

RCAP jurisdictional assessments: self-reporting monitoring template for RCAP follow-up actions

Jurisdiction: Singapore

Status as of: 31 December 2016

With reference to RCAP report(s): Assessment of Basel III risk-based capital regulations - Singapore (March 2013)

Part A¹

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to risk-based capital standards (RCAP-Capital)

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
1. Credit risk: Standardised Approach Recognition of structured deposits as eligible financial collateral Basel II paragraph 145	The Basel framework recognises cash (as well as certificates of deposit or comparable instruments issued by the lending bank) on deposit with the bank which is incurring the counterparty exposure as one of the eligible financial collateral as a credit risk mitigant. MAS 637 specifies structured deposits, in particular "dual currency investments", as one of the eligible financial collateral instruments. Dual currency investments are defined as deposits	MAS Notice 637 – Annex 7F, Table 7J-1 of Annex 7J, Annex 2A (definition of structured deposit) MAS Notice 637 has been amended on 29 December 2014 with the issuance of MAS Notice 637 (Amendment No. 2) 2014.	MAS Notice 637 (Amendment No. 2) 2014 amended Annex 7F to remove the recognition of structured deposits issued by and on deposit with the bank as eligible financial collateral for credit risk mitigation purposes. Correspondingly, Table 7J-1 of Annex 7J on the standard supervisory haircut applicable for such structured deposits, and Annex 2A on the definition of structured deposit, has been deleted in the Amendment Notice. These amendments will take effect on 1 January 2017.

¹ To be completed only for those findings where action has been initiated/taken. Any plans for addressing other findings may be indicated in Part B.

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to risk-based capital standards (RCAP-Capital)

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
	<p>under the Banking Act which are accepted in one currency and which may be repayable in another currency. The RCAP Team notes that the MAS rules apply a standard haircut of 25% to structured deposits which suggests that these deposits carry a risk of a change in their market/liquidation value. Further, these deposits are not eligible for insurance cover under the Deposit Insurance and Policy Owners' Protection Schemes Act. Taken together, this suggests that structured deposits are not comparable to cash deposits.</p> <p>The RCAP Team views inclusion of structured deposits as an inappropriate expansion of the list of instruments specified by Basel standards.</p>		
<p>2. Credit risk: Internal Ratings-based Approach</p> <p>Classification of IRBA exposures to individuals in the corporate asset sub-class</p> <p>Basel II paragraphs 218</p>	<p>Paragraphs 214 and 215 of the Basel text require banks using the IRB framework to classify credit exposures as corporate, sovereign, bank, equity or retail. In cases where an IRB treatment is not specified, a risk weight of 100% is applicable, unless under the standardised approach a 0% risk weight is available.</p> <p>Basel paragraph 218 defines corporate exposure, and is not explicit on restricting the inclusion of individuals, even if managed on a pooled basis or if the lending bank uses retail methods of risk management. The definition of retail in paragraph 231 indicates that loans to individuals cannot</p>	<p>MAS Notice 637 – paragraph 7.4.15</p> <p>This paragraph in MAS Notice 637 has been amended on 29 December 2014 with the issuance of MAS Notice 637 (Amendment No. 2) 2014.</p>	<p>MAS Notice 637 (Amendment No. 2) 2014 amended Paragraph 7.4.15 to remove the criteria for classifying exposures to individuals in the corporate asset sub-class (ie the criteria that the bank does not manage the exposure as part of a pool of similar exposures, has strong reasons for categorising such exposure under the corporate asset sub-class and such categorisation is consistent with the policies of the bank for managing exposures).</p>

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to risk-based capital standards (RCAP-Capital)

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
	<p>always be classified as retail and discusses some instances in which they should be classified as corporate.</p> <p>MAS Notice 637, paragraph 7.4.14, requires classification of exposure into various IRB asset classes. Exposures that do not fall into these classes receive a 100% risk weight unless under the standardised approach a 0% risk weight is available.</p> <p>Paragraph 7.4.15 includes criteria for the classification of exposures in the corporate asset sub-class. The corporate asset sub-class includes exposures to individuals only if the bank does not manage the exposure as part of a pool of similar exposures, has strong reasons for categorising such exposure under the corporate asset sub-class and such categorisation is consistent with the policies of the bank for managing exposures.</p> <p>One effect of these criteria could be to disqualify exposures to individuals from corporate treatment. For example, it would disqualify an exposure if it were managed as part of a pool. The RCAP Team did not find anything in the Basel II text suggesting that management as a pool would disqualify an exposure from corporate treatment.</p>		

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to risk-based capital standards (RCAP-Capital)

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
<p>3. Credit risk: Internal Ratings-based Approach</p> <p>Motivation of migration to the IRB approach</p> <p>Basel II paragraph 258</p>	<p>The Basel framework requires that migration to IRB approaches should be driven by the practicality and feasibility of moving to the more advanced approaches, and not motivated by a desire to adopt a Pillar 1 approach that minimises capital charge.</p> <p>MAS Notice 637 does not mention motivation of migration to IRB approaches.</p>	<p>MAS Notice 637 – Annex 7AC</p> <p>This Annex in MAS Notice 637 has been amended on 29 December 2014 with the issuance of MAS Notice 637 (Amendment No. 2) 2014.</p>	<p>MAS Notice 637 (Amendment No. 2) 2014 amended Paragraph 2.1 of Annex 7AC to include the motivation of migration as one of the expectations in a bank’s IRB rollout plan.</p>

Part B

(1) Issue and/or relevant Basel paragraph number(s)	(2) Description of finding	(3) Plan(s) for amendment or rectification of findings
<p>1. Credit risk: Internal Ratings-based Approach</p> <p>Restriction of residential mortgage asset classes to properties that are owner-occupied</p> <p>Basel II paragraph 231</p>	<p>Para 231 of the Basel text states that residential mortgage loans are eligible for retail treatment so long as the credit is extended to an individual that is an owner-occupier of the property.</p> <p>MAS Notice 637's definition of residential retail mortgages in paragraph 7.4.16 does not mention owner occupancy to this effect.</p>	<p>We understand that the classification of exposures under the residential mortgage asset class is currently under review. MAS is monitoring developments on this front and will make the necessary amendments to MAS Notice 637 as appropriate when the review is complete.</p>