

# CONSULTATION PAPER

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# Securitisation

MAS

Monetary Authority of Singapore

## Preface

MAS proposes to clarify and update certain provisions in its existing Notice to Banks 628: Asset Securitisation by Banks (“the Notice”).

This consultation paper contains a brief overview of the changes MAS proposes, the draft revised text of the Notice and draft consequential amendments to MAS Notice to Banks 637.

MAS invites comments from banks in Singapore and other interested parties. Please note that any comments received may be made public unless confidentiality is specifically requested.

Electronic submission is encouraged. The public consultation period ends on 6 May 2005. Please direct comments to:

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## Introduction

1.1 The Notice was first published in 2000. In view of market developments, we propose to make certain clarifications of and updates to the Notice. Taking into account the forthcoming implementation of the revised capital framework pursuant to the Basel Committee on Banking Supervision's document, *International Convergence of Capital Measurement and Capital Standards: A Revised Framework* ("Basel II"), the proposed changes to the Notice also seek to bridge the gap between the existing requirements and the forthcoming requirements under Basel II in a manner that is consistent with the current capital rules and market needs and aligned to practices in other major markets.

1.2 The draft texts of the revised Notice and the consequential amendments to MAS Notice to Banks 637 are at Appendices 1 and 2 respectively. The key proposed changes are:

- New definitions of terms associated with securitisation
- Ex-post notification instead of prior approval
- Re-organisation of separation and disclosure requirements
- Clear delineation between requirements and guidelines
- Introduction of most elements of the Basel II securitisation framework under the Standardised Approach

## New Definitions

2.1 The list of definitions has been expanded in a manner consistent with the forthcoming provisions implementing Basel II. The new definitions identify the types of transactions that are in the scope of the Notice, roles in transactions and transaction features. Banks should note that both traditional and synthetic securitisations as well as asset-backed commercial paper programmes will now fall within the scope of securitisation.

## Ex-post Notification instead of Prior Approval

3.1 Currently, the Notice requires a bank acting as a seller of assets to or a manager of a securitisation to obtain MAS' prior approval. This requirement was imposed when securitisations were new to Singapore and in MAS' estimation, is no longer required. MAS proposes instead to require banks in Singapore to notify MAS after they have completed a securitisation.

## Re-organisation of Separation and Disclosure Requirements

4.1 The separation and disclosure requirements applicable to the various roles a bank may assume in a securitisation have been re-organised for clarity. These requirements will continue to apply to all banks in Singapore.

4.2 For a Singapore-incorporated bank, failure to meet these requirements will continue to result in the inclusion of the underlying pool of exposures of the securitisation in the bank's risk-weighted assets for the purposes of computing the bank's capital adequacy ratio.

## Delineation between Requirements and Guidelines

5.1 The draft Notice delineates requirements that have the force of law and best practice guidelines. This is intended to aid a bank's officers who are charged with ensuring compliance.

## Implementation of Elements of Basel II Standardised Approach

6.1 The proposed capital requirements in the draft Notice apply only to Singapore-incorporated banks and include key elements of the Standardised Approach in the Basel II securitisation framework:

- The use of external credit ratings to determine capital requirements
- Certain exceptions from the general use of external credit ratings
- Credit conversion factors for eligible liquidity facilities may be applied.

6.2 MAS proposes that in general all securitisation exposures that are rated investment-grade<sup>1</sup> receive a 100% risk weight and all others be deducted dollar-for-dollar from total capital. MAS proposes not to implement the full-range of risk weights in Basel II as they would not be consistent with the risk weights applicable to the rest of the banking book under the current capital rules in MAS Notice to Banks 637.

6.3 Exceptions to this general norm are the preservation of the 50% risk weight for certain mortgage-back securities as well as exceptions permitted under Basel II for unrated most-senior tranches, unrated second-loss or better positions in ABCP programmes and eligible liquidity facilities.

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<sup>1</sup> I.e., an international long-term rating of BBB-minus or better by Fitch Ratings, Baa or better by Moody's Investor Services, or BBB-minus or better by Standard & Poor's, or an international short-term rating of F3 or better by Fitch Ratings, P-3 or better by Moody's Investors Service or A-3 or better by Standard & Poor's.

6.4 MAS also proposes to implement Basel II provisions for a 20% CCF for eligible liquidity facilities with an original maturity of one year or less and a 50% CCF for all other eligible liquidity facilities.

## **Appendix 1 - Draft Text of Revised MAS Notice 628**

**MAS Notice 628**

[date]

NOTICE TO BANKS  
BANKING ACT, CAP. 19

(MAS Notice 628 dated 6 September 2000 is cancelled.)

**SECURITISATION**

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**1 Scope of obligations**

1.1 This Notice is issued pursuant to section 55 of the Banking Act (Cap. 19) and applies to all banks in Singapore.

1.2 This Notice comprises two parts —

- (a) Part I (sections 3 to 5 and the Annexes) which are mandatory requirements, with the exception of footnotes labelled as guidelines; and
- (b) Part II (section 6) which are non-mandatory guidelines on the responsibilities of banks in respect of securitisation.

**2 Definitions**

2.1 For the purposes of this Notice—

- (a) “ABCP programme” means a programme of asset-backed commercial paper with an original maturity of not more than one year that is backed by assets or other underlying pool of exposures held in an SPE;
- (b) “ABCP programme sponsor” means an entity that —
  - (i) establishes an ABCP programme;
  - (ii) approves the sellers of exposures permitted to participate in an ABCP programme;
  - (iii) approves the asset pools to be purchased by an ABCP programme; or
  - (iv) administers the ABCP programme by monitoring the assets backing the asset-backed commercial paper, arranging for 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.



- (c) “clean-up call” means —
- (i) in the case of a securitisation other than a synthetic securitisation, an option that allows the outstanding securities of a securitisation to be called before maturity; and
  - (ii) in the case of a synthetic securitisation, an option that allows the credit protection to be extinguished;
- (d) “credit enhancement” means any contractual arrangement whereby the credit quality of a position in a securitisation is improved in relation to what it would have been if the contractual arrangement had not been put in place and includes any enhancement provided by more junior tranches in the securitisation and other types of credit protection;
- (e) “credit risk mitigation” means any technique used by any bank to reduce the credit risk associated with an exposure or exposures which the bank continues to hold;
- (f) “Credit RWA” has the same meaning as credit risk-weighted assets in MAS Notice 637;
- (g) “CCF” means credit conversion factor;
- (h) “Deductions from Total Capital” has the same meaning as in MAS Notice 637;
- (i) “ECAI” means Fitch Ratings, Moody’s Investors Service or Standard and Poor’s;
- (j) “eligible external credit assessment” means a credit rating that complies with paragraph G.2.1 of Annex G;
- (k) “F3/P-3/A-3 or above” means an international short-term rating of F3 or better by Fitch Ratings, P-3 or better by Moody’s Investors Service or A-3 or better by Standard & Poor’s;
- (l) “funded credit protection” means a technique of credit risk mitigation where the reduction of the credit risk on an exposure of a bank is derived from the right of the bank, in the event of the default of a counterparty or on the occurrence of other specified credit events relating to the counterparty, to liquidate, or to obtain transfer or appropriation of, or to retain certain assets or amounts;
- (m) “implicit support” means any support that a bank provides, whether directly or indirectly, to investors in a securitisation in excess of its contractual obligation with a view to make good in part or in full any losses the investors may suffer, and includes the provision of a facility, commitment or undertaking to the investors or the SPE in a securitisation except where —

- (i) the nature and extent of the facility, commitment or undertaking are clearly specified in a written agreement and there is no recourse to the bank beyond the specified contractual obligations;
  - (ii) the facility, commitment or undertaking is limited to a specified amount;
  - (iii) the duration of the facility, commitment or undertaking is limited to the date on which —
    - A. the underlying pool of exposures is redeemed;
    - B. all claims connected with the securities issued by the SPE are paid out; or
    - C. the bank's obligations are otherwise terminated,
 whichever is the earliest, unless the facility, commitment or undertaking may be cancelled unconditionally;
  - (iv) the facility, commitment or undertaking is documented in a fashion which clearly separates it from any other facility provided by the bank; and
  - (v) the facility, commitment or undertaking is given at the initiation of the securitisation, and the related details are clearly disclosed in any offering circular or other appropriate documentation;
- (n) “investment grade” means an international long-term rating of BBB-minus or better by Fitch Ratings, Baa or better by Moody’s Investors Service, or BBB-minus or better by Standard & Poor’s;
- (o) “manager” means any entity that arranges, promotes or underwrites, a securitisation;
- (p) “MBS” means a mortgage-backed security;
- (q) “originator”, in relation to a securitisation, means —
- (i) any entity which, either itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure or potential exposure being securitised;<sup>2</sup> or
  - (ii) 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 an obligor is equivalent to purchasing exposures);
- (r) “preference share” means a share, by whatever name called, which bears a fixed annual rate of dividend with a prior right over all ordinary shares in the distribution of dividends from annual profits; and a prior claim to repayment of capital on a winding-up of the company but does not entitle the holder thereof to the right to vote at a general meeting or the right to

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<sup>2</sup> **Guideline:** where an entity lends to an SPE in order for the SPE to make loans which will serve as the underlying pool of exposures in a securitisation, the entity will generally be deemed to be acting as an originator.

participate beyond a specified amount in any distribution whether by way of dividend, or on redemption, in a winding up, or otherwise;

- (s) “Reporting Bank” means a bank incorporated in Singapore;
- (t) “securities” has the same meaning as in the Securities and Futures Act (Cap. 289);
- (u) “securitisation” means any transaction or scheme involving the tranching of the credit risk associated with an exposure or pool of exposures and which has the following characteristics —
  - (i) payments in the transaction or scheme depend on the performance of the exposure or pool of exposures; and
  - (ii) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme;
- (v) “securitisation exposure” means the exposure of a bank, whether at Solo or Group level as defined in MAS Notice 637, to a securitisation, and includes any on-balance sheet exposure to securities issued pursuant to a securitisation (e.g., asset-backed securities, mortgage-backed securities and collateralised debt obligations), or any off-balance sheet exposure to a securitisation (e.g., through credit enhancements, liquidity facilities, interest rate or currency swaps, credit derivatives or tranching cover), regardless of whether it was retained by the bank at, or repurchased by the bank after, the origination of the securitisation;
- (w) “servicer” means a bank that 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 channelling these funds to the investors or the trustee representing them, customer service, cash management, maintenance of records, and reporting duties;
- (x) “SPE” means any corporation, trust, or other entity constituted or established for a specific purpose —
  - (i) which activities are limited to those for accomplishing the purpose of the corporation, trust or other entity as the case may be; and
  - (ii) which is structured in a manner intended to isolate the corporation, trust or entity as the case may be, from the credit risk of an originator or entity selling the underlying exposure or pool of exposures;
- (y) “subsidiary” has the same meaning as in section 5 of the Companies Act (Cap. 50);
- (z) “synthetic securitisation” means any securitisation where the tranching is achieved by the use of credit derivatives or guarantees, and the exposure or pool of exposures is not removed from the balance sheet of the originator;

- (aa) “traditional securitisation” means any securitisation involving the transfer of the risks of the exposure(s) being securitised, by the transfer of ownership of the securitised exposure(s) from the originator, or through sub-participation, to an SPE which issues securities that do not represent payment obligations of the originator;
- (bb) “tranche” means a contractually established segment of the credit risk associated with an exposure or a 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;
- (cc) “tranching cover”, in relation to a bank, means the transferring of a portion of the credit risk of an exposure in one or more tranches to a protection seller or sellers and the retaining of some level of risk of the exposure where the risk transferred and the risk retained are of different seniority;
- (dd) “unfunded credit protection” means a technique of credit risk mitigation where the reduction of the credit risk of the exposure of a bank is derived from the undertaking of a third party to pay an amount in the event of the default of the borrower or on the occurrence of other specified events;
- (ee) “unrated”, in relation to a security, means the absence of an eligible external credit assessment for that security.

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

### **3 Requirements for banks in Singapore**

#### ABCP Programme Sponsors, Managers and Originators

3.1 Any bank acting as an ABCP programme sponsor, a manager or an originator shall —

- (a) comply with the separation requirements set out in Annex A and the disclosure requirements set out in Annex B; and
- (b) within 14 days from the date of the completion of the securitisation, notify the Authority and attest to its compliance with the requirements in this Notice using the format set out in Annex C.

3.2 Any Reporting Bank whose subsidiary acts in the role of an ABCP programme sponsor, a manager or an originator shall procure that the subsidiary complies with the requirements in paragraph 3.1 as though it were a bank.

3.3 For purposes of paragraph 3.1, “completion of the securitisation” means the issue of securities effecting the transfer to investors in the securitisation, of the credit risk of the

underlying pool of exposures. A bank would be deemed to have complied with the requirement in paragraph 3.1 if it submits one notification covering all securities issued by the same SPE on the same date.

### Servicers

3.4 Any bank acting as a servicer shall comply with the requirements set out in Annex D.

### Providers of Liquidity Facilities and Credit Enhancement

3.5 Any bank providing liquidity facilities or credit enhancement shall comply with the requirements set out in Annex E.

## **4 Capital requirements for Reporting Banks acting in securitisations**

### ABCP Programme Sponsors, Managers and Originators

4.1 Any Reporting Bank acting as an ABCP programme sponsor, a manager or an originator which has —

- (a) complied with the requirements in section 3;
- (b) complied with the requirements in paragraph F.1 or F.2 of Annex F, as the case may be; and
- (c) confirmed in writing to the Authority that it has received written opinions from its external auditors and legal advisors that the terms of the securitisation comply with the requirements in paragraph 4.1(a) and (b);

may, in the case of a synthetic securitisation, recognise the credit protection obtained through the securitisation as provided in paragraph 4.2, or in the case of any other securitisation, exclude the underlying pool of exposures from the calculation of Credit RWA pursuant to MAS Notice 637.

4.2 A Reporting Bank recognises credit protection obtained through a synthetic securitisation by—

- (a) substituting the risk weight of the Protection Seller for the risk weight of the underlying exposure(s) hedged via an unfunded credit protection; or
- (b) reducing the amount of an underlying exposure by the amount that is hedged via funded credit protection,

provided the credit protection is in a form that is recognised under section 3 of MAS Notice 627. For the purposes of paragraph 3.6 of MAS Notice 627, when the exposures in the underlying pool of exposures have different maturities, the bank shall take the longest maturity as the maturity of the pool<sup>3</sup> and when a synthetic securitisation incorporates a call (other than a clean-up call) that can effectively terminate the transaction and the purchased credit protection on a specific date, that date shall be considered as the date on which the purchased credit protection matures.

<sup>3</sup> **Guideline:** Maturity mismatches may arise in the context of synthetic securitisations when, for example, a bank uses credit derivatives to transfer part or all of the credit risk of a specific pool of exposures to third parties. When the credit derivatives unwind, the transaction will terminate. This implies that the effective maturity of the tranches of the synthetic securitisation may differ from that of the underlying pool of exposures.

### Servicer

4.3 A Reporting Bank acting as a servicer in a securitisation that does not contain a clean-up call which has complied with the requirements in Annex D may exclude the underlying pool of exposures of the securitisation for which it acts as a servicer from the calculation of Credit RWA pursuant to MAS Notice 637.

4.4 A Reporting Bank acting as a servicer in a securitisation that contains a clean-up call that is exercisable by the servicer and which has complied with the requirements in Annex D and paragraph F.3 of Annex F may exclude the underlying pool of exposures of the securitisation for which it acts as a servicer from the calculation of Credit RWA pursuant to MAS Notice 637.

### Provider of Liquidity Facilities or Credit Enhancement

4.5 A Reporting Bank providing liquidity facilities or credit enhancement to a securitisation which has complied with the requirements in Annex E may exclude the underlying pool of exposures of the securitisation from the calculation of Credit RWA pursuant to MAS Notice 637.

4.6 For the avoidance of doubt, section 5 is still applicable in respect of any securitisation exposure that a Reporting Bank retains or repurchases, even though the Reporting Bank may be permitted, pursuant to paragraphs 4.1 to 4.5, to exclude the underlying pool of exposures of the securitisation from the calculation of Credit RWA pursuant to MAS Notice 637.

## **5 Capital requirements for Reporting Banks assuming securitisation exposures in the banking book**

5.1 A Reporting Bank shall determine the risk weights and CCFs for all its securitisation exposures in the banking book as set out in Annex G, unless the bank is required, pursuant to section 4, to include the underlying pool of exposures of the securitisation in the calculation of Credit RWA pursuant to MAS Notice 637.

## **6 Guidelines on responsibilities of banks**

6.1 The guidelines in paragraphs 6.2 to 6.6 are relevant to all banks in Singapore, while those in paragraphs 6.7 and 6.8 are relevant only to Reporting Banks.

6.2 The senior management of the bank is responsible for the bank's participation in securitisations. A bank should fully understand the range of risks involved. A bank should have clear strategies and approved policies governing securitisations and appropriate internal systems and controls to identify, monitor and manage the risks that arise from its involvement in securitisations.

6.3 A bank acting as an ABCP programme sponsor, a manager or an originator faces risks such as—

- (a) operational, legal or other risks;
- (b) reputational risk, i.e., pressure to support a securitisation, beyond any legal obligation, in order to protect its reputation; or

- (c) for a bank acting as an originator, the securitisation of high quality assets may lead to deterioration in the average quality of its assets if funds received from securitisation are reinvested in assets of a lower quality vis-à-vis those transferred.

6.4 A key mitigation for reputational risk is disclosure. While this Notice sets out minimum disclosure requirements, a bank undertaking a role in a securitisation should always satisfy itself that it is not subject to reputational risk, and where appropriate, disclose its obligations in order to mitigate that risk.

6.5 A bank with securitisation exposures has risk exposures to the underlying pool of exposures. These should be taken into consideration when determining overall exposures to any particular obligor, industry or geographic area for the purpose of managing concentration risks

6.6 Any bank providing credit enhancement should assess the risk thereof on an arm's length basis in accordance with its normal credit approval and review processes. Such a review may refer to one or more of the following factors:

- (a) the class and quality of the underlying pool of exposures held by the SPE;
- (b) the history of default and loss rates on the underlying pool of exposures;
- (c) the output of any statistical or other models used to assess expected losses on the underlying pool of exposures;
- (d) the types of activity that the SPE is permitted to undertake;
- (e) the quality of the parties providing credit enhancement ranking junior to the position the bank is contemplating assuming; or
- (f) the opinions provided by reputable third parties such as rating agencies regarding the adequacy of any credit enhancement ranking junior to that position.

6.7 A Reporting Bank should implement policies and processes to ensure the appropriate classification of securitisation exposures in the banking book or trading book. The Authority considers it inappropriate to classify exposures in the banking book or trading book in order to minimise capital requirements.

6.8 A Reporting Bank should assess the adequacy of the minimum capital requirements stated in this Notice and all relevant and prevailing legislation and Notices as may be in force from time to time, for the risks arising from its involvement in securitisations.

## **7 Policy review**

7.1 The Authority will monitor market developments and review its policy as and when necessary to guide the prudent conduct of securitisations by banks. As such, the Authority may issue such directions to a bank as the Authority deems fit, e.g., supervisory limits on the volume or types of assets which may be securitised or to obtain appropriate separation between the bank and an SPE and to make appropriate disclosures.

7.2 The Authority may, from time to time, require transaction-specific capital requirements, in respect of particular securitisations a Reporting Bank conducts or particular securitisation exposures that a Reporting Bank assumes.

7.3 In assessing the appropriateness of bank-specific capital adequacy requirements, the Authority will consider whether the totality of a Reporting Bank's activities suggests that its overall level or concentration of risk has become excessive relative to its capital position, or if there is reason to believe that the Reporting Bank has classified securitisation exposures in either the banking or trading book in order to minimise capital requirements.



## Annex A: Separation Requirements

A.1. Any bank acting as an ABCP programme sponsor, a manager or an originator shall not, in relation to the SPE used in the securitisation,—

- (a) in the case where the SPE is a corporation, own any share capital in the SPE, whether ordinary or preference shares, or in the case that the SPE is a trust, be a beneficiary of the SPE;
- (b) name the SPE in such manner as to imply any connection with the bank;
- (c) have any director, officer or employee on the board of the SPE unless —
  - (i) the board is made up of at least three members the majority of whom are independent directors; and
  - (ii) the officer representing the bank does not have veto powers;
- (d) directly or indirectly control the SPE; or
- (e) provide implicit support or bear any of the recurring expenses of the securitisation.

A.2. Notwithstanding paragraph 1(a), such a bank may hold preference shares issued pursuant to a securitisation provided —

- (a) the bank does not directly or indirectly control the SPE or its securitised underlying pool of exposures;
- (b) the Authority is satisfied that the preference shares have debt-like characteristics<sup>4</sup>; and
- (c) the aggregate value of preference shares taken up in each tranche does not exceed 10% of the aggregate value of all preference shares issued in that tranche.

A.3 All transactions, e.g., interest rate swaps and currency swaps, between the bank and the SPE shall be conducted at arm's length and on market terms and conditions.

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<sup>4</sup> **Guideline:** In determining whether the preference shares exhibit debt-like characteristics, the Authority may, without prejudice to any other matter it may consider relevant, have regard to their redemption features, convertibility into ordinary share capital, voting rights and subscription exclusivity.

## **Annex B: Disclosure Requirements**

B.1 Any bank acting as an ABCP programme sponsor, a manager or an originator shall disclose to investors in writing—

- (a) that the securities they purchase do not represent deposits with or other liabilities of, the bank or any other entity treated as part of the bank's group of companies as defined in paragraph 3(b) of MAS Notice 637 ("banking group companies");
- (b) that their holdings of securities are subject to investment risk, including prepayment risk, interest rate risk, and credit risk;
- (c) that neither the bank nor any of its banking group companies in any way stand behind the capital value or performance of the securities issued in connection with the ABCP programme or securitisation, or of the underlying pool of exposures, except to the extent that the bank or any other entities to which it is related provide credit enhancement; and
- (d) if the bank also acts in any other capacity in the securitisation, the extent of its contractual obligations in that other capacity.

B.2. The written disclosures referred to in this Annex shall be clearly communicated to prospective investors.

B.3. The requirements in this Annex apply in addition to any other disclosure requirement under any applicable law.

**Annex C: Reporting Forms**

[Reporting forms will be published at the same time as the revised Notice.]

**Annex D: Requirements for a Servicer**

D.1 A bank in Singapore acting as a servicer shall ensure that —

- (a) there is a written agreement with its customer which specifies —
  - (i) the services to be provided by the bank in its capacity as a servicer and all required standards of performance (“the servicing agreement”) and
  - (ii) that there is no recourse to the bank beyond the contractual obligations specified therein;
- (b) the duration of the servicing agreement is limited to the date on which —
  - (i) all claims connected with the securities issued by the SPE are paid out; or
  - (ii) the bank is replaced as servicer,

whichever is earlier, unless the servicer is able, at its absolute discretion, to withdraw from its commitments at any time after giving a reasonable period of notice, in which event it would be the date on which the period of notice expires;

- (c) the servicing agreement is documented in a way that clearly separates it from any other agreement entered into by the bank;
- (d) it has written opinions from its external auditors and legal advisors that the terms of the servicing agreement protect the bank from any liability to the investors in the securitisation or to the SPE, except for the contractual obligations pursuant to the servicing agreement);
- (e) it is not under any obligation to remit funds to the SPE or investors unless such funds are received from the underlying pool of exposures except where it is the provider of an eligible liquidity facility, i.e., a bank acting as a servicer and a provider of an eligible liquidity facility who remits funds prior to receipt in the latter capacity, will not contravene this requirement; and
- (f) if it is entitled to receive a performance-related payment or benefit from any surplus income generated, i.e., any surplus income generated by the underlying pool of exposures of the SPE after meeting all payment obligations of the securities issued, operating costs of the SPE or losses or bad debts on the underlying assets in addition to a base fee, the base fee shall be on market terms and conditions and any performance-related payment shall not commit it to any additional obligation. Such payment shall be recognised for profit and loss purposes only after it has been irrevocably received.

**Annex E: Requirements for a Provider of Liquidity Facilities or Credit Enhancement**

E.1. A bank in Singapore providing a liquidity facility or a credit enhancement (“the facility”) shall ensure that—

- (a) the nature and extent of any undertaking provided to the investors or SPE are clearly specified in a written agreement such that there is no recourse to the bank beyond the contractual obligations specified therein;
- (b) the facility is limited to a specified amount;
- (c) the duration of the facility is limited to the date on which —
  - (i) the underlying assets are redeemed;
  - (ii) all claims connected with the securities issued by the SPE are paid out; or
  - (iii) the bank’s obligations are otherwise terminated,whichever is the earliest, unless the bank is able, at its absolute discretion, to withdraw from its commitments at any time within a reasonable period of notice;
- (d) the facility is documented in a way that clearly separates it from any other facility provided by the bank; and
- (e) the facility is given at the completion of the securitisation.

## Annex F: Requirements for Exclusion of Underlying Exposures from Credit RWA

### Traditional Securitisations

- F.1 In the case of a traditional securitisation, a Reporting Bank shall ensure that —
- (a) the risks associated with the underlying pool of exposures are fully transferred to third parties;
  - (b) it does not have any beneficial interest or effective or indirect control over the underlying pool of exposures;
  - (c) it obtains a legal opinion from a qualified legal counsel confirming that the underlying pool of exposures is legally isolated from the Reporting Bank in such a way that the underlying pool of exposures is put beyond the reach of the Reporting Bank or its creditors, even in an insolvency situation or receivership;<sup>5</sup>
  - (d) the securities issued pursuant to the securitisation are not obligations of the Reporting Bank and any investor who purchases the securities shall have a claim only against the underlying pool of exposures.
  - (e) the transferee is an SPE and the holders of the beneficial interests in the SPE have the right to pledge or exchange their beneficial interests without restriction.
  - (f) any clean-up calls satisfy the conditions set out in paragraph F.3.
  - (g) the securitisation documents do not contain any clause that —
    - (i) other than clean-up calls, obliges the Reporting Bank to repurchase any exposure in the underlying pool of exposures, at any time, except where that obligation arises from the exercise of a representation or warranty given by the Reporting Bank. The Reporting Bank may give a representation or warranty solely in respect of the nature or existing state of facts of any exposure in the underlying pool of exposures, that is capable of being verified, at the time of its transfer;<sup>6</sup>
    - (ii) requires it to alter systematically the underlying pool of exposures such that the weighted average credit quality of the pool is improved unless this is achieved by selling exposures to independent and unaffiliated third parties at market prices;

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<sup>5</sup> **Guideline:** The Reporting Bank is deemed to have maintained effective control over the transferred exposures if (i) it is able to repurchase from the transferee the previously transferred exposures in order to realise their benefits; or (ii) it is obligated to retain the risk of the transferred exposures. In this regard, the Reporting Bank role as a servicer in respect of the exposures will not necessarily constitute indirect control of the exposures.

<sup>6</sup> **Guideline:** In addition, the Reporting Bank should undertake appropriate due diligence prior to giving any such representation or warranty.

- (iii) allows for credit enhancement provided by the Reporting Bank or increases in a retained first loss position after the inception of the securitisation; or
- (iv) increases the yield payable to parties other than the Reporting Bank, such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the underlying pool of exposures;
- (h) the transfer of the underlying pool of exposures does not contravene the terms and conditions of any underlying agreement in respect of the underlying pool of exposures and all the necessary consents have been obtained for the transfer of the underlying pool of exposures in the securitisation;
- (i) the documented terms of the transfer specify that, if cash flows relating to an exposure that is transferred are rescheduled or renegotiated, the SPE, and not the Reporting Bank, would be subject to the rescheduled or renegotiated terms;
- (j) it receives a fixed amount of consideration for the underlying pool of exposures no later than at the time of the transfer of the underlying pool of exposures;
- (k) it is not obligated to make a market in the securities issued by the SPE;
- (l) where it makes a market in the securities issued by the SPE, it does so only for investment grade securities or those rated F3/P-3/A-3 and above; and
- (m) it shall not hold any class of securities issued by the SPE except that it may hold investment-grade securities issued by the SPE provided these are purchased at market prices for investment or hedging purposes and do not exceed 10 per cent of the aggregate original amount of all securities issued by the SPE and preference shares as permitted in Annex A of this Notice.

### **Synthetic Securitisations**

F.2 In the case of a synthetic securitisation, a Reporting Bank shall ensure that—

- (a) credit protection is recognised only if it is achieved by way of a contingent claim on an entity that has a risk weight in Schedule II of Annex 4 in MAS Notice 637 of not more than 20% and meets all applicable requirements in MAS Notice 627 regarding the recognition of credit protection;
- (b) it transfers the risks associated with the underlying pool of exposure to third parties;
- (c) the instrument used to transfer credit risk does not contain terms or conditions that limit the amount of credit risk transferred, including—

- (i) any clause that materially limits the credit protection or credit risk transference (e.g. significant materiality thresholds below which credit protection is deemed not to be triggered even if a credit event occurs or those that allow for the termination of the protection due to deterioration in the credit quality of the underlying pool of exposures);
  - (ii) any clause that requires the Reporting Bank to alter the underlying pool of exposures to improve the weighted average credit quality of the pool;
  - (iii) any clause that increases the cost of credit protection to the Reporting Bank in response to deterioration in the overall credit quality of the pool of underlying exposures;
  - (iv) any clause that increases the yield payable to parties other than the Reporting Bank, such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the reference pool; and
  - (v) any clause that provides for increases in a retained first loss position or credit enhancement provided by the Reporting Bank after the transaction's inception;
- (d) an opinion is obtained from a qualified legal counsel that confirms the enforceability of the contracts in all relevant jurisdictions; and
- (e) every clean-up call satisfies the conditions set out in paragraph F.3.

### **Securitisation Containing Clean-up Calls**

F.3 If a securitisation includes a clean-up call, the Reporting Bank shall ensure that—

- (a) the exercise of the clean-up call is not mandatory, neither in form nor in substance, but rather is at the discretion of the originator or servicer;
- (b) the clean-up call is not structured to avoid allocating losses to credit enhancements or positions held by investors or otherwise structured to provide credit enhancement; and
- (c) the clean-up call is exercisable only when 10% or less of the original underlying portfolio, or securities issued remain, or, for synthetic securitisations, when 10% or less of the original reference portfolio value remains.



## Annex G: Capital Requirements for a Reporting Bank Assuming Securitisation Exposures

### General Treatment of Securitisation Exposures

G.1.1 The applicable risk weights for securitisation exposures for the purposes of computing Credit RWA pursuant to MAS Notice 637 are in Table 1 and Table 2. For off-balance sheet securitisation exposures, a Reporting Bank shall apply a CCF as per paragraphs G.1.4 and G.3.5 and then apply the appropriate risk weight to the resultant credit equivalent amount.

**Table 1: Long-term rating category**

Eligible external credit assessment	Eligible MBS – Investment-grade	Other securitisation exposures – Investment-grade	Non-investment-grade or unrated
Regulatory capital treatment	Apply 50% risk weight	Apply 100% risk weight	Include in Deductions from Total Capital with the exception of the circumstances described in paragraphs G.3.1 to G.3.6

**Table 2: Short-term rating category**

Eligible external credit assessment	F3/P-3/A-3 or above	All other ratings or unrated
Regulatory capital treatment	Apply 100% risk weight	Include in Deductions from Total Capital with the exception of the circumstances described in paragraphs G.3.1 to G.3.6

G.1.2 Notwithstanding the risk weights set out in paragraph G.1.1—

- (a) where guarantees or collateral are provided directly to an SPE and are reflected in the eligible external credit assessment assigned to a securitisation exposure(s), the risk weight associated with that external credit assessment shall be used and no additional capital recognition shall be permitted, provided the guarantees or collateral represent claims on entities with a risk weight of not more than 20% in Schedule II of Annex 4 in MAS Notice 637 (in all other cases, the securitisation exposure covered by the guarantees or collateral shall be treated as if it were unrated); and
- (b) where guarantees or collateral are not obtained by the SPE but rather applied to a specific securitisation exposure with a given structure, the

bank shall treat the exposure as if it were unrated and then recognise such guarantees or collateral to the extent they represent claims on entities with a risk weight not more than 20 per cent in Schedule II of Annex 4 in MAS Notice 637.

G.1.3 A Reporting Bank using external credit assessments shall apply external credit assessments from ECAIs consistently across a given type of securitisation exposure. Furthermore, a Reporting Bank cannot use the credit assessments issued by one ECAI for one or more tranches and those of another ECAI for other positions (whether retained or purchased) within the same securitisation structure that may or may not be rated by the first ECAI. Where two or more ECAIs can be used and these assess the credit risk of the same securitisation exposure differently, the Reporting Bank shall use the highest relevant risk weight(s).

G.1.4 A Reporting Bank shall use a 100% CCF for any off-balance sheet securitisation exposure that is not an eligible liquidity facility.

### **Eligible External Credit Assessments**

G.2.1 An eligible external credit assessment is one that —

- (a) is provided by an ECAI;
- (b) has taken into account and reflects the entire amount of credit risk exposure the Reporting Bank has with regard to all payments owed to it;<sup>7</sup> and
- (c) is published in an accessible form and included in the transition matrix of the ECAI. Ratings that are made available only to the parties to a transaction do not satisfy this requirement.

### **Eligible MBS**

G.2.2 For the purposes of Table 2 above, an eligible MBS is one where —

- (a) the loans underlying the MBS are at the origination of the MBS, fully secured by mortgages on residential properties;
- (b) the mortgage loans were not classified (as defined in MAS Notice 612) at the time at which they are transferred to the SPE that issues the MBS;
- (c) the SPE issuing the MBS may only hold “qualifying” loans secured against mortgages on residential properties (as defined in MAS Notice 637); and;

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<sup>7</sup> **Guideline:** For example, if a Reporting Bank is owed both principal and interest, the assessment should fully take into account and reflect the credit risk associated with timely repayment of both principal and interest.

- (d) the documentation for the MBS does not provide that the investors in it will absorb more than their pro-rata share of losses in the event of arrears or default on payment of interest on, or principal of, the underlying mortgage loans.

### **Exceptions to Requirement to Deduct Unrated Securitisation Exposures**

#### Unrated most senior securitisation exposures

G.3.1 A Reporting Bank that holds or guarantees an unrated securitisation exposure that is the most senior securitisation exposure in a traditional securitisation or synthetic securitisation, may determine the risk weight to be applied to such a securitisation exposure by applying the “look-through” treatment described in paragraph G.3.2, provided the composition of the underlying pool of exposures is known at all times and it is able to determine the risk weights assigned to the exposures in the underlying pool of exposures. A Reporting Bank is not required to consider interest rate or currency swaps when determining whether a securitisation exposure is the most senior in a securitisation for the purpose of applying the “look-through” approach.

G.3.2 Under the look-through treatment, a Reporting Bank shall apply the average risk weight of the underlying pool of exposures to the securitisation exposure, subject to supervisory review.

#### Exposures in a second loss position or better in ABCP programmes

G.3.3 A Reporting Bank that is an ABCP programme sponsor and holds an unrated securitisation exposure to the ABCP programme may apply a risk weight of 100 per cent to the securitisation exposure where it is able to demonstrate to the satisfaction of the Authority upon request, that the securitisation exposure satisfies the following requirements—

- (a) the securitisation exposure is economically in a second loss position or better and the first loss position provides significant credit protection to the second loss position;
- (b) the associated credit risk is the equivalent that of a long-term security rated investment grade, or a short-term security rated F3/P-3/A-3 or above;
- (c) the bank holding the unrated securitisation exposure does not retain or provide the first loss position in the securitisation.

#### Eligible liquidity facilities

G.3.4 For any eligible liquidity facility as defined in paragraph G.3.6 that is unrated, the applicable risk weight is equal to the highest risk weight pursuant to MAS Notice 637 that would be assigned to any of the individual exposures in the underlying pool of exposures covered by the facility.

G.3.5 For any eligible liquidity facility as defined in paragraph G.3.6, the bank may apply a 20% CCF to the undrawn amount of the eligible liquidity facility if the facility

has an original maturity of one year or less, or a 50% CCF if the facility has an original maturity of more than one year. However, if the risk-weight of the eligible liquidity facility is less than 100%, as determined in paragraph G.3.4, a 100% CCF shall be applied.

G.3.6 A Reporting Bank may treat an off-balance sheet securitisation exposure as an eligible liquidity facility if—

- (a) the facility documentation clearly identifies the nature, purpose and extent of any undertaking or commitment provided to the SPE, which shall be consistent with smoothing the timing differences faced by the SPE between the receipt of cash flows connected with the underlying pool of exposures and the payments to be made to investors in the securitisation;
- (b) the facility shall be limited to a specified amount and duration, unless the bank is able to withdraw, at its absolute discretion, the facility at any time with a reasonable period of notice;
- (c) the facility is documented in a way which clearly separates it from any other facility provided by the Reporting Bank;
- (d) the facility documentation shall clearly identify and limit the circumstances under which it may be drawn.
- (e) any draws made under the facility shall be for the SPE and not for direct payments investors, and be limited to the amount that is likely to be repaid fully from the liquidation of the underlying exposures and any seller-provided credit enhancements.
- (f) the facility shall not cover any losses incurred in the underlying pool of exposures prior to a draw, or be structured such that draw-down is certain (as indicated by regular or continuous draws or continuous revolving funding);
- (g) the facility shall be subject to an asset quality test that precludes it from being drawn to cover credit risk exposures that are classified substandard or worse pursuant to MAS Notice 612;
- (h) if the exposures that a liquidity facility is required to fund are externally rated securities, the facility shall only be used to fund securities that are externally rated investment grade at the time of funding;
- (i) the facility shall not be drawn after all applicable (e.g. transaction-specific and programme-wide) credit enhancements from which the liquidity would benefit have been exhausted;
- (j) if the facility is provided to an ABCP programme, repayment of draws on the facility shall not be subordinated to any interests of any note holder in the programme or subject to deferral or waiver;

- (k) if the facility is provided to a traditional or synthetic securitisation, repayment of draws on the facility shall rank at least pari passu with any of investment grade tranche in all respects; and
- (l) 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 exposures in the underlying pool of exposures of the SPE are investment-grade or rated F3/P-3/A-3 or above and the facility documentation expressly provides that the Reporting Bank may reduce (and ultimately withdraw) its funding if the quality of the exposures is no longer investment-grade or F3/P-3/A-3 or above.

## **Appendix 2 - Draft Text of Consequential Amendments to MAS Notice 637**

1 Paragraph 12 of MAS Notice 637 (“the Notice”) is amended by inserting immediately after sub-paragraph (c), the following sub-paragraph:

“(ca) any increase in disclosed reserves resulting from a securitisation;<sup>8</sup>”.

2 Paragraph 18(h) of the Notice is deleted and substituted with the following paragraph :

“(h) any amount that is to be included in Deductions from Total Capital pursuant to MAS Notice 628”.

3 Paragraph 20 of the Notice is amended by inserting immediately after sub-paragraph (c), the following sub-paragraphs:

“(d) unless exempted by virtue of having complied with the relevant requirements in MAS Notice 628, the underlying pool of exposures in any securitisation in which the Reporting Bank (i) acts as an ABCP programme sponsor, manager, originator or servicer; or (ii) provides a liquidity facility or credit enhancement; and

(e) the underlying pool of exposures in any securitisation to which the Reporting Bank has provided implicit support, as defined in MAS Notice 628,

net of any funded credit protection recognised under MAS Notice 627.”.

4 Paragraph 21 of the Notice is amended by inserting immediately after the words “Schedule II of Annex 4”, the following words:

“unless (a) the Reporting Bank, as Protection Buyer, is permitted to replace the risk weight of the exposure with that of a Protection Seller pursuant to MAS Notice 627 or MAS Notice 628; or (b), the exposure is a securitisation exposure as defined in MAS Notice 628, in which case the Reporting Bank shall use the risk weights and if applicable, the CCFs, set out in MAS Notice 628”.

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<sup>8</sup> E.g., such as that associated with expected future margin income (FMI) resulting in a gain-on-sale that is recognised in equity capital. Such an increase in capital is referred to as a “gain-on-sale” for the purposes of the securitisation framework.



Monetary Authority of Singapore