

8 July 2019

BY E-MAIL

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Dear Sirs,

Consultation paper on the proposed implementation of the final Basel III reforms in Singapore

A. Introduction

The International Swaps and Derivatives Association, Inc. (“**ISDA**”)¹ and the Asia Securities Industry & Financial Markets Association (“**ASIFMA**”)² (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, 2019³.

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 reforms⁴ and capital requirements for market risk⁵ (“**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

¹ 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.

² 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 insights on global best practices and standards to benefit the region.

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<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.

⁴ <https://www.bis.org/bcbs/publ/d424.pdf>, BCBS, Basel III: Finalizing post-crisis reforms.

⁵ <https://www.bis.org/bcbs/publ/d457.pdf>, BCBS, Minimum capital requirements for market risk.

to the Consultation in *Section B, General comments and policy considerations*, which is followed by answers to the individual questions raised in the Consultation in Appendix 1, *Specific comments*.

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 fully. We would also request that the MAS provide the opportunity for further consultation and analysis once there is more clarity on 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.

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.

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.

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.

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.

B. General comments and policy considerations

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.

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 that the 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:

i. Lack of international consistency and the risk of fragmentation

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.

There are concerns that the MAS implementation process will front-run the implementation process in other key jurisdictions such as the United States and European Union. The European Union has already indicated that implementation of 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.

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 2019⁶. We request that the MAS consider these fragmentation concerns and monitor the adoption status in other key jurisdictions before finalizing the Basel III and FRTB frameworks.

ii. *Application of MAS Notice 637 with proposed changes incorporated under MAS Notice 1111*

We note that the MAS published a Consultation Paper on Regulating Merchant Banks under the Banking Act ("**Merchant Bank Consultation**") on 21 May, 2019⁷. 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 changes that have been previously communicated or under consultation with the Merchant Banks*"⁸.

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.

iii. *Clarity on other areas of the Basel III and FRTB reforms expected to be reviewed by BCBS*

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.

⁶ <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.

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<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.

⁸ Paragraph 2.3, page 5.

a. *Standardised Approach to Counterparty Credit Risk (“SA-CCR”)*

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:

- 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 standards⁹;
- 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.

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 2019¹⁰. We kindly request that the MAS consider these concerns, and consider further consultation on SA-CCR.

b. *Credit Valuation Adjustment (“CVA”)*

The revised CVA capital framework was finalised as part of the overall Basel III reforms in December 2017¹¹. However, next to the overall calibration of the CVA framework, a key area of concern with the current framework is the limited recognition of hedges, which could be further amplified for banks in the Asia Pacific region by the difficulty of hedging exposure to less liquid counterparties. The risk weights used as part of the CVA framework will be informed by the revised FRTB SA framework, so it is possible that further refinements to the CVA framework may be needed, and we urge the MAS to consult on such refinements.

c. *Leverage ratio treatment of client cleared derivatives*

The BCBS consulted on the leverage ratio treatment of client cleared derivatives in October 2018¹², to which the Associations responded in January 2019¹³. The Associations strongly support the initiative of the BCBS in considering options for recognizing the benefits of the IM within the leverage ratio exposure calculation, and we advocate in support of the use of risk based SA-CCR (option 3 in the consultative document) as the most effective and

⁹ https://www.bis.org/basel_framework/index.htm?export=pdf&pdfid=15602572224168506, BCBS, The Basel Framework Consultative Document (Apr. 2019).

¹⁰ <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.

¹¹ https://www.bis.org/basel_framework/index.htm?export=pdf&pdfid=15602572224168506, BCBS, The Basel Framework Consultative Document (Apr. 2019).

¹² <https://www.bis.org/bcbs/publ/d451.pdf>, BCBS, Leverage ratio treatment of client cleared derivatives.

¹³ <https://www.isda.org/a/nDiME/Leverage-ratio-treatment-of-client-cleared-derivatives.pdf>, Joint Trade Associations, Response to BCBS Consultation on Leverage Ratio Treatment of Client Cleared Derivatives.

simple approach. Any improvements to the SA-CCR framework (please refer to *point a.* above) should also be incorporated into the leverage ratio framework.

We would like to highlight that in a press release published on 20 June, 2019, BCBS has indicated an agreement on a targeted and limited revision of the leverage ratio to allow margin received from a client to offset the exposure amounts of client-cleared derivatives¹⁴. Further to this, BCBS published the revised text for the leverage ratio standard¹⁵ on 26 June 2019, which sets out a targeted revision of the leverage ratio measurement of client cleared derivatives to align it with SA-CCR.

This revised treatment will permit both cash and non-cash forms of segregated IM and cash and non-cash variation margin (“**VM**”) received from a client to offset the replacement cost and potential future exposure for client cleared derivatives only. The Associations request that the MAS align local rules with the revised BCBS text, and also clarify the process for how these changes will be incorporated in MAS Notice 637 once finalised.

iv. Other opportunities for refining the final Basel III framework

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.

One example of an on-going concern under the credit risk framework that has been highlighted on a number of occasions by the Global Financial Markets Association¹⁶, to which ASIFMA is affiliated, is the capital treatment of Securities Financing Transactions (“**SFTs**”).

Paragraphs 180 to 188 in the final Basel III framework¹⁷ 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:

- 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 framework¹⁸) 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:
 - i. Mutual/pension funds should be considered “prudentially” regulated under leverage and liquidity rules, and thus be exempted from minimum haircut floors

¹⁴ <https://www.bis.org/press/p190620.htm>, BCBS, Basel Committee discusses policy and supervisory initiatives and approves implementation reports.

¹⁵ <https://www.bis.org/bcbs/publ/d467.pdf>, BCBS, Leverage ratio treatment of client cleared derivatives

¹⁶ <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.

¹⁷ <https://www.bis.org/bcbs/publ/d424.pdf>, BCBS, Basel III: Finalizing post-crisis reforms, page 45-47.

¹⁸ <https://www.bis.org/bcbs/publ/d424.pdf>, BCBS, Basel III: Finalizing post-crisis reforms, page 9.

- (e.g. Undertakings for the Collective Investment in Transferable Securities in the European Union);
- ii. the “representation” exemption (paragraph 180-182 in the final Basel III framework¹⁹) 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.

The lack of risk-sensitivity in these areas in the treatment of the 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.

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 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.

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.

The Associations thank MAS for considering our comments. We look forward to continued dialogue on these issues going forward, and we remain at your disposal in the development of the final Basel III and FRTB frameworks. We also welcome the opportunity to meet with MAS to further discuss any of the issues raised above in more detail. Should you have any questions, please do not hesitate to contact Rahul Advani at ISDA (radvani@isda.org or at +65 6653 4170) or MJ Park at ASIFMA (mjpark@asifma.org or at +852 2531 6561).

Yours sincerely,

For the **International Swaps and Derivatives Association, Inc.** and **Asia Securities Industry & Financial Markets Association**



Mark Gheerbrant
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¹⁹ <https://www.bis.org/bcbs/publ/d424.pdf>, BCBS, Basel III: Finalizing post-crisis reforms, page 45.

Appendix 1 - Specific comments

Consultation topic:	Consultation Paper on Proposed Implementation of the Final Basel III Reforms in Singapore
Name¹/Organisation: <small>¹if responding in a personal capacity</small>	International Swaps and Derivatives Association, Inc. (ISDA) and Asia Securities Industry and Financial Markets Association (ASIFMA)
Contact number for any clarifications:	+65 6653 4170 and +852 2531 6561
Email address for any clarifications:	radvani@isda.org and mjpark@asifma.org
Confidentiality	
I wish to keep the following confidential:	Not applicable <i>(Please indicate any parts of your submission you would like to be kept confidential, or if you would like your identity along with the whole submission to be kept confidential. Your contact information will not be published.)</i>

General comments:

Please see section A (*Introduction*) and section B (*General comments and policy considerations*) above.

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.**

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 *General comments and policy considerations* section of this response to the Consultation (*Section B, point ii*), we would like to seek clarification on how the MAS Notice 1111 will be amended or incorporated with the MAS Notice 637.

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).

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.

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 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.

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.**

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 F-IRB 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 the threshold (i.e., the timeline and process to move from A-IRB to F-IRB).

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.

The Associations have no comments on this proposal.

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.

The Associations have no comments on this proposal.

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.

The Associations have no comments on this proposal.

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.

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.

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.**

The Associations have no comments on this proposal.

Question 9. MAS seeks comments on the proposal for an ADC exposure to RRE to be subject to a risk weight of 100%.

The Associations have no comments on this proposal.

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.

The Associations have no comments on this proposal.

Question 11. MAS seeks comments on the proposal to retain the LGD floor at 10%, to be applied at the individual exposure level.

The Associations have no comments on this proposal.

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).

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".

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.

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.

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.**

The Associations have no comments on this proposal.

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).

The Associations are supportive of the MAS 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). This is a positive development where local rules are more aligned on the economic risk for such positions.

However, as highlighted in the *Introduction* in *section A* of this response to the Consultation, we would like to call MAS' attention to the ongoing development 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 the BCBS text needs to be further clarified. This feedback was shared with the MRG at BCBS at the end of June 2019.

Over the past few months, this process has drawn out a series of topics which warrant further discussion to help remediate these issues. 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.

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

In general, the Associations support the MAS proposal to permit banks that maintain small and simple market risk portfolios to use the Simplified SA upon approval by MAS. However, the Associations would like to highlight that potential unintended consequences could occur by requesting all local banks to disclose RWA under SA and model, when their local business are not fully diversified.

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.

The Associations support the MAS proposal to set 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.

The Associations are supportive of the loss data standards to be applied as proposed. This allows forward-looking and predictive simulation in Pillar 2 by applying an exposure-driven approach to operational risk management. However, we would like to seek clarification on the level of reporting requirements and how these requirements would be align with the Pillar 3 disclosure.

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.**

(a) The Associations support the MAS proposal to adopt the BCBS' phase-in arrangement for the output floor calibration.

(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.

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.

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 Associations are supportive of both proposals by MAS. The modified SA-CCR will allow calculation of derivatives exposures that will appropriately take into account model risks and further impact to regulatory capital calculations. This will have a positive impact across all asset classes and end-users of derivative transactions, and allow corporates to hedge their risks economically against volatility. However, as discussed in the *General comments and policy considerations* section of this response to the Consultation (*section B, point C. iii*), we urge the MAS to consider ISDA's proposal on a number of measures that will improve the risk-sensitivity of SA-CCR. Any improvements to the SA-CCR framework should also be incorporated into the leverage ratio framework. We also 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.

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

The Associations have no comments on this proposal.