

RESPONSE TO FEEDBACK RECEIVED – CONSULTATION ON PROPOSALS FOR THE IMPLEMENTATION OF BASEL II IN SINGAPORE – PHASE 6

1 Introduction

1.1 In September 2007, MAS invited Singapore-incorporated banks (“Reporting Banks”) and interested parties to comment on the complete set of draft rules and guidance relating to the implementation of Basel II in Singapore.

1.2 We thank all respondents for their comments. MAS has considered carefully the feedback received, and will incorporate them into the rules and guidance where it has agreed with the feedback. Comments that are of wider interest, together with MAS’ responses are set out below.

2 Computation of Required IRB Threshold

2.1 One respondent asked whether the RWA for PE/VC investments could be excluded from the computation of the required IRB threshold.

MAS’ Response

2.2 A Reporting Bank shall include the RWA for PE/VC investments in the denominator in its computation of the IRB threshold. This is consistent with MAS’ treatment of other assets that cannot transition to IRBA, such as fixed assets.

3 Eligible Financial Collateral

3.1 One respondent proposed that units in a collective investment scheme that are 100% guaranteed by an eligible protection provider should be included in the list of eligible financial collateral.

MAS' Response

3.2 MAS agrees with the proposal. The final rules will include as eligible financial collateral, structured notes and units in a collective investment scheme that are 100% guaranteed by an eligible protection provider with a credit quality grade of "4" or better as set out in Table 7R-1 of Annex 7R of Part VII, where such protection provider is a central government or central bank. Where the protection provider is any other entity, it would be required to have a credit quality grade of "3" or better as set out in Table 7R-1 of Annex 7R of Part VII.

4 Standard Supervisory Haircuts

4.1 One respondent sought clarification on the haircuts that are applicable to instruments in the trading book that are recognised as eligible financial collateral for pre-settlement counterparty exposures arising from SFTs included in the trading book.

MAS' Response

4.2 A Reporting Bank shall use the haircuts that have been prescribed for specific instruments in its recognition of eligible financial collateral for pre-settlement counterparty exposures arising from SFTs included in the trading book. Where no specific haircut has been prescribed, a 25% haircut will apply.

5 New Product Approvals and Post-Implementation Reviews in a Reporting Bank using the IMA

5.1 With respect to paragraphs 8.3.42 and 8.3.45 of the draft Notice, one respondent sought clarification on whether the business unit can be the party to coordinate new product approval processes and perform post-implementation reviews.

MAS' Response

5.2 We have no objection to the business unit coordinating new product approval processes and post-implementation reviews. Nevertheless, MAS expects a functional unit independent of both the market risk-taking units and the business unit to bear overall responsibility for ensuring that the new product approval process or post-implementation review for each application is completed in a proper and timely manner.

6 Interest Rate Risk - Specific Risk Capital Requirement

6.1 For the determination of securities within the “qualifying” category, one respondent sought clarification on the appropriate treatment in the case where there are two or more external credit assessments.

MAS' Response

6.2 The principles applicable in the use of the external credit assessments under the credit risk rules should apply. Specifically, where a security has two external credit assessments which map into different credit quality grades, the credit quality grade associated with the higher risk weight should apply. Where a security has three or more external credit assessments which map into two or more credit quality grades, the credit quality grade associated with the higher of the two lowest risk weights should apply.

7 Qualifying Equity Indices

7.1 Some respondents proposed that certain additional equity indices be included within the list of qualifying equity indices.

MAS' Response

7.2 After considering the feedback received, the following additional equity indices would be included into the list of qualifying equity indices:

- (a) MSCI Taiwan Index;
- (b) Straits Times Index; and
- (c) Hang Seng China Enterprise Index.

8 Transitional Arrangements – Capital Floors

8.1 For the purposes of calculating the capital floors, one respondent sought confirmation that Reporting Banks would be allowed to use either the rules in MAS 637 in force immediately before 1 Jan 2008 or the Basel II rules with SA(CR) for its credit risk capital requirement.

MAS' Response

8.2 MAS confirms that for the purposes of calculating the capital floors referred to in Part V, a Reporting Bank would be allowed to use either the rules in MAS 637 in force immediately before 1 Jan 2008 or the Basel II rules with SA(CR) for its credit risk capital requirement, provided that MAS has not prescribed otherwise for that Reporting Bank.

Monetary Authority of Singapore
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