RESPONSE TO FEEDBACK RECEIVED

November 2017

Proposed Amendments to the Capital Framework for Securitisation Exposures in MAS Notice 637

MAS

Monetary Authority of Singapore

Contents

1 Preface

1.1 On 9 January 2017, MAS issued a consultation paper on Proposed Amendments to the Capital Framework for Securitisation Exposures and Interest Rate Risk in the Banking Book in MAS Notice 637. The consultation period ended on 10 February 2017. MAS would like to thank all respondents for their contributions.

1.2 This document covers our responses to the feedback received on the amendments for securitisation exposures. MAS will be publishing our responses to the feedback received on the amendments for interest rate risk in the banking book at a later date.

1.3 MAS has issued amendments to MAS Notice 637 to implement requirements for Singapore-incorporated banks that are consistent with the following final standards issued by the Basel Committee on Banking Supervision:

(a) "Revisions to the securitisation framework" (press release: http://www.bis.org/press/p141211.htm); and

(b) "Revisions to the securitisation framework, incorporating capital treatment for simple, transparent and comparable securitisations" (press release: http://www.bis.org/press/p160711.htm).

1.4 The amendments to the securitisation framework will strengthen the capital standards for securitisation exposures, while providing a preferential capital treatment for simple, transparent and comparable traditional securitisations.

1.5 The amendments also include the International Development Association and the Asian Infrastructure Investment Bank in the list of qualifying multilateral development banks in accordance with BCBS Newsletters No. 19 and 20 (http://www.bis.org/publ/bcbs_nl19.htm and http://www.bis.org/publ/bcbs_nl20.htm respectively).

1.6 The amendments will take effect from 1 January 2018.

1.7 MAS has considered carefully the feedback received in finalising the amendments to MAS Notice 637. Comments that are of wider interest, together with MAS' responses, are set out below.

2 Amendments to Securitisation Capital Framework

Criteria for Transfer of Significant Credit Risk for Securitisations

2.1 Where a Reporting Bank originates a securitisation, the Reporting Bank is required to transfer significant credit risk of the underlying exposures to third parties, in order to exclude the underlying exposures from capital treatment. The consultation paper proposed that one requirement to exclude the underlying exposures from capital treatment is that, at all times, the Reporting Bank:

(a) holds not more than 20% of the aggregate nominal value of all securities issued;

(b) holds not more than 20% of the nominal value of any tranche that is not a senior securitisation tranche; and

(c) does not hold any non-senior securities or provide any credit enhancements to the securitisation such that these collectively provide more than 20% of the loss cover to support senior securitisation exposures.

2.2 Respondents commented that this proposed retention limit was too restrictive, given the market expectation for an originator to own all or most of the first loss tranche to demonstrate aligned incentives with investors, and the industry practice where an originating bank retains all or most of the senior tranche, which typically accounts for a large proportion of the nominal value of securities issued.

2.3 A respondent also commented that any limit on the Reporting Bank's holdings of the securitisation under the significant risk transfer criteria should be risk-based, rather than based on nominal value, and that 1250% risk-weighted securities retained by an originating Reporting Bank should be excluded from the retention limit.

MAS' Response

2.4 While an excessive retention of issued securities by an originating Reporting Bank could undermine the intent of a securitisation to transfer significant credit risk, MAS recognises that an overly strict retention limit could hinder the ability of banks to tap on securitisation markets as a source of alternative financing to support real economic activity. MAS also agrees with the feedback that the retention limit should be risk-based, since a risk-based metric would be more appropriate for ensuring significant transfer of credit risk.

2.5 Correspondingly, MAS has revised the criteria to require that a Reporting Bank hold, at all times, not more than 20% of the risk-weighted assets of all securitisation exposures of the securitisation, as one of the requirements to exclude securitised exposures from its calculation of credit RWA. 1250% risk-weighted securities retained by a Reporting Bank in securitisations that it originates are not excluded from the retention limit, given that the adequacy of capital held for such exposures does not mitigate the need to ensure the transfer of significant credit risk to third parties. An originator Reporting Bank which does not meet this retention limit for a transaction may seek MAS' approval for recognition of significant risk transfer on a case-by-case basis, if it can demonstrate that a significant portion of the credit risk associated with the underlying exposures has been transferred to third parties.

Criteria for Identifying Simple, Transparent and Comparable Securitisations

2.6 The consultation paper proposed that traditional securitisations that meet the prescribed simple, transparent and comparable (STC) criteria on an ongoing basis would be eligible for preferential capital treatment.

2.7 A respondent provided feedback that:

- the compliance of a securitisation transaction with the proposed STC criteria would not guarantee that the performance of the transaction would be predictable to a high degree of confidence; and
- the role of the STC criteria should be to facilitate informed decisions by investors, and not as an exclusive stamp of credit quality.

MAS' Response

2.8 BCBS' STC criteria are intended to help parties involved in a securitisation evaluate the risks and returns of a particular securitisation more thoroughly, and enable more straightforward comparison across securitisation products within an asset class. Compliance with the STC criteria should not automatically be interpreted as a mark of high credit quality, or of a transaction performance which is predictable with a high degree of confidence.

MONETARY AUTHORITY OF SINGAPORE

29 November 2017

Annex A

LIST OF RESPONDENTS TO THE CONSULTATION PAPER ON PROPOSED AMENDMENTS TO THE CAPITAL FRAMEWORK FOR SECURITISATION EXPOSURES IN MAS NOTICE 637

1. DBS Bank Limited
2. Moody's Investors Service

4 other respondents requested confidentiality of identity.

Annex B

FULL SUBMISSIONS FROM RESPONDENTS TO THE CONSULTATION PAPER ON PROPOSED AMENDMENTS TO THE CAPITAL FRAMEWORK FOR SECURITISATION EXPOSURES IN MAS NOTICE 637

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	Moody's Investors Service	Criteria for identifying simple, transparent and comparable securitisations MIS supports the development of STC as a means of re-igniting the securitisation market. The definition of what constitutes STC will help reduce the remaining stigma attached to securitisation by introducing commonly understood standards for transactions features. The resulting expansion of a stronger securitisation market will enable a broader distribution of credit risk among financial institutions and third-party investors, and help expand the pool of funding to support Singapore and the global economy's financing needs. MIS understands the benefit such as an STC classification may have for policy makers, particularly in regard to the predictability, certainty and level of assessment of the risk particularly when read together with other policy maker initiatives in this area.[1] However, STC principles are only the foundation on which additional criteria can be added, such as credit risk. In our view, the STC criteria should lay

[1] Our views on "high quality" securitisation can be found in our Special Comment: Key Factors in Assessing the Credit Quality of European Structured Finance Transactions (30 September 2014): https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBS_SF382435

		the foundation for securitisation to correlate with prediction confidence. Ensuring that a securitisation transaction's assets or structure has certain predefined features does not by itself guarantee that its performance will be predictable to a high degree of confidence. In this regard, the STC framework should not be relied on as an exclusive stamp of credit quality. STC can help market participants understand the risks associated with securitisation and underlying asset performance, but will not remove them. Investors should maintain standards of due dilligence as part of their own internal investment guidelines, policies and procedures. To the extent that qualifying securitisations are intended to satisfy criteria for STC, the balance should be in favor of investors receiving the optimal amount and quality of information to make informed decisions. <u>Capital treatment for "simple, standard and comparable" securitisations</u> Subject to our comments on the STC framework more broadly, we believe the STC criteria will help mitigate the current regulatory capital impediments to functioning securitisation markets. Investors believe that capital charges for securitisation are not in line with the risk of the instrument and that the current and proposed capital framework is out of line with that of covered bonds and the broader fixed income markets. Improving the standardisation of capital treatment versus other instruments would drive economics and help attract a larger investor base. For example, the MIS 12-month downgrade rate (historical average between 1993-2016) for global structured finance is broadly comparable with

		that of global corporates (17.8% vs. 14.4%)[2]. Yet it is our understanding that the capital charge against securitisation bonds for investors is generally significantly higher than that of the comparable risk and maturity for corporate and covered bonds.

[2] See Moody's Investors Service Data Report, Exhibit 1 in "Structured Finance Rating Transitions: 1993 - 2016H1", 1 November 2016. Note the Corporate Historical Average covers 1984 to 2016. https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBS_1048485

Monetary Authority of Singapore