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BY E-MAIL

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Consultation paper on Draft Standards for Credit Risk Capital and Output Floor Requirements for Singapore-incorporated Banks (P003-2021)

The Asia Securities Industry & Financial Markets Association (“**ASIFMA**”)¹ and the International Swaps and Derivatives Association, Inc. (“**ISDA**”)² (together, the “**Associations**”) on behalf of their members welcome this opportunity to comment on the Monetary Authority of Singapore’s (“**MAS**”) consultation paper on *Draft Standards for Credit Risk Capital and Output Floor Requirements for Singapore-incorporated Banks (“**Consultation**”)*³ published in March 2021. The industry supports finalisation of the Basel Committee on Banking Supervision’s (“**BCBS**”) post-crisis reforms and appreciates ongoing work by the MAS to adopt the standards, which not only helped to improve the banking sector’s ability to withstand shocks, but also helps ensure a level playing field for local and international banks. We have looked at the proposals set out within the Consultation and, broadly, do not have any significant new comments at this stage. Some high-level comments to the Consultation are set out below.

Credit risk:

There are several areas of the revised Basel credit risk framework which would require clarifications of terminology and guidance on interpretation to support an effective and efficient local implementation while avoiding unintended consequences. Examples include: diligence requirements on external credit rating for banks and corporates exposures; categorisation of bank exposures; definition of the “movement of goods”, granularity criterion on retail exposures; currency mismatch multiplier to unhedged retail exposures; supervisory expectations on mandatory move from Advanced to Foundation model approach; revenue threshold for large corporate; Internal Ratings-based (“**IRB**”) coverage ratio.

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-Credit-Risk-Capital-and-Output-Floor-Requirements.pdf>, MAS, Consultation Paper on Draft Standard for Credit Risk Capital and Output Floor Requirements for Singapore-incorporated Banks.

We would encourage the MAS to engage the industry on those areas before finalising the local requirements.

There are also areas of the final Basel III framework which should be recalibrated, ideally at the international level. This includes, for instance, the increase of the probability of default (“PD”) floor to all asset classes except sovereigns from 0.03% to 0.05%, including for financial institutions which are already subject to a conservative multiplier of 1.25x under the current framework. Another issue is the 10% credit conversion factor (“CCF”) floor on off balance sheet items or the 50% CCF applicable to low-risk trade finance off balance sheet items such as bonds and guarantees.

Output floor:

The Associations support MAS’ adoption of the BCBS phase-in arrangement for the output floor calibration, which has been extended by one year in view of the deferral of the Basel III implementation timeline. With the ongoing COVID pandemic, the transitional arrangements provided for implementation of the output floor provides the industry with additional operational capacity to respond to the impact of the pandemic. We also highlight the importance for the output floor to be implemented consistently with other major jurisdictions to ensure comparability of the outcome and avoid any instance where Singapore-incorporated banks are disadvantaged compared to international banks.

Conclusion

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.

If you have further questions or would otherwise like to follow up, please contact Matthew Chan, Head of Policy and Regulatory Affairs at ASIFMA, at mchan@asifma.org or +852 2531 6560, and Benoit Gourisse, Head of Public Policy, Asia Pacific at ISDA, at bgourisse@isda.org or +32 (0) 2 808 8019. We would also be happy to meet with you to discuss this letter if you deem it appropriate.

Sincerely,



Mark Austen
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