RESPONSE TO CONSULTATION PAPER

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Consultation topic:	Consultation Paper on Proposed Implementation of the Final Basel III Reforms in Singapore
Name[1]/Organisation: [1]if responding in a personal capacity	Global Foreign Exchange Division ("GFXD") of the Global Financial Markets Association ("GFMA")
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Confidentiality	
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General comments:

The GFXD strongly believes that it is crucial for international standards such as Basel III and FRTB to be applied consistently across jurisdictions, enabling banks to operate on a global level-playing field. There is a concern that an uncoordinated approach to the implementation of Basel III and FRTB by jurisdictions will lead to the risk of divergence and regulatory fragmentation, and consequently implementation challenges for globally active banks. As such, the GFXD requests that the MAS carefully consider these fragmentation concerns and monitor the adoption status in other key jurisdictions before finalizing the Basel III and FRTB frameworks in Singapore.

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 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 15. MAS seeks comments on the proposal to exercise the national discretion to assign a 0% default risk weight under the revised SA(MR) to claims on sovereigns, PSEs and MDBs that would receive a 0% risk weight under the revised SA(CR).

Question 16. MAS seeks comments on its proposed considerations in assessing whether to grant approval for a bank to use the Simplified SA.

Question 17. MAS seeks comments on the proposal to exclude internal loss data in the capital calculation, and to set the operational risk capital requirement equal to the BIC.

Question 18. MAS seeks comments on the proposal to require all banks with a BI greater than S$1.5 billion to disclose their annual loss data and meet the minimum loss data standards.

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.

Question 20. MAS seeks comments on:

(a) the proposed requirement for derivative exposures to be measured in the leverage ratio exposure measure using the modified SA-CCR from 1 January 2022; and

(b) the proposed option for banks to adopt the modified SA-CCR earlier than 1 January 2022.

The GFXD would like to highlight that the leverage ratio exposure measure under the modified SA-CCR framework does not recognise the exposure-reducing effect of initial margin. This treatment of initial margin can be a disincentive for client clearing service providers to offer or expand client clearing, with the leverage ratio effectively acting as a limiting factor on the provision of overall client clearing capacity.

On 26 June 2019, the Basel Committee on Banking Supervision ("BCBS") published its revised "Leverage ratio treatment of client cleared derivatives"[1] which permits both cash and non-cash forms of segregated initial margin and cash and non-cash variation margin received from a client to offset the replacement cost and potential future exposure for client cleared derivatives only ("Revised Treatment"). The GFXD supports this revision[2] as it provides the appropriate incentives for clearing, while also addressing the wider systemic capacity concerns as well as those evidenced in the way the markets currently function.

In light of this, rather than requiring the leverage ratio exposure for derivatives to be calculated under the modified SA-CCR framework, the MAS should adopt the Revised Treatment in order to ensure that the leverage ratio exposure measure accurately reflects the purpose of margin and that the provision of client clearing services is encouraged rather than penalized.

Question 21. MAS seeks comments on the proposed calculation of exposures to cash pooling transactions in the leverage ratio exposure measure.

[1] https://www.bis.org/bcbs/publ/d467.pdf

[2] The GFXD had originally supported this revised treatment (also known as "Option 3") in its response to the BCBS' October 2018 consultation on "Leverage ratio treatment of client cleared derivatives" (https://www.bis.org/bcbs/publ/d451.pdf)