

February 2008

Response to Feedback - Consultation on MAS Notice 613 and MAS Notice 758

MAS

Monetary Authority of Singapore

RESPONSE TO FEEDBACK RECEIVED

- CONSULTATION PAPER ON MAS NOTICE 613 AND MAS NOTICE 758

1 INTRODUCTION

1.1 MAS published a consultation paper in 2006 to seek comments on the proposed policy changes to the Liquidity Risk Supervision Framework. Subsequently, draft MAS Notices 613 and 758 were put out for further consultation in October 2007.

1.2 MAS thanks all respondents for their contributions. We have reviewed the comments received, and where appropriate, incorporated them into the revised Notices. Comments of common interest and our responses to them are highlighted in this document.

2 DEFINITION OF QUALIFYING LIABILITIES

2.1 A number of respondents sought clarification on the components of qualifying liabilities, such as whether accrued interest, non-principal protected notes, etc, had to be included in the computation.

MAS' Response

2.2 Where banks are expected to provide SGD funds to meet outflows arising from their liabilities, including accrued interest and non-principal protected notes, the liability items should be included in the computation of qualifying liabilities.

3 TREATMENT OF SGD LENDING TO MAS

3.1 A respondent asked if net SGD lending to MAS maturing within a month can be offset against qualifying liabilities.

MAS' Response

3.2 MAS has considered the feedback and agrees that net SGD lending to MAS maturing within a month can be offset against qualifying liabilities.

4 UNDRAWN COMMITMENTS

4.1 Some respondents enquired if certain items such as performance guarantees and underwriting commitments should be included in the computation of undrawn commitments. A question was also raised on the treatment of undrawn multi-currency facilities.

MAS' Response

4.2 Only commitments which a bank has the unconditional right to refuse drawdown can be excluded from the computation of undrawn commitments. For undrawn multi-currency facilities where SGD is one of the component currencies, the bank is required to include the entire facility amount as its undrawn commitment for the computation of qualifying liabilities. However, if there is a sub-limit for SGD in the facility, the bank may use the sub-limit amount for the computation.

5 ELIGIBLE LIQUID ASSETS

5.1 There were some clarifications sought on whether the following securities can be considered as liquid assets:

(a) SGD debt securities issued by non-bank financial institutions in and outside Singapore;

(b) SGD debt securities where the outstanding issue size subsequently falls below the minimum requirement of SGD200m; and

(c) SGD debt securities held by the bank under repurchase agreements.

5.2 Respondents also asked about the following:

(d) where a bank holds more than 20% of a debt security, whether the 50% haircut is to be applied to the entire holding of that debt security or only the amount held in excess of 20%; and

(e) the frequency of mark-to-market valuation for these debt securities.

MAS' Response

5.3 (a) SGD debt securities issued by non-bank financial institutions in and outside Singapore can be included as eligible liquid assets as long as they satisfy the specified criteria.

(b) Banks are to ensure that the outstanding issue size of the SGD debt securities held as eligible liquid assets is at least SGD200m. When the outstanding issue size of a debt security falls below SGD200m, it will no longer qualify.

(c) Debt securities held by a bank under repurchase agreement can be considered as eligible liquid assets.

(d) Where a bank holds more than 20% of a particular debt security as its eligible liquid asset, the 50% haircut applies to the entire holding.

(e) For banks in the bank-specific and bank-general frameworks, valuation of the liquid assets shall be marked-to-market daily based on the value as at computation day. For banks in the bank-basic framework, the valuation shall be performed fortnightly using the price as at the Tuesday immediately preceding the maintenance period.

6 USE OF MINIMUM LIQUID ASSETS (MLA)

6.1 A bank enquired if the use of MLA by a particular bank will be announced by MAS.

MAS' Response

6.2 Generally, the use of MLA by a bank will not be announced, although we do not preclude the possibility of a public announcement under certain circumstances.

7 EXPANSION OF ELIGIBLE LIQUID ASSETS

7.1 A number of respondents asked for additional assets to be considered as eligible liquid assets in addition to corporate debt securities, such as credit-linked notes, convertible debt securities, structured notes, CDOs and ABS.

MAS' Response

7.2 MAS has considered the feedback and may include other securities where appropriate in the future.

8 REPORTING REQUIREMENTS

8.1 MAS currently collects, amongst other reports, "Maturity Analysis of SGD Cashflows" and "Daily SGD Cashflow Analysis (for next 30 days)". New reporting requirements specify that banks are to submit these two reports for the two most significant currencies, on top of the SGD reports. Several respondents enquired about the basis of the "two most significant foreign currencies".

MAS' Response

8.2 The information on the two most significant foreign currencies should include cashflows booked in both the ACU and DBU. The basis to determine the two currencies will be the total amount of liabilities denominated in the currency. The two currencies can change over time depending on a bank's exposure. Where there are changes, the bank should inform MAS.

9 IMPLEMENTATION

9.1 Several respondents enquired about the implementation timeline of the new Notices. Clarifications were also sought on the administration of the three frameworks.

MAS' Response

9.2 The Notices will take effect on 31 July 2008. Banks have to comply with this Notice with effect from 28 August 2008. Banks currently in the bank-specific framework will remain in the new bank-specific framework. The new caps will be communicated to these banks before the Notices take effect. Any bank wishing to opt in to the bank-basic framework has to apply to MAS within 2 months from the date of the issuance of the Notices. All other banks will be on the bank-general framework.



Monetary Authority of Singapore