

The Monetary Authority of Singapore (the "MAS") has implemented a revised risk-based capital framework (the "revised RBC framework") for holders of a Capital Markets Services Licence ("CMSL") under the Securities and Futures Act.

With effect from 3 April 2013, the MAS issued a Notice on Risk Based Capital Adequacy Requirements for Holders of Capital Markets Services Licences (the "Notice") which establishes the methodology that a CMSL is to use for calculating its financial resources and total risk requirement.

All existing CMSLs are required to comply with the revised RBC framework by 2 April 2015.

**Financial** resources

Requirements

under the

## What is required of you?



### Requirement for computation of all RR

All other CMSLs, including a CMSL whose average adjusted assets exceed the Threshold, are required to compute their operational RR, counterparty RR, position RR, large exposure RR, underwriting RR and firm specific RR when determining its TRR.

Requirement for the computation of all RR

revised RBC framework **Entities** exempt from the computation of all risk

### Financial resources threshold equirement

A CMSL shall not cause or permit its financial resources to fall below its Total Risk Requirement ("TRR").

### Notification

Form 1 and

Form 2

### Notification to the authority

**Submission of Form 1** 

A CMSL shall immediately notify the Authority if its financial resources falls below 120% of its TRR.

### Operational RR and firm specific RR

A CMSL is required to compute only the operational RR and firm specific RR when determining its TRR, if its average adjusted assets does not exceed the Threshold.

requirements ("RR")

### and Form 2 A CMSL is required to submit

the Statement of Assets and Liabilities in Form 1 and the Statement of Financial Resources, TRR and Aggregate Indebtedness in Form 2 for each quarter or such longer period as the Authority may allow.

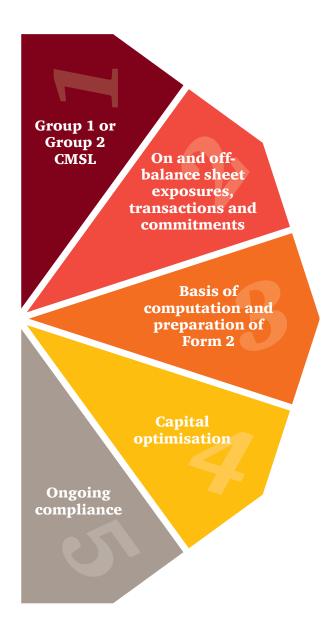
Average adjusted assets

### Average adjusted assets and calculation of TRR

Prior to the computation of TRR, a CMSL is required to assess if its average adjusted assets exceed the lower of S\$10 million or 5 times of its financial resources (the "Threshold")

A CMSL as defined in Paragraph 3.2.1 in the Notice includes a CMSL licenced only to carry out the regulated activities of fund management, REIT management, advising on corporate finance, providing custodial services for securities; dealing in securities, where CMSL is a limited activity CMSL; trading in futures contract, where CMSL is a limited activity CMSL or a combination of such activities.

# What do you need to consider for first-time implementation and compliance?



### 1. Group 1 or Group 2 CMSL

• The determination of financial resources will differ and average adjusted assets may not be applicable depending on whether you are a Group 1 or Group 2 CMSL.

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### 2. On and off-balance sheet exposures, transactions and commitments

- Balance sheet and profit or loss items will need to be considered.
- Off-balance sheet exposures, transactions and commitments may also attract a capital charge.

### 3. Basis of computation and preparation of Form 2

- The methodology outlined in the Notice is not straightforward and requires careful interpretation and application.
- Exemptions exist to allow a CMSL to compute only its operational RR and firm specific RR.
- A CMSL's trial balance alone may not be sufficient in supporting the basis of computation and preparation of Form 2.

### 4. Capital optimisation

- There may be opportunities to optimise the CMSL's capital structure.
- A dry-run simulation should be performed ahead of implementation to identify such opportunities and to deal with a potential capital shortfall early.

#### 5. Ongoing compliance

 Appropriate policies and procedures will need to be implemented to ensure compliance with the financial resources threshold requirement at all times.

# $\bf 3$ How we can help?

1 Impact assessment review Assist with your impact assessment for the first-time adoption of the revised RBC framework. We can assist with your dry-run simulation, review the basis of preparation and computation of Form 2, and assess the adequacy of policies and procedures in place to ensure ongoing compliance

2 Quarterly form review of regulatory forms Assist in the ongoing review of the quarterly forms (Form 1 and Form 2) to ensure that the basis of preparation and computation is consistent with the rules in the revised RBC framework



### Contact us

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