

MAS NOTICE 1111 (AMENDMENT) 2021

Issued on: 2 December 2021

RISK BASED CAPITAL ADEQUACY REQUIREMENTS FOR MERCHANT BANKS INCORPORATED IN SINGAPORE

Introduction

1 This document reflects amendments made to MAS Notice 1111 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 1111 issued on 11 June 2021 (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 1111. 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 1111 revised on 2 December 2021 (with effect from 31 December 2021), the published version of MAS Notice 1111 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 VI: Credit Risk

Division 3: SA(CR)

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

Amendments to paragraph 6.3.1

6.3.1 A Merchant Bank must 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, including cheques, drafts and other items drawn on other merchant banks or banking institutions that are either payable immediately upon presentation or that are in the process of collection;
 - (ii) gold bullion held in the vaults of the Merchant Bank 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, including transactions settled on a payment-versus-payment basis which are outstanding up to and including the 4th business day after the settlement date;
- (b) central government and central bank asset class, which consists of any exposure to a central government, a central bank, the Bank for International Settlements, the International Monetary Fund, the European Central Bank, the European Union, the European Stability Mechanism or the European Financial Stability Facility;
- (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;
- (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 trust or fund, but excludes exposures categorised in sub-paragraphs (a) to (e), (g) and (h), and exposures to individuals. To avoid doubt, a Merchant Bank must categorise an SA(CR) exposure to a securities firm or an insurance entity within the corporate asset class;
- (g) regulatory retail asset class, which consists of any SA(CR) exposure meeting all of the following conditions, but excludes any securities¹⁰⁷,

¹⁰⁷ For example, 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:

- (i) the exposure is to an individual, a group of individuals, or a small business;
 - (ii) the exposure takes the form of any of the following:
 - (A) revolving loan and lines of credit, including credit cards, charge cards and overdrafts;
 - (B) personal term loans and leases, including instalment loans, vehicle loans and leases, student and educational loans, and personal finance;
 - (C) small business credit facilities and commitments;
 - (iii) the Merchant Bank must demonstrate to the satisfaction of the Authority that, after excluding exposures that are past due for more than 90 days, the exposure is one of a sufficient number of exposures¹⁰⁸ with similar characteristics and that the portfolio is sufficiently diversified such that the risks associated with such lending are reduced;
 - (iv) the total exposure gross of any CRM to any obligor or group of obligors, regardless of whether the exposure is past due for more than 90 days, is not more than S\$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 Merchant Bank 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 Merchant Bank for a loan; or
 - (b) secured against a junior charge held by the Merchant Bank 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:

¹⁰⁸ A Merchant Bank should consider whether the total exposure to any obligor or group of obligors is less than or equal to 0.2% of the total of the regulatory retail asset class.

(i) the Merchant Bank; ~~or~~

(ii) CPF;

(iii) HDB, as the case may be;

in respect of –

- (A) a completed residential property;
- (B) an uncompleted residential property in Singapore; or
- (C) an uncompleted residential property in a country or jurisdiction approved by the Authority on an exceptional basis;

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- (iii) the exposure is not given a classified credit grade under paragraph 4.2 of MAS Notice 1005 on Credit Files, Grading and Provisioning;
 - (iv) the exposure is not to a corporation, partnership, sole proprietorship, trust or fund where such corporation, partnership, sole proprietorship, trust or fund is engaged in residential building, development or management;
- (i) CRE 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, a corporation, partnership, limited liability partnership, sole proprietorship, trust or fund;
 - (ii) the exposure is secured by CRE;
- (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). This includes any exposures to the residual value of leased assets calculated in accordance with paragraph 6.2.5, and any exposure where the total exposure referred to in sub-paragraph (g)(iv) exceeds S\$2 million.

Sub-division 3: Risk Weights

Residential Mortgage Asset Class

Amendments to paragraph 6.3.41

6.3.41 Where the SA(CR) exposure is secured against a junior charge, a Merchant Bank must adjust the numerator of the LTV ratio referred to in Table 6-9 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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