisation exposure for which a Finance Company is using the SA(SE) to calculate its credit risk-weighted exposure amount;
securities	has the same meaning as in section 2 of the Securities and Futures Act (Cap. 289);

securities exchange	has the same meaning as in section 2 of the Securities and Futures Act (Cap. 289);
securities firm	means – <ul style="list-style-type: none"> (a) any entity holding a capital markets services licence under section 84(1) of the Securities and Futures Act (Cap. 289); or (b) any entity that is approved, licensed, registered or otherwise regulated by a regulatory agency other than the Authority to carry out activities permitted under a capital markets services licence under section 84(1) of the Securities and Futures Act (Cap. 289);
securitisation	means any transaction or scheme involving the tranching of credit risk associated with an exposure or a pool of exposures and which has the following characteristics: <ul style="list-style-type: none"> (a) payments in the transaction or scheme depend on the performance of the exposure or pool of exposures; (b) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme; and (c) junior tranches can absorb losses without interrupting contractual payments to more senior tranches;
securitisation exposure	means any exposure of a Finance Company to a securitisation, and includes – <ul style="list-style-type: none"> (a) any on-balance sheet exposure to securities issued pursuant to a securitisation (e.g. asset-backed securities, mortgage-backed securities and collateralised debt obligations); (b) any off-balance sheet exposure to a securitisation (e.g. through credit enhancements, liquidity facilities, credit derivatives or tranching cover, interest rate swap or currency swap), regardless of whether it was retained by the Finance Company at, or repurchased by the Finance Company after, the origination of the securitisation; and (c) reserve accounts (e.g. cash collateral accounts) recorded as an asset by the originating bank;
securitised exposure	means an exposure, securitised by a Finance Company in its capacity as originator or ABCP programme sponsor, that forms an underlying exposure of a securitisation;
servicer	means a Finance Company which carries out administrative functions relating to the cash flows of the underlying exposure or pool of exposures of a securitisation, including setting up and operating the mechanism for collecting payments of interest or principal derived from the underlying exposures and channeling these funds to the investors or the trustee representing them, customer service, cash management, maintenance of records and reporting duties;

SFT	means a securities or commodities financing transaction comprising any one of the following: (a) a repo or a reverse repo; (b) a securities or commodities lending transaction or securities or commodities borrowing transaction; (c) a margin lending transaction, for which the value of the transaction depends on market valuation and the transaction is often subject to margin agreements;
small business	means a corporation, partnership, limited liability partnership, sole proprietorship or trustee in respect of a trust with reported annual sales of less than \$100 million;
SPE or special purpose entity	means a corporation, trust, or other entity established for a specific purpose, the activities of which are limited to those appropriate to accomplish that purpose and the structure of which is intended to isolate the SPE from the credit risk of an originator or seller of exposures;
<u>specific allowance</u>	<u>means loss allowance for credit exposures that fall within the definition of "credit-impaired financial asset" under FRS 109;</u>
specific wrong-way risk	means the risk that arises when exposure to a particular counterparty is positively correlated with the probability of default of the counterparty due to the nature of the transactions with that counterparty;
structured deposit	has the same meaning as in Regulation 2 of the Financial Advisers (Structured Deposits – Prescribed Investment Product and Exemption) Regulations 2005;
structured note	has the same meaning as in Securities and Futures (Offers of Investments)(Shares and Debentures) Regulation 2005.
subsidiary	has the same meaning as in section 5 of the Companies Act (Cap. 50);
synthetic securitisation	means a structure with at least two different tranches which reflect different degrees of credit risk where credit risk of an underlying exposure or pool of exposures is transferred, in whole or in part, through the use of funded or unfunded credit derivatives or guarantees;
the Authority	means the Monetary Authority of Singapore established under the Monetary Authority of Singapore Act (Cap. 186);
Total Capital	means the sum of the items set out in paragraph 6.1.1;
Total CAR	means total capital adequacy ratio, calculated in accordance with paragraph 4.1.2;
trading book	has the meaning in Sub-division 3 of Division 1 of Part VIII;

traditional securitisation	means a structure where the cash flow from an underlying exposure or pool of exposures is used to service at least two different tranches reflecting different degrees of credit risk;
tranche	means a contractually established segment of the credit risk associated with an underlying exposure or pool of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each other such segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments;
unconsolidated subsidiary	means a subsidiary whose assets and liabilities are not included in the consolidated financial statements of the finance company group;
unfunded credit protection	means a CRM where the reduction of the credit risk of an exposure of a Finance Company is derived from the undertaking of a third party to pay an amount in the event of the default of a counterparty or on the occurrence of other specified events;
unrated	in relation to any exposure, means that the exposure does not have an external credit assessment from a recognised ECAI; and
USD	means the United States dollar.

Amendments to Part VI

PART VI: DEFINITION OF CAPITAL

Amendments to Paragraph 6.1.1

6.1.1 For the purposes of Part II and IV, Total Capital shall be the sum of the following items, whether at the Solo or Group level, as the case may be⁵:

- (a) paid-up ordinary share capital;
- (b) disclosed reserves, excluding –
 - (i) any revaluation reserves;
 - (ii) unrealised fair value gains on revaluation of ~~AFS~~-FVOCI equity securities;
 - (iii) unrealised fair value gains or losses on revaluation of ~~AFS~~-FVOCI debt securities and ~~AFS~~-FVOCI loans;
 - (iv) cumulative fair value gains or losses on cashflow hedges of financial instruments that are measured at amortised cost;
 - (v) unrealised fair value gains or losses on financial liabilities arising from changes in the credit worthiness of the Finance Company or any finance company group entity; ~~and~~
 - (vi) unrealised fair value gains or losses on non-trading financial liabilities unless the Finance Company can demonstrate that the application of the fair value option to these liabilities is part of an identifiable and effective hedging strategy⁶; ~~and~~
 - (vii) balances maintained in a non-distributable regulatory loss allowance reserve account pursuant to paragraph 6.3 of MAS Notice 811;

after deducting any interim or final dividends which have been declared by the Board of the Finance Company or any finance company group entity on any class of shares and any interim losses incurred since the end of the last financial reporting period.

⁵ This would exclude any capital instruments of the Finance Company which are held by the Finance Company or any of its finance company group entities (including treasury shares, where applicable). For the avoidance of doubt, this exclusion does not cover capital instruments held by a finance company group entity where:
(a) the investments in the capital instruments are funded by external parties other than the Finance Company or any of its finance company group entities (e.g. life insurance policyholders or other third-party investors);
(b) the risks and rewards associated with the investments in the capital instruments are borne primarily by the external parties; and
(c) decisions to transact in the capital instruments are made independently from the issuer of the capital instruments and in the interests of the external parties.

⁶ An effective hedging strategy is one where the gains or losses on the revaluation of these liabilities are offset by corresponding losses or gains on the revaluation of the derivatives that have been clearly identified as hedging such liabilities.

Any interim profits earned since the end of the last financial reporting period may be included as disclosed reserves where the following conditions are met:

- (A) every interim financial statement is prepared using the same accounting policies and practices applied in the preparation of the year-end financial statements, unless the change in the accounting policy or practice is in accordance with any statutory requirement;
- (B) every interim financial statement and every significant transaction is reviewed in a timely manner by an external auditor; and
- (C) the external auditor of the Finance Company has not expressed a qualified opinion on any of the interim financial statements in the preceding 12 months⁷;
- (c) *[This sub-paragraph has been intentionally left blank.]*
- (d) *[This sub-paragraph has been intentionally left blank.]*
- (e) *[This sub-paragraph has been intentionally left blank.]*

⁷ In this regard, the external auditor shall confirm that nothing has come to his attention during the review that could render the interim financial information false or misleading.

Amendments to Part VII

PART VII: CREDIT RISK

Division 2: Measurement of Exposures

Amendments to Sub-division 1 and Sub-division 2

Sub-division 1: Introduction

7.2.1 A Finance Company shall apply the exposure measurement requirements set out in this Division and the standards for prudent valuation set out in Annex 8N of Part VIII to calculate E, or where applicable E*, for any SA(CR) exposure, SA(EQ) exposure or SA(SE) exposure.

7.2.2 A Finance Company shall consult with the Authority on the appropriate treatment to apply in the measurement of E for transactions that have not been addressed in this Division.

7.2.3 A Finance Company shall calculate E, or where applicable E*, for any SA(CR) exposure, SA(EQ) exposure or SA(SE) exposure net of any [individual impairments specific allowance](#)¹⁰³ attributable to such SA(CR) exposure, SA(EQ) exposure or SA(SE) exposure as determined in accordance with the Accounting Standards.

Sub-division 2: Measurement of E for On-balance Sheet Assets

7.2.4 Subject to paragraph 7.2.5 below, E¹⁰⁴ for each on-balance sheet asset shall be the carrying value of the asset as determined in accordance with the Accounting Standards.¹⁰⁵

7.2.4A In the case of a lease where the Finance Company is exposed to residual value risk (i.e. potential loss due to the fair value of the leased asset declining below the estimate of its residual value reflected on the balance sheet of the Finance Company at lease inception), the Finance Company shall calculate (i) an exposure to the lessee equivalent to the discounted lease payment stream; and (ii) an exposure to the residual value of the leased assets equivalent to the estimate of the residual value reflected in the balance sheet of the Finance Company.

¹⁰⁴ For any asset, E shall be equal to the fair value of that asset presented in the balance sheet except that -
(a) for any asset held at cost, E shall be equal to the cost of the asset presented in the balance sheet;
and

(b) for any [AFS-FVOCI](#) debt security or [FVOCI](#) loan, ~~AFS~~, E shall be equal to the fair value less allowance for impairment of that [FVOCI](#)~~AFS~~ debt security or [FVOCI](#)~~AFS~~ loan, adjusted by deducting any unrealised fair value gains and adding back any unrealised fair value losses on revaluation (broadly equivalent to the amortised cost of the [AFS-FVOCI](#) debt security or [AFS-FVOCI](#) loan less any allowance for impairment).

¹⁰⁵ Any foreign exchange transaction or translation gain or loss from a foreign currency-denominated on-balance sheet item as well as interest earned on a fixed income instrument should be allocated to the exposure to which it accrues.

7.2.5 A Finance Company shall not recognise the effect of netting agreements relating to on-balance sheet assets and liabilities.

Division 3: SA(CR)

Amendments to Paragraphs 7.3.31 – 7.3.35

Past Due Exposures

7.3.31 Subject to paragraphs 7.3.32 and 7.3.35, a Finance Company shall risk-weight the unsecured portion of any SA(CR) exposure that is past due for more than 90 days in accordance with Table 7-10.

Table 7-10: Risk Weights for Past Due Exposures

Condition	Risk Weight
Where <u>individual impairments specific</u> allowances are less than 20% of the outstanding amount of the exposure	150%
Where <u>individual impairments specific</u> allowances are no less than 20% of the outstanding amount of the exposure	100%

7.3.32 For the purposes of paragraph 7.3.31 above, a Finance Company shall calculate the unsecured portion of any SA(CR) exposure that is past due for more than 90 days as follows:

- (a) for a Finance Company using the FC(SA),

$$\text{Unsecured Portion} = E - P - C_f$$

where -

- (i) E = E calculated in accordance with Division 2 of this Part;
- (ii) P = notional amount of eligible credit protection received; and
- (iii) C_f = fair value of eligible financial collateral received; or

- (b) for a Finance Company using the FC(CA),

$$\text{Unsecured Portion} = E^* - P$$

where -

- (i) E* = E* calculated in accordance with Division 2 of this Part; and
- (ii) P = notional amount of eligible credit protection received.

7.3.33 The Finance Company shall risk weight the portion that is protected by eligible credit protection in accordance with Sub-division 4 of this Division. A Finance Company

using the FC(SA) shall risk weight the portion secured by eligible financial collateral in accordance with Sub-division 4 of this Division.

7.3.34 *[This paragraph has been intentionally left blank.]*

7.3.35 A Finance Company shall apply a 100% risk weight to any SA(CR) exposure in the residential mortgage asset class that is past due for more than 90 days.

Division 6: Securitisation

Amendments to Paragraphs 7.6.15 – 7.6.16

Deductions from Total Capital

7.6.15 A Finance Company shall deduct the full securitisation exposure of credit-enhancing interest only strips from Total Capital. A Finance Company may calculate deductions from capital net of any individual impairments specific allowances taken against the relevant securitisation exposures.

7.6.16 A Finance Company shall include as Deductions from Total Capital any increase in equity capital resulting from a securitisation, such as that associated with expected future margin income resulting in a gain-on-sale that is recognised in equity capital.

CRM

Section 4: Recognition of Credit Derivatives

Types of Credit Derivatives

4.1 A Finance Company may recognise the effects of CRM of only the following types of credit derivatives that provide credit protection equivalent to guarantees:

- (a) credit default swaps;
- (b) total return swaps¹⁷⁰; and
- (c) instruments that are composed of, or are similar in economic substance, to one or more of the credit derivatives in sub-paragraphs (a) and (b) above.

Requirements for Recognition of Credit Derivatives

4.2 A Finance Company shall ensure that the following requirements are complied with before it recognises the effects of CRM of any credit derivative:

- (a) the terms and conditions of any credit protection obtained via a credit derivative shall be set out in writing by both the Finance Company and the provider of credit protection;
- (b) the credit derivative shall represent a direct claim on the provider of credit protection;
- (c) explicitly referenced to specific exposure or pool of exposures so that the extent of the credit protection cover is clearly defined and incontrovertible;
- (d) other than in the event of non-payment by the Finance Company of money due in respect of the credit derivative, there is an irrevocable obligation on the part of the provider of the credit protection to pay out a pre-determined amount upon the occurrence of a credit event, as defined under the credit derivative contract;
- (e) the credit derivative contract shall not contain any clause, the fulfillment of which is outside the direct control of the Finance Company, that -
 - (i) would allow the provider of credit protection to unilaterally cancel the credit protection cover;

¹⁷⁰ A Finance Company shall not recognise the effects of CRM of a total return swap if it purchases credit protection through a total return swap and records the net payments received on the swap as net income, but does not record offsetting deterioration in the value of the underlying asset that is protected (either through reductions in its marked-to-market value or by an addition to reserves).

- (i) would increase the effective cost of the credit protection cover as a result of deteriorating credit quality of the underlying exposure;
 - (ii) could prevent the provider of credit protection from being obliged to pay out in a timely manner in the event that the underlying obligor fails to make any payment due¹⁷¹; or
 - (iii) could allow the maturity of the credit protection agreed ex-ante to be reduced ex-post by the provider of credit protection;
- (f) the credit events specified by the contracting parties shall at a minimum cover -
- (i) failure to pay the amounts due under terms of the underlying exposure that are in effect at the time of such failure (with a grace period, if any, that is closely in line with the grace period in the underlying exposure);
 - (ii) bankruptcy, insolvency or inability of the underlying obligor to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and analogous events; and
 - (iii) restructuring of the underlying exposure involving forgiveness or postponement of principal, interest or fees that results in a credit loss event (i.e. charge-off, [individual impairment specific](#) allowance or other similar debit to the profit and loss account);
- (g) the credit derivative shall not terminate prior to the maturity of the underlying exposure or expiration of any grace period required for a default on the underlying exposure to occur as a result of a failure to pay, subject to paragraph 6.2 of this Annex;
- (h) a robust valuation process shall be in place in order to estimate loss reliably for any credit derivative that allows for cash settlement. There shall be a clearly specified period for obtaining post-credit event valuations of the underlying obligation¹⁷³;
- (i) where the right or ability of the Finance Company to transfer the underlying exposure to the credit protection provider is required for settlement, the terms of the underlying exposure shall provide that any required consent to such transfer may not be unreasonably withheld;
- (j) the identity of the parties responsible for determining whether a credit event has occurred shall be clearly defined. This determination shall not be the

¹⁷¹ This does not preclude an obligation by the buyer of credit protection to satisfy requirements relating to providing a Notice of Publicly Available Information, as is the case for the triggering of credit protection under standard credit default swap contracts.

¹⁷² *[This footnote has been intentionally left blank.]*

¹⁷³ The Authority would generally consider the cash settlement methodology provided in the ISDA Credit Derivatives Definitions as satisfying this requirement.

sole responsibility of the credit protection provider. The Finance Company shall have the right or ability to inform the credit protection provider of the occurrence of a credit event;

- (k) the underlying obligation and the reference obligation specified in the credit derivative contract for the purpose of determining the cash settlement value or the deliverable obligation or for the purpose of determining whether a credit event has occurred may be different only if -
 - (i) the reference obligation ranks *pari passu* with or is junior to the underlying obligation; and
 - (ii) the underlying obligation and reference obligation share the same obligor (i.e. the same legal entity) and legally enforceable cross-default or cross-acceleration clauses are in place; and
- (l) the credit derivative shall not expose the Finance Company to specific wrong-way risk.

QUALIFYING MDBs

“Qualifying MDBs” means:

- (a) the African Development Bank;
- (b) the Asian Development Bank;
- ~~(c)~~ [the Asian Infrastructure Investment Bank;](#)
- ~~(ed)~~ the Caribbean Development Bank;
- ~~(de)~~ the Council of Europe Development Bank;
- ~~(ef)~~ the European Bank for Reconstruction and Development;
- ~~(fg)~~ the European Investment Bank;
- ~~(gh)~~ the European Investment Fund;
- ~~(hi)~~ the Inter-American Development Bank;
- ~~(j)~~ [the International Development Association;](#)
- ~~(ik)~~ the Islamic Development Bank;
- ~~(jl)~~ the Nordic Investment Bank;
- ~~(km)~~ the International Finance Facility for Immunisation; or
- ~~(ln)~~ the World Bank Group, including the International Bank for Reconstruction and Development, the International Finance Corporation and the Multilateral Investment Guarantee Agency.

Amendments to Part IX

PART IX: OPERATIONAL RISK

Amendments to Division 2

Division 2: BIA

9.2.1 A Finance Company shall calculate its operational risk capital requirement using the BIA as follows:

$$K_{BIA} = [\sum(GI_{1...n} \times \alpha)]/n$$

where -

- (a) K_{BIA} = operational risk capital requirement under the BIA;
- (b) GI = annual gross income of the Finance Company, where positive, over the preceding three years⁶⁰² as set out in paragraph 9.2.3;
- (c) n = number of years in the preceding three years when annual gross income was positive; and
- (d) α = 15%.

9.2.2 A Finance Company shall calculate its gross income^{602A} as the sum of its net interest income⁶⁰³ and non-interest income^{603A}, taking into account the following adjustments:

- (a) gross of any allowances (including for unpaid interest);
- (b) gross of operating expenses, including any fees paid for outsourced services⁶⁰⁴,

but excluding -

⁶⁰² If the annual gross income for any given year is negative or zero, the figure shall not be included for the purpose of calculating the operational risk capital requirement.

^{602A} Audited gross income figures shall be used where available. Where audited figures are not available, unaudited gross income figures may be used, provided that the Finance Company shall reconcile, on a timely basis, such unaudited gross income figures with its audited financial statements (as well as any quarterly and half-yearly financial statement which has been reviewed by external auditors, where available), and use the latest reconciled numbers for future calculations. If a Finance Company does not have sufficient income data to meet all or part of the three-year requirement, a Finance Company shall, with the approval of the Authority, use an appropriate method, which considers gross income estimates, for calculating the operational risk capital requirements.

⁶⁰³ Net interest income is defined as interest income less interest expense.

^{603A} Non-interest income includes fees and commissions income after deducting fees and commissions expense.

⁶⁰⁴ In contrast to fees paid for outsourced services, any fee received by any Finance Company for its outsourcing services shall be included in the definition of gross income.

- (i) any realised profits or losses arising from the sale of securities in the banking book⁶⁰⁵;
- (ii) any income or expense item not derived from the ordinary activities of the Finance Company and not expected to recur frequently or regularly⁶⁰⁶; and
- (iii) any income derived from any insurance recoveries.

An example of the calculation of gross income is set out in Annex 9A of this Part.

9.2.3 A Finance Company shall calculate its annual gross income for the most recent year by aggregating the gross income of the last four financial quarters. A Finance Company shall calculate its annual gross income for each of the two years preceding the most recent year in the same manner⁶⁰⁷. Table 9-1 sets out an illustration of the calculation of the annual gross income for the previous three years, for a Finance Company calculating its operational RWA as at end Nov 2013:

Table 9-1: Illustration of Calculation of Annual Gross Income

	Year 3	Year 2	Year 1
Gross Income for financial quarter ending	Sep'13 (GI _{3a})	Sep'12 (GI _{2a})	Sep'11 (GI _{1a})
	Jun'13 (GI _{3b})	Jun'12 (GI _{2b})	Jun'11 (GI _{1b})
	Mar'13 (GI _{3c})	Mar'12 (GI _{2c})	Mar'11 (GI _{1c})
	Dec'12 (GI _{3d})	Dec'11 (GI _{2d})	Dec'10 (GI _{1d})
Total	GI ₃ = GI _{3a} + GI _{3b} + GI _{3c} + GI _{3d}	GI ₂ = GI _{2a} + GI _{2b} + GI _{2c} + GI _{2d}	GI ₁ = GI _{1a} + GI _{1b} + GI _{1c} + GI _{1d}

where GI = Gross Income

⁶⁰⁵ ~~Securities which constitute items of the banking book are typically classified as "held to maturity" or "available for sale", in accordance with FRS 39.~~

⁶⁰⁶ Such items may include income or expenses arising from – (a) the sale of fixed assets; (b) expropriation of assets; or (c) earthquakes or other natural disasters.

⁶⁰⁷ A Finance Company shall consult the Authority on the appropriate method for calculating the operational risk capital requirement if – (a) it is currently undertaking an acquisition or merger; or (b) it has completed an acquisition or merger within the last three years from the date on which the Finance Company is required to comply with Part IX.