

# RESPONSE TO FEEDBACK RECEIVED

19 October 2017

**Proposed Amendments to Regulatory  
Requirements in relation to Credit Loss  
Provisioning**

MAS

Monetary Authority of Singapore

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## **1 Preface**

1.1 On 12 May 2017, MAS issued a consultation paper on the proposed amendments to MAS Notices 612, 1005, 637 and 1111 in relation to the changes in the recognition and measurement of allowance for credit losses introduced in International Financial Reporting Standard (“IFRS”) 9 *Financial Instruments* and Singapore Financial Reporting Standard (“SFRS”) 109 *Financial Instruments*. The policy proposals are calibrated to meet MAS’ prudential objectives in areas where the expected credit loss (“ECL”) model under IFRS 9 and SFRS 109 may not fully address our prudential concerns.

1.2 MAS received a wide range of feedback from various stakeholders, with some respondents seeking clarification on certain policy proposals. MAS has carefully considered all feedback received, taking into account our observations on the ECL accounting model and our prudential objectives, as well as the requirement for banks in Singapore to apply SFRS 109<sup>1</sup>. This document summarises comments that are of wider interest, together with MAS’ responses and policy decisions. MAS will reply to all respondents individually and publish the finalised MAS Notice 612, 1005, 637 and 1111 before end 2017.

1.3 MAS would like to thank all respondents for their comments. The list of respondents and the feedback which respondents agreed to publish are appended in Annexes A and B respectively.

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<sup>1</sup> Banks in Singapore are required to apply SFRS 109, or IFRS 9 for locally-incorporated banks that are listed on the Singapore Exchange, in the preparation of their financial statements for reporting periods beginning on or after 1 January 2018 in accordance with sections 201 or 373 of the Companies Act (Cap. 50).

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## 2 Response to feedback

### ***Proposed removal of regulatory requirements on minimum impairment provisions for credit-impaired exposures***

2.1 Most respondents agreed with the proposal to remove the regulatory requirements on minimum impairment provisions for loans graded “substandard”, “doubtful” and “loss”. Some respondents raised concerns that the removal may give rise to divergence in regulatory loan classifications of credit-impaired exposures among banks, while others suggested that MAS align the regulatory loan classifications to the stages under SFRS 109.

#### MAS’ Response

2.2 MAS will remove the regulatory requirements on minimum impairment provisions for credit-impaired exposures. MAS continues to expect banks to set aside adequate provisions for their credit impaired exposures in accordance with the accounting requirements under SFRS 109, which should continue to be subject to external auditors’ review as specifically required under MAS Notice 609 (for banks) and MAS Notice 1002 (for merchant banks).

2.3 MAS is reviewing the regulatory loan classification framework. As part of our review, MAS will consider the guidance issued by the Basel Committee of Banking Supervision (“BCBS”) on the “Prudential Treatment of Problem Assets - Definitions of Non-Performing Exposures and Forbearance”, as well as feedback received in this consultation. MAS will engage the industry and seek feedback at a later date. Meanwhile, banks are to continue adhering to the regulatory loan classification requirements as set out in MAS Notice 612<sup>2</sup>.

### ***Proposed regulatory requirements on minimum loss allowances for non-credit-impaired exposures***

2.4 MAS proposed differentiated supervisory measures for locally-incorporated domestic systemically important banks (“D-SIBs”) (including subsidiaries of foreign banks) and for foreign bank branches/merchant banks. Locally-incorporated D-SIBs will be subject to a minimum level of loss allowances for their non-credit-impaired exposures, of 1% of the exposures, net of collaterals (“minimum regulatory loss allowances”). Foreign

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<sup>2</sup> All changes to MAS Notice 612, which is applicable to banks in Singapore, will also be incorporated in MAS Notice 1005 which is applicable to merchant banks in Singapore.

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bank branches and merchant banks will be permitted to maintain the minimum regulatory loss allowances for their non-credit-impaired exposures, if it results in higher loss allowances than the expected credit losses estimated under SFRS 109.

2.5 On the proposed treatment for locally-incorporated D-SIBs, the feedback from respondents centred on the following:

- whether it is necessary to have a regulatory backstop for loss allowances, given that SFRS 109 is an improvement to SFRS 39 due to its recognition of lifetime expected losses for stage 2 and stage 3 exposures;
- the imposition of a minimum loss allowances would be contradictory to BCBS' guidance on high quality application of ECL models, and may also represent a deviation from the accounting standards leading to a qualified audit opinion on banks' financial statements; and
- seeking greater clarification on the definition of "exposures" and "eligible collaterals" in computing the minimum regulatory loss allowances.

2.6 On the proposed treatment for foreign bank branches and merchant banks, most respondents queried if the 1% minimum regulatory loss allowance requirement was mandatory or optional.

#### MAS' Response

2.7 MAS will impose the minimum regulatory loss allowances on locally-incorporated D-SIBs. As explained in the consultation paper, while MAS recognises that the ECL model represents an improvement to the existing incurred loss model, there remain challenges and uncertainties globally in the implementation and application of the accounting standard. MAS considers it prudent to continue to subject locally-incorporated D-SIBs to higher supervisory intensity and additional supervisory measures which ensure that a minimum level of loss allowance is maintained to absorb expected credit losses. MAS will continue to monitor developments on impairment provisions under international accounting standards and review the prudential requirements in relation to credit loss provisioning when necessary.

2.8 MAS will adopt an implementation approach for the minimum regulatory loss allowances that will not result in a deviation from the accounting standards, nor a qualified audit opinion on the banks' financial statements. Please refer to paragraph 2.14 for details.

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2.9 In response to the consultation feedback, MAS will provide clarity on the definition of exposures and eligible collaterals for the computation of the minimum regulatory loss allowances in the revised MAS Notice 612 to achieve a level of consistency in implementation across locally-incorporated D-SIBs. Please refer to Annex C for the proposed definition of exposures and eligible collaterals.

2.10 Foreign bank branches and merchant banks may choose to maintain the 1% minimum regulatory loss allowances for their non-credit-impaired exposures<sup>3</sup> on basis of prudence, if it results in higher loss allowances than the expected credit losses estimated under SFRS 109. However, they will not be subject to a regulatory requirement to do so.

2.11 For avoidance of doubt, all banks are required to comply with the impairment requirements for the recognition, measurement and disclosure of loss allowance in accordance with the relevant accounting standards. MAS expects banks to adopt sound credit loss allowance methodologies commensurate with their size, complexity, structure, economic significance and risk profile.

***Proposed approaches for the treatment of the minimum regulatory loss allowances***

2.12 MAS proposed two alternative approaches for the treatment of the minimum regulatory loss allowances, namely: 1) recognise the additional loss allowance<sup>4</sup> by establishing a non-distributable regulatory loss allowance reserve through appropriation of retained earnings (“RLAR approach”); and 2) recognise the additional loss allowance through the profit and loss statement (“P&L approach”). Both approaches support MAS’ prudential objective as banks accumulate a minimum level of provisions at all times, especially in the upturn phase of an economic cycle.

2.13 Respondents had mixed views on the two approaches. Several respondents preferred the relative simplicity of the P&L approach and noted that this approach could reduce earnings volatility and increase the comparability of P&L numbers across banks. On the other hand, other respondents expressed preference for the RLAR approach as it supports the banks’ compliance with the accounting standards, and does not lead to a qualified or modified audit opinion on the banks’ financial statements.

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<sup>3</sup> The 1% minimum regulatory loss allowances, if chosen, have to be applied on all non-credit-impaired exposures that fall within the definition of exposures in Annex C.

<sup>4</sup> Additional loss allowance refers to the amount of the excess of the minimum regulatory loss allowances over the expected credit losses measured under SFRS 109.

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MAS' Response

2.14 MAS will require banks to adopt the RLAR approach for the treatment of the minimum regulatory loss allowances. Under this approach, the P&L statements of banks will fully reflect credit loss allowance based on accounting standards. In making this policy decision, MAS considered that the adoption of the RLAR approach would achieve the prudential objective of cushioning the impact of heightened credit losses on the banks' capital during an economic downturn. It would also be in line with the direction of Singapore progressing towards full convergence with IFRS and enable better alignment with international practice. Banks' compliance with the minimum regulatory loss allowance requirement via the RLAR approach will continue to be subject to external auditors' review as required under MAS Notice 609 (for banks) and MAS Notice 1002 (for merchant banks).

***Proposed retention of the option for banks incorporated outside Singapore to record their loss allowances for non-credit-impaired exposures at head office***

2.15 Some respondents commented that while in practice their loss allowances for non-credit-impaired exposures were recorded at the Singapore branch, it was nonetheless useful to have the flexibility to record such loss allowances at head office. Other respondents highlighted that the financial statements of foreign bank branches that adopt this option could continue to be regarded as being non-compliant with IFRS/SFRS.

2.16 A few respondents sought clarifications on whether it was permissible for loss allowances determined and carried at the head office under this option to be computed in accordance with the accounting standards applicable in their home jurisdictions.

MAS' Response

2.17 MAS will retain the option for banks incorporated outside Singapore to record their loss allowances for non-credit-impaired exposures at head office, taking into consideration their size, complexity and risk profile.

2.18 In addition, for operational expediency, MAS will allow such loss allowances determined and carried at head office to be computed in accordance with the applicable accounting standards of the head office's jurisdiction. However, banks should ensure that the loss allowances carried at head office are similar to those computed in accordance with IFRS 9/SFRS 109 and are adequate to cover the expected losses inherent in all non-credit-impaired exposures booked in the Singapore branch.

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2.19 MAS continues to maintain the discretion to require the establishment of loss allowances for non-credit-impaired exposures in the books of a bank's Singapore branch to address specific concerns or issues, as part of MAS' supervisory process.

***Proposed reporting template for banks that record their loss allowances for non-credit-impaired exposures at head office***

2.20 Some respondents suggested to exclude the breakdown into stage 1 and stage 2 exposures from the reporting template. Suggestions were also received pertaining to extensions of submission deadline under various scenarios, and having an authorised person from the Singapore branch to sign off on the reporting template.

MAS' Response

2.21 Taking into consideration the feedback received, MAS will revise the reporting template to require only the total non-credit-impaired exposures and the corresponding total credit loss allowances to be reported, and to allow reporting periods to be aligned to banks' financial year-ends.

2.22 MAS will extend the submission deadline from 15 days to 30 days after the last day of each reporting period. MAS will also require authorised persons from both head office and the Singapore branch/subsidiary to sign off on the reporting template.

***Proposed transitional arrangement of up to two years for banks to build up the required minimum regulatory loss allowances where applicable***

2.23 Majority of the respondents did not object to the proposed transitional arrangement of up to two years. A few respondents requested for the start of transitional arrangement to coincide with their financial year-ends.

MAS' Response

2.24 MAS will allow banks in Singapore a period of up to two years to build up the additional loss allowance<sup>5</sup> required to meet the 1% minimum regulatory loss allowances. This transitional arrangement is only applicable to banks that currently do not maintain the 1% minimum collective impairment provisions under MAS Notice 612, and which are required or choose to comply with the 1% minimum regulatory loss allowances from 1 January 2018 onwards. MAS will allow for flexibility in aligning the start date of the two-

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<sup>5</sup> Additional loss allowance refers to the amount of the excess of the minimum regulatory loss allowances over the expected credit losses measured under SFRS 109.

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year period with banks' financial year-ends (e.g. 1<sup>st</sup> April 2018 for banks with financial year ending 31<sup>st</sup> March 2018).

***Proposed interim regulatory capital treatment of loan loss allowances under the ECL model***

2.25 Some respondents sought clarification on the categorisation of non-credit-impaired exposures under the accounting ECL model and proposed for stage 1 and stage 2 exposures under the ECL approach to be regarded as non-credit-impaired.

MAS' Response

2.26 Exposures identified by banks as being in stage 1 and stage 2 may be regarded as non-credit-impaired exposures for purposes of the inclusion of credit loss allowances of these exposures as Tier 2 capital, up to the prescribed threshold under MAS Notice 637, for application under the standardised approach to credit risk. Banks should ensure that these exposures do not meet the definition of credit-impaired financial assets under SFRS109.

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## **Annex A – List of respondents to the consultation paper**

1. Deloitte & Touche LLP, who requested confidentiality of submission
2. Ernst & Young LLP, who requested confidentiality of submission
3. KPMG LLP, who requested confidentiality of submission
4. DBS Bank, who requested confidentiality of submission
5. OCBC Bank, who requested confidentiality of submission
6. United Overseas Bank Limited, who requested confidentiality of submission
7. Citibank, who requested confidentiality of submission
8. Commonwealth Bank of Australia, Singapore Branch, who requested confidentiality of submission
9. Morgan Stanley Asia International Limited, Singapore Branch, who requested confidentiality of submission
10. Standard Chartered Bank Singapore Limited, who requested confidentiality submission
11. Standard Chartered Bank, Singapore Branch, who requested confidentiality submission
12. The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch, who requested confidentiality of submission
13. HSBC Bank (Singapore) Limited, who requested confidentiality of submission
14. VP Bank (Singapore) Ltd, who requested confidentiality of submission
15. Bank of China Limited, Singapore Branch
16. Cathay United Bank, Singapore Branch
17. The Siam Commercial Bank PCL, Singapore Branch
18. Mizuho Bank Ltd
19. Mitsubishi UFJ Trust and Banking Corporation, Singapore Branch

20. Nomura Singapore Limited
21. National Australia Bank Limited, Singapore Branch
22. UniCredit Bank AG, Singapore Branch
23. ICICI Bank Limited, Singapore Branch
24. Svenska Handelsbanken, Singapore Branch
25. KBC Bank N.V., Singapore Branch
26. Wells Fargo Bank National Association, Singapore Branch
27. 9 respondents requested confidentiality of their identity
28. 4 respondents requested confidentiality of their identity and submission

**Annex B – Submissions from respondents to the consultation paper**

S/N	Respondent	Feedback from respondent
1.	Bank of China Limited, Singapore Branch	<p><b>General comments:</b> NIL</p> <p><b>Question 1:</b> NIL</p> <p><b>Question 2:</b> The Bank has concerns in applying the minimum regulatory loss allowances of 1% in view that the Bank’s model is closely aligned to the ECL model (when ready) where we adopt the Head Office’s accounting approach to implement IFRS 9 which is a forward-looking and granular approach for prudential provisioning.</p> <p>If the Bank simply maintains the minimum regulatory loss allowances of 1%, it will affect the consistency of the results derived from the ECL model systematically.</p> <p><b>Question 3:</b> The Bank would like to adopt Approach 1 where all banks are expected to comply with the minimum regulatory loss allowance requirement by establishing a non-distributable regulatory loss allowance reserves (“RLAR”) through appropriation of retained earnings.</p> <p>This will allow the Bank to be able to recognise its expected credit losses for non-credit impaired exposures through the appropriation of retained earnings which would not cause any significant fluctuation impact in the Bank’s Profit and Loss account.</p> <p><b>Question 4:</b> In view of the MAS’ proposed approach to retain the option for banks incorporated outside Singapore to record their loss allowances for non-credit impaired exposures at head office, the Bank has no intention to adopt this option at this point in time.</p>

S/N	Respondent	Feedback from respondent
		<p><b>Question 5:</b> NIL</p> <p><b>Question 6:</b> NIL</p> <p><b>Question 7:</b> NIL</p>
2.	Cathay United Bank, Singapore Branch	<p><b>General comments:</b> Please refer to feedback as numerated below.</p> <p><b>Question 1:</b> No further comments.</p> <p><b>Question 2:</b> 2(i) N/A 2(ii) No further comments</p> <p><b>Question 3:</b> Preference is for Approach 2. Minimum change to system in this approach and more straight forward.</p> <p><b>Question 4:</b> Loan loss provision is currently recorded at Singapore Branch level. It should remain unchanged so as to better reflect the financial position and performance of the Branch.</p> <p><b>Question 5:</b> No further comment.</p> <p><b>Question 6:</b> Transitional arrangement is a good proposal as it allows banks some leeway in complying with the requirements.</p> <p><b>Question 7:</b> No further comments.</p>

S/N	Respondent	Feedback from respondent
3.	The Siam Commercial Bank PCL, Singapore Branch	<p><b>General comments:</b>                      Please confirm the following:                      i) “non-credit exposure” is classified as stage 1 or 2                      ii) “credit-impaired exposure’ is classified as stage 3</p> <p><b>Question 1:</b>                      -</p> <p><b>Question 2:</b>                      We will like to propose that for banks with small and simple operations in Singapore that do not have an Expected Credit Loss (“ECL”) model that is sufficiently robust, or sufficient quality historical loan loss data to be allowed the option to continue using the existing MAS 612 methodology to maintain collective impairment allowances of not less than 1% of its loans and receivables net of collaterals, after deducting individual impairment provisions made regardless of whether it results in higher or lower loss allowances than the expected credit losses estimated under SFRS 109.</p> <p><b>Question 3:</b>                      i) If the SFRS 109 is below the 1% minimum regulatory loss allowance, do non D-SIBs (especially for banks with small and simple operations in Singapore) have to recognise the additional loss allowance?                       ii) We will like to propose that for banks with small and simple operations in Singapore be allowed to continue with the 1% collective provision under MAS 612 and no comparison with SFRS 109 is required.</p> <p><b>Question 4:</b>                      -</p> <p><b>Question 5:</b>                      -</p> <p><b>Question 6:</b>                      -</p> <p><b>Question 7:</b>                      -</p>

S/N	Respondent	Feedback from respondent
4.	Mizuho Bank Ltd	<p><b>General comments:</b> -</p> <p><b>Question 1:</b> Not applicable to our Bank as we do not apply the default minimum provisioning requirements for credit impaired exposures.</p> <p><b>Question 2:</b> (i) Not applicable.  (ii) We will like to confirm if the 1% non-credit impaired exposures will be based on the current definition in MAS 612, or will it be extended to include inter-bank and inter-office placements, i.e., all items that are within the scope of IFRS9.  We have no objections to this proposed requirement if the 1% is applicable only to credit exposures (excluding interbank and inter-office placements). Our branch is currently adopting the 1% approach under MAS 612.</p> <p><b>Question 3:</b> Both approaches require our provisioning to be at 1% of the minimum regulatory loss allowance for non-credit impaired exposures. Our branch currently maintains our collective impairment based on the 1% MAS 612 requirement. Approach 2 is preferred as it is easier to administer, there is no necessity to create a new reserve account or the need to track the movements in this account, and follows the booking of our Head office. This is on the basis that there is no difference in the tax treatment for either approach.</p> <p><b>Question 4:</b> Not applicable as currently, our Bank's collective impairment provision is carried at Branch level.</p> <p><b>Question 5:</b> Not applicable.</p> <p><b>Question 6:</b> Not applicable.</p>

S/N	Respondent	Feedback from respondent
		<p><b>Question 7:</b> Not applicable.</p>
5.	Mitsubishi UFJ Trust and Banking Corporation, Singapore Branch	<p><b>Question 1:</b> No Comment.</p> <p><b>Question 2:</b> No Comment.</p> <p><b>Question 3:</b> No Comment.</p> <p><b>Question 4:</b> No Comment.</p> <p><b>Question 5:</b></p> <ul style="list-style-type: none"> <li>- Branch does not have specific comments over the format.</li> <li>- Branch general manager's sign-off (instead of sign-off by head office personnel) shall be appropriate since Japanese Head Office has not adopted IFRS9 and the staging shall be most likely conducted at branch level.</li> <li>- The Semi-Annual submission shall be conducted as per end of Mar / Sep, instead of Jun / Dec if a bank's financial closing comes at end of March.</li> <li>- Since 15 days are too tight for MUTB to prepare the letter, Branch would like to request 2 months for preparation, which is in line with the current timeline semi-annual reporting to MAS for the amount of collective impairment provision carried at head office.</li> </ul> <p><b>Question 6:</b> No Comment.</p> <p><b>Question 7:</b> No Comment.</p>

S/N	Respondent	Feedback from respondent
6.	Nomura Singapore Limited (“NSL”)	<p><b>General comments:</b>                      With reference to Para 3.7, for the avoidance of doubt, could MAS confirm that only D-SIBs will have to calculate minimum regulatory loss allowances and take additional regulatory charges should the Expected Credit Loss be lower than the prudential provisions?</p> <p><b>Question 1:</b>                      NIL</p> <p><b>Question 2:</b>                      Per Para 3.5, the paper defines the minimum regulatory loss allowances as 1% of non-credit impaired exposure net of collaterals. Per footnote 10, Exposure is defined as the sum of “loans and receivables to non-banks customers, all other credit exposures including debt securities held and off-balance sheet exposures as determined by the bank credit measurement framework and expert judgment”</p> <p>1) Clarification on the definition of exposure for the calculation of minimum regulatory loss allowances for merchant banks. Could MAS clarify the inclusion and exclusion of debt securities in the exposure calculation? In particular, would MAS consider exclusion for debt securities issued by central government or banks such as MAS bills / USTs / JGBs?</p> <p>2) Clarification on the definition of “collateral” for the calculation of minimum regulatory loss allowances for merchant banks</p> <p>There is no definition of what is meant by collateral in this consultation paper. Would it be possible to get a definition from MAS? In particular, we would like to know whether the collateral should be calculated as per the credit risk framework or whether it should follow the definition under MAS 1111?</p> <p><b>Question 3:</b>                      NIL</p> <p><b>Question 4:</b>                      NIL</p>

S/N	Respondent	Feedback from respondent
		<p><b>Question 5:</b> NIL</p> <p><b>Question 6:</b> Go-live date - The paper mentions a go-live date of 1st January 2018 for the regulatory application of the standard via changes to MAS 1111 and MAS 1005. The accounting standard will be effective “for reporting periods beginning on or after 1st Jan 2018” (page 3). For operational efficiency, would it be possible to align the regulatory go-live with the accounting one? For NSL, this would mean April 1st 2018 for instance as this is the start of our financial year.)</p> <p><b>Question 7:</b> NIL</p>
7.	National Australia Bank Limited (“NAB”), Singapore Branch	<p><b>General comments:</b> None</p> <p><b>Question 1:</b> NAB Singapore has in place a systematic, comprehensive and consistent process in determining collective provision. Notwithstanding, we support the removal of the regulatory requirements on the minimum impairment provisions for credit impaired exposures.</p> <p><b>Question 2:</b> (i) Not applicable – NAB Singapore is not locally-incorporated D-SIBs.  (ii) NAB Singapore supports the proposal that foreign bank branches are permitted to maintain their existing credit loss provisioning under SFRS109.</p> <p><b>Question 3:</b> Not Applicable – we understand that foreign bank branches are permitted to maintain its existing credit loss provisioning under SFRS109.</p>

S/N	Respondent	Feedback from respondent
		<p><b>Question 4:</b>                      Not Applicable – NAB Singapore does not carry any loss allowance for non-credit impaired exposures at head office.</p> <p><b>Question 5:</b>                      Not Applicable – NAB Singapore does not carry any loss allowance for non-credit impaired exposures at head office.</p> <p><b>Question 6:</b>                      Not Applicable – we understand that foreign bank branches are permitted to maintain its existing credit loss provisioning under SFRS109.</p> <p><b>Question 7:</b>                      Not Applicable – NAB Singapore is not locally incorporated and therefore not required to maintain capital adequacy ratio.</p>
8.	UniCredit Bank AG, Singapore Branch	<p><b>General comments:</b>                      -</p> <p><b>Question 1:</b>                      We are agreeable.</p> <p><b>Question 2:</b>                      (i) not applicable.</p> <p>(ii) Our Head Office calculation on Collective Impairment Loss Provision is aligned with IFRS39. We prefer to use the numbers calculated by our Head Office since these numbers are consolidated at Group Level.</p> <p><b>Question 3:</b>                      We prefer approach 2, that is, to recognise the additional loss allowance through profit or loss statement.</p> <p><b>Question 4:</b>                      We prefer to continue with booking loss allowances for non-credit impaired exposures locally, therefore, there is no need to file Annex B.</p> <p><b>Question 5:</b></p>

S/N	Respondent	Feedback from respondent
		<p>Given that we are going to book the loss allowance for non-credit impaired exposures locally, this is not applicable.</p> <p><b>Question 6:</b> We are agreeable.</p> <p><b>Question 7:</b> We are not incorporated in Singapore, it is not applicable to us.</p>
9.	ICICI Bank Limited, Singapore Branch	<p><b>General comments:</b> -</p> <p><b>Question 1:</b> The bank is agreeable to the proposed removal of regulatory requirements on minimum impairment provisions for credit impaired exposures.</p> <p><b>Question 2:</b></p> <p>(i) This is not applicable for our Bank as we are not locally incorporated D-SIB.</p> <p>(ii) Foreign Bank Branches and merchant banks:</p> <p>a. The Bank is a branch of a foreign Bank and we will adopt SFRS 109 for financial year commencing on or after 1 January 2018. The Bank can maintain ECL as per the requirements of SFRS 109 which may be higher or lower than 1% of non-credit-impaired exposure, net of collaterals.</p> <p>b. We understand that the Authority's proposal of allowing an exemption to banks to make provision at 1% of non-credit-impaired exposures is due to foreign bank branches/ merchant banks being in varying degrees of readiness in implementing the ECL requirements under SFRS 109. However, Authority's proposal in its current form will require such banks to compute the ECL provision as per SFRS 109, in order to be able to compare it with the 1% provision on non-credit-impaired exposures.</p>

S/N	Respondent	Feedback from respondent
		<p>c. Hence, the Bank submits that foreign and merchant banks may be allowed to maintain the ECL on non-credit impaired exposures at either 1% of the exposures, net of collaterals, or as per SFRS 109, and to not require them to compute and compare ECL as per the two methods and maintain higher of the two provisions.</p> <p><b>Question 3:</b>                      While the Bank submits to the Authority to follow either the ECL based provisioning or the 1% of non-credit-impaired exposures, net of collaterals, in general, the Bank is of the view that:</p> <p>The profit and loss statement of the bank will reflect credit loss allowance based on compliance with the accounting standards and any differential arising due to Regulatory requirements of minimum provisioning should be appropriated through Reserves.</p> <p>Thus the Bank prefers Approach 1 to maintain minimum regulatory loss allowance requirement by establishing a non-distributable regulatory loss allowance reserves (“RLAR”) through appropriation of retained earnings.</p> <p>In addition, the Bank requests the Authority to clarify the treatment of RLAR for the computation of Net Head Office Funds, Head Office Capital Funds, and Adjusted Capital Funds for limit monitoring under MAS Notice 601 and reporting under MAS Notice 610 respectively.</p> <p><b>Question 4:</b>                      The Bank Maintains loss allowance for non-credit impaired exposure at Branch level. However, the Bank agrees with the Authority’s proposal to retain the option for banks incorporated outside Singapore to record their loss allowances for non-credit impaired exposures at head office.</p> <p><b>Question 5:</b>                      This is not applicable to the Bank as loss allowance for non-credit impaired exposure is maintained at Branch level.</p>

S/N	Respondent	Feedback from respondent
		<p><b>Question 6:</b>                      Currently, The Bank maintains 1% minimum collective impairment provisions under MAS Notice 612. Therefore it is not applicable to the Bank.</p> <p>However, the Bank agrees with the proposed transitional arrangement.</p> <p><b>Question 7:</b>                      The Bank has no comments on the same.</p>
10.	Svenska Handelsbanken, Singapore Branch	<p><b>General comments:</b>                      -</p> <p><b>Question 1:</b>                      Not applicable.</p> <p><b>Question 2:</b>                      For (ii), is this an option for foreign bank branches? This is preferred to be non-mandatory. This is bearing in mind, there may be additional work to quantify the 1% of non-credit impaired exposures, net of collaterals, to be compared to ECL under SFRS 109. This may result in administrative burden in some banks, given their size and complexity of operations.</p> <p>Is the 1% supposed to be computed monthly basis? Is the definition of collaterals same as the Top 100 Borrowers or the 2<sup>nd</sup> consultation paper MAS 610? Please advise.</p> <p><b>Question 3:</b>                      If it is compulsory for foreign bank branches to maintain the 1% loss allowance, the Branch prefers Approach 1.</p> <p>Please also advise how this is to be reported in monthly MAS 610, if necessary.</p> <p><b>Question 4:</b>                      Not applicable as this is currently recorded in the Branch's books, even though the computation is done by Head Office. We understand this should be the case with the new IFRS9 /</p>

S/N	Respondent	Feedback from respondent
		<p>SFRS109.</p> <p><b>Question 5:</b> Not applicable, please see answer to Question 4 above.</p> <p><b>Question 6:</b> Two or more years should be sufficient to allow collection of the data.</p> <p><b>Question 7:</b> Not applicable as the Branch is not incorporated in Singapore.</p>
11.	KBC Bank N.V., Singapore Branch	<p><b>General comments:</b> -</p> <p><b>Question 1:</b> We have no issue with the proposed removal.</p> <p><b>Question 2:</b> Point (ii) states “permitted”. Does it mean it is not compulsory?</p> <p>If compulsory, note that for our bank, our head office adopts IFRS9 and will compute expected credit losses estimated accordingly. If this requirement is imposed on us, we will need to locally re-compute the required provision and book the allowance shortfall. Depending on whether such additional provision is regarded as deductible expense, we will have to determine the stage of each loan to establish deductibility.</p> <p>In addition, our head-office will disregard this additional provision when consolidating results for the whole bank.</p> <p>Based on our understanding so far, collective impairment provision under IFRS9 is expected to be higher than provision made under the current IFRS39.</p> <p>Therefore, we are of the opinion that the imposition of the minimum 1% allowance requirement should not apply to branches of banks that adopt IFRS9.</p>

S/N	Respondent	Feedback from respondent
		<p><b>Question 3:</b>                      If the minimum 1% allowance requirement is imposed on all foreign bank branches, the choice of Approach 1 or 2 will depend on whether such additional allowances are regarded as tax deductible expenses.</p> <p>If the additional allowance does not qualify as deductible expense, Approach 1 may be better since this adjustment direct to reserve will reduce, if not eliminate, differences in profit &amp; loss between Singapore branch's local book and BGAAP book.</p> <p>If the additional allowance qualifies as deductible expense (dependent on stage of loan), Approach 2 may be better for purpose of corporate tax computation.</p> <p><b>Question 4:</b>                      Not applicable.</p> <p><b>Question 5:</b>                      Not applicable.</p> <p><b>Question 6:</b>                      No comments.</p> <p><b>Question 7:</b>                      No comments as we are not incorporated in Singapore.</p>
12.	Wells Fargo Bank National Association, Singapore Branch	<p><b>General comments:</b>                      Please refer to specific comments below.</p> <p><b>Question 1:</b>                      We have no comments on this question.</p> <p><b>Question 2:</b>                      We have no comments on this question.</p> <p><b>Question 3:</b>                      We are supportive of using Approach 2 – via the profit and loss account, to comply with the minimum regulatory loss allowance requirement.</p>

S/N	Respondent	Feedback from respondent
		<p><b>Question 6:</b> We have no comments on this question.</p> <p><b>Question 7:</b> We have no comments on this question.</p>
13.	Respondent A	<p><b>General comments:</b> -</p> <p><b>Question 1:</b> Removal of minimum impairment provisions for credit impaired exposures is aligned with the spirit of IFRS. Impairment provisions for credit impaired exposures should be aligned to the expected loss / cash short-fall on such exposures.</p> <p><b>Question 2:</b> This does not seem to be aligned with the spirit of IFRS. Loss allowances should be aligned to the expected credit losses estimated under SFRS 109. It is only if a bank is unable to estimate its expected credit losses that a minimum loss allowance be stipulated.</p> <p><b>Question 3:</b> We believe that Approach 1 under which the profit and loss statement of the bank reflects credit loss allowance based on ECL requirements of SFRS 109 and the RLAR is adjusted through retained earnings is aligned to the spirit of IFRS and is preferable.</p> <p><b>Question 4:</b> The option for banks incorporated outside Singapore to record their loss allowances for non-credit impaired exposures at head office may be retained for jurisdictions aligned to IFRS as there is no apparent conflict with the requirements of IFRS.</p> <p><b>Question 5:</b> No comments.</p> <p><b>Question 6:</b> Since the SFRS methodology is principle based and evolving,</p>

S/N	Respondent	Feedback from respondent
		<p>the full impact and implication may only be understood over the first few years of implementation. Accordingly, a minimum transition period of three years may be considered.</p> <p><b>Question 7:</b>                      Interim regulatory capital treatment of loan loss allowances under the ECL model proposed by MAS being aligned to the BCBS proposal provides a level playing field for banks.</p>
14.	Respondent B	<p><b>General comments:</b>                      -</p> <p><b>Question 1:</b>                      -</p> <p><b>Question 2:</b>                      -</p> <p><b>Question 3:</b>                      We would like to adopt Approach 1 (RLAR). Under this approach, it is stated in the consultation paper that the additional loss allowance will be measured at each subsequent reporting date and maintained in the RLAR. We would like to clarify the frequency to calculate ECL and which kind of reporting the MAS indicates.</p> <p><b>Question 4:</b>                      We would prefer to retain the option for banks incorporated outside of Singapore to record their loss allowances for non-credit impaired exposures at Head Office. For your information, we are a branch of a bank and our HO currently calculates loss allowance for non-credit impaired exposure in accordance with our home country GAAP and has no plans to adopt IFRS9 at the moment. Therefore, we would like to clarify if the branch will be permitted to calculate and allocate loss allowance for non-credit impaired exposure at our head office. Also we are of the view that loss allowance under our home country GAAP is equivalent to the ECL model, not accrual basis.</p> <p><b>Question 5:</b>                      Assuming that the option for banks incorporated outside of</p>

S/N	Respondent	Feedback from respondent
		<p>Singapore to record loss allowances for non-credit impaired exposures at Head Office is retained, may the template be modified? This is because the provision will not be allocated for each stage 1 and 2 separately under our home country GAAP. In addition, we are of the view that it may be difficult to submit the report to the MAS not later than 15 days after the last day of each reporting month. This is because parameter for the calculation (such as expected loss rate) must be determined at our head office's committee and it takes certain period to determine. Therefore, we would like to request the MAS to extend the submission deadline to more than 2 months.</p> <p><b>Question 6:</b> -</p> <p><b>Question 7:</b> -</p>
15.	Respondent C	<p><b>General comments:</b> -</p> <p><b>Question 1:</b> We appreciate the removal which reduces inconsistency with accounting standards.  Only one approach is possible.  We have been based our LLP on IAS 39 and will base them on IFRS 9 from 2018 onwards.</p> <p><b>Question 2:</b> We are implementing the ECL requirements bank-wide and will only provide what is required in accordance with IFRS 9 / SFRS 109.</p> <p><b>Question 3:</b> n/a, see 2 above</p> <p><b>Question 4:</b> With the implementation of IFRS 9 we will not book this anymore in our head office but directly in Singapore Branch.</p>

S/N	Respondent	Feedback from respondent
		<p><b>Question 5:</b> n/a, see Q4</p> <p><b>Question 6:</b> n/a</p> <p><b>Question 7:</b> n/a</p>
16.	Respondent D	<p><b>General comments:</b> Nil.</p> <p><b>Question 1:</b> No comments. We do not apply the minimum impairment criteria for specific provision since we adopt FRS39 provisioning.</p> <p><b>Question 2:</b> (i) No comment.</p> <p>(ii) In terms of collateral, Banks should be allowed to decide on the appropriate valuation to be used given the varied types of credit protection which have different valuation methods and may be located in different jurisdictions. The application of a standard 1% across the portfolio does not take into account the different credit quality. However, we would also like to avoid an overly complex approach/methodology.</p> <p><b>Question 3:</b> At this stage, we are unable to comment due to the lack of insights from our Head Office on what the imputed IFRS 9 provision is on our portfolio.</p> <p><b>Question 4:</b> We would be supportive of this proposal to allow loss allowances for “identified but not recognised” to be taken generally at Head Office should it be relevant.</p>

S/N	Respondent	Feedback from respondent
		<p><b>Question 5:</b> No comment.</p> <p><b>Question 6:</b> No comment.</p> <p><b>Question 7:</b> No comment as it is not relevant to us.</p>
17.	Respondent E	<p><b>General comments:</b> -</p> <p><b>Question 1:</b> We support the proposed removal of regulatory requirements on minimum impairment provisions for credit impaired exposures.</p> <p><b>Question 2:</b> (i) No comments.</p> <p>(ii) We do not have any comment on the proposal on the understanding that the 1% minimum credit loss allowance will not be a mandatory requirement for foreign banks and merchant banks (i.e. non-DSIBs). Please see further comment under Question 3.</p> <p><b>Question 3:</b> With reference to Question 2(ii) above, we understand where the Bank –</p> <ul style="list-style-type: none"> <li>• has a loss estimation process that is sufficiently robust; or</li> <li>• sufficient quality historical loan loss data, over a full credit cycle, that is relevant to current circumstances;</li> </ul> <p>it does not need to comply with the 1% minimum regulatory loss allowance. The Bank is to report impairment charges based on ECL requirements of SFSR 109.</p> <p>The two alternative approaches therefore are not relevant for banks which only need to apply SFSR 109. Can MAS confirm our understanding?</p>

S/N	Respondent	Feedback from respondent
		<p><b>Question 4:</b>                      We understand Annex B is applicable for banks incorporated outside Singapore where such allowances are carried at head office. We propose that the Bank is not required to submit a nil return if no loss allowances for non-credit impaired exposures is recorded at head office. In event if a nil return is required, please allow the report to be signed by a representative in Singapore Branch.</p> <p><b>Question 5:</b>                      No comments.</p> <p><b>Question 6:</b>                      No comments.</p> <p><b>Question 7:</b>                      We support the proposal.</p>
18.	Respondent F	<p><b>General comments:</b>                      -</p> <p><b>Question 1:</b>                      Not applicable.</p> <p><b>Question 2:</b>                      (i) Not applicable.                      (ii) The bank is of the view that impairment loss allowance is to be made in alignment with the IFRS 9/ SFRS 109 requirements based on sound models established within each bank.</p> <p><b>Question 3:</b>                      The bank is of the view that additional loss allowance should be recognised via the profit and loss account similar to loss allowance recognition in the current model.</p> <p><b>Question 4:</b>                      Not applicable.</p>

S/N	Respondent	Feedback from respondent
		<p><b>Question 5:</b> Not applicable.</p> <p><b>Question 6:</b> Not applicable.</p> <p><b>Question 7:</b> Not applicable.</p>
19.	Respondent G	<p><b>General comments:</b>                      Would the Authority consider any changes to be made to the existing MAS610 Appendix 3 (or Appendix F, Annex 2 in the new MAS610) for classification of loans as Pass/Special Mention/Substandard/Doubtful/Loss to be based on the new Stage 1/Stage 2/Stage 3 under the new Expected Credit Loss model?</p> <p><b>Question 1:</b> No comment.</p> <p><b>Question 2:</b>                      The bank would like to clarify if “permitted to maintain loss allowances of 1% of non-credit-impaired exposures” means that the 1% is a minimum requirement for foreign bank branches and merchant banks to comply with or is it by choice (ie. Banks are allowed to choose between maintaining 1% or the expected credit losses estimated under SFRS 109).                       If a foreign bank branch does not elect the option to record its loss allowances at head office and instead record it in the locally, for calculation of the amount “net of collaterals”, is there a guidance on the frequency of the collateral valuation.</p> <p><b>Question 3:</b>                      How would MAS treat the excess of 1% for Capital Adequacy Ratio computation for both approaches?</p> <p><b>Question 4:</b> Please retain this as an option.</p>

S/N	Respondent	Feedback from respondent
		<p><b>Question 5:</b>                      Since the implementation date in Head Office is 2020 (early adoption is 2019). We are checking if the data required in the template is available.</p> <p><b>Question 6:</b>                      No comments.</p> <p><b>Question 7:</b>                      No comments.</p>
20.	Respondent H	<p><b>General comments:</b>                      No comment.</p> <p><b>Question 1:</b>                      Is Appendix F of the Proposed Consultation Paper on the MAS Notice 610/1003 be impacted by this proposed removal of regulatory requirements on minimum impairment provisions for credit impaired exposures?</p> <p><b>Question 2:</b></p> <ul style="list-style-type: none"> <li>• Does the “collaterals” include guarantee?</li> <li>• Regardless whether the expected credit loss estimated under SFRS109 is higher or lower than 1% of the non-credit impaired exposures, can the Foreign Bank Branches follow only SFRS 109?</li> <li>• Is it mandatory or voluntary to maintain loss allowances of 1% of non-credit impaired exposures, net of collaterals?</li> <li>• What is the scope of collaterals? Is guarantee considered as collateral for the purpose of Credit Loss Provisioning? Any concern on the grading for guarantor?</li> </ul> <p><b>Question 3:</b></p> <ul style="list-style-type: none"> <li>• What is the definition of non-credit impaired exposures, stage 1 only or stage 1 and stage 2?</li> <li>• Can MAS be more specific and state which category of banks need to comply with minimum regulatory loss allowance requirement? Is it only D-SIB and banks</li> </ul>

S/N	Respondent	Feedback from respondent
		<p>voluntarily opt to permit ti maintain 1% on top of ECL model? Or just D-SIB?</p> <ul style="list-style-type: none"> <li>• The Bank is not in a view that it is possible to choose only one (1) approach that will apply across the Financial Assets. The Bank suggest to follow the Financial Asset Classification under SFRS 109.</li> </ul> <p><b>Question 4:</b>                      The proposed requirement in section 3.15 doesn't seem to sync up with SFRS 109 / IFRS 9. Please share the rationale in still having this provision.</p> <p><b>Question 5:</b>                      Can MAS consider having an extension provision to the next business day in the event that the "15 days after the last day of each reporting month" falls on a weekend of public holiday?</p> <p><b>Question 6:</b></p> <ul style="list-style-type: none"> <li>• Does this means that banks which currently do not maintain the 1% minimum collective impairment provisions under MAS 612, they are required to maintain 1% minimum collective provisions under the new framework, regardless of whether they are locally incorporated D-SIBs or foreign bank branches and merchant banks?</li> <li>• When will the proposed transitional arrangements of up to two (2) year period starts? From 01 Jan 2018?</li> <li>• For those Banks with Fiscal Year ending March, April 2018 is the first month of the IFRS 9 implementation. Can the Bank comply with the minimum regulatory loss allowance from 01 April 2018 instead?</li> </ul> <p><b>Question 7:</b>                      Not applicable.</p>
21.	Respondent I	<p><b>General comments:</b>                      -</p> <p><b>Question 1:</b></p>

S/N	Respondent	Feedback from respondent
		<p>The removal of the regulatory requirements on minimum impairment provision for credit impaired exposures will align the loss allowances for credit impaired to the IFRS9.</p> <p><b>Question 2:</b>                      Our HO will implement a central tool to compute S1 and S2 ECL provision. These provisions will be booked locally. We would like MAS to clarify whether the 1% loss allowance of the non-credit impaired exposures net of collateral, if it results in higher loss allowance than the ECL provision is still required for the Branch.</p> <p>We are of the opinion that as long as the Branch is able to implement the ECL methodologies, maintaining a minimum level of credit loss allowance for non-credit impaired exposures of 1 % of the exposures net of collateral should not be required.</p> <p><b>Question 3:</b>                      Approach 1 is preferable as additional regulatory loss allowance required will not impact the profit and loss statement of the bank.</p> <p>For Approach 2, there is no mention of accounting treatment on the first day of adoption. We are of the opinion that the additional regulatory loss allowance is to be taken up in retained earnings on the first day of adoption, and subsequent changes are adjusted through the profit and loss statements.</p> <p><b>Question 4:</b>                      No comment</p> <p><b>Question 5:</b>                      No comment</p> <p><b>Question 6:</b>                      No comment</p> <p><b>Question 7:</b>                      No comment.</p>

## Annex C – Definition of exposures and eligible collaterals

For the purpose of computing the 1% minimum regulatory loss allowance:

i) Non-credit-impaired exposures refer to the following:

<b>On balance sheet items</b>	<b>% of carrying amount to be included in the computation</b>
Debt securities issued by corporates measured at amortised cost and fair value through other comprehensive income, in accordance with SFRS 109	100
Loan and advances to non-bank customers	100
Bills discounted or purchased	100

<b>Off balance sheet items</b>	<b>Credit Conversion Factor</b>
Guarantees, warranties and indemnities on account of customers	100%
Direct credit substitutes	100%
Transaction-related contingent items	50%
Short term self-liquidating trade-related contingent items	20%
Unutilised commitments and undisbursed credit facilities - with an original maturity of more than one year	50% <sup>6</sup>
Unutilised commitments and undisbursed credit facilities - with an original maturity of one year or less	20%

<sup>6</sup> This shall apply in the case where a bank makes a commitment to provide a loan that is to be drawn down in a number of tranches, and it shall apply to the full undisbursed portion of the loan.

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<b>Off balance sheet items</b>	<b>Credit Conversion Factor</b>
Unutilised commitments and undisbursed credit facilities - which are unconditionally cancellable at any time by the Reporting Bank without prior notice, or that effectively provide for automatic cancellation due to deterioration in an obligor's creditworthiness	0%

ii) Eligible collaterals<sup>7</sup> refer to the following:

(A) Financial collaterals

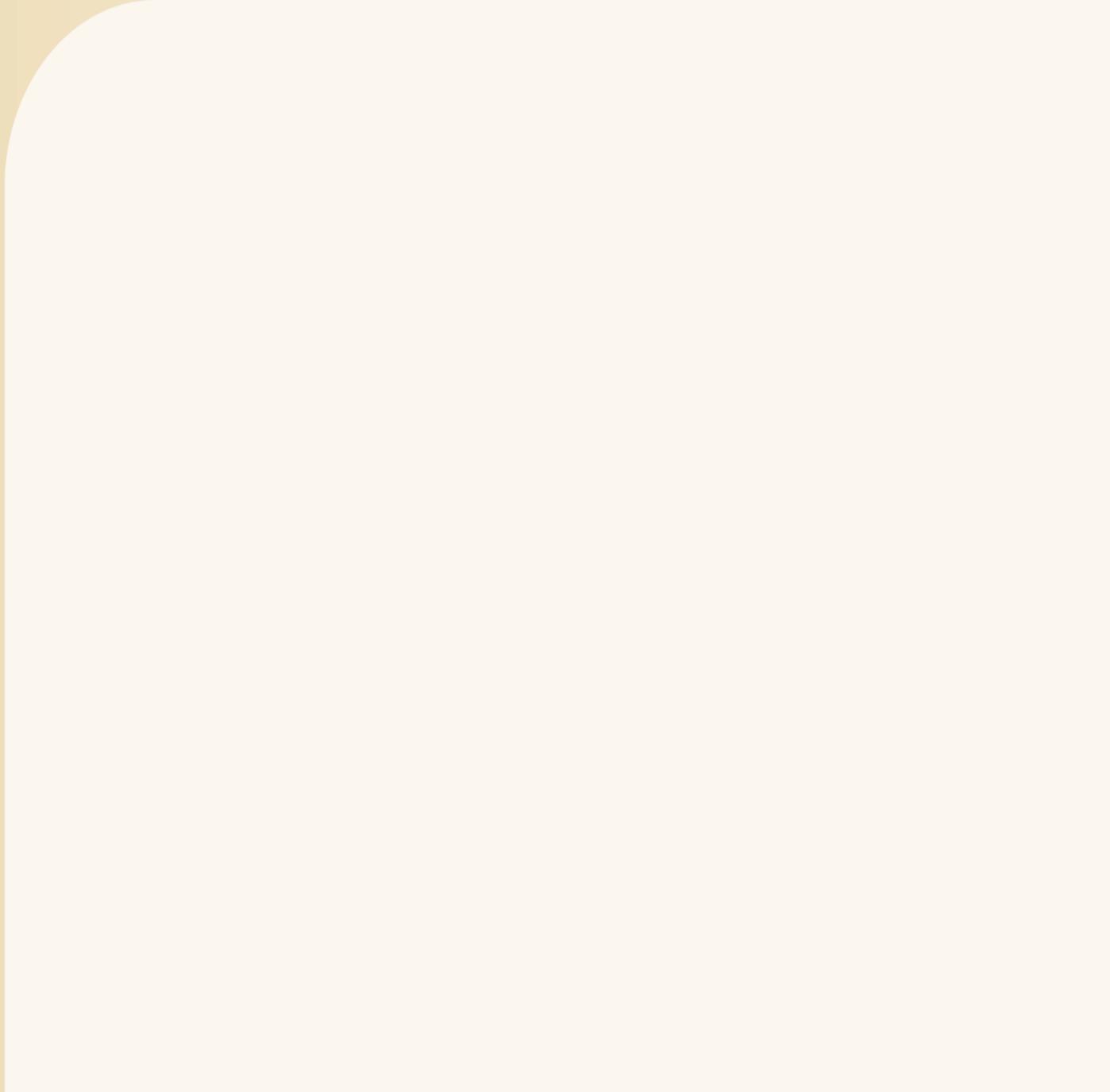
- Cash or its equivalent
- Gold
- Debt security
- Equity Security
- Any unit in a collective investment scheme where the collective scheme is limited to investing in the instruments listed above

(B) Physical collaterals

- Commercial real estate
- Residential real estate
- Land

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<sup>7</sup> For the purpose of computing the 1% minimum regulatory loss allowances, a bank should apply appropriate haircuts to the eligible collaterals in accordance with paragraph 4.5.4 of MAS' Guidelines on Risk Management Practices – Credit Risk.



Monetary Authority of Singapore