MAS NOTICE 832 (AMENDMENT) 2021

Issued on: 2 December 2021

RISK BASED CAPITAL ADEQUACY REQUIREMENTS FOR FINANCE COMPANIES INCORPORATED IN SINGAPORE

Introduction

1 This document reflects amendments made to MAS Notice 832 to incorporate edits to the standardised approach to credit risk relating to the insertion of a new charge to be held by the Housing and Development Board under the Prime Location Public Housing model.

2 For presentational purposes, the amendments in this document are compared with the version of MAS Notice 832 issued on 31 December 2013, as last revised on 5 October 2018 (the "Original Notice").

3 This document shall 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 appear in the published untracked version of MAS Notice 832. For instance, where amendments have been made to a selected paragraph of an Annex, only that paragraph will be reflected in this document, prefaced with the following explanatory text in yellow highlights:

[Amendments to paragraph xx];

(d) Any inserted definitions in the Glossary at Annex 2A are inserted in alphabetical order with the existing definitions in the Original Notice;

(e) 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 31 December 2021.

5 In the event of discrepancies between the amendments in this document and the published version of MAS Notice 832 revised on 2 December 2021 (with effect from 31 December 2021), the published version of MAS Notice 832 shall prevail. This document is to be used for reference only.

Amendments to Part II: Definitions

HDB	means the Housing and Development Board established under section 3 of the Housing and Development Act (Cap. 129);

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Amendments to Part VII: Credit Risk

Division 3: SA(CR)

Sub-division 1: Categorisation of SA(CR) Exposures

Amendments to paragraph 7.3.1

7.3.1 A Finance Company shall categorise any SA(CR) exposure that is not past due for more than 90 days into one of the following asset classes under SA(CR):

(a) cash items, which consist of –

(i) cash and cash equivalents[111A];

(ii) gold bullion held in the vaults of the Finance Company or on an allocated basis in the vaults of another entity to the extent that it is backed by gold bullion liabilities; and

(iii) all receivable funds arising from transactions that are settled on a DvP basis which are outstanding up to and including the 4th business day after the settlement date[112];

(b) central government and central bank asset class, which consists of any SA(CR) exposure to a central government or central bank;

(c) PSE asset class, which consists of any SA(CR) exposure to a PSE;

(d) MDB asset class, which consists of any SA(CR) exposure to an MDB, the Bank for International Settlements, the International Monetary Fund, the European Central Bank or the European Community;

(e) bank asset class, which consists of any SA(CR) exposure to a banking institution;

(f) corporate asset class, which consists of any SA(CR) exposure to any corporation, partnership, limited liability partnership, sole proprietorship or trustee in respect of a trust, other than exposures categorised in sub-paragraphs (a) to (e), (g) and (h)[113];

(g) regulatory retail asset class, which consists of any SA(CR) exposure meeting all of the following conditions[113A]:

(i) the exposure is to an individual, a group of individuals, or a small business;

[111A] Cash equivalents refer to cheques, drafts and other items drawn on other banking institutions that are either payable immediately upon presentation or that are in the process of collection.

[112] This includes transactions settled on a payment-versus-payment basis.

[113] For avoidance of doubt, an SA(CR) exposure to a securities firm or an insurance entity shall be categorised within the corporate asset class.

[113A] Securities (such as bonds and equities), whether listed or not, and any SA(CR) exposure that meets the conditions to be categorised within the residential mortgage asset class, are excluded from this asset class.

(ii) the exposure takes the form of any of the following:

(A) revolving credit and lines of credit, including credit cards and overdrafts;

(B) personal term loans and leases, including instalment loans, vehicle loans and leases, student and educational loans, and personal finance; or

(C) small business credit facilities and commitments.

(iii) the Finance Company shall demonstrate to the satisfaction of the Authority that the exposure is one of a sufficient number of exposures[113B] with similar characteristics and that the portfolio is sufficiently diversified such that the risks associated with such lending are reduced; and

(iv) the total exposure[114] to any obligor[115] or group of obligors[116] is not more than $2 million;

(h) residential mortgage asset class, which consists of any SA(CR) exposure meeting all of the following conditions:

(i) the exposure is to an individual or a group of individuals, or if the exposure is to an entity other than an individual, the Finance Company is able to demonstrate to the satisfaction of the Authority, that it has robust processes to ascertain that the exposure is structured to replicate the risk profile of an exposure to an individual or a group of individuals and that it is able to identify and manage the legal risks that arise in such structures;

(ii) the exposure is -

(a) secured against a first charge held by the Finance Company for a loan; or

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113B A factor to be considered is whether any total exposure to any obligor or group of obligors is not more than 0.2% of the total of the regulatory retail asset class. A Finance Company shall exclude exposures that are past due for more than 90 days for the assessment of diversification.

114 This includes any past due exposure to the same obligor or group of obligors. For the avoidance of doubt, this is gross of any CRM.

115 Where an exposure to an individual exceeds $2 million, the Finance Company shall categorise the exposure under the other exposures asset class.

116 The basis of aggregation for small business exposures of not more than $2 million that are treated as retail exposures shall be (a) the definition of an obligor group used by the Finance Company for its risk management purposes, with the proviso that exposures to related corporations and associates of the obligor and the sole proprietors or partners in any of the entities in the obligor group are to be included in the aggregation; and (b) based on all finance company group entities that fall within the scope of application of this Notice. However, the Finance Company may dis-aggregate certain exposures if the dis-aggregated obligors have sufficient financial resources to fully service their liabilities and do not need to depend on any other entity within the obligor group for financial assistance in meeting their liabilities. A simplistic dis-aggregation based on product type alone would not be acceptable.

(b) secured against a junior charge held by the Finance Company for a loan where all the senior charges ranking above the junior charge in question are held by one or more of the following persons:

(i) the Finance Company;~~ or~~

(ii) CPF;~~ or~~

(iii) HDB,~~ as the case may be,~~

in respect of -

(A) of a completed residential property;

(B) of an uncompleted residential property in Singapore; or

(C) of an uncompleted residential property in a jurisdiction approved by the Authority on an exceptional basis[117];

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(iii) the exposure is not rated as a classified loan under MAS Notice 811; and

(iv) the exposure is not to a corporation, partnership, sole proprietorship or trustee in respect of a trust where such corporation, partnership, sole proprietorship or trust is engaged in residential building, development or management;

(i) CRE asset class, which consists of any SA(CR) exposure meeting all of the following condition[118]:

(i) the exposure is to an individual or a group of individuals, a corporation, partnership, limited liability partnership, sole proprietorship or trustee in respect of a trust; and

(ii) the exposure is secured by CRE; or

(j) other exposures asset class, which consists of any SA(CR) exposure which does not fall within any of the categories in sub-paragraphs (a) to (i) above. This includes any exposures to the residual value of leased assets calculated in accordance with paragraph 7.2.4A.

[117] Where an exposure is secured by residential real estate and meets the conditions in sub-paragraphs 7.3.1(h)(i) and 7.3.1(h)(iv), but not sub-paragraph 7.3.1(h)(ii), the Finance Company shall categorise the exposure under the other exposures asset class.

[118] For the avoidance of doubt, a Finance Company shall categorise exposures which fit the description in both sub-paragraphs (f) and (i), or in both sub-paragraphs (g) and (i), under sub-paragraph (i) only.

Sub-division 3: Risk Weights

Residential Mortgage Asset Class

Amendments to paragraph 7.3.29A

7.3.29A Where the SA(CR) exposure is secured against a junior charge, the numerator of the LTV ratio referred to in Table 7-9 shall be adjusted to include all senior charges ranking above the junior charge in question, including senior charges held by ~~the~~ CPF, or HDB, or both.

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