

CONSULTATION PAPER

P006 - 2009

June 2009

Proposed Amendments to MAS Notice 639

MAS

Monetary Authority of Singapore

PREFACE

MAS Notice 639 (“the Notice”) limits exposures of a bank in Singapore to any counterparty or group of related counterparties to 25% of the bank’s regulatory capital. In computing its exposures, a bank may also recognise the effect of credit risk mitigation subject to operational requirements that closely follow those set out in MAS Notice 637.¹ MAS is proposing amendments to MAS Notice 639 based on feedback received, and to update the Notice.

2 For the purpose of complying with the 25% limit, a bank may disaggregate its exposures to entities that are under common control where it is established that these entities are financially independent based on a set of objective criteria set out in the Notice. One criteria required that the entity to be disaggregated is not depended on by any another entity in the group, for more than 50% of the latter entity’s operating revenue. However, this would also mean that where an investee company is held indirectly by the parent company through an intermediate holding company, the investee company cannot be disaggregated from the rest of the group as the intermediate holding company typically derived its revenue solely from dividend upstreamed by the investee company. On the other hand, if the investee company was held directly by the parent company, it could have satisfied the revenue criteria for disaggregation as the parent company may not be reliant on any single investee company for its revenue. We considered that the intermediate holding company, which is commonly set up for the purpose of investment holding, does not make the investee company and the parent company any more financially dependent on one another, and that it would be appropriate to allow a bank to look through the intermediate holding company when applying the revenue test. This would be clarified in the Notice.

3 MAS will update relevant sections of the Notice that make reference to similar provisions in MAS Notice 637 which has been revised to align with Basel rules. They do not introduce new requirements but reflect mainly refinements to the conditions and operational requirements for recognising certain credit risk mitigation techniques such as bilateral netting and substitution of exposures through credit derivatives.

¹ Notice on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore (last revised on 3 July 2008).

4 MAS invites interested parties to forward their comments and views on the proposals made in this paper and draft amendments to MAS Notice 639, which are appended at Annex 1. Electronic submission is encouraged. Please submit your written comments by 3 July 2009 to:

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

Fax: 6220 3973
Email: policy@mas.gov.sg

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

MAS Notice 639 (Amendment) 2009

[date]

NOTICE TO BANKS
BANKING ACT, CAP 19

NOTICE ON EXPOSURES TO SINGLE COUNTERPARTY GROUPS

1. This Notice is issued pursuant to section 55 of the Banking Act (Cap. 19) ["the Act"] and amends MAS Notice 639 ("the Notice").
2. MAS Notice 639 dated 6 June 2007 is hereby amended:
 - (a) by inserting, immediately before the words "**public sector entities**" in paragraph 3, the words "**PSE**" or";
 - (b) by inserting, immediately after the words "31st March, 30th June, 30th September and 31st December," in paragraph 12, the words "or such other period as the Authority may approve,";
 - (c) by deleting footnote 9;
 - (d) by inserting, immediately after the words "the bank may only exclude such an unsecured credit facility", in paragraph 15, the words "to its subsidiary";
 - (e) by deleting the number "638" in paragraph 21 and substituting the number "637";
 - (f) by deleting the words "paragraph 7 of MAS Notice 638" in footnote 13 and substituting the words "section 6 of Annex 7N to MAS Notice 637";
 - (g) by inserting immediately after paragraph 43, the following paragraph: "

44. Notwithstanding paragraph 42, a bank need only commence furnishing the relevant reports required under paragraphs 12 and 17, for the quarter ending 30 June 2009."

3. Appendix 1 of MAS 639, entitled "Exempt Exposures", is hereby amended--

- (a) by inserting immediately after the words "multilateral development banks" in paragraph (e), the words " (**"MDBs"**)";
- (b) by inserting immediately after sub-paragraph (viii) of paragraph (e) the following sub-paragraph:

"(viiiia) the International Finance Facility for Immunisation;"

4. Appendix 2 of MAS 639, entitled "Criteria for Disaggregating Exposures to Financially Independent Entities in a Third Party Single Counterparty Group or Substantial Shareholder Group" is hereby amended—

- (a) by inserting the following footnote after the words "operating revenues" at paragraph 1(~~A~~):

^{20A} Where the entity or sub-group of entities is held by one or more intermediate holding companies (an intermediate holding company being a company which primary purpose is to own or hold shares in other companies), this criteria need not be satisfied for the purposes of determining whether the entity or sub-group of entities may be disaggregated from the intermediate holding company or companies, as the case may be."

5. Appendix 4 of MAS 639, entitled "Conditions Applicable to a Bank Incorporated Outside Singapore for Netting Arrangements", is hereby amended—

- (a) by inserting, immediately after the words "on a gross basis under this Notice." in Paragraph 3.8, the words "All other transactions under the same netting agreement may be reported on a net basis.";

- (b) by inserting, immediately after the words "if required" in paragraph 4.2(c), the words "by the Authority".

6. Appendix 6B of MAS 639, entitled "Requirements for Recognition of Credit Derivatives" is hereby amended by deleting sub-paragraph (n) of paragraph 1 and substituting the following sub-paragraph:

"(n) the underlying obligation and the reference obligation specified in the credit derivative contract for the purpose of determining the cash settlement value or the deliverable obligation or for the purpose of determining whether a credit event has occurred may be different only if:-

- (i) the reference obligation ranks *pari passu* with or is junior to the underlying obligation; and
- (ii) the underlying obligation and reference obligation share the same obligor (i.e. the same legal entity) and legally enforceable cross-default or cross-acceleration clauses are in place; and".

7. Appendix 7 of MAS 639, entitled "Applicable Haircut for Maturity Mismatch between a Purchased Credit Derivative and the Underlying Exposure" is hereby amended --

- (a) by inserting, immediately after the words "value of the credit protection" in the definition of "P", the words "adjusted for any haircuts";
- (b) by inserting, immediately after the words "residual maturity of the exposure" in the definition of "T", the footnote number "37";
- (c) by inserting, immediately after footnote 36 the following footnote:
"37. In the case of a basket of exposures with different maturities, a bank shall use the longest maturity of any of the exposures as the maturity of all the exposures being hedged."



Monetary Authority of Singapore