RESPONSE TO FEEDBACK RECEIVED – CONSULTATION ON PROPOSED AMENDMENTS TO PUBLIC DISCLOSURE REQUIREMENTS, SUB-DIVISION 10 OF PART XI, MAS NOTICE 637

1 Introduction

1.1 On 5 November 2012, MAS issued a consultation paper inviting Singapore-incorporated banks ("Reporting Banks") and other interested parties to comment on proposed amendments to MAS Notice 637, which incorporated the Basel Committee on Banking Supervision ("BCBS") Composition of capital disclosure requirements issued on 26 June 2012[1].

1.2 The amendments to MAS Notice 637 public disclosure requirements aim to improve the quality of Pillar 3 disclosures in respect of the capital that banks use to meet their regulatory requirements. Comments received from the consultation relating to these areas that are of wider interest and MAS' responses are set out below.

1.3 We thank all respondents for their comments.

[1] Please refer to "Basel III: A global regulatory framework for more resilient banks and banking systems" published by the Basel Committee in December 2010 and revised in June 2011 (www.bis.org).

2 Granularity of Disclosure Requirements

2.1 Some respondents asked if the composition of capital disclosure requirements under MAS Notice 637 ("the Notice") required a higher level of detail as compared to the Basel disclosure requirements and if so, requested that the requirements under the Notice be lowered and aligned to those under the Basel framework.

<u>MAS' Response</u>

2.2 The composition of capital disclosure requirements under the Notice do not require a higher level of detail as compared to the Basel disclosure requirements. The disclosure requirements serve to improve the consistency and comparability of disclosures relating to the composition of regulatory capital across jurisdictions. These requirements are consistent with the Basel disclosure requirements.

3 3-Step Reconciliation Process

3.1 A few respondents sought clarification on whether the 3-step reconciliation process is required for items 41c and 56c set out in Table 11E.

<u>MAS' Response</u>

3.2 The Notice does not require the reconciliation of items 41C and 56C under Table 11E. The 3-step reconciliation process is only required to be performed between the published balance sheet and the regulatory capital elements reported in the disclosure template in Annex 11B.

4 3-Step Reconciliation Process

4.1 A respondent sought clarification on whether banks are expected to perform the 3-step reconciliation for line items 16, 37 and 52, given that these items are indirect components of the balance sheet balances.

MAS' Response

4.2 Reporting Banks are required to perform the 3-step reconciliation for line items 16, 37 and 52. As set out in paragraph 11.3.20, a Reporting Bank will expand the lines of the balance sheet under the regulatory scope of consolidation to identify all components of regulatory capital disclosed under the template set out in Annex 11B.

5 3-Step Reconciliation Process

5.1 A respondent proposed to use qualitative disclosures for the 3-step reconciliation process instead of using specific reference letters to reconcile each element of the expanded balance sheet to the composition of capital disclosure template as illustrated in Table 11C-2 of the Notice.

5.2 The respondent explained that the rationale for using disclosure notes is that certain regulatory capital elements are not reconcilable as they are not presented in the published financial statements (e.g. indirect investment in own shares, indirect holdings of unconsolidated major stake companies, indirect holdings unconsolidated financial institutions in which the Reporting Bank does not hold a major stake, etc).

MAS' Response

5.3 Annex 11C of the Notice states that "where there are items in the balance sheet under the regulatory scope of consolidation that are not presented in the published balance sheet, the Reporting Bank shall include such items in the reconciliation and report zero in the middle column". Hence, for reconciliation purposes, reference numbers should still be given to regulatory items that are not presented in the published financial statements. Additional disclosure notes shall only be used to the extent that these notes only disclose the applicable threshold amount. Reporting Banks should follow the illustration provided in Annex 1 to perform the 3-step reconciliation process, especially for the line items in Table 11E which are not presented in the published balance sheet. Please note that the illustration in Annex 1 is based on the **transitional arrangements of 2013**.

6 Amount subject to Pre-Basel III treatment

6.1 A respondent noted that the column "Amount subject to Pre-Basel III treatment" was not applicable to certain line items in Table 11E (i.e. 7, 15-18, 22-23, 37-39 and 52-54) as these line items were either new regulatory adjustments introduced under Basel III or no transitional arrangement was allowed, and proposed for the relevant cells to be shaded off.

MAS' Response

6.2 MAS has reviewed these line items and the relevant cells under the column "Amount subject to Pre-Basel III treatment" for these line items have been appropriately amended.

7 Disclosures during Transitional Period

7.1 A respondent asked whether disclosures for line items 82 to 85 under Table 11E would be required from 1 January 2013 to 31 December 2017, given that the sub-header to these items indicate that these are only applicable between 1 January 2018 and 1 January 2022.

MAS' Response

7.2 Reporting Banks shall disclose the line items 82 to 85 of Table 11E from 1 January 2013 onwards. The sub-header of these items has been amended to reflect that these items will be applicable between 1 January 2013 to 1 January 2022 instead.

Monetary Authority of Singapore
3 April 2013

Annex 1

ABC Group **FOR ILLUSTRATION ONLY**
As at Jun 2013
Table 11C

S$'m

	Balance sheet as per published financial statements	Under regulatory scope of consolidation	Reference
Assets			
Cash and placements with central banks			
Singapore government treasury bills and securities			
Other government treasury bills and securities			
Placements with and loans to banks			
Loans and bills receivable			
Debt and equity securities	14,000		
of which: Investments in associates	600	600	a
of which: Investments in companies with shareholdings between 10% and 20%	1,000	1,000	b
of which: Investments in insurance subsidiaries	3,000	-	c
of which: Indirect major stakes holding via index securities	200	200	d
Assets pledged			
Assets held for sale			
Derivative receivables			
of which: Fair value of derivatives used to hedge the capital instruments			
Other assets			
Deferred tax			
Associates and joint ventures			
of which: Indirect investments in own shares			
of which: Investments in unconsolidated major stake companies			

Subsidiaries			
Property, plant and equipment			
Investment property			
Goodwill and intangible assets			
of which: Goodwill			
of which: Intangible assets			
Life assurance fund investment assets			
Indirect major stake investments held by associate companies	-	50	e[1]
Total assets			
Liabilities			
Deposits of non-bank customers			
Deposits and balances of banks			
Due to subsidiaries			
Due to associates			
Trading portfolio liabilities			
Derivative payables			
Other liabilities			
of which related to provisions			
Current tax			
Deferred tax			
of which: Associated to intangible assets			
Debt issued			
of which: Transitional: Ineligible T2 capital instruments			
of which: Tier 2 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion			
of which: AT1 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion			
of which: Investment in Bank's own Tier 2 capital instrument held by subsidiary which was eliminated for financial reporting but taken as regulatory adjustment			
Life assurance fund liabilities			
Total liabilities			
Equity			
Share capital			

of which: Paid-up ordinary shares			
of which: Transitional: Ineligible AT1 capital instruments			
Capital reserves			
Fair value reserves			
Revenue reserves			
Sub-total: Reserves			
of which: (i) Retained earnings			
of which: (ii) Accumulated comprehensive income and other disclosed reserves			
Included in (i) and (ii) are the retained earnings and reserves of insurance subsidiaries and associated companies			
Non-controlling interests			
of which: Transitional: Ineligible AT1 capital instruments			
of which: Minority interest that meets criteria for inclusion			
Valuation Adjustments			
Total equity			

[1] The total direct and indirect capital investments in unconsolidated major stake companies amounted to S$4,850m **[Reference a+b+c+d+e in Table 11C]**. Of this, S$4,800m comprise the investments in insurance subsidiaries which are deconsolidated for regulatory purpose **[S$3,000m - Reference 'c' in Table 11C]**, associated companies accounted using the equity method of accounting **[S$600m - Reference 'a' in Table 11C]**, other major stake companies with shareholdings between 10% and 20% **[S$1,000m - Reference 'b' in Table 11C]** and indirect investments via index securities **[S$ 200m - Reference 'd' in Table 11C]**. The remaining S$50m **[Reference 'e' in Table 11C]** are investments in major stake companies held by associated companies. Other than the major stake investment held by associated companies **[Reference 'e' in Table 11C]**, the rest of the investments are shown in the financial statements.

The total capital investments of S$4,850m when compared to the threshold amount of S$2,000m **[10% of the common equity]** result in a deduction of S$2,850m. The capital investments within the threshold amount will be risk weighted at 250%.

ABC Group
As at Jun 2013
Table 11E

FOR ILLUSTRATION ONLY

S$'m

		Amount	**Amount subject to Pre-Basel III Treatment**	**Source (based on reference under step 2)**
	Common Equity Tier 1 capital: instruments and reserves			
1	Paid-up ordinary shares and share premium (if applicable)			
2	Retained earnings			
3	Accumulated other comprehensive income and other disclosed reserves			
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)			
5	Minority interest that meets criteria for inclusion			
6	**Common Equity Tier 1 capital before regulatory adjustments**			
	Common Equity Tier 1 capital: regulatory adjustments			
7	Valuation adjustment pursuant to Part VIII of MAS Notice 637			
8	Goodwill, net of associated deferred tax liability			
9	Intangible assets, net of associated deferred tax liability			
10	Deferred tax assets that rely on future profitability			
11	Cash flow hedge reserve			
12	Shortfall of TEP relative to EL under IRBA			
13	Increase in equity capital resulting from securitisation transactions			

14	Unrealised fair value gains/losses on financial liabilities and derivative liabilities arising from changes in own credit risk			
15	Defined benefit pension fund assets, net of associated deferred tax liability			
16	Investments in own shares			
17	Reciprocal cross-holdings in ordinary shares of financial institutions			
18	Capital investments in ordinary shares of unconsolidated financial institutions in which Reporting Bank does not hold a major stake			
19	Investments in ordinary shares of unconsolidated major stake companies approved under s32 of Banking Act (including insurance subsidiaries) (amount above 10% threshold)		2,850	f = (a+b+c+d+e) - 2,000[1]
20	Mortgage servicing rights (amount above 10% threshold)			
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)			
22	Amount exceeding the 15% threshold			
23	of which: investments in ordinary shares of unconsolidated major stake companies approved under s32 of Banking Act (including insurance subsidiaries)			
24	of which: mortgage servicing rights			
25	of which: deferred tax assets arising from temporary differences			
26	National specific regulatory adjustments			
26A	PE/VC investments in the form of ordinary shares, in excess of 20% of such capital investments			
26B	PE/VC investments held beyond the relevant holding periods set out in MAS Notice 630			

26C	Capital deficits in subsidiaries and associates that are regulated financial institutions			
26D	Any other items which the Authority may specify			
27	Regulatory adjustments applied in calculation of CET1 Capital due to insufficient AT1 Capital to satisfy required deductions			
28	**Total regulatory adjustments to CET1 Capital**			
29	**Common Equity Tier 1 capital (CET1)**			
	Additional Tier 1 capital: instruments			
30	AT1 capital instruments and share premium (if applicable)			
31	of which: classified as equity under the Accounting Standards			
32	of which: classified as liabilities under the Accounting Standards			
33	Transitional: Ineligible capital instruments (pursuant to paragraphs 6.5.3 and 6.5.4)			
34	AT1 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion			
35	of which: instruments issued by subsidiaries subject to phase out			
36	**Additional Tier 1 capital before regulatory adjustments**			
	Additional Tier 1 capital: regulatory adjustments			
37	Investments in own AT1 capital instruments			
38	Reciprocal cross-holdings in AT1 capital instruments of financial institutions			
39	Capital investments in AT1 capital instruments of unconsolidated financial institutions in which Reporting Bank does not hold a major stake			
40	Investments in AT1 capital instruments of unconsolidated major stake companies approved under s32 of Banking Act (including insurance subsidiaries)			
41	National specific regulatory adjustments			

41A	PE/VC investments in the form of AT1 capital instruments, in excess of 20% of such capital investments			
41B	Any other items which the Authority may specify			
41C	Regulatory adjustments applied to AT1 Capital in respect of amounts subject to pre-Basel III treatment			
	of which: Goodwill, net of associated deferred tax liability			
	of which: Intangible assets, net of associated deferred tax liability			
	of which: Deferred tax assets that rely on future profitability			
	of which: Cash flow hedge reserve			
	of which: Increase in equity capital resulting from securitisation transactions			
	of which: Unrealised fair value gains/losses on financial liabilities and derivative liabilities arising from changes in own credit risk			
	of which: Shortfall of TEP relative to EL under IRBA			
	of which: PE/VC investments in the form of ordinary shares, in excess of 20% of such capital investments			
	of which: PE/VC investments held beyond the relevant holding periods set out in MAS Notice 630			
	of which: Capital deficits in subsidiaries and associates that are regulated financial institutions			
	of which: Investments in ordinary shares ofunconsolidated major stake companies approved unders32 of Banking Act (incl insurance subsidiaries)	1,425		
	of which: PE/VC investments in the form of Tier 2 capital instruments, in excess of 20% of such capital investments			
	of which: Investments in Tier 2 capital instruments of unconsolidated major stake companies approved under s32 of Banking Act (incl insurance subsidiaries)			

42	Regulatory adjustments applied in calculation of AT1 Capital due to insufficient Tier 2 Capital to satisfy required deductions			
43	**Total regulatory adjustments to Additional Tier 1 capital**			
44	**Additional Tier 1 capital (AT1)**			
45	**Tier 1 capital (T1 = CET1 + AT1)**			
	Tier 2 capital: instruments and provisions			
46	Tier 2 capital instruments and share premium (if applicable)			
47	Transitional: Ineligible capital instruments (pursuant to paragraphs 6.5.3 and 6.5.4)			
48	Tier 2 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion			
49	of which: instruments issued by subsidiaries subject to phase out			
50	Provisions			
51	**Tier 2 capital before regulatory adjustments**			
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments			
53	Reciprocal cross-holdings in Tier 2 capital instruments of financial institutions			
54	Capital investments in Tier 2 capital instruments of unconsolidated financial institutions in which Reporting Bank does not hold a major stake			
55	Investments in Tier 2 capital instruments of unconsolidated major stake companies approved under s32 of Banking Act (including insurance subsidiaries)			
56	National specific regulatory adjustments			
56A	PE/VC investments in the form of Tier 2 capital instruments, in excess of 20% of such capital investments			
56B	Any other items which the Authority may specify			

56C	Regulatory adjustments applied to Tier 2 Capital in respect of amounts subject to pre-Basel III treatment			
	of which: Shortfall of TEP relative to EL under IRBA			
	of which: PE/VC investments in the form of ordinary shares, in excess of 20% of such capital investments			
	of which: PE/VC investments held beyond the relevant holding periods set out in MAS Notice 630			
	of which: Capital deficits in subsidiaries and associates that are regulated financial institutions			
	of which: Investments in ordinary shares of unconsolidated major stake companies approved under s32 of Banking Act (incl insurance subsidiaries)	1,425		
	of which: PE/VC investments in the form of AT1 capital instruments, in excess of 20% of such capital investments			
	of which: Investments in AT1 capital instruments of unconsolidated major stake companies approved under s32 of Banking Act (incl insurance subsidiaries)			
57	**Total regulatory adjustments to Tier 2 capital**			
58	**Tier 2 capital (T2)**			
59	**Total capital (TC = T1 + T2)**			
60	**Total risk weighted assets**			
	Capital ratios (as a percentage of risk weighted assets)			
61	**Common Equity Tier 1 CAR**			
62	**Tier 1 CAR**			
63	**Total CAR**			
64	Bank-specific buffer requirement			
65	of which: capital conservation buffer requirement			
66	of which: bank specific countercyclical buffer requirement			
67	of which: G-SIB buffer requirement (if applicable)			
68	Common Equity Tier 1 available to meet buffers			
	National minima			

69	Minimum CET1 CAR			
70	Minimum Tier 1 CAR			
71	Minimum Total CAR			
	Amounts below the thresholds for deduction (before risk weighting)			
72	Investments in ordinary shares, AT1 capital and Tier 2 capital of unconsolidated financial institutions in which the bank does not hold a major stake			
73	Investments in ordinary shares of unconsolidated major stake companies approved under s32 of Banking Act (including insurance subsidiaries)	2,000		Refer to note[1]
74	Mortgage servicing rights (net of related tax liability)			
75	Deferred tax assets arising from temporary differences (net of related tax liability)			
	Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)			
77	Cap on inclusion of provisions in Tier 2 under standardised approach			
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)			
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach			
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements			
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)			

82	Current cap on AT1 instruments subject to phase out arrangements			
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)			
84	Current cap on T2 instruments subject to phase out arrangements			
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)			

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