



## **MAS NOTICE 648**

31 December 2013

NOTICE TO BANKS  
BANKING ACT, CAP 19

### **ISSUANCE OF COVERED BONDS BY BANKS INCORPORATED IN SINGAPORE**

1 This Notice is issued pursuant to section 55 of the Banking Act (Cap. 19) and is applicable to banks in Singapore.

2 Only a bank incorporated in Singapore may issue covered bonds in Singapore. A bank incorporated outside Singapore shall not issue any covered bonds through its branch in Singapore.

3 MAS Notice 628 on Securitisation shall not apply to a bank incorporated in Singapore in relation to its issuance of covered bonds in accordance with the requirements in this Notice. For the avoidance of doubt, all requirements of MAS Notice 628 shall continue to apply to such a bank incorporated in Singapore in respect of its other securitisation activities.

#### **Definitions**

4 In this Notice—

“covered bonds” means any bonds, notes or other debentures issued by a bank or an SPV where the liabilities to the holders of such covered bonds and any liabilities arising from the enforcement of the rights of the holders of the covered bonds are:

- (a) secured by a cover pool; and
- (b) recoverable from the bank where the cover pool is insufficient to pay off such liabilities;

“cover pool” in relation to an issuance of covered bonds, means the assets legally or beneficially owned by the bank or an SPV for the purpose of only securing:

- (a) the liabilities to the holders of the covered bonds; and
- (b) any liabilities arising from the enforcement of the rights of the holders of the covered bonds;

“MAS Bills” means any securities issued by the Monetary Authority of Singapore under the Monetary Authority of Singapore Act (Cap. 186);

“Memorandum of Compliance” means a memorandum prepared by the bank setting out how it has complied with each of the requirements in paragraphs 6(a)-(i), and 8(a) of this Notice;

“Singapore Government Securities” means any security or equivalent instrument issued under the Government Securities Act (Cap. 121A) and any Treasury bill or equivalent instrument issued under the Local Treasury Bills Act (Cap. 167); and

“SPV” means any special purpose vehicle incorporated or established in Singapore for the sole purpose of issuing covered bonds or holding the cover pool in relation to such bonds or both.

5 The expressions used in this Notice shall, except where expressly defined in this Notice or where the context otherwise requires, have the same respective meanings as in the Banking Act.

### **Cover Pool Assets and Encumbrance Limit**

6 A bank incorporated in Singapore shall, when issuing covered bonds itself or through an SPV, comply with or ensure that the SPV complies with, as the case may be, the following requirements at all times:

- (a) the cover pool of each issuance of covered bonds shall comprise only the following assets:
  - (i) mortgage loans secured by residential property (“residential mortgage loans”), whether in Singapore or elsewhere;
  - (ii) any other loans secured by the same residential property as the residential mortgage loans referred to in paragraph 6(a)(i);
  - (iii) assets including intangible properties that form part of all the security provided for the residential mortgage loans referred to in paragraph 6(a)(i) such as guarantees and indemnities;
  - (iv) derivatives held for the purpose of hedging risks arising from the particular issuance of covered bonds;
  - (v) cash (including foreign currency);
  - (vi) Singapore Government Securities; and
  - (vii) MAS Bills;
- (b) the aggregate value of assets referred to in paragraph 6(a)(v) to (vii) shall not exceed 15% of the aggregate value of assets referred to in paragraph 6(a)(i) to (vii) included in the cover pool;
- (c) the aggregate value of assets referred to in paragraph 6(a)(i) to (vii) included in cover pools for all covered bonds issued by the bank and the SPV on behalf of the bank, as the case may be, shall not exceed 4% of the value of the total assets of the bank<sup>1</sup> at all times. For the purpose of determining:

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<sup>1</sup> Total assets of the bank includes assets of the branches but does not include assets of the subsidiaries of the bank.

- (i) the aggregate value of assets in the cover pools, the bank or SPV, as the case may be, shall include assets used as collateral above the minimum 103% requirement set out in paragraph 6(h); and
  - (ii) the total assets of the bank, the bank or SPV, as the case may be, shall exclude assets which the bank uses to meet regulatory requirements under sections 38, 39 and 40 of the Banking Act, section 8 of the Deposit Insurance and Policy Owners' Protection Schemes Act and other regulatory requirements as may be prescribed or specified by the Authority;
- (d) the bank shall continue to hold capital against its exposures in respect of the assets included in a cover pool in accordance with MAS Notice 637 on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore ("MAS Notice 637"). In the case where the bank uses an SPV to issue covered bonds or where the cover pool is held by an SPV, the bank shall apply a "look through" approach for the purpose of computing its risk-based capital requirements under MAS Notice 637. Under the "look through" approach, the bank and the SPV shall be treated as a single entity for the purposes of MAS Notice 637<sup>2</sup>;
- (e) an 80% loan-to-value ("LTV") limit (as determined by the current market valuation of the residential property that is used to secure the residential mortgage loan referred to in paragraph 6(a)(i)) shall be applicable to residential mortgage loans<sup>3</sup>;
- (f) for residential mortgage loans included in the cover pool, the bank or SPV, as the case may be, shall conduct on an annual basis at the minimum, a valuation of residential properties used to secure the loans. The bank or SPV, as the case may be, shall conduct the valuation on a more frequent basis where the property market is subject to significant changes in conditions;
- (g) where a residential mortgage loan included in the cover pool is secured by a residential property located in a foreign jurisdiction, the bank or SPV, as the case may be, shall seek legal advice to confirm that the laws of that foreign jurisdiction do not adversely affect the rights of a covered bond holder, the cover pool monitor, a liquidator, a receiver or any trustee (if any) appointed to hold the cover pool, over the residential property;
- (h) the bank or SPV, as the case may be, must ensure that the value of assets in a cover pool shall be at least 103% of the face value of the covered bonds secured by the assets at all times; and
- (i) the bank or SPV, as the case may be, shall keep a register containing such details as is necessary to clearly identify all the assets in a cover pool.

7 A bank incorporated in Singapore which issues covered bonds shall only use its own assets, and not that of other entities in its banking group (as defined in MAS Notice 637) to

<sup>2</sup> This means, for example, that (a) the assets of the cover pool held in the SPV (if any) shall be as assets of the bank, at both the bank Solo and bank Group levels; and (b) transactions between the bank and the SPV would be deemed to be eliminated.

<sup>3</sup> For the avoidance of doubt, a bank incorporated in Singapore shall continue to comply with the LTV limits set out in MAS Notice 632 on Residential Property Loans for the purposes of granting any credit facility for the purchase of residential property or any credit facility otherwise secured by residential property.

form the cover pool and shall ensure that every of its subsidiary which intends to issue covered bonds shall only use the subsidiary's own assets, and not that of other entities in the banking group to form the cover pool.

## **Risk Management Requirements**

8 A bank incorporated in Singapore shall when issuing covered bonds itself or through an SPV, comply or ensure that the SPV complies with, as the case may be, the following conditions to manage the risks arising from the issuance of covered bonds:

- (a) the bank or SPV, as the case may be, shall have in place appropriate governance arrangements (such as identifying the approval authority within the bank or SPV, where the bank uses an SPV to issue covered bonds, with respect to the covered bond programme), performing regular and in any case, on an annual basis at the minimum, asset coverage tests ("ACTs") to ensure collateral quality and the proper level of over-collateralisation, and conducting regular stress tests on risks arising from issuing covered bonds such as default, pre-payment, currency, interest rate, counterparty and liquidity risks. The bank or SPV shall ensure that its board and senior management or trustee, as the case may be, are responsible for conducting due diligence in assessing the risks associated with issuing covered bonds and ensuring that risk management processes that are put in place for covered bonds are adhered to;
- (b) the bank or SPV, as the case may be, shall appoint an external third party, qualified to be an auditor under the Companies Act (Cap 50)<sup>4</sup>, as the cover pool monitor to:
  - (i) verify annually that the bank or SPV, as the case may be, has complied with paragraph 6(a) to (h);
  - (ii) verify that the bank or SPV, as the case may be, keeps an accurate register of the assets in the cover pool referred to in paragraph 6(i);
  - (iii) assess the adequacy of the bank's or SPV's, as the case may be, risk management process and internal controls relating to the covered bond programme annually, including an independent review of ACTs performed by the bank or SPV, as the case may be;
  - (iv) submit a certified report to the Authority annually on paragraph 8(b)(i) to (iii) no later than the last day of the third month immediately following the end of the bank's financial year; and
  - (v) report to the Authority immediately if it becomes aware that the bank or SPV, as the case may be, has breached any of the conditions imposed;
- (c) the bank shall obtain a legal opinion to confirm that assets included in the cover pool are beyond its and its creditors' reach, even in an insolvency situation;
- (d) where a bank uses an SPV to hold the cover pool, the bank shall disclose in the notice of assignment to borrowers of the residential mortgage loans referred to in paragraph 6(a)(i) and to borrowers of the loans referred to in paragraph 6(a)(ii),

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<sup>4</sup> The external auditor of the bank can concurrently act as the bank's cover pool monitor, if the bank assesses that there is no conflict of interest.

whose residential mortgage loan or loan, as the case may be, has been transferred to the SPV, the consequences of legal perfection including whether the borrowers have a right to set-off their residential mortgage loans or loans, as the case may be, against any deposits that they have placed with the bank; and

- (e) the bank or SPV, as the case may be, shall disclose to the covered bond holders, results of ACTs performed and cover pool characteristics on a regular basis and in any event, at least every quarter.

## **Notification and Other Requirements**

9 A bank incorporated in Singapore shall furnish to the Authority at least one month prior to the issuance of covered bonds, information on its covered bond programme in writing including the type of assets that will be included in the cover pool under the covered bond programme and sign-off from its board and senior management on the covered bond programme<sup>5</sup>. In addition, the bank shall notify the Authority in writing at least three business days prior to the issuance of any covered bonds under the covered bond programme submitted to the Authority. The bank shall provide at the minimum, information on the size, tenure and terms of the issuance, and the amount of assets used to back the covered bonds. The bank shall also at the same time submit a Memorandum of Compliance to the Authority. The bank shall submit any additional information, as requested by the Authority, relating to its application and issuance of the covered bonds.

10 For the avoidance of doubt, the Authority may at any time add to, vary or revoke any requirement imposed under this Notice.

11 This Notice shall take immediate effect.

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<sup>5</sup> The bank shall notify the Authority in writing if there are changes to the covered bond programme.