

CONSULTATION PAPER

P023 - 2017

December 2017

Proposed Amendments to Widen the Scope of Eligible Collateral Relating to Commodities and Equity Securities in MAS Notice 637

MAS

Monetary Authority of Singapore

Overview

1.1 This consultation paper sets out MAS' proposed amendments to MAS Notice 637 on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore ("the Notice"), to revise the list of eligible collateral that may be recognised for credit risk mitigation purposes.

1.2 MAS proposes to –

- (a) recognise commodities as eligible physical collateral for banks using the foundation internal ratings-based approach for credit risk;
- (b) widen the scope of eligible equity securities to those listed on any regulated exchange (i.e. an exchange regulated by MAS or other financial services regulatory authority); and
- (c) in relation to eligible equity securities included in a main index which qualify for a 15% haircut, clarify the definition of main index as one which is referenced by futures or options traded on a regulated exchange.

1.3 MAS invites comments from Singapore-incorporated banks and other interested parties.

1.4 **Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if respondents would like (i) their whole submission or part of it, or (ii) their identity, along with their whole submission, to be kept confidential, please expressly state so in the submission to MAS. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.** Please submit written comments by 19 January 2018 to –

Prudential Policy Department
Monetary Authority of Singapore
10 Shenton Way, MAS Building
Singapore 079117
Fax: (65) 62203973
Email: prudential_policy_dept@mas.gov.sg

1.5 We encourage electronic submission of feedback. We would be grateful if you would use this [suggested template](#) to help us collate feedback more efficiently.

DRAFT AMENDMENTS TO MAS NOTICE 637

PROPOSED AMENDMENTS TO PART II (DEFINITIONS)

The section lays out proposed amendments to specific definitions in Annex 2A of MAS Notice 637.

No amendments are proposed for the rest of Annex 2A not mentioned in this section.

[main index](#)

[means an index referenced by futures or options traded on a regulated exchange;](#)

PROPOSED AMENDMENTS TO PART VII (CREDIT RISK)

The section lays out proposed amendments to Annexes 7F and 7J of Part VII.

No amendments are proposed for the rest of Part VII not mentioned in this section.

CRMAmendments to Section 2**Section 2: Recognition of Collateral**Types of Collateral

2.1 A Reporting Bank shall ensure that the relevant requirements in paragraphs 2.6 to 2.11 below are complied with before it recognises the effects of CRM of the types of collateral set out in paragraphs 2.2 to 2.5 below.

2.2 For a Reporting Bank using the FC(SA), eligible financial collateral comprises^{226A} -

- (a) cash (as well as certificates of deposit or other similar instruments^{226B} issued by the Reporting Bank)²²⁷ on deposit with the Reporting Bank;²²⁸
- (b) gold;
- (c) any debt security^{228A} -
 - (i) with an original maturity of one year or less that has a credit quality grade of "III" or better as set out in Table 7R-2 of Annex 7R of Part VII; or
 - (ii) with an original maturity of more than one year that has a credit quality grade of "4" or better as set out in Table 7R-1 of Annex 7R of Part VII if it is issued by a central government or central bank, or a credit quality grade of "3" or better as set out in Table 7R-1 of Annex 7R of Part VII if it is issued by any other entity;

^{226A} This shall exclude any CET1 capital instrument, AT1 capital instrument or Tier 2 capital instrument issued by the Reporting Bank which is held by the Reporting Bank or any of its banking group entities as collateral. Please also note section 29(3) of the Banking Act which prohibits a Reporting Bank from granting any credit facility against the security of its own shares.

[MAS Notice 637 (Amendment) 2014]

^{226B} This shall not include any structured deposits. Structured deposit has the same meaning as in Regulation 2 of the Financial Advisers (Structured Deposits – Prescribed Investment Product and Exemption) Regulations 2005.

[MAS Notice 637 (Amendment No. 2) 2014]

²²⁷ Cash-funded credit-linked notes issued by a Reporting Bank against exposures in the banking book which fulfill the criteria for eligible credit derivatives shall be treated as cash collateralised transactions.

²²⁸ When cash on deposit, certificates of deposit or other similar instruments issued by the lending Reporting Bank are held as collateral at a third-party banking institution in a non-custodial arrangement and are pledged or assigned to the lending Reporting Bank, the Reporting Bank shall apply the risk weight of the third-party banking institution to the exposure covered by such collateral (after any necessary haircuts for currency risk). This is subject to the pledge or assignment being unconditional and irrevocable.

^{228A} This includes any structured note.

- (d) any equity security (including convertible bonds) that is included in a main index of any ~~securities exchange in Singapore or any recognised group A exchange regulated exchange~~; and
- (e) any unit in a collective investment scheme where —
 - (i) a price for the units is publicly quoted daily; and
 - (ii) the collective investment scheme is limited to investing in the instruments listed in this paragraph.²²⁹

[MAS Notice 637 (Amendment No. 2) 2014]

2.2A Resecuritisations, irrespective of any credit ratings, are not eligible financial collateral. This prohibition applies whether the Reporting Bank is using the supervisory haircuts method, the own estimates of haircuts method, the repo VaR method or the internal model method.

2.3 For a Reporting Bank using the FC(CA), eligible financial collateral comprises^{226A} -

- (a) any instrument listed in paragraph 2.2 above;
- (b) any equity security (including convertible bonds) that is listed on any ~~securities exchange in Singapore or any recognised group A exchange regulated exchange~~; and
- (c) any unit in a collective investment scheme where a price for the units is publicly quoted daily and the collective investment scheme is limited to investing in instruments listed in paragraph 2.2 and in this paragraph.²³⁰

2.4 Notwithstanding paragraphs 2.2 and 2.3 above, in the case of any pre-settlement counterparty exposures arising from a repo-style transaction (i.e. repo, reverse repo, securities lending or securities borrowing transaction) which is included in the trading book, eligible financial collateral^{226A} includes all instruments which a Reporting Bank may include in the trading book (except resecuritisations exposures).

[MAS Notice 637 (Amendment) 2012]

2.5 For a Reporting Bank adopting the IRBA, eligible IRBA collateral comprises -

²²⁹ The use or potential use by a collective investment scheme of derivative instruments solely to hedge investments listed in paragraph 2.2 shall not prevent units in that collective investment scheme from being recognised as eligible financial collateral for a Reporting Bank using FC(SA).

²³⁰ The use or potential use by a collective investment scheme of derivative instruments solely to hedge investments listed in paragraph 2.3 shall not prevent units in that collective investment scheme from being recognised as eligible financial collateral for a Reporting Bank using FC(CA).

- (a) eligible CRE and eligible RRE;
- (b) eligible receivables; and
- (c) eligible physical collateral comprising -
 - (i) all industrial properties in Singapore;
 - (ii) land in Singapore;
 - (iii) land in another jurisdiction where the bank regulatory agency has recognised such land as eligible physical collateral;
 - (iv) ships;
 - ~~(v)~~ aircraft; ~~and~~
 - ~~(v)~~(vi) commodities; and
 - ~~(vi)~~(vii) such other collateral which is approved by the Authority.

METHODS AND HAIRCUTS FOR RECOGNISING COLLATERAL

Amendments to Table 7J-1

Table 7J-1 - Standard Supervisory Haircuts

Eligible Financial Collateral		Standard Supervisory Haircuts		
Issue Rating for Debt Securities	Residual Maturity	Central Governments or Central Banks	Other Issuers	Securitisation Exposures
Any debt security with a credit quality grade of "1" or short-term credit quality grade of "I"	≤ 1 year	0.005	0.01	0.02
	> 1 year, ≤ 5 years	0.02	0.04	0.08
	> 5 years	0.04	0.08	0.16
Any debt security with a credit quality grade of "2" and "3" or short-term credit quality grade of "II" and "III"	≤ 1 year	0.01	0.02	0.04
	> 1 year, ≤ 5 years	0.03	0.06	0.12
	> 5 years	0.06	0.12	0.24
Any debt security with a credit quality grade of "4"	All	0.15	NA	NA
Gold		0.15		
Any equity (including a convertible bond) included in a main index of a securities exchange in Singapore or a recognised group A exchange-regulated exchange		0.15		
Any other equity (including a convertible bond) listed on a securities exchange in Singapore or a recognised group A exchange-regulated exchange		0.25		
Any unit in a collective investment scheme		0.25 or highest haircut applicable to any security in which the fund can invest		
Cash in the same currency as the underlying exposure		0		
Instruments in the trading book other than those listed above (for pre-		0.25		

Eligible Financial Collateral	Standard Supervisory Haircuts
settlement counterparty exposures arising from repo-style transactions, i.e. repo, reverse repo, securities lending or securities borrowing transactions, included in the trading book)	

[MAS Notice 637 (Amendment) 2014]
[MAS Notice 637 (Amendment No. 2) 2014]

PROPOSED AMENDMENTS TO PART XII (REPORTING SCHEDULES)

The section lays out the proposed amendments to Schedule 5E of Annex 12E of Part XII of MAS Notice 637 (Reporting Schedules).

No amendments are proposed for other elements of Part VII not mentioned in this section.

MAS NOTICE 637: OTHER REPORTING SCHEDULES
SCHEDULE 5E

Annex 12E

ELIGIBLE FINANCIAL COLLATERAL AND ELIGIBLE IRBA COLLATERAL

Name of the Reporting Bank: _____

Statement as at: _____

Scope of Reporting: _____

Table 5E-Collateral for the SA(CR), SEC-ERBA and SEC-SA
(In S\$ million)

Central Government & Central Bank Asset Class	SA(CR) Asset Class								Securitisation			Subtotal
	PSE Asset Class	MDB Asset Class	Bank Asset Class	Corporate Asset Class	Regulatory Retail Asset Class	Residential Mortgage Asset Class	CRE Asset Class	Other Exposures Asset Class	SEC-ERBA	SEC-SA	Securitisation Exposures to which the SEC-IRBA, SEC-ERBA, and SEC-SA cannot be applied	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	= a+b+c+d+e+f+g+h+i+j+k+l
1. Eligible Financial Collateral under FC(SA)												
(a) Cash (including certificates of deposit and other similar instruments) on deposit with the Reporting Bank												
(b) Gold												
(c) Debt Security (excluding structured note)												
(d) Equity Security (including convertible bonds)												
(e) Debt security which is a structured note												
(f) Unit in a collective investment scheme												
Sub-Total for Eligible Financial Collateral under FC(SA)												
[MAS Notice 637 (Amendment No. 2) 2014]												
2. Eligible Financial Collateral under FC(CA)												
(a) Cash (including certificates of deposit and other similar instruments) on deposit with the Reporting Bank												
(b) Gold												
(c) Debt Security (excluding structured note)												
(d) Equity Security (including convertible bonds)												
(e) Debt security which is a structured note												
(f) Unit in a collective investment scheme												
Sub-Total for Eligible Financial Collateral under FC(CA)												
[MAS Notice 637 (Amendment No. 2) 2014]												
Total for Collateral for the SA(CR), SEC-ERBA and SEC-SA												

[MAS Notice 637 (Amendment No. 2) 2017]

MAS NOTICE 637: OTHER REPORTING SCHEDULES
SCHEDULE 5E

ELIGIBLE FINANCIAL COLLATERAL AND ELIGIBLE IRBA COLLATERAL

Name of the Reporting Bank:

Statement as at:

Scope of Reporting:

Table 5E-Collateral for the IRBA and SEC-IRBA
(In S\$ million)

1. Eligible Financial Collateral under FC(CA)

- (a) Cash (including certificates of deposit and other similar instruments) on deposit with the Reporting Bank
- (b) Gold
- (c) Debt Security (excluding structured note)
- (d) Equity Security (including convertible bonds)
- (e) Debt security which is a structured note
- (f) Unit in a collective investment scheme

Sub-Total for Eligible Financial Collateral under FC(CA)

[MAS Notice 637 (Amendment No. 2) 2014]

2. Eligible IRBA Collateral

- (a) Eligible CRE
- (b) Eligible RRE
- (c) Eligible Receivables
- (d) Eligible Physical Collateral - Industrial properties
- (e) Eligible Physical Collateral - Land in Singapore
- (f) Eligible Physical Collateral - Land in another jurisdiction
- (g) Eligible Physical Collateral - Ships
- (h) Eligible Physical Collateral - Aircrafts
- (i) Eligible Physical Collateral - Commodities
- (j) Eligible Physical Collateral - others

Sub-Total for Eligible IRBA Collateral

Total for Collateral for the IRBA and SEC-IRBA

	IRBA Asset Sub-Class						SEC-IRBA	Subtotal	
	Sovereign Asset Sub-class	Bank Asset Sub-class	Corporate Asset Sub-class	Corporate Small Business Asset Sub-class	SL Asset Sub-class (IPRE)	SL Asset Sub-class (PF/OF/CF)	HVCRE Asset Sub-class		Securitisation
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i = a+b+c+d+e+f+g+h)
Sub-Total for Eligible Financial Collateral under FC(CA)									
Sub-Total for Eligible IRBA Collateral									
Total for Collateral for the IRBA and SEC-IRBA									



Monetary Authority of Singapore