RESPONSE TO FEEDBACK RECEIVED

Aug 2018

Response to Feedback Received – Proposed Revisions to the Large Exposures Framework for Singapore-incorporated Banks

MAS

Monetary Authority of Singapore

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1 Preface

1.1 On 3 January 2018, MAS consulted on proposed revisions to the large exposures framework for Singapore-incorporated banks. The consultation closed on 12 February 2018. MAS thanks all respondents for their contributions. The list of respondents is in Annex A.

1.2 MAS will implement revised large exposures requirements for Singapore-incorporated banks[1] that are consistent with the final standards[2] issued by the Basel Committee on Banking Supervision (BCBS) on measuring and controlling a bank's exposures to a counterparty or counterparty group.

1.3 The revisions will strengthen the regulatory framework for addressing concentration of exposures to counterparties and limiting the maximum loss that a bank faces in the event of a sudden counterparty default. Exposure measurement methods for the purpose of the revised large exposures requirements will also be aligned to the risk-based capital framework, where appropriate. The revised requirements will take effect from 30 September 2019.

1.4 MAS has considered carefully the feedback received in finalising the revised framework. Comments that are of wider interest, together with MAS' responses are set out below.

2 Large exposures limit (LEL)

2.1 MAS proposed to tighten the LEL from 25% of eligible total capital to 25% of Tier 1 capital. Many respondents highlighted that the proposal would potentially impact banks' capacity to lend and restrict growth of various business lines. Obligors with better credit ratings would likely be more impacted as such counterparties are usually extended larger limits. This could result in a deterioration of the overall portfolio credit quality. One respondent sought clarification on whether MAS expects banks to adjust existing exposures to abide by the revised LEL.

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[1] Banks which are incorporated outside Singapore will continue to be subject to the requirements under the existing MAS Notice 639 until the divide between the Domestic Banking Unit and Asian Currency Unit is removed. The revised large exposures requirements will not be applicable to banks which are incorporated outside Singapore.

[2] "Supervisory framework for measuring and controlling large exposures" (press release: https://bis.org/press/p140415.htm).

MAS' Response

2.2 MAS has examined the current exposures of banks, and found that the revised LEL generally offers adequate headroom for banks to continue lending to large obligors. Hence, MAS will tighten the LEL to 25% of Tier 1 capital, as this is the appropriate capital base to measure a bank's capacity to absorb maximum losses in the event of a counterparty failure while remaining a going concern. This is in line with international standards. Banks are required to ensure that their exposures to any counterparty or counterparty group are within the revised LEL when the rules take effect.

3 Exposures to bank counterparties

Application of LEL on exposures to bank counterparties

3.1 MAS proposed to remove the exemption for exposures to banks from the LEL, with the exception of intraday interbank exposures. Many respondents expressed concerns on the adverse impact to interbank liquidity and banks' ability to deploy surplus funds, as well as the overall credit quality of banks' portfolios, as exposures to banks with stronger credit standing may have to be reduced.

3.2 Respondents suggested retaining the exemption, increasing the LEL for interbank exposures, or exempting exposures to banks with better credit ratings. Some also requested exemption for exposures to banks with residual maturity of less than one year, to facilitate short-term liquidity and maintain an active and deep interbank money market.

3.3 One respondent proposed that balances held with nostro agent banks be exempted from the LEL, as such balances are held for funding and liquidity management purposes. Another respondent proposed that interbank exposures arising from vostro accounts be exempted, as banks may extend overdrafts under vostro accounts for the purpose of preventing settlement failures for a temporary period, typically not exceeding two business days.

MAS' Response

3.4 As concentration risks of interbank exposures can pose financial stability concerns due to the contagion effects, even if these are exposures to nostro agent banks, MAS considers that it would not be prudent to exempt exposures to banks from the LEL. We will subject all exposures to banks to the LEL, except for intraday interbank exposures.

3.5 MAS will also clarify that interbank exposures which were originally intraday but which fail to settle within the day will be exempted for up to two business days from

original settlement date. Other interbank exposures which fail to settle by the settlement date will be subject to the LEL, regardless of whether such exposures are settled within two business days from the settlement date.

3.6 MAS will subject exposures arising from nostro and vostro accounts to the LEL, as banks will be exposed to risk of loss if the relevant counterparty banks fail. MAS expects banks to implement appropriate risk management systems and processes to monitor and control such account balances within the LEL.

Exposures to systemically important financial institutions

3.7 MAS proposed that banks set internal limits for their exposures to systemically important financial institutions (SIFIs). One respondent sought clarification on whether breaching internal limits for exposures to such SIFIs equates to a regulatory breach, and proposed removing the requirement for internal limits. Another respondent proposed for banks to be allowed to set internal limits based on other metrics, instead of limits based on a percentage of capital.

MAS' Response

3.8 Banks have discretion to design internal limits in line with their concentration risk management policies, including the metrics that such limits are based on. While breaches of internal limits are not regulatory breaches, MAS expects banks to institute proper risk management systems and controls to manage their exposures to SIFIs in accordance with their internal framework and policies. Notwithstanding such internal limits, banks are required to ensure that their exposures to SIFIs are in compliance with the LEL at all times.

4 Aggregation for connected counterparty groups

Aggregation due to connectedness based on economic interdependence[3]

4.1 MAS proposed to continue to require banks to aggregate persons connected by financial dependence as a connected counterparty group. To identify such counterparties in a connected counterparty group, MAS proposed qualitative criteria based on economic

[3] Persons A and B are deemed to be economically interdependent and exposures to Persons A and B are required to be aggregated as a connected counterparty group if the bank is of the view that one person (e.g. Person A) in the group will or is likely to face funding or repayment difficulties or will or is likely to be unable to meet person A's financial obligations, if person B faces funding or repayment difficulties or is unable to meet person B's financial obligations.

interdependence that banks must consider. MAS also proposed to require banks to identify connected counterparties on the basis of economic interdependence for any counterparty whose exposures exceed 5% of Tier 1 capital.

4.2 Many respondents highlighted the operational burden of identifying counterparties that are connected based on economic interdependence to those counterparties with exposures exceeding 5% of Tier 1 capital. Challenges include difficulties in obtaining sufficient information to establish the connectedness due to unwillingness of counterparties to provide further information. Some respondents requested an increase in the assessment threshold to 10% of Tier 1 capital. To ease operational burden, some respondents also proposed to not aggregate possible connected counterparties based on economic interdependence, if the banks are able to establish upfront that there are specific circumstances under which these counterparties can overcome financial difficulties or default of another counterparty within an appropriate time period.

4.3 Some respondents also proposed to exclude small and medium enterprises (SMEs) from the economic interdependence assessment conducted for a counterparty whose exposures exceed 5% of Tier 1 capital. These respondents highlighted that banks might be compelled to reduce lending to SMEs that are connected based on economic interdependence to large corporates as a result of the aggregation requirement.

MAS' Response

4.4 In line with the objective of limiting concentration risk arising from counterparties which pose a single risk to a bank, MAS will require aggregation on the basis of economic interdependence between counterparties. This principle of aggregation is not new as banks are already required to aggregate counterparties that are financially dependent under the current MAS Notice 639.

4.5 Banks will be required to conduct due diligence to identify connected counterparties on the basis of economic interdependence for any single counterparty whose exposures exceed 5% of Tier 1 capital, in line with the Basel large exposures framework. MAS has examined the number of counterparties with exposures exceeding 5% of Tier 1 capital for each bank, and assessed that this does not represent a significant burden. Banks are required to maintain proper documentation of the due diligence conducted.

4.6 On the proposal to exclude SMEs from the economic interdependence assessment conducted on a single counterparty whose exposures exceed 5% of Tier 1 capital, MAS is of the view that such exclusion of SMEs is not in line with the policy intent.

If the failure of a corporate counterparty is likely to lead to the default of an SME counterparty that is economically interdependent, the entities are required to be aggregated as a connected counterparty group for the purpose of the LEL. Therefore, banks may not exclude SMEs when identifying economically interdependent counterparties of such a corporate counterparty.

Aggregation due to connectedness based on control

4.7 One respondent sought clarification on whether banks are required to aggregate exposures to counterparties connected based on control when exposures to the counterparty are not more than 5% of Tier 1 capital.

MAS' Response

4.8 Banks are required to assess and aggregate counterparties based on control regardless of the size of exposures to the counterparties.

Frequency of assessment for connectedness between counterparties

4.9 One respondent sought clarification on the frequency of the assessment required. Another respondent also sought clarification on whether a bank is required to conduct reassessment of counterparties based on economic interdependence whenever the bank's exposure to the counterparty exceeds 5% of Tier 1 capital.

MAS' Response

4.10 Banks should conduct a review of the profile of each counterparty, including their economic interdependence relationships with other counterparties at least once every 12 months, and are required to conduct such a review no later than 15 months from the last review. This is consistent with the existing requirements.

Aggregation of entities related to sovereigns

4.11 Some respondents highlighted concerns that lending to sovereign groups with state-owned banks and enterprises may be curtailed due to the application of the LEL on such connected counterparty groups.

MAS' Response

4.12 Taking into consideration the industry's concerns, MAS will not require exposures to a counterparty that is directly controlled by or directly economically interdependent on a central government or central bank to be aggregated with exposures to the same central government or central bank. Such counterparties can also be treated as separate entities

for the purposes of compliance with the LEL, unless they are otherwise connected due to another control or economic interdependence relationship.

4.13 For the avoidance of doubt, such sovereign-related counterparties will continue to be required to be aggregated with any other counterparties which they control or have economic interdependence relationships with.

5 Disaggregation of counterparties in a connected counterparty group or a substantial shareholder group

5.1 MAS proposed that banks be allowed to disaggregate counterparties from a connected counterparty group connected by control or a substantial shareholder group if banks can demonstrate that corporate governance safeguards and other forms of ring-fencing measures are in place such that linkages or the risk of contagion between such counterparties are limited. Banks will be allowed to disaggregate such counterparties where all the conditions set out in Appendix 2 of the current MAS Notice 639 are fulfilled.

5.2 Some respondents sought clarification on whether disaggregation would be permitted if banks are able to demonstrate the existence of corporate governance safeguards and ring-fencing measures, but not all conditions in Appendix 2 of the current MAS Notice 639 are fulfilled.

MAS' Response

5.3 For counterparties that are connected by control or are under the substantial shareholder group, MAS views those that meet all conditions in Appendix 2 of the current MAS Notice 639 to meet the disaggregation principle outlined in paragraph 5.1. Where the counterparties do not meet all the conditions, a bank is allowed to disaggregate the counterparties on an exceptional basis if the bank assesses that there are sufficient corporate governance safeguards and ring-fencing measures. The bank will have to justify and document the basis of its assessment clearly.

6 Substantial exposures limit

6.1 Many respondents proposed to remove the substantial exposures limit to be consistent with the Basel large exposures framework. Such substantial exposures will be subject to the new regulatory reporting requirements. The removal of the substantial exposures limit will also reduce the operational and reporting burden on banks.

MAS' Response

6.2 MAS agrees that the substantial exposures limit will be unnecessary with the new LEL, and will remove it. MAS expects banks to actively monitor and manage their portfolio concentration risks as part of their concentration risk management policies, and to set internal limits to ensure sufficient diversification of exposures and mitigate undue portfolio concentration risks.

7 Exempt exposures

Trade finance exposures

7.1 Some respondents proposed that exposures arising from short-term trade finance, including commodity trade flows, be exempted from the LEL, highlighting that such exposures are self-liquidating and have a low default rate.

MAS' Response

7.2 MAS notes the industry feedback, but considers it prudent for such exposures to be subject to the LEL. The framework also provides a preferential treatment in the form of a 20% credit conversion factor applied to off-balance sheet trade finance exposures, where such exposures are short-term and self-liquidating.

Exposures arising from credit risk mitigation instruments

7.3 One respondent proposed that exemptions apply to certain instruments used for credit risk mitigation purposes such as guarantee acceptances, as these are contingent in nature. The respondent also highlighted that guarantee acceptances issued by foreign banks offer a secondary source of security to the Singapore-incorporated banks providing credit and project financing facilities to foreign companies.

MAS' Response

7.4 MAS recognises that credit risk mitigation is an important tool in banks' risk management processes. However, such credit protection can increase concentration risk, so banks should take steps to limit concentrated exposures to any single credit protection provider. Accordingly, the LEL will apply to exposures arising from credit risk mitigation instruments.

7.5 Banks are required to recognise the effect of credit risk mitigation in the calculation of an exposure under the large exposures framework where this has been applied in the risk-based capital framework. Where banks recognise a reduction in

exposure to the original counterparty due to credit risk mitigation, the same amount of exposure must be assigned to the credit risk mitigation provider.

Overnight repurchase and reverse repurchase transactions

7.6 Some respondents proposed to retain the existing exemption from the LEL provided for overnight repurchase and reverse repurchase transactions, as such transactions are typically collateralised in nature and short-term in maturity, and hence entail low risk.

MAS' Response

7.7 The framework permits recognition of credit risk mitigation for such transactions, and further exemptions are not necessary. Banks shall recognise credit risk mitigation arising from the collateral received for such repurchase and reverse repurchase transactions for the purpose of computing the LEL, whenever such collateral has been recognised under the risk-based capital framework. Where there is recognition of credit risk mitigation of such collateral, banks shall assign to the issuers of the securities used as collateral, the exposure amount by which the exposure to the counterparty is reduced.

Exposures to sovereigns, central banks, and public sector entities (PSEs)

7.8 MAS proposed to retain the exemption for exposures to the Singapore Government and to MAS. MAS also proposed to exempt exposures to foreign central governments and central banks, where such exposures:

(i) arise from statutory and regulatory requirements imposed by MAS or a foreign bank regulatory agency; or

(ii) are denominated and funded in the domestic currency of the sovereign entity.

7.9 In the case of PSEs, MAS proposed to exempt:

(i) exposures to Singapore PSEs that qualify for a 0% risk weight under the standardised approach to credit risk in MAS Notice 637[4]; and

[4] MAS Notice 637 on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore.

(ii) exposures to foreign PSEs that qualify for a 0% risk weight under the standardised approach to credit risk in MAS Notice 637, where such exposures are denominated and funded in the domestic currency of the jurisdiction where the PSE is established.

7.10 Many respondents asked for broader exemptions for exposures to central governments and central banks. This included a blanket exemption for all such exposures in line with the Basel large exposures framework, or retaining the existing exemption for all exposures to AAA-rated sovereign entities and PSEs.

7.11 In the case of exposures to foreign central governments and central banks, some respondents sought clarification on how the exemption criteria based on the funding currency of the exposure would be assessed to be met. One respondent asked whether each individual exposure had to be tracked and match-funded, highlighting that the business unit originating the credit facility would not be involved in the funding of the credit facility as this is typically undertaken by the corporate treasury or asset-liability management function.

MAS' Response

7.12 MAS agrees with the feedback and will broaden the exemption to include exposures to foreign central governments or central banks of a sovereign country that are denominated in a foreign currency relative to the sovereign country's domestic currency and where that sovereign country is rated at least "AA-" for a foreign currency external credit assessment, in view of the strong credit profile.

7.13 For operational ease, MAS will remove the exemption criteria based on the funding currency of exposures to foreign central governments, foreign central banks and 0% risk-weighted foreign PSEs.

Trading book exposures

7.14 One respondent proposed that MAS allow temporary breaches of the LEL arising from trading book exposures, highlighting that such exposures can be volatile under certain market conditions and could lead to large limit breaches. Time would be required to assess and implement the necessary management actions to resolve such breaches.

MAS' Response

7.15 MAS maintains the view that it is prudent to subject trading exposures to the LEL at all times. In events where markets exhibit higher than average volatility, MAS expects

that banks take active steps to manage and limit trading exposures to avoid undue concentrated exposures to any trading counterparty.

8 On-balance sheet netting

8.1 Under the consultation paper, the effect of netting agreements relating to on-balance sheet assets and liabilities are not recognised for the purpose of measuring exposures. One respondent proposed that on-balance sheet netting be recognised under the large exposures framework, in line with the BCBS standards.

MAS' Response

8.2 MAS notes the industry feedback, and is undertaking a review to consider recognising the effect of netting agreements relating to on-balance sheet assets and liabilities under the risk-based capital framework. The recognition of such on-balance sheet netting agreements under the large exposures framework will be aligned to the outcome of the review of the risk-based capital framework.

9 Reporting requirements

9.1 One respondent requested that the submission deadline of the reporting requirements be at least seven business days after the submission deadline of reporting requirements under MAS Notice 637, due to the dependence on the capital figures computed under MAS Notice 637.

MAS' Response

9.2 MAS agrees with the proposal. Banks will be required to submit the regulatory reporting schedules no later than the 14th of the second month following the end of each semi-annual period, and to commence semi-annual reporting for positions as at 31 December 2019.

10 Implementation timeline

10.1 MAS proposed to implement the revised large exposures framework from 1 January 2019. Many respondents requested an extension of the implementation timeframe, highlighting the need for significant system and process enhancements to implement the proposed revisions. Banks with subsidiaries across different jurisdictions would need to align such enhancements across entities.

MAS' Response

10.2 A timely implementation of the large exposures framework is necessary to ensure that the regulatory framework governing concentration risk remains prudent and relevant to banks' credit portfolio growth. However, to allow banks additional time to make the necessary system enhancements and to manage their exposures in compliance with the stricter LEL, MAS will extend the implementation date of the revisions to the large exposures framework to 30 September 2019.

MONETARY AUTHORITY OF SINGAPORE

31 Aug 2018

Annex A

LIST OF RESPONDENTS TO THE CONSULTATION PAPER ON PROPOSED REVISIONS TO THE REGULATORY FRAMEWORK FOR LARGE EXPOSURES OF SINGAPORE-INCORPORATED BANKS

1. The Association of Banks in Singapore
2. DBS Bank Limited
3. HSBC Bank (Singapore) Limited
4. Malayan Banking Berhad, Singapore Branch
5. Standard Chartered Bank, Singapore Branch
6. Standard Chartered Bank (Singapore) Limited

5 other respondents requested confidentiality of identity.

ANNEX B

FULL SUBMISSIONS FROM RESPONDENTS TO THE CONSULTATION PAPER ON PROPOSED REVISIONS TO THE REGULATORY FRAMEWORK FOR LARGE EXPOSURES OF SINGAPORE-INCORPORATED BANKS

Note: The table below only includes submissions for which respondents did not request confidentiality of their responses.

S/N	Respondent	Full Response from Respondent
1	The Association of Banks in Singapore	**<u>Response dated 5 March 2018</u>** Dear Sir 1. The Association of Banks in Singapore (ABS) thanks the Monetary Authority of Singapore (MAS) for the opportunity to comment on the proposed revisions to the regulatory framework for large exposures of Singapore-incorporated banks. 2. We highlight in this submission certain common concerns that were raised amongst our member banks in relation to the scope and impact of the proposed revisions. Further feedback from the individual member banks may be separately submitted to MAS. 3. <u>Proposed Implementation Timeline</u> We are concerned that it will be operationally challenging for banks to achieve full compliance with the revised framework by January 2019, given that the proposed revisions are substantial and will require significant system enhancements and changes to processes and reporting. In addition, banks will face considerable resource constraints as substantial resources are concurrently required for the implementation of MAS Notice 643 and revised MAS Notice 639A, both of which are due in November 2018. Further, we note that in other jurisdictions, banks have been allowed a transitional period to achieve full compliance. Many member banks affected by the proposed revisions have subsidiaries incorporated in other countries, and will need to align their approach across their respective entities. In view of these challenges, we would like to request that MAS considers allowing a transitional period of 36 months after issuance of the finalised revised Notice for banks to achieve full compliance.

		4. <u>Impact on Business Lines</u> We would like to highlight that the proposed revisions, particularly: (a) the tightening of the large exposures limit ("**LEL**") from 25% of eligible total capital to 25% of Tier 1 capital; (b) the new requirement to aggregate economically interdependent counterparties; and (c) the removal of bank exposures as an exempt exposure, may adversely affect the growth of banks' business lines and result in banks having to reduce exposure to obligors with larger limits, who tend to also be better graded. This broader concern underpins some of the further concerns presented below in this submission. 5. <u>Scope of exempt exposures</u> As mentioned in paragraph 4 above, we are concerned that the proposed revisions will have a significant adverse impact on banks' business and ability to grow business lines. In line with this concern, we have the following comments in relation to the proposed scope of exempt exposures: (a) Banks Exposures to banks (except for a Singapore-incorporated bank's exposures to its bank subsidiary with residual maturity exceeding 1 year) are currently exempted from the LEL. In addition to the broad concern regarding restricting business growth as mentioned above, we would like to highlight that an active and deep interbank money market is critical to facilitate short term liquidity amongst the banks. To facilitate this effective functioning of the money market, we would like to request that exposures to banks (including repos/reverse repo transactions) below 1 year continue to be exempted from the LEL. We would also like to seek clarification on the proposed exemption for "intraday interbank exposures", and whether this would include exposures which are originally intraday but which become non-receipts or overnight hard overdraft exposure due to failed settlement. In this regard, we note that MAS Notice 639 currently exempts (a) exposures to counterparties arising from the clearing or settlement of any transaction, where the bank has fulfilled its obligation under the transaction but the counterparty

		has not, up to 2 business days from the date of settlement[1]; and (b) exposures arising from granting intra-day facilities to or entering into an overnight repurchase or reverse repurchase transaction with a counterparty[2]. We would like to request that these exempt exposures be retained in the revised regulatory framework. (b) Trade financing We wish to highlight that Singapore and Hong Kong play an important role in intermediating the commodity trade flows between China and global producers. Due to the critical nature of such goods in supporting the economy, commodity financing (especially energy related) is settled in priority over other debts in the event of a financial crisis. The effectiveness in positioning Singapore as a Global/Commodity Trading hub or Regional Treasury Centre would diminish if financial institutions in Singapore are constrained in supporting commodity exporters due to limitations in the large exposure framework. We would therefore like to request that MAS considers including short term trade financing in the scope of exempt exposures. In addition to the importance of trade financing business to Singapore's position as a global trading hub, we note that the risks of exempting such exposures are relatively lower as such short term trade financing facilities (i) are usually self-liquidating, in that the issuing bank's obligations are backed by trade flows and the source of repayment is ultimately the buyer, and are of relatively short tenor (typically less than a year); and (ii) generally have a relatively low payment default rate[3]. 6. <u>Substantial exposures limit ("SEL")</u> In relation to the proposal to retain the SEL on all exposures except exposures to banks, we propose the discontinuation of the SEL to align with the Basel large exposures framework, as the 25% LEL and reporting of substantial exposures will provide MAS the tools to monitor banks' concentrations. This will also reduce operational reporting and monitoring burdens on banks.

		We would be pleased to organise a meeting between the banks and MAS to clarify/discuss, and find ways to overcome, if possible, the issues raised. **<u>Additional response (dated 2 May 2018)</u>** Dear Sir Further to our response of 5 March 2018 to the MAS Notice 639 Consultation Paper, ABS would like to further engage MAS to consider the following requests: **Exemptions for Economic Interdependency** The requirement to assess economic interdependency, based on the criteria set forth in paragraph 4.4 of the Consultation Paper (CP), may have the unintended consequence for the Singapore economy as a whole as banks will be curtailing lending to large corporate groups and companies which are usually of better credit standings. These groups and companies typically have a large value chain consisting of many suppliers and buyers who may be economically interdependent under the new criteria. The economic interdependence requirement in the CP will cause banks to reassess their lending to large corporate groups where exposures approach the Large Exposures Limit (LEL) and Substantial Exposures Limit (SEL). Consequently, banks may be forced to reallocate limited resources and hence reduce the lending to suppliers and buyers of the large corporate group as most limits would be reserved for lending to large corporate themselves. Therefore, implementing economic interdependency criteria will force banks to readjust their strategies in a manner that is contrary to Singapore policy makers' desire to support SMEs and position Singapore as trading hub. The scope of "interdependence" is very broad and operationally, will pose implementation difficulties for the banks. To perform the assessment, the bank will have to reach out to their customers and obtain information such as their list of suppliers and buyers. This information may not be privy to the banks and the customers may be unwilling to disclose them. Hence, we propose that financial dependency and economic interdependency should only be applied to an individual counterparty as opposed to a counterparty group to be in the spirit of the "Supervisory framework for measuring and controlling large exposures" published by the BCBS. Therefore, financial dependency and economic interdependency

		will only be assessed when an individual counterparty exceeds 5% of Tier 1 Capital. This proposal is in line with the intent for prudent monitoring of large exposure concentration to an individual counterparty while encouraging FIs to diversify their exposures to individual counterparties within a counterparty group. In addition, when an individual counterparty exceeds 5%, there should be a limit on the extent of the assessment of economic interdependency to exclude SMEs (definition as per MAS Notice 637), including small businesses under programme lending. We believe that our proposals will maintain a balance between monitoring counterparty concentration risk while encouraging FIs to lend to a diversified group of counterparties. **Expansion of Exempt Sovereign Exposure Criteria** We propose to exempt exposures of sovereign entities and their central banks ("sovereign exposures") from compliance with LEL. As sovereign entities may be part of a bank counterparty group where the bank exposures are now subject to LEL, the proposed scope of exempt exposures for sovereign exposures may be too stringent, particularly for sovereign groups with substantial bank and state-owned enterprises. In addition, there is also a tightening of LEL to 25% of Tier 1 capital and FIs may have to substitute sovereign exposures with other entities with weaker credit ratings. Exempting sovereign exposures will allow FIs to comply with the proposed LEL and, at the same time, achieve better asset allocation. FIs also have internal risk controls in place to manage sovereign risk. We are seeking MAS' re-consideration in view that exemption for all sovereign exposures are allowed under the "Supervisory framework for measuring and controlling large exposures" published by the BCBS. **Exclusion for Aggregation** We propose to exclude counterparties from aggregation under the financial dependence criteria if paragraph 4.8 (b) of the CP can be satisfied. Assuming a counterparty has the ability to resolve the issues within an appropriate time period, there will be no financial dependence because that counterparty is able to meet its own financial

		obligations even if the other counterparty is unable to meet its financial obligations. Operationally, this proposal will ensure that additional time and effort is not spent on aggregation and then disaggregation. **Transitional Timeline** We would like to request a 36-month transitional period. This timeframe will allow the bank to enhance its systems, revise the aggregation, exemption and disaggregation processes across the Bank Group and reporting processes to cater for the requirements under the revised MAS Notice 639. The Bank also requires time to review limit frameworks and manage exposures given the changes to the LEL. Without a transitional period to address the above, banks face the risk of incorrectly monitoring and reporting large exposures and implementing sudden changes in business strategy. We would be pleased to organise a meeting between the banks and MAS to clarify/discuss, and find ways to overcome, if possible, the issues raised.

Monetary Authority of Singapore