

06 Dec 2000

To All Banks in Singapore

Dear Sir/Madam

INTERNATIONALISATION OF THE SINGAPORE DOLLAR

The MAS has recently completed a major review of MAS Notice 757. In this review, we have reaffirmed our policy of not encouraging the internationalisation of the Singapore dollar (S\$). The policy has its rationale in the MAS' use of the exchange rate as the principal tool of monetary policy. It is aimed at ensuring that the growth of the S\$ market is commensurate with the development of the economy and that the effective conduct of our monetary policy is not compromised.

2 While reaffirming the basic thrust of our non-internationalisation policy, the MAS has identified several major areas for further liberalisation. With these measures, banks may now:

- i. Lend S\$ to non-residents for any purpose in Singapore, including investments in financial assets and real estate¹. Where the proceeds are used for investment purposes, the S\$ credit facilities have to be withdrawn when the investments, in part or whole, are in any way converted into S\$ cash proceeds. This implies that banks may now transact freely with non-residents in S\$ asset swaps, subject to the above safeguard.
- ii. Lend S\$ to non-residents for use offshore as long as the S\$ proceeds are swapped into foreign currency upon draw-down. Banks will not be allowed to convert the S\$ proceeds into foreign currency via the spot or forward market as the attendant foreign exchange impact is in direct contradiction of the basic rationale of our non-internationalisation policy.
- iii. Transact S\$ currency options with other financial institutions in Singapore that are covered under MAS Notice 757 or its equivalent. This is, however, subject to reporting requirements. For other non-residents in and outside Singapore, banks are still required to ensure

that the option transaction is supported by underlying economic and financial activities in Singapore.

3 In addition, the MAS has also made more explicit certain provisions in the Notice and streamlined its administration. These refinements are that:

- i. Banks may now lend S\$-denominated securities to non-residents as long as the loan is fully collateralised with S\$ cash or other S\$ assets.
- ii. Banks may now transact with non-residents in S\$ equity derivatives such as equity warrants, equity futures and equity index futures.
- iii. Banks no longer need to consult the MAS when issuing S\$ bond issues for non-residents where the S\$ proceeds are to be used outside Singapore. Banks must, however, continue to inform the MAS prior to the launch of all S\$ bond issues.
- iv. Banks no longer need to provide details of each S\$ interest rate derivative transaction exceeding S\$5 million with non-residents outside Singapore. Banks need only report their aggregate nominal amount of such transactions with non-residents outside Singapore on a monthly basis under the new Notice.

4 In conjunction with this review, the MAS is also issuing an equivalent Notice, MAS Notice 1201, for securities dealers in Singapore. Pursuant to Section 33A of the Securities Industry Act (Cap 289), securities dealers are required to observe the guidelines stipulated under MAS Notice 1201. With this, foreign securities dealers in Singapore will now be deemed as "residents" under the revised S\$ policy. They will be able to obtain S\$ funding to finance their capital market activities in Singapore. They will also be able to transact S\$ financial derivative products with other financial institutions in Singapore that are regulated by MAS Notice 757 or its equivalent.

5 A copy of the revised MAS Notice 757 is enclosed. It is also available for download at the MAS website. It sets out the underlying rationale of the policy and what banks can do under the Notice. If you have any enquiries, please direct them to the Monetary Management Division, MAS at telephone number 62299150 or facsimile number 62299491.

Yours faithfully,

ONG CHONG TEE

EXECUTIVE DIRECTOR

MARKETS AND INVESTMENTS

¹ MAS' Directive on Housing Loans dated 15 May 1996 still applies.