

RESPONSE TO FEEDBACK RECEIVED

March 2021

Proposed Implementation of the Final Basel III Reforms in Singapore – Credit Risk Capital and Output Floor Requirements

MAS

Monetary Authority of Singapore

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1 Preface

1.1 On 7 May 2019, MAS consulted on the proposed implementation of the final Basel III reforms in Singapore.

1.2 This document sets out MAS' response to feedback received on the consultation paper published on 7 May 2019 that pertains to the proposals on credit risk capital and output floor requirements. MAS thanks all respondents for their feedback. The list of respondents is in Annex A. Full submissions are published in Annex B. MAS will be publishing our responses to the feedback received on the other areas of the Basel III reforms at a later date.

1.3 MAS has considered carefully the feedback received, and where appropriate, has incorporated them into the draft standards for credit risk capital and output floor requirements for Singapore-incorporated banks¹ issued for consultation today. Comments that are of wider interest, together with MAS' responses, are set out below.

2 Credit Risk Capital Requirements

Exposures to securities firms and other financial institutions treated as exposures to banks

2.1 MAS proposed to treat an exposure to a foreign securities firm or other financial institution as an exposure to a bank provided that (i) it is treated as a bank for regulatory capital purposes in that foreign jurisdiction; and (ii) the bank has assessed that the foreign securities firm or financial institution is subject to prudential standards (including capital and liquidity requirements) equivalent to those applied to banks.

2.2 A few respondents commented that condition (ii) would be challenging to operationalise and could result in inconsistent implementation of the rules.

MAS' Response

2.3 MAS agrees that it could be potentially onerous for banks to assess the equivalence of the prudential standards that a foreign jurisdiction applies to its securities

¹ MAS' consultation paper on draft standards for credit risk capital and output floor requirements for Singapore-incorporated banks, can be found at <https://www.mas.gov.sg/-/media/MAS/News-and-Publications/Consultation-Papers/Consultation-Paper-on-Draft-Standards-for-Credit-Risk-Capital-and-Output-Floor-Requirements.pdf>.

firms and other financial institutions, vis-à-vis its banks, and will not require banks to make such an assessment. Instead, where MAS notifies banks that a published, international assessment, e.g. an assessment under the Regulatory Consistency Assessment Programme of the Basel Committee on Banking Supervision (BCBS), has identified that such securities firms or other financial institutions are not subject to prudential standards and supervision equivalent to those applied to banks, the exposures to the securities firms or financial institutions must not be treated as exposures to banks, even if condition (i) was met.

Use of annual revenue instead of annual sales for the purposes of the corporate SME threshold

2.4 MAS proposed to set the new large corporate asset class threshold at S\$750 million, and the new corporate SME threshold under the standardised approach for credit risk (SA(CR)) at S\$100 million. One respondent, noting that the large corporate threshold is based on the total consolidated annual revenues of the group, while the corporate SME threshold is based on the total consolidated annual sales of the group, sought confirmation that the two terms can be used interchangeably.

MAS' Response

2.5 The term “annual revenue” will be used for the purposes of both thresholds.

Approach for risk-weighting exposures secured by Residential Real Estate (RRE) and Commercial Real Estate (CRE) under the SA(CR)

2.6 MAS proposed to risk-weight exposures secured by RRE and CRE based on the loan-to-value ratio (LTV), and apply the risk weight to the entire amount of the exposure. This treatment reflects the view that such exposures should be treated as whole loans, rather than the alternative treatment of splitting the exposure into secured and unsecured parts and applying different risk weights to each part.

2.7 Most respondents supported or had no comments on the proposal. One respondent preferred the alternative treatment for CRE, as the respondent viewed the proposed treatment as being insufficiently granular. In particular, as all unrated exposures with LTVs higher than or equal to 60% would be subject to a single risk weight (e.g. 100% for a larger corporate), such exposures with lower LTVs may be overcapitalised.

MAS' Response

2.8 Given the support from the industry, MAS will require banks to risk-weight exposures secured by RRE and CRE based on the LTV, and apply the risk weight to the whole loan. MAS considered that the proposed treatment of viewing each exposure as a whole loan and risk-weighting the exposure based on its LTV is more consistent with the risk management of such loans in our banks and aligned with our macroprudential requirements such as the setting of maximum LTVs for residential mortgages. For CRE, while the risk weight buckets are less granular, MAS is of the view that the overall treatment is more appropriate to address the risks of CRE exposures.

Treatment of Under Construction RRE under the SA(CR)

2.9 MAS proposed to exercise the national discretion to treat exposures to individuals secured by RRE under construction in Singapore as exposures secured by fully completed RRE, where the RRE -

- (a) is a Housing and Development Board flat²;
- (b) has more than 4 units and is thus covered under the Housing Developers (Control & Licensing) Act; or
- (c) has four or fewer units, and is intended to be the primary residence of the obligor.

For RRE under construction outside Singapore, MAS proposed that banks would be able to treat such exposures as being secured by fully completed RRE only where such treatment is approved by MAS on an exceptional basis.

2.10 Respondents supported the proposed treatment of RRE under construction in Singapore. A few respondents requested MAS to specify the qualifying criteria for RRE under construction in a foreign jurisdiction to be treated as being secured by fully completed RRE, or to allow such treatment where the relevant foreign regulator has exercised the national discretion with respect to RRE under construction in its jurisdiction.

2.11 In addition, a few respondents asked if an exposure to a private investment company (PIC) could be treated as an exposure to an individual where the PIC was managed in the same manner as an individual, and where the beneficial owner of the PIC

² Including Executive Condominiums (EC) and Design, Build and Sell Scheme (DBSS) flats.

was an individual or where the beneficial owner has provided a personal guarantee for the exposure to the PIC.

MAS' Response

2.12 Given the industry support, MAS will implement the proposed treatment for RRE under construction in Singapore. MAS will also allow banks to treat RRE under construction in a foreign jurisdiction as secured by fully completed RRE, where the relevant foreign regulator has exercised the national discretion with respect to RRE under construction in its jurisdiction, and where the bank has assessed that the foreign government or relevant public sector entity can ensure the RRE will be completed or that the RRE has four or fewer units and is intended to be the primary residence of the obligor.

2.13 An exposure to a PIC secured by RRE under construction may be treated as an exposure to an individual where the PIC replicates the risk profile of an individual, and is covered by a personal guarantee from the individual who is the beneficial owner of the PIC.

Valuation of Real Estate exposures under the SA(CR)

2.14 MAS proposed for banks to use the valuation of the real estate at origination for computing the LTV, revise the value downwards to reflect subsequent valuations of the real estate, and cap any upward adjustments in value at the valuation at origination.

2.15 Some respondents suggested that adjustments in valuation should not be capped at the valuation at origination, as using current valuations would be more risk-sensitive and avoid the operational burden of maintaining the valuation at origination. One respondent suggested using the valuation at origination without the need for subsequent adjustments, for ease of implementation.

2.16 In addition, some respondents sought to clarify whether the valuation at origination for loans that are refinanced should be based on the date of refinancing.

MAS' Response

2.17 MAS considered the balance between risk sensitivity and prudence of capital requirements for real estate exposures, and will maintain the position proposed in the consultation paper. Requiring downward adjustment from the valuation at origination retains risk sensitivity in the capital requirement when the value of the underlying collateral declines. At the same time, capping subsequent upward adjustments at the

valuation at origination addresses the risk that banks may be under-capitalised for a subsequent property downturn.

2.18 For refinanced loans, MAS will allow banks to use the valuation at the date of loan refinancing for computing the LTV.

Determination of whether exposures secured by RRE and CRE are considered materially dependent on the cash flows generated by the property securing the loan under the SA(CR)

2.19 MAS proposed to treat an SA(CR) exposure secured by income-producing RRE to an individual who has mortgaged more than two income-producing RRE units to the bank, as being materially dependent on the cash flows generated by the RRE units for loan servicing.

2.20 Most respondents did not support the proposal. Some respondents noted that such exposures might not necessarily be materially dependent, as the individual might have sufficient income from other income streams to service the loans.

2.21 MAS also proposed to exercise the national discretion to require banks to take into account the cash flows generated by an obligor's CRE portfolio in assessing material dependence of exposures secured by CRE. The proposal aimed to address the risk that a property downturn may impair the obligor's ability to service the loan. However, where the CRE portfolio owned by the obligor is sufficiently diversified, banks may exclude the cash flows generated by the CRE portfolio in the assessment of whether an exposure is a materially dependent exposure. Banks would be required to assess the risk characteristics of the CRE portfolio and set internal policies relating to criteria on sufficient portfolio diversification and stability of cash flows generated.

2.22 A few respondents did not support the proposal due to the operational burden of determining the scope of an obligor's CRE portfolio and assessing its degree of diversification. Another respondent sought clarification on the criteria and factors to be considered in the assessment of whether a CRE portfolio is sufficiently diversified.

MAS' Response

2.23 On exposures secured by RRE, MAS agrees with the feedback, and will allow banks to assess whether SA(CR) exposures secured by non-owner occupied RRE to

individuals who have mortgaged more than two non-owner occupied RRE units to the bank are indeed materially dependent on the cash flows generated by the RRE units.

2.24 On exposures secured by CRE, MAS recognises the operational concerns raised by banks on the consultation proposal. In view of the feedback, MAS will not exercise the national discretion to avoid adding complexity to the capital framework.

Scope of residential mortgage asset sub-class under the internal ratings-based approach for credit risk (IRBA)

2.25 MAS proposed to exercise the national discretion to classify an IRBA exposure secured by income-producing RRE to an individual who has mortgaged more than two income-producing RRE units to the bank under the corporate asset sub-class, instead of the residential mortgage asset sub-class. The approach was intended to reflect the potentially higher risk of such exposures being materially dependent on the cash flows generated by the RRE units for loan servicing, and to align with the treatment for such exposures under the SA(CR).

2.26 Most respondents did not support the proposal. They noted that the risk management and underwriting policies for such retail exposures differed from that for corporate obligors. In addition, such exposures might not necessarily be materially dependent on the cash flows generated by the RRE units for loan servicing, as the individual might have a sufficient amount of income from other income streams to service the loans.

MAS' Response

2.27 In view of the feedback and to align with the revised treatment under the SA(CR), MAS will allow banks to assess whether IRBA exposures secured by non-owner occupied RRE to individuals who have mortgaged more than two non-owner occupied RRE units to the bank are indeed materially dependent on the cash flows generated by the RRE units. If so, the exposure will remain categorised in the residential mortgage asset sub-class, but will be capitalised using the capital computation formula for an exposure in the general corporate asset sub-class.

10% loss-given-default (LGD) floor for residential mortgage exposures under the IRBA

2.28 MAS proposed to retain the current LGD floor of 10% for IRBA exposures in the residential mortgage asset sub-class, to be applied at the individual exposure level.

2.29 Some respondents proposed that MAS should apply BCBS' lower LGD floor of 5%. They argued that historical LGD in Singapore has been low, the proposal could create an unlevel playing field, and model risk would be mitigated by the output floor.

MAS' Response

2.30 MAS will retain the LGD floor of 10%. MAS is of the view that a more prudent LGD floor would better serve to sustain banks' resilience to risks arising from the property market. The output floor works in tandem with, and not in substitution of, input floors such as the LGD floor. While the output floor is applied at the bank-wide level to reduce excessive variability in risk-weighted assets (RWA) across banks, input floors are targeted to guard against potential model risk for specific IRBA parameters at the individual exposure level, especially for low default portfolios such as the residential mortgage portfolio.

National discretion to exempt certain arrangements from the definition of commitments

2.31 MAS proposed to exercise the national discretion to exempt certain arrangements to corporates and corporate SMEs from the definition of commitments where such obligors are closely monitored on an ongoing basis, provided the following conditions are met:

- (a) the bank receives no fees or commissions to establish or maintain the arrangements;
- (b) the obligor is required to apply to the bank for the initial and each subsequent drawdown;
- (c) the bank has full authority over the execution of each drawdown, regardless of fulfilment by the obligor of the conditions set out in the facility documentation; and

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- (d) the bank's decision on the execution of each drawdown is only made after assessing the creditworthiness of the obligor immediately prior to drawdown.

2.32 Some respondents suggested extending the exemption to obligors other than corporates and corporate SMEs, such as retail exposures to wealth management customers that could similarly meet the conditions.

2.33 Others suggested that MAS allow condition (d) to be met by banks' routine credit assessments, which comprised full annual credit reviews supplemented by ongoing monitoring.

MAS' Response

2.34 On the scope of entities covered by the exemption, MAS will limit the exemption to arrangements for corporates and corporate SMEs only, in line with the consultation proposal. This is consistent with the scope of the national discretion provided in the Basel III reforms.

2.35 For the purposes of meeting condition (d), MAS will allow a bank to rely on its routine credit assessments of the obligor, supplemented by a confirmation, provided by a party independent of the functions responsible for originating the arrangements, that no material adverse information has arisen subsequent to the most recent credit assessment that would affect the obligor's creditworthiness immediately prior to drawdown.

3 Output Floor

3.1 MAS proposed to adopt the BCBS' phase-in arrangement for the output floor calibration.

3.2 MAS also proposed not to exercise the national discretion to cap a bank's total RWA resulting from the application of the floor (floored RWA) at 125% of the bank's total RWA before the application of the floor. The national discretion applies only during the phase-in period.

3.3 All respondents were supportive of the proposal to adopt the BCBS' phase-in arrangement for the output floor calibration. Some respondents requested MAS to exercise the national discretion to cap a bank's floored RWA, to provide for a level playing field during the phase-in period.

3.4 Besides providing feedback on the above proposals, some respondents sought clarifications on the components to be included in the computation of the output floor, e.g. whether central counterparty (CCP) exposures and the RWA-equivalent amount of regulatory adjustments to regulatory capital should be included.

MAS' Response

3.5 MAS will adopt BCBS' phase-in arrangement for the output floor calibration, which has been extended by one year in view of the deferral of the Basel III implementation timeline. The revised phase-in arrangement is set out in the table below.

With effect from	1 Jan 2023	1 Jan 2024	1 Jan 2025	1 Jan 2026	1 Jan 2027	1 Jan 2028
Output floor calibration	50%	55%	60%	65%	70%	72.5%

3.6 MAS will not exercise the national discretion to cap a bank's floored RWA during the phase-in period. Based on the banks' latest quantitative impact assessments, it remains that the phase-in of the output floor calibration is expected to be sufficient to facilitate banks' transition to the revised output floor.

3.7 On the components to be included in the computation of the output floor, the revised output floor is the sum of a bank's credit RWA (which includes CCP RWA), market RWA, and operational RWA, calculated using only standardised approaches, multiplied by the output floor calibration, and does not incorporate the RWA-equivalent of regulatory adjustments to regulatory capital. The computation of the output floor is detailed in Part V of the draft standards.

MONETARY AUTHORITY OF SINGAPORE

25 MARCH 2021

Annex A

**LIST OF RESPONDENTS TO THE CONSULTATION PAPER ON
PROPOSED IMPLEMENTATION OF THE FINAL
BASEL III REFORMS IN SINGAPORE**

1. International Swaps and Derivatives Association, Inc. and Asia Securities Industry and Financial Markets Association
2. Oversea-Chinese Banking Corporation Limited

6 other respondents requested confidentiality of identity.

Annex B

**SUBMISSIONS FROM RESPONDENTS TO THE CONSULTATION PAPER
ON PROPOSED IMPLEMENTATION OF THE FINAL
BASEL III REFORMS IN SINGAPORE**

Note: The table below only includes submissions for which respondents did not request confidentiality of their responses. The table below also only includes comments from the respondents relating to credit risk capital or output floor requirements, and their responses to the following questions of the consultation paper published on 7 May 2019, which pertains to credit risk capital and output floor requirements:

- **Question 1.** *MAS seeks comments on the proposal to include exposures to the following entities as exposures to banks:*
 - (a) any Singapore merchant bank;*
 - (b) any predominantly banking designated financial holding company under the Financial Holding Companies Act; and*
 - (c) any foreign securities firm or other financial institution which:*
 - (i) is treated as a bank for regulatory capital purposes in that foreign jurisdiction; and*
 - (ii) the bank has assessed to be subject to prudential standards (including capital and liquidity requirements) equivalent to those applied to banks.*
- **Question 2.** *MAS seeks comments on the proposal to continue allowing banks to use external ratings which incorporate assumptions of implicit government support for the purpose of risk-weighting bank exposures under the SA(CR).*
- **Question 3.** *MAS seeks comments on the proposal to:*
 - (a) set the new large corporate asset class threshold at S\$750 million; and*
 - (b) set the new corporate SME threshold under the SA(CR) at S\$100 million.*
- **Question 4.** *MAS seeks comments on the proposal to allow banks to substitute total assets for total sales in calculating the corporate SME threshold for the application of the firm-size adjustment under the IRBA, in cases where total sales are not a meaningful indicator of firm size. This is conditional on the bank having in place policies that have been approved in writing by MAS, and the bank applying*

the total assets metric consistently for those types of entities identified in the policies.

- **Question 5.** *MAS seeks comments on the proposal to require banks to risk-weight RRE and CRE exposures (that meet operational requirements and are not materially dependent exposures) based on the loan-to-value ratio of the exposure and apply the risk weight to the entire amount of the exposure.*
- **Question 6.** *MAS seeks comments on the proposal to exercise the national discretion for an exposure secured by RRE under construction or land upon which RRE would be constructed as set out in paragraph 2.20.*
- **Question 7.** *MAS seeks comments on the proposal to exercise the national discretion to require banks to revise the property value downwards to reflect property valuations, and to cap any subsequent upward adjustments at the value measured at origination.*
- **Question 8.** *MAS seeks comments on the proposals to require banks to:*
 - (a) treat an exposure secured by income-producing RRE to an individual with mortgages on more than two income-producing RRE units with the bank as a materially dependent exposure; and*
 - (b) apply the risk weight for materially dependent exposures, where the servicing of the loan materially depends on the cash flows generated by the CRE portfolio owned by the obligor, except where the CRE portfolio owned by the obligor is sufficiently diversified.*
- **Question 9.** *MAS seeks comments on the proposal for an ADC exposure to RRE to be subject to a risk weight of 100%.*
- **Question 10.** *MAS seeks comments on the proposal to require banks to classify an exposure secured by income-producing RRE to an individual with mortgages on more than two income-producing RRE units with the bank under the corporate asset sub-class.*
- **Question 11.** *MAS seeks comments on the proposal to retain the LGD floor at 10%, to be applied at the individual exposure level.*
- **Question 12.** *MAS seeks comments on the proposal to adopt the BCBS' phase-in arrangement for the new equity risk weights under the SA(CR).*

- **Question 13.** MAS seeks comments on the proposal to adopt the new definition of commitments in full, including exercising the national discretion to exempt certain arrangements for corporates and corporate SMEs which meet the above four conditions.
- **Question 14.** MAS seeks comments on the proposal to include as eligible protection providers:
 - (a) any entity holding a capital markets services licence under the Securities and Futures Act, except entities that provide credit rating services and venture capital fund managers;
 - (b) any entity licensed to carry on insurance business under the Insurance Act;
 - (c) any qualifying CCP, i.e. one which meets the requirements set out in paragraph 1.2 of Annex 7AJ of MAS Notice 637;
 - (d) any securities firm or insurance company in a foreign jurisdiction which the bank has assessed to be subject to prudential regulation in line with international norms; and
 - (e) any entity to which an exposure of the bank would be treated as a bank exposure.
- **Question 19.** MAS seeks comments on the proposal to:
 - (a) adopt the BCBS' phase-in arrangement for the output floor calibration; and
 - (b) not exercise the national discretion to cap floored RWAs at 125% of RWAs before the application of the floor.

S/N	Respondent	Response from Respondent
1	International Swaps and Derivatives Association, Inc. and Asia Securities Industry and Financial Markets Association	<p>Extract from "General comments and policy considerations"</p> <p>A. Introduction</p> <p>The International Swaps and Derivatives Association, Inc. ("ISDA")³ and the Asia Securities Industry & Financial</p>

³ Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has more than 900 member institutions from 71 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter @ISDA.

		<p>Markets Association (“ASIFMA”) ⁴ (together, the “Associations”) are grateful for the opportunity to respond to the Consultation paper on the proposed implementation of the final Basel III reforms in Singapore (“Consultation”) published by the Monetary Authority of Singapore (“MAS”) on 7 May, 2019⁵.</p> <p>The Consultation proposes amendments to MAS Notice 637 for credit risk, market risk, operational risk, output floor, and leverage ratio requirements for Singapore-incorporated banks, to align with the final Basel III reforms ⁶ and capital requirements for market risk ⁷ (“FRTB”) published by the Basel Committee on Banking Supervision (“BCBS”). We appreciate the work that MAS is completing in this area, and for the opportunity to respond to the questions posed in the Consultation. We summarise our high-level response to the Consultation in <i>Section B, General comments and policy considerations</i>, which is followed by answers to the individual questions raised in the Consultation in Appendix 1, <i>Specific comments</i>.</p> <p>We would like to highlight that as these discussions continue to evolve globally, the comments provided by the Associations in this response to the Consultation should not be considered as final. The Associations will continue to assess the final Basel III and FRTB framework over the coming months, and form our positions more</p>
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⁴ ASIFMA is an independent, regional trade association with over 100 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive and efficient Asian capital markets that are necessary to support the region’s economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insight on global best practices and standards to benefit the region.

⁵ <http://www.mas.gov.sg/~media/MAS/News%20and%20Publications/Consultation%20Papers/Consultation%20Paper%20on%20Proposed%20Implementation%20of%20the%20Final%20Basel%20III%20Reforms.pdf>, MAS, Consultation Paper on the Proposed Implementation of the Final Basel III Reforms in Singapore.

⁶ <https://www.bis.org/bcbs/publ/d424.pdf>, BCBS, Basel III: Finalizing post-crisis reforms.

⁷ <https://www.bis.org/bcbs/publ/d457.pdf>, BCBS, Minimum capital requirements for market risk.

		<p>fully. We would also request that the MAS provide the opportunity for further consultation and analysis once there is more clarity on the global implementation of the final Basel III and FRTB frameworks. As we have noted below, a key concern for our members is the timing of the overall implementation of the Basel III reform package. Piecemeal implementation of the Basel III reform package would be disruptive, burdensome, and inefficient.</p> <p>We would also like to call MAS' attention to ongoing developments, both at the industry-level and BCBS, where a global FAQ process is underway to address interpretation ambiguities or potential rule "deficiencies" stemming from the final FRTB requirements published in January 2019. This FAQ process, led by the trade associations, coordinates across global and regional banks to consolidate feedback on where BCBS text needs to be further clarified. This feedback was shared with the market risk group ("MRG") at BCBS at the end of June 2019.</p> <p>Over the past few months, this process has drawn out a series of topics which warrant further discussion at BCBS, covering equity investment in funds (in the context of trading/banking book boundary and standard rules vs. internal models capitalization), further clarification of the risk factor eligibility test, and interpretation issues on the standard rules.</p> <p>Given the extent of clarifications required, we would urge MAS to consider further consultation on the FRTB framework now that the list of industry FAQs have been shared with the MRG and BCBS.</p> <p>The Associations hope to continue the constructive ongoing dialogue between MAS and market participants to assist MAS in developing and finalizing the Basel III and FRTB frameworks. We note that our members may have feedback which they may wish to provide separately to MAS.</p> <p>B. General comments and policy considerations</p>
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		<p>The Associations consider it important that the final Basel III and FRTB standards are implemented in a way that drives a robust and effective banking sector, whilst supporting the growth and development of the real economy in Singapore and the Asia Pacific region. In doing so, we urge the MAS to assess the proposals in the Consultation against the overarching BCBS commitment to not significantly increase capital requirements, and ensure the MAS carries out an impact analysis that goes beyond the aggregate analysis undertaken by the BCBS. The Associations would also appreciate clarification on the implementation process, including timelines for second-round consultations on the technical guidelines and impact analysis or quantitative impact studies, and the timing and sequence of the publication of draft rules.</p> <p>The Associations are broadly supportive of the approach outlined by MAS, and of proposals which do not deviate from the BCBS standards in calibration and timeline. However, in finalizing the Consultation proposals, we also request MAS consider international developments in this area and monitor the adoption status in other key jurisdictions. Some areas that the Associations feel warrant further study are:</p> <p><i>i. Lack of international consistency and the risk of fragmentation</i></p> <p>The Associations consider it important that international standards such as Basel III and FRTB are applied consistently across jurisdictions, enabling banks to operate on a global level-playing field whilst also reflecting the specific financial and economic circumstances of Singapore and the Asia Pacific region. Furthermore, it is important for globally active banks that international standards are implemented in a coordinated way, including following a consistent timeline across jurisdictions, transitional arrangements, and with a reasonable implementation period for banks once the legislative process is finalised.</p> <p>There are concerns that the MAS implementation process will front-run the implementation process in</p>
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		<p>other key jurisdictions such as the United States and European Union. The European Union has already indicated that implementation of the FRTB under CRR II and CRD V will follow a two-step approach. The European Union approach will start with reporting requirements, moving subsequently to binding capital requirements which will form part of a separate legislative proposal which is expected to be published in June 2020, making it highly uncertain that the European Union will adhere to the BCBS timeline of January 2022 for FRTB capital binding requirements.</p> <p>This will lead to the real risk of divergence and regulatory fragmentation, and consequently implementation challenges for globally active banks if the MAS finalises the Basel III and FRTB frameworks. ISDA has discussed these fragmentation challenges, with a specific focus on FRTB, for Asia Pacific and emerging market economies in a report published in April 2019⁸. We request that the MAS consider these fragmentation concerns and monitor the adoption status in other jurisdictions before finalizing the Basel III and FRTB frameworks.</p> <p><i>ii. Application of MAS Notice 637 with proposed changes incorporated under MAS Notice 1111</i></p> <p>We note that the MAS published a Consultation Paper on Regulating Merchant Banks under the Banking Act (“Merchant Bank Consultation”) on 21 May, 2019⁹. The Merchant Bank Consultation states that “the consolidation of Merchant Bank regulation under the Bank Act is not intended to introduce new requirements or modify existing ones, except for</p>
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⁸ <https://www.isda.org/a/eleME/The-Fundamental-Review-of-the-Trading-Book-and-Emerging-Markets.pdf>, ISDA, The Fundamental Review of the Trading Book and Emerging Markets.

⁹ <http://www.mas.gov.sg/~media/MAS/News%20and%20Publications/Consultation%20Papers/2019%20May%20Regulating%20Merchant%20Banks%20under%20the%20Banking%20Act/Consultation%20Paper%20on%20Regulating%20Merchant%20Banks%20under%20the%20Banking%20Act.pdf>, MAS, Consultation Paper on Regulating Merchant Banks under the Banking Act.

		<p>changes that have been previously communicated or under consultation with the Merchant Banks”¹⁰.</p> <p>The Associations would like to seek clarification on whether MAS Notice 1111 will be amended or incorporated with MAS Notice 637. MAS Notice 637 (applicable to banks) allows internal models, whereas MAS Notice 1111 (applicable to merchant banks) only allows the standardised approach. We request confirmation that MAS Notice 637 will not apply to merchant banks, and that the amendments proposed under the Merchant Bank Consultation will not change the risk-based capital requirements applicable to merchant banks under MAS Notice 1111.</p> <p><i>iii. Clarity on other areas of the Basel III and FRTB reforms expected to be reviewed by BCBS</i></p> <p>The Associations would like to highlight some areas of the Basel III and FRTB standards that are expected to be reviewed by the BCBS and are not covered in the Consultation, but require further clarity from MAS. We urge the MAS to consult the industry in these areas in due course, and hope our comments provided in advance will assist the MAS in formulating these policy proposals.</p> <p><i>a. Standardised Approach to Counterparty Credit Risk (“SA-CCR”)</i></p> <p>As SA-CCR will be used in the calculation of multiple risk-based capital requirements, including the Leverage Ratio, it can lead to significant increases in exposures and capital requirements that are not always reflective of the underlying risk, and therefore needs to be appropriately calibrated. ISDA has proposed a number of measures that will improve the risk sensitivity of SA-CCR, including:</p>
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¹⁰ Paragraph 2.3, page 5.

		<ul style="list-style-type: none">• Reconsider the application and calibration of the alpha factor to avoid overstating the risk of derivatives;• Reconsider the supervisory factors for the commodity and equity asset classes set by the Basel Committee standards¹¹;• Provide a more risk-sensitive treatment of initial margin (“IM”) to ensure the risk-mitigating benefits of IM are better recognised;• Avoid any disproportionate impact on the cost of doing business for commercial end-users (“CEUs”) that may result from reduced hedging;• Remove restrictions to net all transactions covered by an agreement that satisfies the requirements for qualifying master netting agreements; and• Ensure SA-CCR does not negatively impact client clearing. <p>ISDA has discussed these measures in more detail in the recent industry response to the notice of proposed rulemaking in the United States, published in March 2019¹². We kindly request that MAS consider these concerns, and consider further consultation on SA-CCR.</p> <p><i>iv. Other opportunities for refining the final Basel III framework</i></p> <p>The Associations would also like to highlight the need for MAS to consider ongoing refinement of the final Basel III framework during the implementation phase of the revisions proposed in this Consultation.</p> <p>One example of an on-going concern under the credit risk framework that has been highlighted on a</p>
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¹¹ https://www.bis.org/basel_framework/index.htm?export=pdf&pdfid=15602572224168506, BCBS, The Basel Framework Consultative Document (Apr. 2019).

¹² <https://www.isda.org/2019/03/18/industry-response-to-standardized-approach-for-counterparty-credit-risk-sa-CCR/>, ISDA, SA-CCR: Impact on the US

		<p>number of occasions by the Global Financial Markets Association¹³, to which ASIFMA is affiliated, is the capital treatment of Securities Financing Transactions (“SFTs”).</p> <p>Paragraphs 180 to 188 in the final Basel III framework¹⁴ specify the capital treatment of certain non-centrally cleared SFTs with certain counterparties. However, the new SA(CR) lacks risk-sensitivity in three key areas for SFTs:</p> <ul style="list-style-type: none">• Risk weights for counterparties without external rating - lack of external ratings for corporates will lead to the application of a punitive 100% risk weight and significant increase in risk-weighted assets (“RWA”) for banks. The Associations request the MAS to consider appropriate revisions such that that the ultimate risk weight calibration of this category should not result in an inconsistent capital treatment that may unintentionally reduce the supply of credit to this sector.• Lack of maturity adjustment - the Associations request for maturity adjustment on all short-term exposures by extending the SA(CR) risk weight discount for short-term bank exposures (table 7 of the final Basel III framework¹⁵) to all short-term exposures, depending on the counterparty risk profile.• Minimum haircut floors to the collateral posted by the counterparty for non-cleared SFTs - the Associations put forward the following suggestions for MAS to consider:<ol style="list-style-type: none">i. Mutual/pension funds should be considered “prudentially” regulated under leverage and liquidity rules, and thus be exempted from minimum haircut floors (e.g. Undertakings for the Collective
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¹³ <https://www.gfma.org/wp-content/uploads/0/83/91/207/849d7d4c-eaad-443c-82a7-57dc2e469354.pdf>. GFMA, Letter to Basel Committee on Banking Supervision.

¹⁴ <https://www.bis.org/bcbs/publ/d424.pdf>, BCBS, Basel III: Finalizing post-crisis reforms, page 45-47.

¹⁵ <https://www.bis.org/bcbs/publ/d424.pdf>, BCBS, Basel III: Finalizing post-crisis reforms, page 9.

		<p>Investment in Transferable Securities in the European Union);</p> <ul style="list-style-type: none"> ii. the “representation” exemption (paragraph 180-182 in the final Basel III framework¹⁶) should be expanded to SFTs with non-cash collateral; iii. SFTs should be exempt from haircuts when the bank “suffers” a collateral haircut (e.g. securities borrowing); and iv. there should be partial collateral recognition if the haircut floor is not met. <p>The lack of risk-sensitivity in these areas in the treatment of SFTs result in the increase in risk-weighted assets for specific institutions and specific transaction types. We kindly request that the MAS consider these concerns and revisit these issues to address the deficiencies highlighted above.</p> <p>The Associations believe that improvements in risk sensitivity can be achieved without introducing undue complexity to the framework, and seek ongoing dialogue with BCBS and regulators such as the MAS on this and other areas of concern, with a view to refinement of the Basel III framework. We invite the opportunity for follow-up discussions with the MAS to discuss such issues in more detail, and we would be happy to provide more examples on specific areas of concern.</p> <p>As a final note, we encourage MAS, to take the changes that result from the final analysis back to the BCBS, and obtain the necessary revisions to the relevant BCBS standards. Changes at the Basel level are necessary to facilitate consistent implementation on a global basis.</p> <p>Appendix 1 - Specific comments</p> <p>Question 1. MAS seeks comments on the proposal to include exposures to the following entities as exposures to banks:</p>
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¹⁶ <https://www.bis.org/bcbs/publ/d424.pdf>, BCBS, Basel III: Finalizing post-crisis reforms, page 45.

		<p>(a) any Singapore merchant bank;</p> <p>(b) any predominantly banking designated financial holding company under the Financial Holding Companies Act; and</p> <p>(c) any foreign securities firm or other financial institution which:</p> <ul style="list-style-type: none">(i) is treated as a bank for regulatory capital purposes in that foreign jurisdiction; and(ii) the bank has assessed to be subject to prudential standards (including capital and liquidity requirements) equivalent to those applied to banks. <p>The Associations support the MAS proposal in (a) to include exposures to Singapore merchant banks as exposures to banks, and treatment of merchant banks as banks for regulatory capital purposes and subject to equivalent prudential standards. Per the comments made above in the <i>General comments and policy considerations</i> section of this response to the Consultation (<i>Section B, point ii</i>), we would like to seek clarification on how the MAS Notice 1111 will be amended or incorporated with the MAS Notice 637.</p> <p>Question 2. MAS seeks comments on the proposal to continue allowing banks to use external ratings which incorporate assumptions of implicit government support for the purpose of risk-weighting bank exposures under the SA(CR).</p> <p>The Associations request that the MAS monitor and take into account approaches by other regulators. Should other regulators require use of external ratings without factoring government support, we suggest the MAS follow suit to prevent an unlevelled playing field for international banks and/or other market distortions.</p> <p>The use of external ratings for determination of risk weights will potentially lead to a significant increase in risk weights in applying the standardised approach to calculating the output floor as compared to internal ratings systems by banks. Corporates that are unrated</p>
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		<p>will receive a punitive risk weight of 100% (or 85% for SME), which will impact lending. This also accounts for the most significant impact on input to the floor.</p> <p>Question 3. MAS seeks comments on the proposal to: (a) set the new large corporate asset class threshold at S\$750 million; and (b) set the new corporate SME threshold under the SA(CR) at S\$100 million.</p> <p>Under the proposed rules, A-IRB will no longer be permitted against exposures above the large corporate threshold, with banks having to revert to SA or FIRB to calculate their RWAs. There are, however, important questions regarding both the transition to and the on-going compliance with the revised credit framework. On the transition, the Associations would like to seek clarification on the MAS expectations with regards to model review and model approval when banks are required to change their approaches (from A-IRB to F-IRB, for instance). From an on-going compliance perspective, further guidance is needed to operationalise these requirements, such as the supervisory expectations on banks to monitor and evidence the total consolidated annual revenues of corporate or on the treatment of corporate crossing threshold (i.e., the timeline and process to move from A-IRB to F-IRB).</p> <p>Question 4. MAS seeks comments on the proposal to allow banks to substitute total assets for total sales in calculating the corporate SME threshold for the application of the firm- size adjustment under the IRBA, in cases where total sales are not a meaningful indicator of firm size. This is conditional on the bank having in place policies that have been approved in writing by MAS, and the bank applying the total assets metric consistently for those types of entities identified in the policies.</p> <p>The Associations have no comments on this proposal.</p> <p>Question 5. MAS seeks comments on the proposal to require banks to risk-weight RRE and CRE exposures (that meet operational requirements and are not</p>
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		<p>materially dependent exposures) based on the loan-to-value ratio of the exposure and apply the risk weight to the entire amount of the exposure.</p> <p>The Associations have no comments on this proposal.</p> <p>Question 6. MAS seeks comments on the proposal to exercise the national discretion for an exposure secured by RRE under construction or land upon which RRE would be constructed as set out in paragraph 2.20.</p> <p>The Associations have no comments on this proposal.</p> <p>Question 7. MAS seeks comments on the proposal to exercise the national discretion to require banks to revise the property value downwards to reflect property valuations, and to cap any subsequent upward adjustments at the value measured at origination.</p> <p>The Associations would like to suggest that the MAS maintain the current approach, which is deemed more risk-sensitive than the final Basel III standards and has proven to achieve the objective of financial stability. This would be consistent with other areas (e.g. LGD floor at 10%), where the MAS is keeping the current framework in place and not automatically aligning with the final Basel III standards. The Associations are concerned that the proposal to use origination valuation with a cap on subsequent upward adjustments could be misrepresentative, as it would be a snapshot of the real estate market at a point in time. This would be especially true in cycle of falling or depressed prices and would lead to inconsistent outcomes for mortgages with similar risk characteristics. For instance, loans which are re-mortgaged will have different LTV, risk-weight and capital requirements.</p> <p>Question 8. MAS seeks comments on the proposals to require banks to:</p> <p>(a) treat an exposure secured by income-producing RRE to an individual with mortgages on more than two</p>
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		<p>income-producing RRE units with the bank as a materially dependent exposure; and</p> <p>(b) apply the risk weight for materially dependent exposures, where the servicing of the loan materially depends on the cash flows generated by the CRE portfolio owned by the obligor, except where the CRE portfolio owned by the obligor is sufficiently diversified.</p> <p>The Associations have no comments on this proposal.</p> <p>Question 9. MAS seeks comments on the proposal for an ADC exposure to RRE to be subject to a risk weight of 100%.</p> <p>The Associations have no comments on this proposal.</p> <p>Question 10. MAS seeks comments on the proposal to require banks to classify an exposure secured by income-producing RRE to an individual with mortgages on more than two income-producing RRE units with the bank under the corporate asset sub-class.</p> <p>The Associations have no comments on this proposal.</p> <p>Question 11. MAS seeks comments on the proposal to retain the LGD floor at 10%, to be applied at the individual exposure level.</p> <p>The Associations have no comments on this proposal.</p> <p>Question 12. MAS seeks comments on the proposal to adopt the BCBS' phase-in arrangement for the new equity risk weights under the SA(CR).</p> <p>The Associations support the MAS proposal to adopt the phase-in arrangement for equity risk weights under the SA(CR). We would also like to seek clarification and additional guidance on the circumstances under which an investment should be classified as “speculative unlisted equity exposures”.</p>
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		<p>Question 13. MAS seeks comments on the proposal to adopt the new definition of commitments in full, including exercising the national discretion to exempt certain arrangements for corporates and corporate SMEs which meet the above four conditions.</p> <p>The Associations welcome the exercise of national discretion by the MAS and would like to seek clarification on why the proposed exemption isn't extended to other asset classes (e.g. retail or banks). We believe that the restriction to the scope of exemption to corporates and corporate SMEs only in the BCBS standards is not justified and could have unintended consequences, especially on trade-related products. Banks and other financial entities are common counterparties in trade financing, and should be included in the possible list of exemption. We would recommend maintaining the conditions for exemption, but making exemption available to all counterparty types to avoid unintended consequences.</p> <p>Question 14. MAS seeks comments on the proposal to include as eligible protection providers:</p> <ul style="list-style-type: none">(a) any entity holding a capital markets services licence under the Securities and Futures Act, except entities that provide credit rating services and venture capital fund managers;(b) any entity licensed to carry on insurance business under the Insurance Act;(c) any qualifying CCP, i.e. one which meets the requirements set out in paragraph 1.2 of Annex 7AJ of MAS Notice 637;(d) any securities firm or insurance company in a foreign jurisdiction which the bank has assessed to be subject to prudential regulation in line with international norms; and(e) any entity to which an exposure of the bank would be treated as a bank exposure. <p>The Associations have no comments on this proposal.</p> <p>Question 19. MAS seeks comments on the proposal to:</p>
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		<p>(a) adopt the BCBS’ phase-in arrangement for the output floor calibration; and</p> <p>(b) not exercise the national discretion to cap floored RWAs at 125% of RWAs before the application of the floor.</p> <p>(a) The Associations support the MAS proposal to adopt the BCBS’ phase-in arrangement for the output floor calibration.</p> <p>(b) The Associations would like to request the MAS to reconsider not exercising the national discretion to cap floored RWAs at 125% before application of the floor. The proposal on output floor is based on the assumption that banks use retained earning to plug gaps, but this may vary according to the profitability of banks and could result in penalising less profitable banks.</p> <p>(c) The Associations would like to seek clarification on the MAS’s expectations regarding Pillar 3 disclosure in relation to the capital floor. We would hope that the MAS considers the proportionality principle when setting the detailed disclosure requirements to strike the balance regarding the density of disclosures. We are concerned that disclosures could be unduly burdensome and, more importantly, counterproductive to the objective of financial stability. There is the risk that extensive publication of the RWAs under the standardised approaches for all banks, including those with model approvals, will result in the market overly focusing on SA outputs and setting it as de facto benchmark when comparing banks within and across jurisdictions. This would, in turn, potentially negate the benefits of the model approach to capital requirements, which are more risk-sensitive and therefore more representative of the actual risks. This also goes against the general overall objective of the Basel III reforms to restore the credibility of models and therefore promote better risk management policies and practices.</p>
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4	Oversea-Chinese Banking Corporation Limited	<p>General comments:</p> <p>We thank the Monetary Authority of Singapore ('MAS') for the continued efforts in enhancing the capital framework, proactively engaging the industry, and for the opportunity to respond to this consultation.</p> <p>OCBC ('the Bank') has been actively following the developments of the Basel III reform finalisation process, providing feedback both bilaterally with the Basel Committee on Banking Supervision ('the Committee') and MAS in April 2018, as well as multilaterally through banking associations and industry forums.</p> <p>We recognise that MAS' proposed revisions to the capital requirements align with the Basel III reforms set out by the Basel Committee on Banking Supervision (BCBS) and we agree with the overall objectives of improving the robustness and comparability of risk-based capital requirements.</p> <p>To the objective of enhancing the capital framework, we are of the view, that in finalising the local implementation of the reforms, the basis of the framework should be guided by three key overarching principles. Firstly, it is important to persevere risk differentiation and maintain risk sensitivity of the capital framework. Secondly, it is key for the rules to be implemented consistently across jurisdictions, particularly with regard to areas subject to national discretion so as to not create an un-level playing field as a result of local interpretation and implementation. Finally, in line with the main BCBS' objectives of not significantly increasing overall capital requirements of banks and balancing simplicity, comparability and risk sensitivity, implementation of the regulatory framework should not be overly onerous in increasing capital requirements or introduce further complexity in computation. This is particularly in the case of the Revised Standardised Approach which now forms the basis of the output floor.</p> <p>Our comments in the subsequent pages were formed in light of these principles which we think are important for</p>
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		<p>a holistic and balanced view to enhance the capital framework. On the areas that MAS has invited comments on, our feedback is found in the following section.</p> <p>In addition to the questions posed, we felt that it was also important to highlight the following issues that were not specifically within the scope of the consultation.</p> <ol style="list-style-type: none">1. On the output floor, we recognise that the basis of comparison between the current MAS capital floor and the revised BCBS output floor differ. While the current capital floor is computed in capital terms by recognising regulatory adjustments deducted from the capital base (e.g. deductions relating to Great Eastern), the revised BCBS output floor is computed in RWA terms, without mentioning recognition of these capital deductions. In RWA terms, the output floor does not represent a holistic view of the Bank's capital resources – it does not consider the full extent of capital resources the Bank actually has to put up. While the revised Basel rules do not explicitly state how capital deductions should be treated under the output floor, we envisage that a consistent treatment would be to recognise capital deductions in equivalent RWA terms for computation of the output floor. We further recognise that this is no different from the impending further revisions we envisage will be made to the output floor arising from changes in accounting treatment of provisions due to ECL having come into effect. It is important that the phase-in calibration level be consistently implemented across global jurisdictions so as to not create an un-level playing field and allows for uniform adoption across the industry.2. On the recognition of debt securities as eligible collateral, one condition for debt securities issued by sovereigns or public sector entities is that they are externally rated by a recognised ECAI¹⁷. In the event no issue specific rating is available for debt securities,
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		<p>the issuer rating should be adopted, if available. We are of the view that for consistency in implementation, this should be applicable across all asset classes and not just for the Sovereign asset class.</p> <p>3. We appreciate MAS' consulting the industry early to allow lead time for implementation. With the new requirements, we expect that there will be substantial infrastructure enhancements which we are in the early stages of evaluating availability and feasibility of solutions. The finalisation of the local implementation rules will likely impact banks' discussions with system vendors and industry players. As an example, many vendors that develop solutions for credit RWA computation tend to embark on solutioning only when implementation rules are finalised or where a comprehensive set of draft rules are available. Hence, there may be an external dependency for banks' respective implementations.</p> <p>We very much appreciate our ongoing interaction with MAS on this important matter. Further to our feedback on the finalised Basel III reforms submitted to MAS in April 2018, we submit our feedback on the proposed implementation in Singapore below.</p> <p>Question 1. MAS seeks comments on the proposal to include exposures to the following entities as exposures to banks:</p> <ul style="list-style-type: none">(a) any Singapore merchant bank;(b) any predominantly banking designated financial holding company under the Financial Holding Companies Act; and(c) any foreign securities firm or other financial institution which:<ul style="list-style-type: none">(i) is treated as a bank for regulatory capital purposes in that foreign jurisdiction; and(ii) the bank has assessed to be subject to prudential standards (including capital and liquidity requirements) equivalent to those applied to banks.
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		<p>We agree with the proposal as this is aligned with market treatment. From an implementation point of view, it is useful to have greater clarity on the classification of predominantly banking designated financial holding company. Referencing the listing on the MAS website, currently the only predominantly banking designated financial holding company is DBS Group Holdings Ltd.</p> <p>The criteria for recognising any foreign securities firms or financial institutions should be based on either of the criteria as set out in c(i) or c(ii). Should related foreign regulators already designate an institution as a bank based on relevant local prudential standards, it may not be necessary for reporting banks to again assess the equivalence of relevant prudential standards. This will allow for consistent implementation of the global framework in eligibility recognition across banks in various jurisdictions.</p> <p>Question 2. MAS seeks comments on the proposal to continue allowing banks to use external ratings which incorporate assumptions of implicit government support for the purpose of risk-weighting bank exposures under the SA(CR).</p> <p>We welcome the Authority’s proposal to continue allowing the use of external ratings which incorporate the assumption of implicit government support which is in line with the principle of retaining risk sensitivity in the framework. Implicit government support is an integral factor in the assessment of borrowers’ credit worthiness and hence, it would be appropriate to recognise external ratings which incorporates such considerations.</p> <p>Question 3. MAS seeks comments on the proposal to:</p> <ul style="list-style-type: none">(a) set the new large corporate asset class threshold at S\$750 million; and(b) set the new corporate SME threshold under the SA(CR) at S\$100 million.
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		<p>We do not expect undue issues from the threshold setting and welcome the proposal to maintain the SME threshold at the current level of S\$100million. We note that under the Basel III reforms, the term “annual revenues” is used in defining the corporate asset class threshold while the term “annual sales” is adopted for the corporate SME threshold definition. We seek clarification that the two terms can be used interchangeably and that they refer to the same measurement.</p> <p>Question 4. MAS seeks comments on the proposal to allow banks to substitute total assets for total sales in calculating the corporate SME threshold for the application of the firm- size adjustment under the IRBA, in cases where total sales are not a meaningful indicator of firm size. This is conditional on the bank having in place policies that have been approved in writing by MAS, and the bank applying the total assets metric consistently for those types of entities identified in the policies.</p> <p>We think that the proposal is beneficial and is consistent with the spirit of the regulations.</p> <p>Question 5. MAS seeks comments on the proposal to require banks to risk-weight RRE and CRE exposures (that meet operational requirements and are not materially dependent exposures) based on the loan-to-value ratio of the exposure and apply the risk weight to the entire amount of the exposure.</p> <p>We think that the proposal is beneficial and is consistent with the spirit of the regulations.</p> <p>Question 6. MAS seeks comments on the proposal to exercise the national discretion for an exposure secured by RRE under construction or land upon which RRE would be constructed as set out in paragraph 2.20.</p> <p>We agree with the proposal to apply the relevant risk weights per paragraph 2.20 as this more appropriately reflects the risk characteristics of the obligor, in line with the principle of risk differentiation. We propose that the</p>
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		<p>recognition be extended to private investment companies if they are managed in the same manner as individuals, and the credit management is predicated on a look through approach to the ultimate owner who is an individual.</p> <p>Question 7. MAS seeks comments on the proposal to exercise the national discretion to require banks to revise the property value downwards to reflect property valuations, and to cap any subsequent upward adjustments at the value measured at origination.</p> <p>While we agree that it is important for banks to have buffers to manage risk, we are of the view that by not reflecting the current valuations, there may be unintended impacts to SME financing which may deny them the ability to raise funds and may inadvertently generate unnecessary re-financing.</p> <p>Capping subsequent upward adjustments at the value measured at origination may not be fully reflective of the market conditions. We foresee challenges in the determination of a consistent measure for origination LTV. For example, similar mortgage loans that are repriced or refinanced will reflect different origination LTV, inadvertently resulting in refinancing risk. The same property could also be used to secure facilities granted at different time and this would imply different origination LTVs for the different facilities secured against the same property.</p> <p>As an illustrative example based on the proposed rules, a borrower obtains financing of \$800k on a property valued at \$1mill (LTV of 80%). The value of the property then increases to \$2mill. For the same property valued at \$2mill and an LTV of 80%, a new borrower can then receive financing of \$1.6mill. Or at the same financing amount of \$800k, his LTV is 40% and viewed as lower risk. This may lead to an unintended consequence of bias based on the origination value, yielding perverse outcomes for both borrowers and lenders.</p> <p>Moreover, risk weights under the Standardised Approach are already calibrated at a higher level</p>
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		<p>compared to the IRB approach. Further divergence between the IRB and Standardised treatment would floor these benefits out.</p> <p>Mortgages and SME loans may also become relatively less profitable for banks resulting in banks moving away from these portfolios, leaving the market to informal investors and non-bank institutions which are outside the purview of the regulator. For SMEs, the ability to raise financing may be limited and there may be fewer available opportunities for financing. This could mean risks become less measurable and risks for borrowers increase.</p> <p>Given Singapore’s effective and pro-active macro-prudential measures such as TDSR and LTV requirements, and to be consistent with the treatment under IRBA, we propose that the same point-in-time LTV be adopted under the Standardised Approach.</p> <p>Question 8. MAS seeks comments on the proposals to require banks to:</p> <p>(a) treat an exposure secured by income-producing RRE to an individual with mortgages on more than two income-producing RRE units with the bank as a materially dependent exposure; and</p> <p>(b) apply the risk weight for materially dependent exposures, where the servicing of the loan materially depends on the cash flows generated by the CRE portfolio owned by the obligor, except where the CRE portfolio owned by the obligor is sufficiently diversified.</p> <p>We are of the view that the number of income producing RRE units may not reflect a borrowers material dependency or if the borrower is sufficiently diversified. While the number of income-producing RRE units can be indicative of borrowers’ intent, the primary consideration in identifying materially dependent exposures should be the borrowers’ sources of repayment. In addition, properties are not likely to be homogenous in value and as such, a count approach may not reflect the true underlying risk of a borrower.</p>
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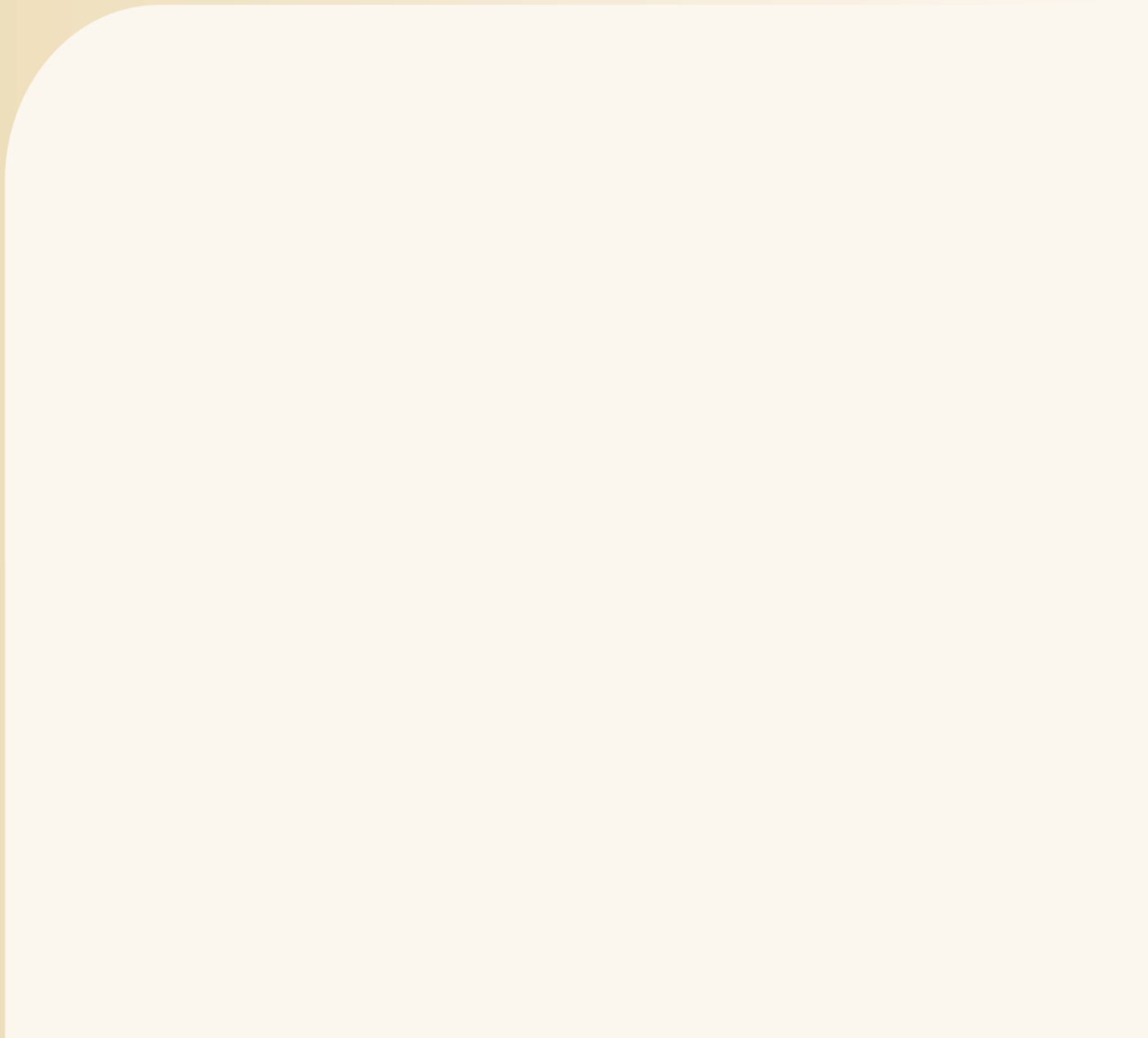
		<p>As an illustrative example based on the proposed rules, a borrower with 4 properties valued at \$1mill each would be considered materially dependent versus a borrower with 2 properties valued at \$25mill each.</p> <p>As an alternative, MAS may want to consider an aggregate size cap rather than count of number of properties as the determining criteria and allowing banks to classify exposures as materially dependent based on an established set of internally documented criteria provided they are consistently applied. This would be consistent with the classification for CRE where banks are required to have internal policies to assess if the cashflows generated by the portfolio of CRE is sufficiently diversified and stable.</p> <p>Question 9. MAS seeks comments on the proposal for an ADC exposure to RRE to be subject to a risk weight of 100%.</p> <p>We agree with the proposal as this aligns with the intention of preserving risk sensitivity of the framework.</p> <p>Question 10. MAS seeks comments on the proposal to require banks to classify an exposure secured by income-producing RRE to an individual with mortgages on more than two income-producing RRE units with the bank under the corporate asset sub-class.</p> <p>In line with our comment to question 8, we opine that banks should be allowed to classify RRE exposures based on the borrowers' sources of repayment. This better reflects the underlying risk of the borrower as well as allows for consistency across the framework. Furthermore, if the sources of repayment are materially dependent on the underlying properties, it would indicate that the borrowers are engaging in property-related business and hence, it may be more appropriate to classify them under the Corporate SME asset class, subject to meeting the size threshold. This would be consistent with the treatment for SME businesses and with the principle of maintaining risk differentiation in the framework. This would also allow banks to classify</p>
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		<p>the first two properties as Corporate SME if they are deemed to be materially dependent and minimise the need to re-classify them upon reaching a pre-determined number of such exposures.</p> <p>Question 11. MAS seeks comments on the proposal to retain the LGD floor at 10%, to be applied at the individual exposure level.</p> <p>To maintain comparability across jurisdictions and consistent global implementation of the Basel framework, we opine that the floor should be implemented per the Basel framework. While prudent from a risk management perspective, we are of the view that imposing a higher floor could put Singapore banks at a non-level playing field relative to banks in other jurisdiction especially given Singapore’s macro-prudential measures (e.g. TDSR and LTV requirements). Hence, we do not feel that it is necessary for the Authority to impose higher LGD requirements as compared to the Basel rules. The LGD parameters are already calibrated based on down-turn period and subject to stringent independent validation. In addition, the 10% LGD floor will imply that losses for individual residential mortgages will be floored at the same level as corporate exposures secured against RRE and CRE which, in our view, will not be intuitive.</p> <p>Question 12. MAS seeks comments on the proposal to adopt the BCBS’ phase-in arrangement for the new equity risk weights under the SA(CR).</p> <p>We have no further comments on the proposal to align with the BCBS’s phase in arrangements.</p> <p>Question 13. MAS seeks comments on the proposal to adopt the new definition of commitments in full, including exercising the national discretion to exempt certain arrangements for corporates and corporate SMEs which meet the above four conditions.</p> <p>We agree with the proposal to adopt the BCBS’ definition in full with the exemption for corporates and corporate SMEs subject to meeting the conditions.</p>
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		<p>Question 14. MAS seeks comments on the proposal to include as eligible protection providers:</p> <ul style="list-style-type: none">(f) any entity holding a capital markets services licence under the Securities and Futures Act, except entities that provide credit rating services and venture capital fund managers;(g) any entity licensed to carry on insurance business under the Insurance Act;(h) any qualifying CCP, i.e. one which meets the requirements set out in paragraph 1.2 of Annex 7AJ of MAS Notice 637;(i) any securities firm or insurance company in a foreign jurisdiction which the bank has assessed to be subject to prudential regulation in line with international norms; and(j) any entity to which an exposure of the bank would be treated as a bank exposure. <p>With regard to point (d) and in line with our comments to question 1, we propose that MAS consider that any securities firm or insurance company in a foreign jurisdiction be recognised as eligible if recognised as such by the relevant local regulators. Should related foreign regulators already designate an institution as a securities firm or insurance company based on relevant local prudential standards, it may not be necessary for reporting banks to again assess the equivalence of relevant prudential standards. This will allow for consistent implementation of the global framework in eligibility recognition across banks in various jurisdictions.</p> <p>Question 19. MAS seeks comments on the proposal to:</p> <ul style="list-style-type: none">(a) adopt the BCBS’ phase-in arrangement for the output floor calibration; and(b) not exercise the national discretion to cap floored RWAs at 125% of RWAs before the application of the floor. <p>It is important that the phase-in calibration level should be consistently implemented across global jurisdictions so as to not create an unlevel playing field and allows for</p>
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		<p>uniform adoption across the industry. Given that banks are already subject to leverage ratio requirements which serve as a backstop to internal models, the alignment with BCBS' phase-in arrangement and the presence of a cap will place less constraints on business growth and provide a level playing field during the transitional period.</p> <p>We also recognise that there are two main areas where the basis of comparison between the current MAS capital floor and the BCBS output floor differ. Firstly, the current capital floor is computed in capital terms by recognising regulatory adjustments deducted from the capital base (e.g. deductions relating to Great Eastern). The revised BCBS output floor is computed in RWA terms, without recognition of these capital deductions. Secondly, the components for current floor in capital terms differ from the revised BCBS output floor in RWA terms. Currently CCP, CVA and Op RWA are excluded in the SA capital floor base while in the revised BCBS output, these RWAs are included. In the case of the first item of capital deductions, the output floor in RWA terms does not represent a holistic view of the Bank's capital resources – it does not consider the full extent of capital resources the Bank actually has to put up. While the revised Basel rules do not explicitly state how capital deductions should be treated under the output floor, we envisage that a consistent treatment would be to recognise capital deductions in equivalent RWA terms for computation of the output floor. We further recognise that this is no different from the impending further revisions we envisage will be made to the output floor arising from changes in accounting treatment of provisions due to ECL having come into effect.</p> <p>For implementation, it is also useful to have further clarity on the following interpretation of the rule. For the calculation of output floor, we interpret that the Standardised Approach shall be used to calculate RWA for credit risk, counterparty credit risk, credit valuation adjustment risk, securitisation framework, market risk and operational risk which are set out in "Basel III: Finalising post-crisis reforms" published by BCBS in December 2017. We shall not refer to MAS Notice 637</p>
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		effective 1 January 2019, para 5.1.3A to calculate output floor. We would like to seek comments, if any, from the Authority on the above interpretation.
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Monetary Authority of Singapore