

CONSULTATION PAPER

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MAS Notice 640 - Minimum Asset Maintenance Requirements For Foreign Banks

MAS

Monetary Authority of Singapore

PREFACE

To enhance the protection for Singapore depositors, MAS is introducing an asset maintenance regime that requires foreign bank branches to maintain a minimum level of eligible assets in Singapore in proportion to their liabilities. An asset maintenance requirement is necessary as the resolution of cross-border bank insolvencies is often complex and drawn-out, and there is usually uncertainty concerning the amount and speed of any recovery. MAS had earlier consulted the industry on the policies before developing the detailed requirements in the proposed MAS Notice 640. In finalising the Notice, MAS will also consider comments received during the recent consultation on the draft Banking (Amendment) Bill 2006, which included the proposed changes to section 40 of the Banking Act, pursuant to which MAS Notice 640 will be issued.

2 MAS invites interested parties to forward their views and comments on the draft MAS Notice 640. Electronic submission is encouraged. Please submit your written comments by 13 October 2006 to:

Prudential Policy Department
Monetary Authority of Singapore
10 Shenton Way
MAS Building
Singapore 079117

Fax: 62203973
Email: policy@mas.gov.sg

3 Please note that all submissions received may be made public unless confidentiality is specifically requested for whole or part of the submission.

MAS 640

[date]

NOTICE TO BANKS
BANKING ACT, CAP 19

Minimum Asset Maintenance Requirements

1 This Notice is issued pursuant to section 40(1) of the Banking Act (Cap. 19) [the “Act”] and applies to all foreign banks.

Definitions

2 For the purposes of this Notice—

“Accounting Standards” has the same meaning as in section 4(1) of the Companies Act (Cap. 50);

“associated company” has the same meaning as the term “associate” defined in the Accounting Standards;

“banking corporation” means—

(a) any bank licensed by the Authority under the Act; or

(b) any entity licensed, registered, approved or otherwise regulated as a bank in the country of establishment;

“bill of exchange” has the same meaning as in section 3 of the Bills of Exchange Act (Cap. 23);

“classified”, in relation to a credit facility or a debt security, means any credit facility or debt facility, as the case may be, which has been categorised by a bank as “substandard”, “doubtful” or “loss” pursuant to any notice in writing issued by the Authority under any written law;

“company” and “corporation” have the same respective meanings as in section 4(1) of the Companies Act (Cap. 50);

“counterparty related to the bank” includes any holding company, subsidiary or associated company of the bank, and any subsidiary or associated company of any holding company of the bank;

“debt security” includes any debenture, bond or note;

“eligible asset” means any of the assets listed in Annex 1 which may be included by a bank in Singapore for the purposes of the asset maintenance requirements under paragraphs 3, 4 and 5;

“foreign bank” means any foreign full bank, foreign offshore bank or foreign wholesale bank;

“foreign full bank” means a bank which is –

- (a) incorporated in a jurisdiction other than Singapore;
- (b) operating branches or offices located within Singapore; and
- (c) holding a licence granted by the Authority under the Act which permits the bank to carry on the full range of banking business;

“foreign offshore bank” means a bank which is –

- (a) incorporated in a jurisdiction other than Singapore;
- (b) operating branches or offices located within Singapore; and
- (c) holding a licence granted by the Authority under the Act which categorises the bank as an offshore bank and entitles it to carry on a limited range of banking business;

“foreign wholesale bank” means a bank which is –

- (a) incorporated in a jurisdiction other than Singapore;
- (b) operating branches or offices located within Singapore; and
- (c) holding a licence granted by the Authority under the Act which categorises the bank as a wholesale bank and entitles it to carry on a limited range of banking business;

“holding company” and “subsidiary” have the same respective meanings as in section 5 of the Companies Act (Cap. 50);

“housing loan” means a credit facility granted to an individual for the purchase of residential property where the credit facility is secured on that property¹;

“investment grade” means any of the following credit ratings issued by the respective credit rating agencies:

- (a) BBB-minus or better by Fitch, Inc.;

¹ Includes refinancing.

(b) Baa or better by Moody's Investor Services;

(c) BBB-minus or better by Standard and Poor's Corporation;

"merchant bank" means a merchant bank approved under section 28 of the Monetary Authority of Singapore Act (Cap. 186);

"minimum cash balances" means the minimum cash balances maintained on deposit with the Authority by a bank as reserves against its deposit and other liabilities under section 39 of the Act;

"minimum liquid assets" means the minimum amount or amounts of liquid assets held by a bank under section 38 of the Act;

"resident in Singapore" has the same meaning as in Appendix 1 to MAS Notice 610.

"Scheme member" has the same meaning as in section 2 of the Deposit Insurance Act 2005;

"share" has the same meaning as in section 4(1) of the Companies Act (Cap. 50);

"Singapore Government Securities" means any debt securities issued by the Government under any written law.

Asset Maintenance Requirement for Foreign Banks

3 All foreign offshore banks shall maintain eligible assets of not less than \$5 million in Singapore at all times.

4 All foreign full banks shall maintain in Singapore at all times –

(a) an asset maintenance ratio of not less than 0.35 as determined in accordance with paragraph 6; or

(b) eligible assets of \$5 million,

whichever will result in a higher amount of eligible assets in Singapore.

5 All foreign wholesale banks shall maintain in Singapore at all times –

(a) an asset maintenance ratio of not less than 0.15 as determined in accordance with paragraph 6; or

(b) eligible assets of \$5 million,

whichever will result in a higher amount of eligible assets in Singapore.

Computation of Eligible Assets

6 For the purposes of paragraphs 3, 4(b) and 5(b), the eligible assets shall be calculated in accordance with the following formula:

$$\text{Value of eligible assets, } V = \sum [A \times B]$$

Where A is the value of any eligible asset which –

- (a) is reflected as an asset in the financial statements of the foreign bank in relation to its operations in Singapore;
- (b) is free from any prior encumbrances;
- (c) does not arise or result from any contractual or other arrangements with or investments in a counterparty related to the bank; and
- (d) is not used to meet any requirements in relation to minimum liquid assets or minimum cash balances; and

B is the percentage applicable to a particular eligible asset specified in the second column of Annex 1.

Computation of Asset Maintenance Ratio

7 For the purposes of paragraphs 4(a) and 5(a), the asset maintenance ratio for a financial year beginning 1 April to the following year 31 March, shall be calculated in accordance with the following formula:

$$\text{Asset maintenance ratio} = \frac{V}{C}$$

Where V is the value of eligible assets calculated under paragraph 6; and

C is the liabilities of the bank, which shall comprise the aggregate amount of –

- (a) all deposit liabilities (including accrued interests) incurred by the bank with non-bank customer, other than deposit liabilities incurred by the bank with non-bank customer when operating an Asian Currency Unit approved under section 77 of the Act, computed on a gross basis as at 31st December of the preceding year or in the case where a foreign bank is licensed by the Authority during the course of a financial year, as at the date on which the foreign bank commences banking business; and
- (b) such other liabilities that the Authority considers appropriate from time to time.

8 For the purposes of paragraph 6, an eligible asset shall be valued at its carrying value.

9 Subject to paragraph 6, where the foreign full bank is a Scheme member, assets (including eligible pledged assets as defined under the Deposit Insurance Regulations 2006) maintained under regulation 5 of those Regulations may be used to meet the asset maintenance requirements under paragraph 4.

Submission of Quarterly Reports

10 All foreign banks are required to submit to the Authority a report in the format provided at Annex 2 of this Notice, not later than 15 days from 31st March, 30th June, 30th September and 31st December.

Effective Date

11 This Notice shall take effect from [6 months from effective date of BA amendment].

Annex 1

ELIGIBLE ASSETS

	<i>First column</i>	<i>Second column</i>
	<i>Type of Asset</i>	<i>Percentage</i>
1	Any note or coin kept in Singapore	85%
2	Any deposit placed with the Authority, after deducting any moneys due to the Authority ²	85%
3	Any Singapore Government Securities ³	85%
4(a)	Any debt security — (i) which is issued by a statutory board in Singapore; (ii) which is denominated in Singapore dollars; (iii) that has its certificate kept in Singapore in the case of securities transferable by delivery, or that has its register kept in Singapore in the case of securities transferable by registration; (iv) not held through a clearing and depository system, custodian or any intermediary incorporated outside Singapore; and (v) guaranteed by the Government	85%
4(b)	Any debt security — (i) which is issued by a statutory board in Singapore; (ii) which is denominated in Singapore dollars; (iii) that has its certificate kept in Singapore in the case of securities transferable by delivery, or that has its register kept in Singapore in the case of securities transferable by registration; (iv) not held through a clearing and depository system, custodian or any intermediary incorporated outside Singapore; and (v) not guaranteed by the Government	80%
5(a)	Any debt security — (i) which is issued by a company resident in Singapore (other than a banking corporation or a merchant bank); (ii) which is denominated in Singapore dollars; (iii) which is not classified; (iv) that has its certificate kept in Singapore in the case of	75%

² For reverse repurchase agreements, banks may only recognise as eligible assets, the SGS held by the bank under such agreements, and not the corresponding amount due from MAS.

³ Excluding those held under repurchase agreements or pledged to third parties.

	securities transferable by delivery, or that has its register kept in Singapore in the case of securities transferable by registration;	
	(v) not held through a clearing and depository system, custodian or any intermediary incorporated outside Singapore; and	
	(vi) which has a rating of investment grade	
5(b)	Any debt security —	60%
	(i) which is issued by a company resident in Singapore (other than a banking corporation or a merchant bank);	
	(ii) which is denominated in Singapore dollars;	
	(iii) which is not classified;	
	(iv) that has its certificate kept in Singapore in the case of securities transferable by delivery, or that has its register kept in Singapore in the case of securities transferable by registration;	
	(v) not held through a clearing and depository system, custodian or any intermediary incorporated outside Singapore; and	
	(vi) which is below investment grade or is unrated	
6	Any share listed on a securities exchange and issued by a company (other than a banking corporation or a merchant bank) where—	55%
	(a) in the case of a company incorporated outside Singapore:	
	(i) the shares are transferable by delivery;	
	(ii) the share certificates are kept in Singapore; and	
	(iii) the shares are not held through a clearing and depository system, custodian or any intermediary incorporated outside Singapore;	
	(b) in the case of a company incorporated in Singapore, the shares are not held through a clearing and depository system, custodian or any intermediary incorporated outside Singapore	
7(a)	Any outstanding amount due to the bank under a housing loan granted to an individual resident in Singapore which is denominated in Singapore dollars and not classified	85%
7(b)	Any outstanding amount due to the bank under a credit facility (other than a housing loan under item 7(a)) granted to an individual or company (other than a banking corporation or a merchant bank), where:	70%
	(i) the borrower is resident in Singapore;	
	(ii) the debt is denominated in Singapore dollars; and	
	(iii) the debt is not classified.	
8	Any bill of exchange accepted by an individual or a company (other than a banking corporation or a merchant bank)	60%

resident in Singapore, which—

- (a) is denominated in Singapore dollars;
- (b) is not classified;
- (c) is kept in Singapore; and
- (d) fulfills the conditions in Appendix IV to MAS Notice 613.

- | | | |
|---|--|-----|
| 9 | Any interest in or right over immovable property in Singapore, including any interest in or right over immovable property or any part thereof used for the purpose of conducting the business of the bank or housing or providing amenities for its officers | 60% |
|---|--|-----|

THE MONETARY AUTHORITY OF SINGAPORE
THE BANKING ACT, CAP. 19 (Section 40)

Asset Maintenance Requirement Quarterly Return
(Name of Bank)
as at close of business on (month/year)

Part I: Eligible Assets

Singapore Dollars '000

Asset Category	Eligible Assets			Eligible Pledged Assets			Adjusted Value of Eligible/ Pledged Assets (vii)=(iii)+(vi)
	Asset Value (i)	Adjustment Factor (ii)	Adjusted Value (iii)=(i)x(ii)	Asset Value (iv)	Adjustment Factor (v)	Adjusted Value (vi)=(iv)x(v)	
1 Notes and coins	<input type="text"/>	85%	<input type="text"/>	<input type="text"/>	100%	<input type="text"/>	<input type="text"/>
2 Amounts due from MAS (net)	<input type="text"/>	85%	<input type="text"/>	<input type="text"/>	100%	<input type="text"/>	<input type="text"/>
3 Singapore Government Securities	<input type="text"/>	85%	<input type="text"/>	<input type="text"/>	100%	<input type="text"/>	<input type="text"/>
4 Debt securities issued by a statutory board in Singapore							
(a) guaranteed by the Government	<input type="text"/>	85%	<input type="text"/>	<input type="text"/>	100%	<input type="text"/>	<input type="text"/>
(b) Not guaranteed by the Government	<input type="text"/>	80%	<input type="text"/>	<input type="text"/>	95%	<input type="text"/>	<input type="text"/>
5 Debt securities issued by a company resident in Singapore							
(a) Investment grade	<input type="text"/>	75%	<input type="text"/>	<input type="text"/>	90%	<input type="text"/>	<input type="text"/>
(b) Below investment grade or unrated	<input type="text"/>	60%	<input type="text"/>				<input type="text"/>
6 Shares issued by companies							
(a) Incorporated in Singapore	<input type="text"/>	55%	<input type="text"/>	<input type="text"/>	70%	<input type="text"/>	<input type="text"/>
(b) Incorporated outside Singapore	<input type="text"/>	55%	<input type="text"/>	<input type="text"/>	55%	<input type="text"/>	<input type="text"/>
7 Outstanding amount of credit facilities granted							
(a) Housing loans to individuals	<input type="text"/>	85%	<input type="text"/>				<input type="text"/>
(b) Other loans	<input type="text"/>	70%	<input type="text"/>				<input type="text"/>
8 Bills of exchange	<input type="text"/>	60%	<input type="text"/>				<input type="text"/>
9 Immovable property in Singapore	<input type="text"/>	60%	<input type="text"/>				<input type="text"/>
Total Adjusted Value of Eligible / Pledged Assets			<input type="text"/>			<input type="text"/>	<input type="text"/>

Part II: Asset Maintenance Ratio

Singapore Dollars '000

Item	
1 Non-Bank Deposits in the DBU	
(a) Liabilities	<input type="text"/>
(b) Total adjusted value of eligible / pledged assets used	<input type="text"/>
(c) Asset maintenance ratio $[(b)/(a)]$	<input type="text"/>
2 Other liabilities specified by MAS (where applicable)	
(a) Liabilities	<input type="text"/>
(b) Total adjusted value of eligible / pledged assets used	<input type="text"/>
(c) Asset maintenance ratio $[(b)/(a)]$	<input type="text"/>
* 1(b) + 2(b) equals Total Adjusted Value of Eligible/Pledged Assets in Part I.	



Monetary Authority of Singapore