Basel Committee
on Banking Supervision

Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel large exposures regulations – Singapore

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BANK FOR INTERNATIONAL SETTLEMENTS

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Contents

Glossary

BIS	Bank for International Settlements
C	Compliant (grade)
DBS	DBS Bank
D-SIBs	Domestic systemically important banks
EBA	European Banking Authority
G-SIBs	Global systemically important banks
G-SIFI	Global systemically important financial institution
LC	Largely compliant (grade)
LEX	Large exposures
MAS	Monetary Authority of Singapore
MNC	Materially non-compliant (grade)
NC	Non-compliant (grade)
OCBC	Oversea-Chinese Banking Corporation
PSE	Public sector entity
RCAP	Regulatory Consistency Assessment Programme
SIG	Supervision and Implementation Group
SPV	Special purpose vehicle
UOB	United Overseas Bank

Preface

The Basel Committee on Banking Supervision (Basel Committee) places a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if these are implemented fully, consistently and in a timely manner by all member jurisdictions. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel framework.

This report presents the findings of an RCAP Assessment Team on the domestic adoption of the Basel large exposures (LEX) framework in Singapore. The assessment focused on the completeness and consistency of the domestic regulations published on 14 August 2019 and effective on 1 October 2020 with the Basel LEX framework, as applied to all banks incorporated in Singapore. Issues related to prudential outcomes, the resilience of the banking system or the supervisory effectiveness of the Monetary Authority of Singapore (MAS) were not in the scope of this assessment. The assessment relied on regulations, other information and explanations provided by MAS and ultimately reflects the view of the Basel Committee.

The RCAP Assessment Team was led by Ms Isabelle Vaillant, Director of Prudential Regulation and Supervisory Policy of the European Banking Authority (EBA). It comprised four technical experts, from Germany, South Africa, Italy and the Philippines (see Annex 1). The main counterpart for the assessment was MAS. The work was coordinated by the Basel Committee Secretariat with support from staff of the EBA.

The assessment began in mid-2019 and comprised (i) a self-assessment by MAS; (ii) an assessment phase (July to December 2019), including an on-site assessment involving discussions with MAS and representatives from banks in Singapore; and (iii) a review phase (January to February 2020), including a technical review of the Assessment Team's findings by a separate RCAP Review Team, the Committee's Supervision and Implementation Group (SIG), the RCAP Peer Review Board and the Basel Committee. More information on the RCAP assessment process is available on the Committee's website.[1]

The RCAP Assessment Team acknowledges the cooperation received from MAS throughout the assessment process. In particular, the team thanks the staff of MAS for playing an instrumental role in coordinating the assessment exercise.

[1] See www.bis.org/bcbs/implementation.htm.

Executive summary

In Singapore, the LEX framework applies to all locally incorporated banks. The framework was implemented through the regulatory notice MAS Notice 656 published on 14 August 2019 and it will come into effect on 1 October 2020.

Overall, as of 31 December 2019, the LEX regulations in Singapore are assessed as compliant with the Basel LEX framework. This is the highest possible grade. The three components of the LEX framework – (i) scope and definitions; (ii) minimum requirements and transitional arrangements; and (iii) value of exposures – are all assessed as compliant.

The Assessment Team recognises the efforts made by MAS to improve the consistency of its LEX regulations throughout the assessment process. The amendments issued by MAS in December 2019, notably in the area of value of exposures, are listed in Annex 3.

The Assessment Team noted that the LEX regulations in Singapore are super-equivalent to the Basel LEX framework in four areas (see Annex 4). In accordance with the methodology and guidance provided in the RCAP Handbook for jurisdictional assessments, the stricter rules have not been taken into account as mitigants for the overall or component-level assessment of compliance.

Response from MAS

MAS thanks the Assessment Team led by Ms Isabelle Vaillant for their professionalism and technical expertise, which facilitated robust discussions throughout the review. We would also like to express our appreciation to the Secretariat for their efforts in supporting this process.

MAS agrees with the overall findings and welcomes the overall rating of "compliant" under the LEX RCAP assessment. The assessment has been a useful exercise for MAS. Aside from affirming the consistency of our rules with the Basel standards, the process brought greater clarity to our domestic requirements on the treatment of intraday exposures to a bank and covered bonds.

MAS remains committed to the work of the Basel Committee and the consistent implementation of the Basel standards, which are an important part of the global regulatory reforms to build a more resilient financial system globally.

1 Assessment context

1.1 Status of implementation of the large exposures framework

MAS is the central bank and the integrated financial regulator overseeing all financial institutions in the banking, capital markets, insurance and payments sectors in Singapore.

MAS published MAS Notice 656 in August 2019, which implemented the Basel LEX framework to measure and limit exposures to a single counterparty group for banks. In December 2019, MAS published MAS Notice 656 (Amendment), which clarified the treatments of intraday exposures to a bank and holdings of covered bonds issued by a bank or mortgage institution through an SPV. The LEX framework in Singapore will come into force on 1 October 2020 for all banks incorporated in Singapore.

1.2 Regulatory system

MAS was established under the Monetary Authority of Singapore Act in January 1971. MAS has operational autonomy, and its Board of Directors, which comprises 11 members, is responsible for the policy and general administration of the affairs and business of MAS and informs the government of the regulatory, supervisory and monetary policies of the MAS. The Chairman of the Board is appointed by the President on the recommendation of the Cabinet. The Board is ultimately accountable to the Parliament of Singapore through the Minister-in-charge of MAS.

The Monetary Authority of Singapore Act confers MAS powers to issue various legal instruments under the Acts it administers for the regulation and supervision of financial institutions. The Acts contain statutory laws under the purview of MAS, which are passed by Parliament. Subsidiary legislation is issued under the authority of the relevant Acts, and typically fleshes out the provisions of an Act (eg Banking Regulations issued under the Banking Act). Both Acts and subsidiary legislation have the force of law and are published in the Government Gazette. MAS itself can issue regulatory instruments in the form of Directions, which detail specific instructions to financial institutions or other specified persons to ensure compliance. Directions have legal effect, meaning that MAS can specify whether a contravention of a Direction is a criminal offence. Directions consist of Directives and Notices. Directives primarily impose legally binding requirements on an individual financial institution or a specified person, while Notices primarily impose legally binding requirements on a specific class of financial institutions or persons. In addition, MAS can issue Guidelines, Codes, and Practice Notes, the contravening of which would not be a criminal offence.

1.3 Structure of the banking sector

As of end-March 2019, 126 institutions had a banking licence under the Banking Act of Singapore. Of these, nine are locally incorporated banks, while the remaining institutions operate as branches of foreign banks headquartered outside Singapore. Four of the locally incorporated banks are part of three domestic banking groups: the DBS Bank (DBS), the Oversea-Chinese Banking Corporation (OCBC) and the United Overseas Bank (UOB). DBS, OCBC and UOB are the only internationally active banking groups in Singapore. The remaining five locally incorporated banks are subsidiaries of foreign-headquartered banks and are not internationally active: Bank Pictet & Cie (Asia) Ltd., Citibank Singapore Limited, HSBC Bank (Singapore) Limited, Maybank Singapore Limited and Standard Chartered Bank (Singapore) Limited.

In evaluating the materiality of the findings it raised during the assessment, the Assessment Team focused on the three banking groups that are internationally active. The total assets of DBS, OCBC and UOB (on a consolidated basis) stood at 43% of the total assets of the banking system and 100% of the total assets of the internationally active banks in Singapore at end-March 2019.

1.4 Scope of the assessment

The Assessment Team considered the large exposures limits applicable to locally incorporated banks, as published on 14 August 2019 and amended on 13 December 2019, and effective from 1 October 2020. The assessment had two dimensions:

- a comparison of domestic regulations with the Basel LEX framework to ascertain that all the required provisions have been adopted (*completeness* of the regulations); and
- whether there are any differences in substance between the domestic regulations and the Basel LEX framework and, if so, their significance (*consistency* of the regulations).

In its assessment, the RCAP Assessment Team considered all binding documents that effectively implement the Basel LEX framework in Singapore. Annex 2 lists the Basel standards used as the basis for the assessment. The assessment did not evaluate the resilience of the banking system in Singapore or the supervisory effectiveness of MAS.

The Assessment Team noted that, in four areas, the Singaporean regulations go beyond the minimum Basel standards. Although the elements (listed in Annex 4) provide for a more rigorous implementation of the Basel framework, they have not been taken into account for the assessment of compliance.

The outcome of the assessment is summarised using a four-grade scale, both at the level of each of the three key components of the Basel LEX framework and the overall assessment of compliance. The four grades are compliant, largely compliant, materially non-compliant and non-compliant.

2 Assessment findings

2.1 Assessment grades and summary of findings

Overall, the Assessment Team finds the implementation of the LEX framework in Singapore to be compliant with the Basel standards. This grade takes into account the rectifications made by MAS in December 2019 (described in Annex 3).

Assessment grades

Table 1

Component of the Basel LEX framework	Grade
Overall grade	C
Scope and definitions	C
Minimum requirements and transitional arrangements	C
Value of exposures	C

Assessment scale: C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).

2.1.1 Scope and definitions

This component is assessed as compliant with the Basel LEX framework. No findings were identified.

2.1.2 Minimum requirements and transitional arrangements

The MAS regulation on minimum requirements is assessed as compliant with the Basel LEX framework. No findings were identified.

On transitional arrangements, the Assessment Team observes that, while the Basel standards envisage that the LEX framework must be implemented in full by 1 January 2019, there is a delay in implementation of Singaporean LEX regulations, which will be effective from 1 October 2020.

2.1.3 Value of exposures

This component is assessed as compliant with the Basel LEX framework. No findings were identified.

2.2 Detailed assessment findings

All components were assessed as compliant with the Basel standard. No findings were identified.

2.3 Observations on the implementation of the large exposures framework in Singapore

The following observations highlight certain special features of the regulatory implementation of the Basel LEX framework in Singapore. These are presented to provide additional context and information. Observations are considered compliant with the Basel standards and do not have a bearing on the assessment outcome.

2.3.1 Minimum requirements and transitional arrangements

Basel paragraph number	93: Implementation date and transitional arrangements
Reference in the domestic regulation	Paragraph 29 – MAS Notice 656
Observation	Paragraph 93 of the Basel LEX framework provides that all aspects of the LEX framework must be implemented in full by 1 January 2019. MAS Notice 656 will take effect on 1 October 2020. MAS explained that it had taken into consideration feedback from the industry on their need for more time to implement system changes to comply with the framework.

2.3.2 Value of exposures

Basel paragraph number	91: Large exposures rules for global systemically important banks
Reference in the domestic regulation	Paragraph 12 – MAS Notice 656
Observation	Under Paragraph 91 of the Basel LEX framework, the concern about contagion that led to a tighter limit on exposures between global systemically important banks (G-SIBs) applies, in principle, at the jurisdictional level to domestically important banks (D-SIBs). The Basel Committee therefore encourages jurisdictions to consider applying stricter limits to exposures between D-SIBs and to the exposures of smaller banks to G-SIBs. MAS does not adopt tighter limits on exposures between D-SIBs and exposures of non-G-SIBs to G-SIBs. Paragraph 12 of MAS Notice 656 provides that a bank must set internal limits on its exposure to a global systemically important financial institution (G-SIFI) or a D-SIB. MAS indicated that it relies on other supervisory tools to monitor contagion risks, for example, through network analysis to assess contagion risks stemming from interbank exposures and industry-wide stress tests. As such, MAS requires banks to manage their exposures through internal limits, to better address their funding and business needs.

Annexes

Annex 1: RCAP Assessment Team and Review Team

Assessment Team Leader

Ms Isabelle Vaillant	European Banking Authority

Assessment Team members

Mr Manuel Krebs	Federal Financial Supervisory Authority, Germany
Mr Wessel Mostert	South African Reserve Bank
Ms Mariakatia Di Staso	Bank of Italy
Mr Jose Recon S Tano	Bangko Sentral ng Pilipinas, Philippines

Supporting members

Mr Gerbert van der Kamp	European Banking Authority
Mr Luis Del Olmo	European Banking Authority
Ms Bingzhe Zhao	Basel Committee Secretariat
Mr Olivier Prato	Basel Committee Secretariat

Review Team members

Mr Neil Esho	Basel Committee Secretariat
Ms Adriana Antonelli	Central Bank of Argentina
Mr Stefan Blochwitz	Deutsche Bundesbank, Germany

Annex 2: List of Basel standards and implementing regulations issued by MAS

The following Basel standards were used as the basis of this RCAP assessment:

- *Supervisory framework for measuring and controlling large exposures*, April 2014
- *Frequently asked questions on the supervisory framework for measuring and controlling large exposures*, September 2016

Table A.1 lists the regulations issued by MAS to implement the LEX framework in Singapore. Previous RCAP assessments of the Singaporean implementation of the Basel standards considered the binding nature of regulatory documents in Singapore.[2] This RCAP Assessment Team did not repeat that assessment, but instead relied on the previous assessments' findings. Those assessments concluded that the types of instrument described in Table A.1 could be considered as binding on banks and supervisors for the purposes of an RCAP assessment.

Overview of relevant Singaporean large exposure regulations — Table A.1

Domestic regulations	Type, version and date
Banking Act	Banking Act (Chapter 19), version in force from November 2018
Banking Regulations	Regulation issued in July 2001, last revised in July 2019, effective from 1 October 2020
Exposures to Single Counterparty Groups for Banks Incorporated in Singapore (MAS Notice 656)	Notice issued in August 2019, last revised in December 2019, effective from 1 October 2020

Source: MAS.

2 See Annex 4 of the RCAP assessment of the Basel III risk-based capital regulations in Singapore, March 2013, www.bis.org/bcbs/implementation/l2_sg.htm.

Annex 3: Rectifications made by MAS

List of rectifications by MAS

Table A.2

Basel paragraph	Reference in Singapore regulations	Description of the rectification
65	Paragraph 1(e) of Annex A, MAS Notice 656	The MAS regulations exempt a bank's intraday interbank exposures from the LEX limit, up to two business days from the date of transaction where the bank has fulfilled its obligation under the transaction but its counterparty bank has not. This period of two business days is intended to accommodate cases of settlement failure for exposures originally intended to be settled within the same day due to non-credit-related reasons, such as operational lapses, given that the Basel LEX framework is silent on the treatment of intraday interbank exposures in such cases. Paragraph 1(e) of Annex A has been amended to clarify that the exemption for two business days would not apply in cases where the counterparty bank has not fulfilled its obligation due to the occurrence of credit-related circumstances, such as bankruptcy, insolvency, the inability to pay debts as they fall due, restructuring and making of a charge-off or specific allowance.
68	Paragraph 4.1 of Annex C, MAS Notice 656	The MAS regulations allow a bank or mortgage institution to issue covered bonds either directly or indirectly through an SPV. While internationally active banks in Singapore have no holdings of covered bonds issued by a bank or mortgage institution through an SPV, amendments have been made to paragraph 4.1 of Annex C to clarify that banks must assign exposures arising from such covered bond holdings to the issuing bank or mortgage institution, and not to the SPV.

Source: MAS.

Annex 4: Areas where Singaporean rules are stricter than the Basel standards

In four areas, MAS has adopted stricter approaches than the minimum standards prescribed by the Basel Committee. These are listed below for information. The stricter rules have not been taken into account as mitigants for the overall or component-level assessment of compliance.

Table A.3

Basel paragraph number	10: Scope and Level of Application
Reference in the domestic regulation	Paragraphs 7 and 8 – MAS Notice 656
Description	The MAS regulations impose the LEX limit on additional groupings, eg (i) director group; (ii) substantial shareholder group; (iii) major stake entity group. The policy objective is to limit contagion risks to a bank arising from its exposures to such groupings, which are related parties of the bank. Paragraph 13 of MAS Notice 656 also states that, for a person that belongs to more than one single counterparty group, the bank must include its exposures to that person in each of the single counterparty groups that the person belongs to.
Basel paragraph number	11: Scope and Level of Application
Reference in the domestic regulation	Paragraph 1 – MAS Notice 656
Description	The Basel LEX framework is applicable to internationally active banks. The MAS LEX regulations, however, will be applicable to all banks incorporated in Singapore. As of end-March 2019, there are nine banks incorporated in Singapore. Four of the locally incorporated banks are part of three domestic banking groups that are internationally active. The total assets of the internationally active banks stood at 43% of the total assets of the banking system.
Basel paragraph number	13: Scope of counterparties and exemptions
Reference in the domestic regulation	Annex A – MAS Notice 656
Description	The MAS regulations provide a narrower exemption than the Basel standards for exposures to sovereigns and central banks outside Singapore. Exemption is provided for these exposures where (i) they are denominated in the domestic currency of the sovereign country; (ii) if not denominated in the domestic currency of the sovereign country, the sovereign country is rated at least AA– for a foreign currency external credit assessment; or (iii) the exposure is to meet statutory liquidity and reserve requirements or other statutory requirements imposed by a regulatory authority. In the case of a public sector entity (PSE) treated as a sovereign, MAS exempts exposures to the PSE only where (i) both the PSE and the sovereign country where it is established are rated at least AA–, and (ii) the exposures to the PSE are denominated in the domestic currency of the sovereign country where the PSE is established.
Basel paragraph number	69: Covered bonds
Reference in the domestic regulation	Paragraph 4.2 of Annex C – MAS Notice 656
Description	The Basel LEX framework allows banks to assign an exposure value of no less than 20% of the nominal value of covered bonds that meet certain eligibility criteria. The MAS regulations allow banks to apply an exposure value of at least 25% of the nominal value of such covered bonds, higher than the minimum of 20% allowed under the Basel LEX framework.