Monetary Authority of Singapore
10 Shenton Way MAS Building Singapore 079117 Telephone : (65) 6225-5577

FOR IMMEDIATE RELEASE

MAS Takes Regulatory and Supervisory Measures to Help Financial Institutions Focus on Supporting Customers

Singapore, 7 April 2020...The Monetary Authority of Singapore (MAS) announced today that it will adjust selected regulatory requirements and supervisory programmes to enable financial institutions (FIs) to focus on dealing with issues related to the COVID-19 pandemic and supporting their customers during this difficult period.

2. MAS will take the following regulatory and supervisory measures:

- adjust banks' capital and liquidity requirements, to help sustain their lending activities;
- allow FIs to take into account the government's fiscal assistance and banks' relief measures in setting more realistic accounting loan loss allowances;
- defer FIs' implementation of the final set of Basel III reforms, margin requirements for non-centrally cleared derivatives, and other new regulations and policies, to ease FIs' operational burden;
- provide FIs more latitude on submission timelines for regulatory reports and defer non-urgent industry projects; and
- suspend regular onsite inspections and supervisory visits till further notice.

Adjusting Capital and Liquidity Requirements for Banks

3. ***MAS encourages banks to utilise their capital buffers as appropriate to support their lending activities***. Banks in Singapore can afford to do this because they have managed their businesses prudently and have built up healthy capital buffers over the years. Our banks have sufficient capital to see them through the current economic slump while continuing to supply credit to the economy to support businesses and individuals.

4. Sustaining lending activities should take priority over discretionary distributions. While MAS does not see a need to restrict banks' dividend policies, the release of capital buffers should not be used to finance share buybacks during this period.

5. ***MAS will allow banks to recognise as capital more of their regulatory loss allowance reserves***[1]. This will help to enhance banks' capacity to lend. The relief will apply until 30 September 2021, and may be extended if necessary.

6. ***Banks may also utilise their liquidity buffers as necessary to meet liquidity demands***. Banks in Singapore operate with healthy levels of liquidity. To support banks' lending activities, MAS will adjust the Net Stable Funding Ratio requirement. The amount of stable funding that banks must maintain for loans to individuals and businesses that are maturing in less than six months will be halved from 50% to 25%. The relief will apply until 30 September 2021, and may be extended if necessary.

<u>Setting Accounting Loan Loss Allowances</u>

7. MAS has engaged FIs and accounting professionals on how accounting standard FRS 109 should be applied to loan loss allowances under the current challenging circumstances resulting from the COVID-19 pandemic.[2] FRS 109 requires the incorporation of forward-looking information, including macroeconomic factors, to estimate accounting loan loss allowances. Given uncertainties on how the COVID-19 pandemic will evolve and its impact on the global economy, there are significant challenges around the exercise of judgement in the use of such forward-looking factors.

8. ***MAS has provided guidance that when FIs assess COVID-19's impact on future economic conditions in estimating accounting loan loss allowances, they should also consider the extraordinary measures taken by the government to bolster economic resilience***.

9. ***Additionally, MAS does not expect FIs to maintain higher accounting loan loss allowances solely because COVID-19 relief measures are applied to these loans***. Instead, FIs should assess a borrower's risk of default comprehensively, taking into account the mitigating effects of the relief measures, and the borrower's ability to make full repayment based on the revised loan terms as well as its creditworthiness in the long term.

<u>Deferring Implementation of Regulatory Reforms</u>

10. ***MAS will defer by one year the implementation of the final set of Basel III reforms for banks in Singapore***. While the reforms are necessary to strengthen the banking system over the long term, they will require banks to make considerable operational adjustments

[1] MAS will allow full recognition of regulatory loss allowance reserves (RLAR) as Tier 2 Capital. RLAR is part of banks' loss allowances, which are currently only granted limited recognition as Tier 2 Capital.

[2] FRS 109 on Financial Instruments requires entities to account for expected credit losses when financial assets are first recognised and to recognise full lifetime expected losses following significant deterioration of credit quality. This section is applicable to banks, merchant banks and finance companies.

which they would be hard pressed to make under the current challenging conditions. This deferment is in line with the recent announcement by the Basel Committee on Banking Supervision (BCBS) to delay the internationally agreed start date for the revised standards.

11. MAS will defer to 1 January 2023 the implementation of revised standards for:

- credit risk, operational risk, leverage ratio, output floor and related disclosure requirements (with the accompanying transitional arrangements for the output floor extended to 1 January 2028); and
- market risk and credit valuation adjustments for supervisory reporting purposes (for purposes of compliance with capital adequacy and disclosure requirements, these standards will be implemented from 1 January 2023 or later).

12. ***MAS will defer by one year the implementation of the final two phases of the margin requirements for non-centrally cleared derivatives***. This will reduce the strain on banks' resources to put in place legal agreements and system changes to implement the exchange of initial margins. The new timelines are:

- 1 September 2021 for a bank or merchant bank whose group's aggregate non-centrally cleared derivatives exposure is more than $80 billion; and
- 1 September 2022 for a bank or merchant bank whose group's aggregate non-centrally cleared derivatives exposure is more than $13 billion and up to $80 billion.

13. These deferments are consistent with the recent joint announcement by the BCBS and International Organisation of Securities Commissions. MAS will also extend by one year to 1 October 2021 the final phase of the reporting requirements for over-the-counter derivatives trades.

14. ***MAS will defer the implementation of certain licensing and conduct requirements, which were introduced under the Securities and Futures (Amendment) Act 2017*** (see Annex A). We will extend the transitional period for these requirements by one year to 8 October 2021.

15. ***MAS will defer the following new policies where consultations have closed*** (see Annex B). FIs will be provided sufficient time for transition to the new dates when announced.

- Requirements on Controls Against Market Abuse
- Guidelines on Individual Accountability and Conduct/Information Paper on Culture and Conduct Practices of Financial Institutions
- Complaints Handling and Resolution Regulations
- Requirements on Execution of Customers' Orders

16. MAS will provide a longer response time for FIs and other interested parties to provide feedback to ongoing public consultations of new policies during this period. In addition, MAS will defer until further notice the public consultations on outsourcing requirements for banks and environmental risk management guidelines.

Extending Reporting Timelines and Deferring Industry Projects

17. ***MAS will provide more latitude on submission timelines for regulatory reports***. We will work with FIs to review submission timelines while taking into account the need for timely information by MAS to facilitate our supervisory reviews.

18. ***MAS will defer non-urgent industry projects***, such as the launch of a new electronic system for banks and insurers to submit applications for approval of key appointment executives***.*** The new system was scheduled for launch in Q2 2020. The existing application process will continue to be used until further notice.

19. MAS will seek feedback from banks and merchant banks on potential challenges they may face in transiting to a more comprehensive reporting regime under the revised MAS Notices 610 and 1003 respectively. MAS recognises the substantial investment in effort and resources already made by the industry and the good progress to-date, and will assess the need to defer the targeted implementation timeline from January 2021 to a later date[3].

Suspending On-site Inspections and Supervisory Visits

20. ***MAS will suspend all regular on-site inspections and supervisory visits to FIs till further notice***.[4] MAS recognises that FIs' implementation of measures such as split operations and telecommuting to ensure business continuity have placed additional operational burden on them.

21. ***MAS will therefore focus its supervisory reviews on how FIs are managing the impact of COVID-19 on their business and operations.*** MAS has begun to conduct on-site visits to FIs' customer-facing locations to verify and enforce the implementation of safe-distancing measures in line with guidelines from the Ministry of Health (MOH).

[3] The removal of the divide between the Domestic Banking Unit and the Asian Currency Unit will be aligned with the implementation timeline of the revised MAS Notices 610 and 1003.

[4] Inspections and supervisory visits already in progress will proceed on an off-site basis through tele-conferencing.

<u>Sound Risk Management</u>

22. ***MAS expects FIs to maintain key financial services to customers and sustain the flow of credit to the economy.*** They should also ensure operational resilience and sound risk management amidst the challenges posed by the COVID-19 pandemic. They must remain vigilant to heightened risks such as cybersecurity threats, fraudulent transactions and scams, money laundering, and terrorism financing.

***

For media enquiries, please contact:

Denise Gan
Deputy Director (Communications)
Email: denise_gan@mas.gov.sg
Tel: (65) 6229 9425

Annex A

Licensing and conduct requirements for entities dealing in and advising on Over-the-Counter Derivatives (OTCD): MAS requires an individual acting as a representative in respect of dealing in or advising on OTCD to be appointed as a representative. MAS also requires an entity dealing in or advising on OTCD to comply with conduct requirements, such as meeting risk mitigation standards, providing customers with contract notes to confirm the OTCD transactions, and having a reasonable basis when recommending OTCD products to customers.

Additional requirements related to customers' moneys and assets: These enhanced requirements include periodic computation of moneys and assets in customers' trust and custody accounts.

Other conduct requirement for banks: These include provision of statements of accounts to customers and keeping of certain records.

<u>Annex B</u>

Consultation Paper on Requirements on Controls Against Market Abuse: MAS consulted on enhanced requirements for licensed and exempt FIs in Singapore that undertake the regulated activity of dealing in capital markets products. The new requirements are aimed at improving controls and facilitating investigations into cases of market abuse.

Guidelines on Individual Accountability and Conduct / Information Paper on Culture and Conduct Practices of Financial Institutions: MAS consulted on a set of proposed guidelines to strengthen accountability and standards of conduct across the financial industry in 2018/2019. MAS has also informed banks, insurers and capital market intermediaries in 2019 of its plans to publish an information paper on culture and conduct practices of FIs.

Complaints Handling and Resolution Regulations: MAS issued a consultation paper on the revised biannual report and implementation timeline for the Complaints Handling and Resolution (CHR) regulations in 2019. The CHR regulations apply to financial advisers that serve retail clients, and are slated to be published in Q1 2020.

Requirements on Execution of Customers' Orders: MAS issued a consultation paper to formalise expectations for licensed and exempt FIs in Singapore to establish policies and procedures to execute customers' orders on the best available terms to support fair outcomes for customers.