

RESPONSE TO FEEDBACK RECEIVED – CONSULTATION ON THE FINANCIAL HOLDING COMPANIES BILL

1 Introduction

1.1 On 29 October 2012, the Monetary Authority of Singapore (“MAS”) issued the draft Financial Holding Companies Bill (“FHC Bill”) for public consultation. When enacted, the Financial Holding Companies Act (“FHC Act”) will provide a regulatory framework for financial holding companies (“FHCs”) designated for regulation under the FHC Act.

1.2 Five financial institutions and one member of the public responded to the consultation¹. We thank all respondents for their feedback. MAS has considered carefully the feedback received and comments that are of wider interest, together with our responses, are set out below.

2 Definitions

Meaning of FHC and Scope of FHC Group Regulation

2.1 Two respondents asked whether the term “financial holding company” in the draft FHC Bill referred to the solo FHC entity incorporated in Singapore.

2.2 One respondent sought clarification on whether entities other than subsidiaries, in particular joint ventures and associate companies, will be included within the scope of the FHC group.

MAS’ Response

2.3 The term “financial holding company” in the FHC Bill refers to the solo FHC entity that is incorporated in Singapore.

2.4 The definition for “FHC group” in the FHC Bill sets out the minimum scope for group-wide supervision. MAS will include other related entities, where appropriate, to strengthen MAS’ prudential oversight of the FHC group. Requirements that are to apply on a group-wide level, including whether additional entities should be included in the FHC group, are specified within the relevant sections of the Bill and, where necessary, will be further set out in subsidiary legislation or by MAS in writing.

¹ The Annex sets out the list of financial institutions who responded to the consultation.

Currently, the power for MAS to consider and include further entities within the FHC group applies to information submission requirements, exposures limits, minimum liquid assets, leverage ratio, capital adequacy and investment in companies.

Meaning of Accounts

2.5 One respondent sought confirmation that the term “Accounts” in the draft FHC Bill intended to have the same meaning as the definition under the Companies Act (Cap. 50) (“CA”).

MAS’ Response

2.6 The term “Accounts” in the draft FHC Bill has the same meaning as the definition under the CA.

3 Information Submission Requirements

3.1 One respondent sought further guidance on the information submission required of designated FHCs.

MAS’ Response

3.2 Designated FHCs will be required to submit information on their financial condition on a solo, as well as consolidated group basis. Information on the overseas entities of the FHC group may also be required, where appropriate. MAS will specify the information submission requirements by notice in writing at a later date.

4 Permitted Activities of Designated FHCs

4.1 Two respondents clarified on whether designated FHCs would be permitted to conduct activities such as fund raising, liquidity management, investment management and logistic and technical support for its group of entities.

MAS’ Response

4.2 The designated FHC is permitted to conduct these activities as long as they are done in support of the entities within the FHC group.

5 Requirements on Consolidation

5.1 Two respondents asked whether intermediate FHCs that are designated for regulation under the FHC Act would be required to perform consolidation and reporting.

MAS' Response

5.2 Designated FHCs, including designated intermediate FHCs, will be subject to the consolidation and reporting requirements set out in the FHC Act.

5.3 In the case of insurance FHC groups, it was set out in the MAS Consultation Paper on Insurance Group-wide Supervision (published in February 2012) that the assets and liabilities of the group should be computed on a consolidated basis using the risk-based capital ("RBC") rules in place in Singapore at the time that the group capital framework is implemented for the purpose of determining capital adequacy at the group level. This enables group capital to be assessed on a consistent basis as there are no global standards to compute group capital requirements for insurers and standards currently vary across jurisdictions. MAS is however prepared to allow the available and required capital of specific insurance group entities (calculated on local host jurisdictions' rules) to be used on a case-by-case basis. MAS will also be publishing more details on MAS' approach to capital adequacy assessment for insurance FHC groups in due course.

6 Shareholdings in Designated FHCs

6.1 A respondent clarified if it was necessary for shareholders of an FHC who have already obtained approval as indirect shareholders of the bank or insurance subsidiary in Singapore under the Banking Act (Cap. 19) ("BA") or Insurance Act (Cap. 142) ("IA"), as the case may be, to obtain the respective approvals again upon being designated for regulation under the proposed FHC Act.

MAS' Response

6.2 Shareholders of an FHC will not be required to seek approval again under the FHC Act when the FHC becomes designated for regulation if the shareholders have already obtained approval as indirect shareholders of the bank or insurance subsidiary, given the holding structure of the subsidiary under the FHC. Consequently, only persons who become substantial shareholders, or cross the required shareholding thresholds after the FHC is designated, are required to seek approvals under the FHC Act. MAS will revise the relevant clauses within the FHC Bill to clarify on this position.

7 Disclosure of Interests by Directors

7.1 A respondent sought guidance on the situations that would require a director to disclose his interests under clause 29 of the draft FHC Bill.

MAS' Response

7.2 Directors who have a financial or employment relationship with the counterparty, or who can reasonably expect to profit from the exposure, should be required to disclose such situations.

8 Investment in Companies

8.1 A respondent asked whether MAS would consider exempting a designated FHC from the requirement to seek approval in respect of “major stakes” held by its bank subsidiary in Singapore, given that MAS would have approved the holding of these stakes by the bank subsidiary under the BA.

MAS' Response

8.2 Existing “major stakes” that are held via the bank subsidiary that have been approved by MAS under the BA do not require further approval at the FHC level under the FHC Act. For *new* acquisitions made by the FHC group, however, these will have to be aggregated and approved at the FHC level under the FHC Act. This is to enable MAS to assess the implications of the acquisition on the entire group.

9 Exposures Limits

9.1 A respondent asked if a designated FHC would be prohibited from investing in debt securities issued by institutions outside of the FHC group as a result of clause 28(1) of the Bill. Another respondent sought clarification on the circumstances under which MAS would impose limits on the exposures of the designated FHC under clause 28(2) of the Bill.

MAS' Response

9.2 The designated FHC is not prohibited from investing in debt securities, but it should not engage in the business of extending loans to institutions outside of the FHC group. MAS is revising the drafting of the rule to clarify on this position.

9.3 The exposures limits under clause 28(2) of the Bill will apply to FHC groups *with bank subsidiaries*. The applicability of these limits to FHC groups *without a bank subsidiary* will be reviewed at a later date.

10 Minimum Capital, Liquid Assets and Leverage Ratio Requirements

10.1 A respondent asked if MAS would allow the minimum liquid asset requirements to be met using foreign currencies. Two respondents provided comments on how the leverage ratio requirements to be imposed should be defined and computed.

MAS' Response

10.2 MAS is currently reviewing the minimum liquid assets and leverage ratio requirements to impose for FHC groups *with bank subsidiaries*. We will consult on our proposals before finalising the requirements. The applicability of these requirements to FHC groups *without a bank subsidiary* will be reviewed at a later date.

9.3 For the avoidance of doubt, all designated FHCs are required to have a minimum paid-up capital ("PUC") equivalent to the highest minimum PUC requirement of its subsidiaries regulated by MAS. The minimum paid-up capital shall be met by ordinary shares only. All designated FHCs are also required to comply with relevant capital adequacy requirements under clause 36 of the draft FHC Bill. The detailed rules of these requirements will be set out at a later date.

11 Corporate Governance

11.1 A member of the public commented that the Bill should include rules to govern the Board of Directors of designated FHCs and not only the Chief Executive.

MAS' Response

11.2 FHC specific rules governing the Board of Directors will be prescribed in subsidiary legislation to the FHC Act with its enactment.

12 Transitional Provisions

12.1 A respondent wanted to know when the FHC legislation would take effect and whether MAS would allow a transition period for FHCs designated for regulation to comply with the rules.

MAS' Response

12.2 The FHC legislation is expected to take effect in 2013. MAS will provide for an appropriate transition period for designated FHCs to comply with the requirements under the FHC Act.

FINANCIAL INSTITUTIONS THAT RESPONDED TO THE CONSULTATION

1. Asia Capital Reinsurance Group Pte Ltd
2. Great Eastern Holdings Ltd
3. MSIG Holdings (Asia) Pte Ltd

Two other respondents requested confidentiality.