21 January 2020

Prudential Policy Department
Monetary Authority of Singapore
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Dear Sir or Madam,

Consultation paper on draft standards relating to operational risk capital and leverage ratio requirements for Singapore-incorporated banks (P012-2020)

The Asia Securities Industry & Financial Markets Association ("**ASIFMA**")[1] and the International Swaps and Derivatives Association, Inc. ("**ISDA**")[2] (together, the "**Associations**") are grateful for the opportunity to respond to the consultation paper on draft standards relating to operational risk capital and leverage ratio requirements for Singapore-incorporated banks (P012-2020) ("**Consultation**") published by the Monetary Authority of Singapore ("**MAS**") on 17 December 2020[3].

The Associations appreciate the work that MAS is completing in this area, and for the opportunity to respond to the Consultation. The Associations are also grateful for the opportunity to respond to the MAS consultation on the proposed implementation of the final Basel III reforms in Singapore published on 7 May 2019[4], and are appreciative of MAS's efforts in taking on board much of the Associations' feedback relating to operational

[1] ASIFMA is an independent, regional trade association with over 140 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.

[2] Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 925 member institutions from 75 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, LinkedIn, Facebook and YouTube.

[3] https://www.mas.gov.sg/-/media/MAS/News-and-Publications/Consultation-Papers/Consultation-Paper-on-Draft-Standards-for-Operational-Risk-Capital-and-Leverage-Ratio-Requirements.pdf, MAS, Consultation paper on draft standards for operational risk capital and leverage ratio requirements for Singapore-incorporated banks (P012-2020).

[4] 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.

risk capital and leverage ratio requirements[5] in formulating the proposals in the Consultation. We have looked at the proposals set out within the Consultation and, broadly, do not have any significant new comments at this stage, while noting that our previously communicated concern regarding a variable Internal Loss Multiplier (ILM) remains relevant.

In light of the ongoing pandemic situation, the Associations would urge the MAS to continue to monitor implementation of the Basel III final reform in other key jurisdictions and avoid front-running in case of delay. We are nevertheless supportive of the MAS working towards the 1 January 2023 deadline, however, would recommend that it keep the option to put local implementation "on hold" should delay in other key jurisdictions materialise.

The Associations take this opportunity to convey our support and desire for continued constructive ongoing dialogue between MAS and market participants to assist MAS in developing and finalising the remaining elements of final Basel III implementation, including working with the MAS if it seeks opportunities to canvas planning and thinking on future prudential requirements and how they might interact with international capital markets, as well as the post-Covid recovery globally and in the region.

Other Comments

a. ***Market risk framework ("FRTB"):***

The Associations are grateful for the MAS announcement on 7 April, 2020 indicating a delay in the implementation of FRTB due to COVID-19[6].

The Associations wish to reiterate that it is important that international standards such as 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. The Associations request that MAS should continue to monitor the timeline for implementation of FRTB in the European Union and United States, and not front-run implementation compared to these and other key jurisdictions. There is the real risk of regulatory fragmentation, and consequently implementation challenges for globally active banks, and unlevel playing field for local banks, if MAS implements the FRTB framework ahead of these key jurisdictions.

Furthermore, the recent COVID-19 stress period has highlighted areas of procyclicality in the existing market risk framework, and we recommend that the calibration of the FRTB framework is monitored and assessed at an international level to address areas of conservatism.

b. ***Credit valuation adjustment risk ("CVA") framework:***

The Associations understand that proposals for the revisions to the CVA framework are not within the scope of the Consultation, and MAS intends to publish a separate consultation paper on CVA risk in

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[5] https://www.mas.gov.sg/-/media/MAS/News-and-Publications/Consultation-Papers/Response-to-Feedback_Proposed-Final-BIII-Reforms_Ops-Risk-Capital-and-Leverage-Ratio-Requirements.pdf, MAS, MAS' response to feedback on proposed implementation of the final Basel III reforms in Singapore – operational risk capital and leverage ratio requirements.

[6] https://www.mas.gov.sg/news/media-releases/2020/mas-takes-regulatory-and-supervisory-measures-to-help-fis-focus-on-supporting-customers, MAS, MAS Takes Regulatory and Supervisory Measures to Help FIs Focus on Supporting Customers

due course. The Associations welcome the opportunity to provide MAS with detailed feedback on MAS's proposals on revisions to the CVA framework at such time.

However, the Associations would like to highlight that the BCBS published the targeted revisions to the credit valuation adjustment risk framework in July 2020[7] ("**Revised CVA Framework**"), which reflects some of the industry feedback[8]. The Associations are supportive of the MAS aligning with the Revised CVA Framework, including with respect to:

- SA-CVA multiplier - the Revised CVA Framework introduces a reduction in the SA-CVA multiplier from 1.25 to 1.
- BA-CVA scaler - the Revised CVA Framework also introduces a scaler of 0.65 for the overall BA-CVA requirement, to ensure there is an appropriate level of calibration between BA-CVA and SA-CVA approaches.
- Exclusion of certain SFTs and CCTs - the Revised CVA Framework also excludes certain SFTs and client cleared transactions ("**CCTs**") from CVA capital requirements, under specific circumstances. Losses incurred on SFTs and client cleared transactions due to a default already fully covered by the counterparty credit risk ("**CCR**") framework, and better alignment of the CVA and CCR rules will help to prevent a potential double count in capital charges.
- Reduction in MPOR for SFTs and CCTs - the reduction in the supervisory floor for the margin period of risk ("**MPOR**") in the Revised CVA Framework for certain SFTs and CCTs from ten to five business days ensures better alignment between regulatory CVA and accounting practices (although the MPOR of 10 business days for all other derivatives transactions remains unchanged).
- Index hedges - given the lack of liquidity in many single-name credit default swap contracts, firms typically use indices as a proxy to hedge their CVA risk at the portfolio level. The Revised CVA Framework replicate the market risk framework by introducing new index buckets in the counterparty credit spread risk class, the reference credit spread risk class and the equity risk class for SA-CVA. For credit and equity indices that satisfy certain liquidity and diversification conditions, firms will now have the ability to calculate CVA capital based on the index buckets rather than looking through to the underlying names.
- Changes in Supervisory Risk Weights - align with the changes to supervisory risk weights in the Revised CVA framework for SA-CVA to align with the revised market risk framework.

However, the Revised CVA Framework did not consider some feedback provided by the industry, including:

- further granularity in the risk buckets for financial institutions to better reflect differences in the risk profile between different types of organizations (for example, pension funds and hedge funds); and
- further amendments to the index buckets, aggregation formula and a reduced MPOR for all derivatives to better reflect the economic risks of CVA and to incentivize prudent hedging practices.

[7] https://www.bis.org/bcbs/publ/d507.pdf, BCBS, Targeted revisions to the credit valuation adjustment risk framework.
[8] https://www.isda.org/a/72oTE/ISDA_GFMA_IIF_CVA_Consultation_Response.pdf, ISDA/GFMA/IIF, Industry response - BCBS consultation - Credit Valuation Adjustment risk: targeted final revisions.

We would be grateful if MAS would consider these additional points when formulating the consultation on CVA risk, and the Associations will be happy to provide additional information on these areas as part of the consultation process.

If you have further questions or would otherwise like to follow up, please contact or Matthew Chan, Head of Policy and Regulatory Affairs at ASIFMA (mchan@asifma.org or at +852 2531 6560) and Rahul Advani, Head of Public Policy, Asia Pacific at ISDA (radvani@isda.org or at +65 6653 4170).

Sincerely,

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