



RESPONSE TO FEEDBACK RECEIVED – CONSULTATION PAPER ON REGULATORY FRAMEWORK FOR FINANCIAL HOLDING COMPANIES

1 Introduction

1.1 In February 2012, the Monetary Authority of Singapore (“MAS”) conducted a public consultation on the Regulatory Framework for Financial Holding Companies (“FHCs”).

1.2 A total of 14 respondents have submitted their feedback¹. MAS has considered carefully the feedback received and comments that are of wider interest, together with our responses, are set out below. We would like to thank all respondents for their comments.

2 Designation of FHCs for Regulation

Rationale for the Regulation of FHCs

2.1 A number of respondents sought clarification on the rationale for regulating a non-operating FHC, whose primary activity is limited to the ownership of shares in their subsidiaries.

MAS’ Response

2.2 A financial group may include the FHC and other subsidiaries in addition to the Singapore-incorporated bank or insurance subsidiary. The FHC regulatory framework aims to complement existing sectoral regulations to strengthen group-wide supervision of financial groups. This is in line with international regulatory standards as explained in the *Introduction* to the consultation paper.

2.3 As the controlling shareholder of the financial subsidiaries, the FHC is in a position to control the policy and direction of the group, even if it may elect not to exercise that control at a specific instance. Further, the FHC may hold non-regulated entities that may affect the risk profiles of the group and regulated subsidiaries. Including the FHC and these entities within the scope of group-wide supervision will strengthen prudential oversight of the financial group.

¹ The respondents are listed in the Annex.

Designation Conditions and the Definition of “Significance”

2.4 One respondent asked if the conditions set out in the consultation paper for the designation of FHCs are exhaustive. A number of respondents also sought clarification on how MAS intended to define “significant to the Singapore financial system” and “significant to the intermediate group” for the purpose of designating intermediate FHCs. Another respondent asked if the criterion of “significance to the Singapore financial system” was applicable to only foreign intermediate FHCs or to all FHCs.

MAS’ Response

2.5 The designation conditions set out in the consultation paper will be relevant to the majority of FHC groups. There may be FHC groups whose business profiles, organisational structures or home jurisdictions entail other pertinent considerations. We will assess the merits of designation for each FHC.

2.6 MAS will develop relevant measures for “significance” for its internal reference and benchmarking. The measures will be based on objective criteria, including market share in Singapore, substitutability of products and services offered in Singapore, and the size of Singapore operations both in absolute terms and relative to the group.

2.7 The designation criterion of being “significant to the Singapore financial system” will apply to all *intermediate* FHCs incorporated in Singapore.

Foreign-incorporated FHCs

2.8 One respondent asked if foreign-incorporated FHCs will be designated under the FHC Act.

MAS’ Response

2.9 Only FHCs that are incorporated in Singapore and hold either Singapore-incorporated bank or insurance subsidiary or both will be designated. These include Singapore-incorporated FHCs which are foreign owned and are part of an international financial group.

Information Requirements on Non-designated FHCs

2.10 A number of respondents sought clarification on the type of information that non-designated FHCs will be required to submit to MAS.

MAS' Response

2.11 MAS may require information that include (but will not be limited to) group financial statements, group structure and governance arrangements. The information may be requested on a regular or supervisory basis as appropriate.

3 Scope of Application of FHC Regulations

3.1 All subsidiaries of the FHC will be included within the scope of FHC group regulation. Some respondents asked if there were other entities that would be included within the regulatory scope. Insurer respondents asked if the scope of application of FHC regulations should be aligned to that of insurance group-wide supervision.

MAS' Response

3.2 The scope of FHC group regulation will comprise, at a minimum, the consolidated group according to the Singapore Accounting Standards. This includes subsidiaries and joint ventures (which are subject to proportionate consolidation) of the FHC. Where it is appropriate for a prudential rule to have a different scope of application, this will be set out clearly in the regulation. Examples of prudential rules with a wider scope of application include restrictions on cyclical shareholdings and acquisition of major stakes as explained in the consultation paper.

3.3 The scope of application of FHC regulations for insurance groups will be aligned to that of the insurance group-wide supervision framework.

4 Ownership and Control

Cyclical Shareholdings Prohibition

4.1 One respondent asked whether cyclical shareholding arrangements between affiliated entities of the FHC, but not involving the FHC, are captured.

MAS' Response

4.2 Only cyclical shareholding arrangements involving either:

- (a) the FHC and its affiliated entities; or
- (b) affiliated entities that comprise a bank or insurance subsidiary in Singapore

will be restricted. Any cyclical shareholding arrangements involving the FHC and non-affiliated entities, or involving just affiliated entities other than a bank or insurance subsidiary in Singapore, are not captured by the rule.

5 Corporate Governance

Appointments Requiring MAS' Approval

5.1 Two respondents sought clarification on the key person appointments at the parent entity of insurance groups that require MAS' approval, and whether these differ for a parent entity that is an FHC and one that is an operating insurance entity in Singapore.

MAS' Response

5.2 Appointees to the following positions are subject to approval by MAS. A parent entity that is an operating insurance entity is also required to seek MAS' approval for its appointment of Appointed Actuary and Certifying Actuary as set out in the requirements prescribed under the Insurance Act.

Parent entity of a significant insurance group

- Chairman of the Board
- Directors
- Members of the Nominating Committee
- Chief Executive Officer
- Deputy Chief Executive Officer (if appointed)
- Chief Financial Officer
- Chief Risk Officer
- Appointed/Certifying Actuary (where parent entity is an insurance company)

Parent entity of a non-significant insurance group

- Chairman of the Board
- Directors
- Chief Executive Officer
- Deputy Chief Executive Officer (if appointed)
- Appointed/Certifying Actuary (where parent entity is an insurance company)

Scope of Application of the Disqualification Rule

5.3 One respondent sought clarification on the term "financially compromised" and whether this is defined according to criteria under the Bankruptcy Act. Another respondent asked if persons who have been issued Prohibition Orders under an Act administered by MAS should also be subject to the disqualification rule. In addition, a respondent also enquired if persons who have been a director or executive officer of an overseas financial institution, which is being or has been wound up by a court or the license of which has been revoked by the regulatory authority, should also be disqualified under Proposal 10(b)(iii) of the FHC consultation paper.

MAS' Response

5.4 MAS intends for “financially compromised” to also encompass situations leading up to bankruptcy defined under the Bankruptcy Act. This includes cases where the person is facing repayment difficulties with creditors.

5.5 Under the relevant provisions on issuance of Prohibition Orders under the Insurance Act, Financial Advisors Act and Securities and Futures Act, a person who is issued a Prohibition Order is also prohibited, whether permanently or for a specified period, from taking part, directly or indirectly, in the management of or acting as a director of a bank or insurer licensed or regulated by MAS. For clarity, a person who is under a Prohibition Order that is in-force will be disqualified from serving as **directors and executive officers** under the FHC Act.

5.6 In addition, the reference to “an MAS licensed entity” under Proposal 10(b)(iii) of the FHC consultation paper will be widened to any regulated financial institution, whether in Singapore or elsewhere. This ensures that all persons presenting similar fit and proper concerns will be consistently disqualified under the rule unless the FHC obtains MAS’ approval for such a person to act as its director or executive officer.

Compliance with the Disqualification Rule

5.7 A number of respondents cited the unavailability of criminal records in the public domain as a difficulty in complying with the rule and sought clarification on MAS’ expectations of the level of care and detail to be exercised by a financial institution (“FI”) in identifying employees with such records.

MAS' Response

5.8 An FI must exercise due diligence in the screening of its directors, executive officers and employees to ensure that the FI is appropriately staffed at all levels by fit and proper individuals. FIs will be required to obtain MAS’ approval to appoint persons under the disqualification criteria to director and executive officer positions. For all other employees who are not subject to the requirements under the Representative Notification Framework, the senior management of the FI is still expected to assess the risks and merits in each case of employment to determine if it will employ or retain the person with criminal conviction records, or if the person is or becomes financially compromised. The FI should be able to demonstrate to MAS that it has established and implemented processes to screen employees for adverse records at the point of recruitment, as well as on an on-going basis. These processes may include, for example, regular employee self-declarations and checks with external data providers where available.

6 Permitted Activities

Acquisition of “Major Stakes” and Subsequent Reductions in Stakes Held

6.1 On the requirement for the FHC to obtain MAS’ prior approval for acquiring or holding a major stake in another company, a number of respondents asked if MAS will consider excluding certain holdings, for example, those resulting from conversion features inherent in financial and investment instruments, such as warrants and options, held by the FHC. Two respondents asked if the requirement to notify MAS in advance of subsequent divestments or reductions in major stakes held applies to *all* reductions, however small.

MAS’ Response

6.2 An FHC may come to possess shareholdings in other companies arising from conversion features inherent in financial and investment instruments it holds, such as warrants and options. MAS will make provision for such shareholdings and interests to be excluded for the purposes of determining “major stakes” held by the FHC, on the condition that such holdings are disposed at the earliest suitable opportunity.

6.3 Divestments or reductions involving very small amounts or resulting from developments beyond the FHC’s control (for example, a dilution in stakes held in the company due to other shareholder actions) may not require prior notification. MAS will require notification where:

- (a) the reduction amounts to 10% of the total number of issued shares or voting power of the company; or
- (b) the reduction results in the FHC to no longer hold a “major stake” in the company.

Permitted Ancillary Support Services

6.4 Some respondents sought clarification on what MAS considers “ancillary support services” that FHCs will be permitted to undertake for its financial group.

MAS’ Response

6.5 MAS has reviewed the feedback received from the respondents on the ancillary support services typically undertaken by an FHC for its own group and the list of permitted services includes:

- Risk Management
- Capital Management
- Liquidity Management
- Information Technology and Data Management Services

- Human Resource Management
- Accounting Service

6.6 MAS will review the list periodically and add on further services as appropriate. FHCs undertaking activities that are not listed above shall obtain MAS' approval to engage in these activities.

Immovable Property

6.7 Insurer respondents sought clarification on the rationale for restricting the FHC of an insurance group from acquiring or holding immovable property, given that returns from a property portfolio was a good match for the long-tail liabilities of the insurance business.

MAS' Response

6.8 Property portfolio investments are permitted within the insurance subsidiaries. The FHC should, however, hold immovable property only for its group's own use and not engage in the business of property development or management.

7 Prudential Requirements

Paid-up Capital Requirement

7.1 Two respondents sought clarification on the rationale for requiring a minimum paid-up capital ("PUC") at the FHC.

MAS' Response

7.2 A minimum PUC is required for FHCs to demonstrate commitment to support the financial group. The FHC is permitted to use the PUC to subscribe for shares in (and thus provide paid-up capital for) its subsidiaries.

Capital Framework for FHC Groups where Insurance Business is Predominant

7.3 Some insurer respondents sought clarification on the approach to assess capital adequacy of FHC groups where insurance is predominant.

MAS' Response

7.4 In general, the insurance group capital framework will apply to FHC groups where insurance business is predominant. MAS may, however, direct FHC groups where insurance business is predominant to apply the Modular Approach

set out under Proposal 23 of the FHC consultation paper on a case-by-case basis.

Prudential Limits for Insurance Sector

7.5 A number of insurer respondents expressed preference for the current regulation of concentration risk charges under the insurance Risk-Based Capital framework over “hard” prudential limits to address such concentration risks.

MAS' Response

7.6 MAS will take the feedback into consideration in reviewing the applicability of regulatory prudential limits to insurance groups. Should MAS determine that such limits will apply on insurance groups, we will consult the industry on the relevant proposals accordingly.

MONETARY AUTHORITY OF SINGAPORE

24 MAY 2012

**RESPONDENTS TO THE CONSULTATION PAPER ON REGULATORY
FRAMEWORK FOR FINANCIAL HOLDING COMPANIES**

1. ACE Insurance Ltd
2. Asia Capital Reinsurance Group Pte Ltd
3. AVIVA Asia Pte Ltd
4. AXA Life Insurance Singapore Pte Ltd
5. Citibank Singapore Ltd
6. DBS Group Holdings Ltd
7. Prudential Assurance Company Singapore
8. SHC Capital Ltd
9. Swiss Reinsurance Company Ltd, Singapore Branch
10. United Overseas Insurance Ltd

Four other respondents requested confidentiality.