

Date: 04 Dec 2000

Cir. No. FSG 43/2000

To All Banks

Dear Sir/Madam

MAS NOTICE 628 - ASSET SECURITISATION BY BANKS

This circular clarifies MAS' position on participating banks' holding of share capital in the special purpose vehicle (SPV) used for the purchase and securitisation of assets.

2 One of the separation requirements set out in Annex B of MAS Notice 628 prohibits participating banks from owning any share capital in the SPV set up for the purchase and securitisation of assets. Share capital for this purpose is defined to include all classes of common and preference share capital.

3 These separation requirements were aimed at limiting a participating bank's reputational risks with respect to a securitisation transaction. The concern was that any equity holding by the participating bank in the SPV may closely associate the bank with the transaction to the extent that the bank, in order to protect its reputation, may feel compelled to support the SPV beyond any legal obligation.

4 However, MAS has received industry feedback that it is not uncommon for senior asset-backed securities issued by the SPV to be attached with redeemable preference shares aimed at providing some upside to investors. MAS recognises that given that preference shares are hybrid instruments, the specific terms and conditions attached to them, together with the amount of preference shares held by the participating bank, have bearing on the extent of the bank's association with the transaction and hence its reputational risks.

5 For the reasons mentioned in paragraph 4, MAS is prepared to consider allowing participating banks to hold preference shares in the SPV subject to the following conditions:

- a. there is no evidence of actual or intended control over the SPV or its securitised assets by the participating bank,
- b. the preference shares exhibit debt-like characteristics ¹,
- c. the amount of preference shares held is limited at 10% of the original amount of the issue, and
- d. the full value of the preference shares held is deducted from the participating bank's capital base.

6 MAS will continue to monitor market developments, seek feedback, and review its policy on securitisation transactions by banks, as appropriate. Should you need any clarification, please contact our Ms Tye Moo Yin at 6229 9668 or Ms Ho Hern Shin at 6229 9852.

Yours faithfully

RAVI MENON
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SUPERVISORY POLICY DEPARTMENT / BANKING DEPARTMENT
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¹ Some factors that MAS would consider in determining whether the preference shares exhibit debt-like characteristics are their redemption features, convertibility into ordinary share capital, voting rights and subscription exclusivity.

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