

MAS NOTICE 832 (AMENDMENT) 2018

Issued on: 5 October 2018

RISK BASED CAPITAL ADEQUACY REQUIREMENTS FOR FINANCE COMPANIES INCORPORATED IN SINGAPORE

Introduction

1 For presentational purposes, the amendments in this document are compared with the version of MAS Notice 832 issued on 31 December 2013, as last revised on 28 December 2017 (the "Original Notice").

2 This document shall be interpreted as follows:

- (a) Text which is coloured and struck through represent deletions, and will not appear in the untracked version of MAS Notice 832 revised on 5 October 2018 ("Published Version");
- (b) Text which is coloured and underlined represent insertions, and will appear in the Published Version;
- (c) Text which is highlighted in yellow are annotations to describe changes, and will not appear in the Published Version. For instance, portions of the Original Notice which are deleted in entirety are accompanied by the following explanatory text in yellow highlights:
[The previous Division xx / Sub-division xx / Annex xx / Paragraph xx / Table xx is deleted.];
- (d) Any inserted portions are inserted in numerical or alphabetical order (as appropriate) with the existing text in the Original Notice;
- (e) Any inserted definitions in the Glossary at Annex 2A are inserted in alphabetical order with the existing definitions in the Original Notice; and
- (f) Portions of the Original Notice which are not reflected in this document are unchanged.

3 The amendments reflected in this document shall take effect on 8 October 2018.

4 This document is to be used for reference only. In the event of discrepancies between the amendments in this document and the Published Version, the Published Version shall prevail.

Amendments to Part II

PART II: DEFINITIONS

2.1.1 The expressions used in this Notice are defined in the Glossary at Annex 2A.

2.1.2 The expressions used in this Notice shall, except where defined in this Notice or where the context otherwise requires, have the same meanings as in the Banking Act.

2.1.3 Any reference to a paragraph, Sub-division, Division, Part or Annex is a reference to a paragraph, Sub-division, Division, Part or Annex in this Notice unless otherwise specified.

GLOSSARY

α	means in relation to the BIA, 15%;
β	means in relation to the CCR standardised method, the fixed beta factor set out in paragraph 1.1 of Annex 7P of Part VII;
ABCP programme or asset-backed commercial paper programme	means a programme where commercial paper with an original maturity of one year or less which is backed by assets or other exposures held in a bankruptcy-remote SPE is predominantly issued;
ABCP programme sponsor	means an entity which – (a) establishes an ABCP programme; (b) approves the sellers of exposures permitted to participate in an ABCP programme; (c) approves the asset pools to be purchased by an ABCP programme; or (d) administers the ABCP programme by monitoring the assets backing the asset-backed commercial paper, arranging for the placement of securities, compiling monthly reports or ensuring compliance with the ABCP programme documents and with the credit and investment policy of the ABCP programme;
Accounting Standards	has the same meaning as in section 4(1) of the Companies Act (Cap. 50);
affiliate	means, for purposes of this Notice, (a) an entity that has a beneficial interest in 20% or more of the total number of ordinary shares or controls 20% or more of the voting power in the Finance Company, or (b) an entity in which the Finance Company has a beneficial interest in 20% or more of the total number of ordinary shares or controls 20% or more of the voting power in the entity, or (c) an entity in which a related corporation of the Finance Company has a beneficial interest in 20% or more of the number of ordinary shares or controls 20% or more of the voting power in the entity;
<u>approved exchange</u>	<u>has the same meaning as in section 2 of the Securities and Futures Act (Cap. 289);</u>
asset class	means, in relation to the SA(CR), one of the classes of exposures set out in Sub-division 1 of Division 3 of Part VII;
associate	has the same meaning as “associate” under the Accounting Standards;
Banking Act	means Banking Act (Cap. 19);

banking book	means all on-balance sheet and off-balance sheet exposures of a Finance Company other than its trading book positions;
banking institution	means – (a) any bank licensed under the Banking Act; (b) any finance company licensed under the Finance Companies Act; or (c) any entity which is approved, licensed, registered or otherwise regulated by a bank regulatory agency in a foreign jurisdiction to carry on banking business as defined in the Banking Act;
bank regulatory agency	in relation to a foreign jurisdiction, means an authority in the foreign jurisdiction exercising any function that corresponds to a regulatory function of the Authority under the Banking Act;
BCBS	means the Basel Committee on Banking Supervision;
BIA or basic indicator approach	means the approach for calculating operational risk capital requirements set out in Division 2 of Part IX;
Board	means the Board of directors, or a designated committee of the Board;
capital instrument	means any of the capital instruments set out in paragraph 6.1.1(a);
capital investments	in relation to a Finance Company, means all exposures of a capital nature, including – (a) any ordinary share; (b) any preference share; (c) any instrument treated as regulatory capital in relation to any financial institution approved, licensed, registered or otherwise regulated by a regulatory agency; (d) any lending on non-commercial terms or which is not at arm’s length; and (e) any guarantee issued to third parties for the benefit of subsidiaries and associates on non-commercial terms or which is not at arm’s length;
CCF	means credit conversion factor;
CCR or counterparty credit risk	means the risk that the counterparty to a transaction could default before the final settlement of the transaction’s cash flows;
CCR standardised method	means the method for calculating E for any pre-settlement counterparty exposure arising from any OTC derivative transaction or long settlement transaction set out in Annex 7P of Part VII or, if the reference is to any regulatory requirements of, or administered by, a bank regulatory agency other than the Authority, the equivalent under those requirements;

central counterparty	means an approved clearing house in respect of a clearing facility as defined in the Securities and Futures Act (Cap. 289) which is regulated by the Authority, or a clearing house utilised by an exchange referred to in the Securities and Futures (Recognised Securities Exchange) Order 2005 in respect of a clearing facility which is regulated by a financial services regulatory authority of a country or territory other than Singapore;
clean-up call	means an option which permits the securitisation exposures to be called before all of the underlying exposures or securitisation exposures have been repaid. In the case of a traditional securitisation, this is generally accomplished by repurchasing the remaining securitisation exposures once the underlying exposures or the outstanding securities issued have fallen below some specified level. In the case of a synthetic securitisation, the clean-up call may take the form of a clause that extinguishes the credit protection;
<u>collective investment scheme</u>	<u>has the same meaning as in section 2 of the Securities and Futures Act (Cap. 289);</u>
controlled early amortisation provision	means an early amortisation provision where the following requirements are complied with: <ul style="list-style-type: none"> (a) the originator has an appropriate capital and liquidity plan in place to ensure that it has sufficient capital and liquidity available in the event of an early amortisation; (b) throughout the duration of the transaction there is a pro-rata sharing of interest and principal, expenses, losses and recoveries based on the proportion of the originator's interests and the investors' interests in the receivables outstanding at the beginning of the month; (c) the amortisation period is sufficient for at least 90% of the total debt outstanding at the beginning of the amortisation period to have been repaid or recognised as in default; and (d) the speed of repayment is not more rapid than would be achieved by straight-line amortisation over the period set out in item (c);
core market participant	means any of the entities listed in Annex 7L of Part VII;
corporate exposure	means, in relation to the SA(CR), an exposure that falls within the definition in paragraph 7.3.1(f);
correlation trading portfolio	means a portfolio that incorporates – <ul style="list-style-type: none"> (a) securitisation exposures and n-th-to-default credit derivatives meeting the following criteria:

- (i) the positions are neither resecuritisation positions, nor derivatives of securitisation exposures that do not provide a pro-rata share in the proceeds of a securitisation tranche (therefore excluding options on a securitisation tranche, or a synthetically leveraged super-senior tranche);
- (ii) all reference entities are single-name products, including single-name credit derivatives, for which a liquid two-way market exists. This will include commonly traded indices based on these reference entities;
- (iii) the positions do not reference an underlying exposure that would be treated as an SA(CR) exposure in the regulatory retail asset class, an SA(CR) exposure in the residential mortgage asset class, or an SA(CR) exposure in the CRE asset class; and
- (iv) the positions do not reference a claim on a special purpose entity, including any special purpose entity instrument backed, directly or indirectly, by a position that would itself be excluded if held by a Finance Company directly,

and

- (b) positions that hedge the securitisation exposures and n-th-to-default credit derivatives described in paragraph (a) above, where –
 - (i) the positions are neither securitisation exposures nor n-th-to-default credit derivatives; and
 - (ii) a liquid two-way market exists for the instrument by which the position is taken or its underlying exposures,

and for the purpose of this definition, a two-way market is deemed to exist where there are independent bona fide offers to buy and sell so that a price reasonably related to the last sales price or current bona fide competitive bid and offer quotations can be determined within one day and trades settled at such price within a relatively short time conforming to trade custom;

CPF	means the Central Provident Fund Board constituted under section 3 of the Central Provident Fund Act (Cap. 36);
CRE	means commercial real estate;
credit derivative	means any contract which transfers the credit risk of a reference obligation or set of reference obligations from the protection buyer to the protection seller, such that the protection seller has an exposure to the reference obligation(s);
credit enhancement	means a contractual arrangement in which a Finance Company retains or assumes a securitisation exposure that, in substance,

	provides some degree of credit protection to other parties to the securitisation;
credit facilities	means (a) the granting by a finance company of advances, loans and other facilities whereby a customer of the finance company has access to funds or financial guarantees; or (b) the incurring by a finance company of other liabilities on behalf of a customer;
credit RWA	means the sum of all credit risk-weighted exposure amounts in respect of all credit exposures calculated as set out in paragraph 7.1.1;
credit-enhancing interest only strip	means an on-balance sheet asset that represents a valuation of cash flows related to future margin income and is subordinated to the other securitisation exposures in a securitisation;
CRM or credit risk mitigation	means any technique used by a Finance Company to reduce the credit risk associated with any exposure which the Finance Company holds;
currency mismatch	means a situation where an exposure and the collateral or credit protection provided in support of it are denominated in different currencies;
current exposure	means the larger of zero, or the market value of a transaction or portfolio of transactions within a netting set with a counterparty that would be lost upon the default of the counterparty, assuming no recovery on the value of those transactions in a bankruptcy or insolvency;
current exposure method	means the method for calculating E for any pre-settlement counterparty exposure arising from any OTC derivative transaction or long settlement transaction set out in Annex 70 of Part VII or, if the reference is to any regulatory requirements of, or administered by, a bank regulatory agency other than the Authority, the equivalent under those requirements;
Deductions from Total Capital	means the sum of the items set out in paragraph 6.1.10;
DvP	means delivery-versus-payment;
early amortisation exposure	means any securitisation exposure or class of securitisation exposures for which a Finance Company is subject to the early amortisation treatment in accordance with Sub-division 6 of Division 6 of Part VII;
early amortisation provision	means a contractual clause which requires on the occurrence of defined events, an investor's position to be redeemed prior to the original maturity of the securities issued;

ECAI	means an external credit assessment institution;
eligible credit protection	means any guarantee (or other instrument as the Authority may allow) or credit derivative where the requirements and guidelines set out in Annex 7F of Part VII are satisfied;
eligible financial collateral	means – (a) in relation to the FC(SA), one or more types of collateral set out in paragraph 2.2 of Annex 7F of Part VII; and (b) in relation to the FC(CA), one or more types of collateral set out in paragraph 2.3 of Annex 7F of Part VII, where the requirements and guidelines set out in Annex 7F of Part VII are satisfied;
eligible liquidity facility	in relation to the SA(SE), means a liquidity facility where the following requirements are complied with – (a) the facility documentation clearly identifies the nature, purpose and extent of any undertaking or commitment provided to the SPE, and limits the circumstances under which it may be drawn; (b) the facility is limited to a specified amount and duration, unless the Finance Company is able to withdraw, at its absolute discretion, the facility at any time with a reasonable period of notice; (c) any draw made under the facility is provided to the SPE and not directly to investors, and is limited to the amount that is likely to be repaid fully from the liquidation of the underlying exposures and any seller-provided credit enhancements; (d) the facility does not cover any losses incurred in the underlying exposures prior to a draw, and is not structured such that draw-down is certain (as indicated by regular or continuous draws or continuous revolving funding); (e) the facility is subject to an asset quality test that precludes it from being drawn to cover credit risk exposures where the obligor(s) are in default; (f) if the exposures that the liquidity facility is required to fund are securities with an external credit assessment by a recognised ECAI, the facility is used to fund only securities that have a credit quality grade of "8" or better or a short-term credit quality grade of "III" or better as set out in Tables 7R-3 and 7R-4, respectively, of Annex 7R of Part VII at the time of funding; (g) the facility cannot be drawn after all applicable (e.g. transaction-specific and programme-wide) credit enhancements from which the facility would benefit have been exhausted; (h) repayment of draws on the facility is not subordinated to any interests of any note holder in the programme or subject to deferral or waiver; (i) the obligations of the Finance Company under the facility are standalone from its obligations under any other facility,

- commitment or undertaking provided by the Finance Company; and
- (j) either –
- (i) an independent third party co-provides 25% of the liquidity facility that is to be drawn and re-paid on a pro-rata basis; or
 - (ii) all the underlying exposures have a credit quality grade of “3” or better or a short-term credit quality grade of “III” or better as set out in Tables 7R-1 and 7R-2, respectively, of Annex 7R of Part VII, and the facility documentation expressly provides that the Finance Company may reduce (and ultimately withdraw) its funding if the external credit assessment of the exposures falls to a credit quality grade of “4” or worse or to a short-term credit quality grade of “IV” as set out in Tables 7R-1 and 7R-2, respectively, of Annex 7R of Part VII;

eligible protection provider	means, in the case of a Finance Company using the SA(CR), SA(EQ) or SA(SE), a guarantor or protection seller which is – <ul style="list-style-type: none"> (a) a central government, a central bank, the Bank for International Settlements, the International Monetary Fund, the European Central Bank or the European Community; (b) an MDB; (c) a PSE; (d) a banking institution; or (e) any other entity with a credit quality grade of “2” or better as set out in Table 7R-1 of Annex 7R of Part VII;
Eligible Total Capital	has the meaning in paragraph 4.1.2;
equity exposure	has the meaning in Sub-division 1 of Division 5 of Part VII;
ESR or excess spread ratio	in relation to securitisation exposures with early amortisation features, means the ratio of the 3-month average excess spread to the point at which a Finance Company is required to trap excess spread as economically required by the structure, expressed as a percentage;
excess spread	means any gross finance charge collections and other income received by the trust or SPE after deducting certificate interest, servicing fees, charge-offs, and other senior trust or SPE expenses;
FC(CA) or financial collateral comprehensive approach	means the method for calculating the effects of CRM arising from eligible financial collateral set out in Annex 7I of Part VII;

FC(SA) or financial collateral simple approach	means the method for calculating the effects of CRM arising from eligible financial collateral set out in Sub-division 4 of Division 3 of Part VII;
Finance Company	means a company licensed under section 6 of the Finance Companies Act (Cap. 108) to carry on financing business;
finance company group	means the Finance Company and its finance company group entities;
finance company group entity	means any subsidiary or any other entity treated as part of the Finance Company's group of entities according to Accounting Standards;
Finance Companies Act	means Finance Companies Act (Cap. 108);
FRA	means a forward rate agreement;
FRS 109	means the Singapore Financial Reporting Standard 109;
	[MAS Notice 832 (Amendment) 2017]
funded credit protection	means a CRM where the reduction of the credit risk of an exposure of a Finance Company is derived from the right of the Finance Company, in the event of the default of a counterparty or on the occurrence of other specified credit events relating to the counterparty, to liquidate, to obtain transfer or appropriation of, or to retain, certain assets or amounts;
FVOCI	means fair value through other comprehensive income;
	[MAS Notice 832 (Amendment) 2017]
gain-on-sale	means any increase in the equity capital of a Finance Company which is an originator resulting from the sale of underlying exposures in a securitisation;
hedging set	means a group of risk positions from the transactions within a single netting set for which only their balance is relevant for determining E under the CCR standardised method;
implicit support	means any support that a Finance Company provides to a securitisation in excess of its predetermined contractual obligations;
ISDA	means the International Swaps and Derivatives Association;
insurance subsidiary	means a subsidiary which carries on insurance business as an insurer;
IOSCO	means the International Organisation of Securities Commissions;

IT	means information technology;
long settlement transaction	means any transaction where a counterparty undertakes to deliver a security, a commodity or a foreign exchange amount against cash, other financial instruments or commodities, or vice versa, at a settlement or delivery date which is contractually specified as more than the lower of the market standard for this particular transaction type and five business days after the date on which the Finance Company enters into the transaction;
margin lending transaction	means a transaction in which a Finance Company extends credit in connection with the purchase, sale, carrying or trading of securities, where the loan amount is collateralised by securities whose value is generally greater than the amount of the loan, and does not include other loans that happen to be collateralised by securities;
market RWA	means the risk-weighted assets for market risks determined in the manner set out in Part VIII;
maturity mismatch	means a situation where the residual maturity of the credit risk mitigant is less than the residual maturity of the underlying credit exposure;
MDB	means a multilateral development bank;
n-th-to-default credit derivative	means a contract where – (a) the payoff is based on the n-th asset to default in a basket of underlying reference instruments; and (b) the transaction terminates and is settled once the n-th default occurs;
netting	means bilateral netting, including – (a) netting by novation, where obligations between two counterparties to deliver a given currency on a given value date under a transaction are automatically amalgamated with all other obligations under other transactions to deliver on the same currency and value date, thereby extinguishing former transactions with a single legally binding new transaction; and (b) close-out netting, where some or all of the ongoing transactions between two counterparties are terminated due to the default of either counterparty or upon the occurrence of a termination event as defined in the netting agreement, whereupon the values of such transactions are combined and reduced to a single payable sum, but does not include payments netting which is designed to reduce the operational cost of daily settlements, where the gross obligations of the counterparties are not in any way affected;

netting agreement	means any agreement which effects netting between two counterparties, or any other arrangement to effect netting, which does not contain a walkaway clause ¹ ;
netting set	means a group of transactions between two counterparties that is subject to a qualifying bilateral netting agreement; any transaction which is not subject to a qualifying bilateral netting agreement shall be deemed as its own netting set;
NGR	means the ratio of the net current replacement cost to the gross current replacement cost;
non-controlled early amortisation provision	means an early amortisation provision where the requirements of a controlled early amortisation provision are not complied with;
operational risk	means the risk of loss resulting from – (a) inadequate or failed internal processes; (b) actions or omissions of persons; (c) systems; or (d) external events, including legal risk ² , but does not include strategic or reputational risk;
operational RWA	means the risk-weighted assets for operational risks determined in the manner set out in Part IX;
originator	means – (a) an entity which, either itself or through related entities, directly or indirectly, creates the exposure being securitised ³ ; or (b) any entity which purchases or advises or causes an SPE to purchase the exposures of a third party, which are then used in a securitisation (for avoidance of doubt, selling credit protection such that the entity or the SPE has a long position in the credit risk of the obligor is equivalent to purchasing exposures) ⁴ ;

¹ “Walkaway clause” means any provision which permits a party to a netting agreement that is not in default to make limited payments or no payments at all, to a defaulting party under the same netting agreement, even if the party that is in default is a net creditor under the netting agreement.

² Legal risk includes exposures to fines, penalties, or punitive damages resulting from criminal prosecution, regulatory or supervisory actions, as well as such damages or other sums payable resulting from civil claims or settlements.

³ Where an entity lends to an SPE with a view to enabling that SPE to make loans which are then used in a securitisation, the entity will generally be deemed to be acting as an originator.

⁴ An entity which advises or causes an SPE to purchase the exposures of a third party, which are then used in a securitisation will generally not be deemed to be acting as an originator if –

(a) the entity has not advised or caused the SPE to purchase any exposures which are then used in a securitisation before the date of issue of securities effecting the transfer of credit risk of those exposures to the investors in the securitisation;

(b) the entity will not be liable for any losses incurred by the SPE arising from the exposures (for avoidance of doubt, the entity may still be liable for losses arising from a breach of its fiduciary duties); and

(c) the entity does not undertake to achieve a minimum performance for the exposures.

OTC	means over-the-counter;
OTC derivative transaction	means an exchange rate contract, interest rate contract, equity contract, precious metal or other commodity contract or credit derivative contract which is not traded on an exchange;
preference share	has the same meaning as in section 4(1) of the Companies Act (Cap. 50);
PSE or public sector entity	means – (a) a regional government or local authority that is able to exercise one or more functions of the central government at the regional or local level; (b) an administrative body or non-commercial undertaking responsible to, or owned by, a central government, regional government or local authority, which performs regulatory or non-commercial functions; (c) a statutory board in Singapore (other than the Authority); or (d) a town council in Singapore established pursuant to the Town Councils Act (Cap. 392A);
qualifying bilateral netting agreement	means a bilateral netting agreement where the requirements set out in Annex 7N of Part VII are complied with;
qualifying MDB	means an MDB listed in Annex 7S of Part VII;
qualifying SFT	means an SFT where the requirements set out in Annex 7K of Part VII are complied with;
recognised ECAI	means an ECAI referred to in Annex 7R of Part VII;
recognised group A exchange	has the same meaning as in regulation 2 of the Securities and Futures (Financial and Margin Requirements for Holders of Capital Markets Services Licenses) Regulations;
reference obligation	means any obligation specified under a credit derivative contract used for purposes of either determining cash settlement value or the deliverable obligation;
repo	means a repurchase transaction;
resecuritisation exposure	means a securitisation exposure in which the risk associated with an underlying pool of exposures is tranching and at least one of the underlying exposures is a securitisation exposure, and includes an exposure to one or more resecuritisation exposures;
risk position	means a risk number which is assigned to a transaction under the CCR standardised method following a predetermined algorithm;
risk weight	in relation to an exposure, means a degree of risk expressed as a percentage assigned to that exposure;

RWA	means risk-weighted assets;
RWE	means risk-weighted exposure;
SA(CR) or standardised approach to credit risk	means the approach for calculating credit risk-weighted exposure amounts set out in Division 3 of Part VII or, if the reference is to any regulatory requirements of, or administered by, a bank regulatory agency other than the Authority, the equivalent under those requirements;
SA(CR) exposure	means any exposure for which a Finance Company is using the SA(CR) to calculate its credit risk-weighted exposure amount;
SA(EQ) or standardised approach for equity exposures	means the approach for calculating credit risk-weighted exposure amounts for equity exposures set out in Sub-division 3 of Division 5 of Part VII or, if the reference is to any regulatory requirements of, or administered by, a bank regulatory agency other than the Authority, the equivalent under those requirements;
SA(EQ) exposure	means any equity exposure for which a Finance Company is using the SA(EQ) to calculate its credit risk-weighted exposure amount;
SA(MR) or standardised approach to market risk	means the approach for calculating market risk capital requirements set out in Division 2 of Part VIII or, if the reference is to any regulatory requirements of, or administered by, a bank regulatory agency other than the Authority, the equivalent under those requirements;
SA(OR) or standardised approach to operational risk	means the approach for calculating operational risk capital requirements set out in Division 3 of Part IX or, if the reference is to any regulatory requirements of, or administered by, a bank regulatory agency other than the Authority, the equivalent under those requirements;
SA(SE) or standardised approach for securitisation exposures	means the approach for calculating credit risk-weighted exposure amounts for securitisation exposures set out in Sub-division 4 of Division 6 of Part VII or, if the reference is to any regulatory requirements of, or administered by, a bank regulatory agency other than the Authority, the equivalent under those requirements;
SA(SE) exposure	means any securitisation exposure for which a Finance Company is using the SA(SE) to calculate its credit risk-weighted exposure amount;
securities	<u>means –</u> <u>(a) any securities as defined in section 2 of the Securities and Futures Act (Cap. 289);</u> <u>(b) any specific securities-based derivatives contracts as defined in section 2 of the Securities and Futures Act (Cap. 289); or</u> <u>(c) any units in a collective investment scheme;</u>

	has the same meaning as in section 2 of the Securities and Futures Act (Cap. 289);
securities exchange	has the same meaning as in section 2 of the Securities and Futures Act (Cap. 289);
securities firm	means – <ul style="list-style-type: none"> (a) any entity holding a capital markets services licence under section 84(1) of the Securities and Futures Act (Cap. 289); or (b) any entity that is approved, licensed, registered or otherwise regulated by a regulatory agency other than the Authority to carry out activities permitted under a capital markets services licence under section 84(1) of the Securities and Futures Act (Cap. 289);
securitisation	means any transaction or scheme involving the tranching of credit risk associated with an exposure or a pool of exposures and which has the following characteristics: <ul style="list-style-type: none"> (a) payments in the transaction or scheme depend on the performance of the exposure or pool of exposures; (b) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme; and (c) junior tranches can absorb losses without interrupting contractual payments to more senior tranches;
securitisation exposure	means any exposure of a Finance Company to a securitisation, and includes – <ul style="list-style-type: none"> (a) any on-balance sheet exposure to securities issued pursuant to a securitisation (e.g. asset-backed securities, mortgage-backed securities and collateralised debt obligations); (b) any off-balance sheet exposure to a securitisation (e.g. through credit enhancements, liquidity facilities, credit derivatives or tranching cover, interest rate swap or currency swap), regardless of whether it was retained by the Finance Company at, or repurchased by the Finance Company after, the origination of the securitisation; and (c) reserve accounts (e.g. cash collateral accounts) recorded as an asset by the originating bank;
securitised exposure	means an exposure, securitised by a Finance Company in its capacity as originator or ABCP programme sponsor, that forms an underlying exposure of a securitisation;
servicer	means a Finance Company which carries out administrative functions relating to the cash flows of the underlying exposure or pool of exposures of a securitisation, including setting up and operating the mechanism for collecting payments of interest or principal derived from the underlying exposures and channeling these funds to the investors or the trustee representing them, customer service, cash management, maintenance of records and reporting duties;

SFT	means a securities or commodities financing transaction comprising any one of the following: (a) a repo or a reverse repo; (b) a securities or commodities lending transaction or securities or commodities borrowing transaction; (c) a margin lending transaction, for which the value of the transaction depends on market valuation and the transaction is often subject to margin agreements;
small business	means a corporation, partnership, limited liability partnership, sole proprietorship or trustee in respect of a trust with reported annual sales of less than \$100 million;
SPE or special purpose entity	means a corporation, trust, or other entity established for a specific purpose, the activities of which are limited to those appropriate to accomplish that purpose and the structure of which is intended to isolate the SPE from the credit risk of an originator or seller of exposures;
specific allowance	means loss allowance for credit exposures that fall within the definition of "credit-impaired financial asset" under FRS 109;
	[MAS Notice 832 (Amendment) 2017]
specific wrong-way risk	means the risk that arises when exposure to a particular counterparty is positively correlated with the probability of default of the counterparty due to the nature of the transactions with that counterparty;
structured deposit	has the same meaning as in Regulation 2 of the Financial Advisers (Structured Deposits – Prescribed Investment Product and Exemption) Regulations 2005;
structured note	has the same meaning as in <u>section 240AA(5) of the Securities and Futures Act (Cap. 289)</u> ; Securities and Futures (Offers of Investments)(Shares and Debentures) Regulation 2005.
subsidiary	has the same meaning as in section 5 of the Companies Act (Cap. 50);
synthetic securitisation	means a structure with at least two different tranches which reflect different degrees of credit risk where credit risk of an underlying exposure or pool of exposures is transferred, in whole or in part, through the use of funded or unfunded credit derivatives or guarantees;
the Authority	means the Monetary Authority of Singapore established under the Monetary Authority of Singapore Act (Cap. 186);
Total Capital	means the sum of the items set out in paragraph 6.1.1;

Total CAR	means total capital adequacy ratio, calculated in accordance with paragraph 4.1.2;
trading book	has the meaning in Sub-division 3 of Division 1 of Part VIII;
traditional securitisation	means a structure where the cash flow from an underlying exposure or pool of exposures is used to service at least two different tranches reflecting different degrees of credit risk;
tranche	means a contractually established segment of the credit risk associated with an underlying exposure or pool of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each other such segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments;
unconsolidated subsidiary	means a subsidiary whose assets and liabilities are not included in the consolidated financial statements of the finance company group;
unfunded credit protection	means a CRM where the reduction of the credit risk of an exposure of a Finance Company is derived from the undertaking of a third party to pay an amount in the event of the default of a counterparty or on the occurrence of other specified events;
unrated	in relation to any exposure, means that the exposure does not have an external credit assessment from a recognised ECAI; and
USD	means the United States dollar.

Amendments to Part VII

Part VII: Credit Risk

Annex 7F

CRM

Section 2: Recognition of Collateral

Amendments to Paragraphs 2.2 – 2.3

2.2 For a Finance Company using the FC(SA), eligible financial collateral comprises¹⁶¹

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- (a) cash (as well as certificates of deposit or other similar instruments issued by the Finance Company)¹⁶² on deposit with the Finance Company;¹⁶³
- (b) gold;
- (c) any debt security^{163A} –
 - (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;
- (d) any equity security (including convertible bonds) that is included in a main index of any securities-approved exchange in Singapore or any recognised group A exchange;
- (e) any structured deposit issued by and on deposit with the Finance Company; and
- (f) any unit in a collective investment scheme where –

¹⁶¹ This shall exclude any capital instrument issued by the Finance Company which is held by the Finance Company or any of its finance company group entities as collateral. Please also note subsection 24(1) of the Finance Companies Act which prohibits a Finance Company from lending money against the security of its own shares.

¹⁶² Cash-funded credit-linked notes issued by a Finance Company against exposures in the banking book which fulfill the criteria for eligible credit derivatives shall be treated as cash collateralised transactions.

¹⁶³ When cash on deposit, certificates of deposit or other similar instruments issued by the lending Finance Company that are held as collateral at a third-party banking institution in a non-custodial arrangement and are pledged or assigned to the lending Finance Company, the Finance Company 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.

^{163A} This includes any structured note.

- (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.¹⁶⁴

2.2A Resecuritisations, irrespective of any credit ratings, are not eligible financial collateral.

2.3 For a Finance Company using the FC(CA), eligible financial collateral comprises¹⁶¹
–

- (a) any instrument listed in paragraph 2.2 above;
- (b) any equity security (including convertible bonds) that is listed on any securities-approved exchange in Singapore or any recognised group A 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.¹⁶⁵

¹⁶⁴ 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 Finance Company using FC(SA).

¹⁶⁵ 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 Finance Company using FC(CA).

METHODS AND HAIRCUTS FOR RECOGNISING COLLATERAL

Amendments to Section 2

Section 2: Standard Supervisory Haircuts

2.1 The standard supervisory haircuts, H_E , H_C and H_S (assuming daily remargining and daily revaluation (i.e. mark-to-market) and a ten-business day holding period), are as follows:

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
Any debt security with a credit quality grade of "1" or short-term credit quality grade of "I"	≤ 1 year	0.005	0.01
	> 1 year, ≤ 5 years	0.02	0.04
	> 5 years	0.04	0.08
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
	> 1 year, ≤ 5 years	0.03	0.06
	> 5 years	0.06	0.12
Any debt security with a credit quality grade of "4"	All	0.15	NA
Gold		0.15	
Any equity (including a convertible bond) in a main index of a securities <u>an approved</u> exchange in Singapore or a recognised group A exchange		0.15	
Any other equity (including a convertible bond) listed on a securities <u>an approved</u> exchange in Singapore or a recognised group A 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	
Any structured deposit issued by and on deposit with a Finance Company		0.25	
Cash in the same currency as the underlying exposure		0	
Instruments in the trading book other than those listed above (for pre-settlement counterparty exposures arising from repo-style transactions, i.e. repo, reverse repo, securities lending or securities borrowing transactions, included in the trading book)		0.25	

2.2 Notwithstanding paragraph 2.1 above, the standard supervisory haircut, H_E , for transactions in which a Finance Company lends instruments that do not qualify as eligible

financial collateral (e.g. corporate debt securities with a credit quality of "4" or worse) is 0.25.

2.3 The standard supervisory haircut, H_{FX} , for currency mismatch where exposure and collateral are denominated in different currencies based on a ten-business day holding period and daily revaluation is 0.08.

2.4 Where the minimum holding period, frequency of remargining or revaluation assumptions set out for eligible financial collateral in paragraph 2.1 differ from those of the Finance Company, the Finance Company shall adjust H_E , H_C , H_{FX} and H_S using the formulae in paragraphs 4.2 and 4.3 of this Annex.