

PANORAMIC

BANKING REGULATION

Singapore



LEXOLOGY

Banking Regulation

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REGULATORY FRAMEWORK

Key policies

What are the principal governmental and regulatory policies that govern the banking sector?

Strong local banks will continue to remain at the core of the Singapore banking sector and the government's policy of maintaining the local banks' market share at no less than 50 per cent of the total resident deposits remains unchanged. Local banks will also continue to be subject to more stringent capital adequacy requirements than those required under Basel III to reflect their systemic importance to the Singapore economy and financial system.

However, the Singapore government has also progressively liberalised the sector to allow greater competition from foreign banks in wholesale banking and retail banking to spur dynamism and innovation. The progressive liberalisation of the banking sector has led to the grant of qualifying full bank (QFB) licences to 10 foreign banks, which allow them to engage in retail banking. Existing QFBs, which are important to the local market, are also required to incorporate their retail operations.

Furthermore, as part of the move towards banking liberalisation – in particular, the delivery of financial services to underserved segments – the Monetary Authority of Singapore (MAS) awarded two digital full banking licences and two digital wholesale banking licences in December 2020. Both digital wholesale banking licensees commenced operations in 2022. The digital full banking licensees also commenced limited operations in 2022. MAS also kept open the possibility of granting additional digital banking licences in the future.

Law stated - 9 February 2024

Regulated institutions

What are the defining characteristics of a bank to be caught by the banking laws and regulations? Is non-bank fintech regulated differently?

The defining characteristic of a bank is that it is a company that carries on banking business in Singapore. In this regard, 'banking business' refers to the conduct of all of the following activities:

- the business of receiving money on current or deposit accounts;
- paying and collecting cheques drawn by or paid in by customers; and
- making advances to customers.

Another defining characteristic of a bank is that it is one of the few types of financial institutions permitted to accept deposits from the public.

Whether non-bank fintech companies are regulated as banks would depend on whether they carry on banking business in Singapore. If so, they would be regulated in the same way as other traditional banks. For example, while MAS recently handed out two digital full banking licences to applicants who were from non-bank corporate groups, these applicants will still be subject to largely the same regulatory requirements as existing full banks.

Law stated - 9 February 2024

Regulated institutions

Do the rules vary depending on the size or complexity of the banking institution?

If a bank that is licensed in Singapore is designated by MAS to be a domestic systemically important bank (D-SIB), they will be subject to additional supervisory measures, such as:

- higher capital requirements;
- recovery and resolution planning requirements;
- liquidity coverage ratio requirements; and
- enhanced disclosures.

These would depend on the bank's operating model and structure, as well as the type of D-SIB that the bank is (eg, a locally incorporated bank, a foreign bank branch in Singapore or a foreign bank group comprising a locally incorporated bank).

MAS looks at four main indicators to assess a bank's systemic importance:

- size: the bank's share of domestic activity;
- interconnectedness: the bank's linkages and contagion potential with other financial institutions;
- substitutability: the potential for widespread disruption if the bank's services were to be interrupted; and
- complexity: the bank's business, structural and operational complexity.

Law stated - 9 February 2024

Primary and secondary legislation

Summarise the primary statutes and regulations that govern the banking industry.

Banks in Singapore are primarily governed by the [Banking Act 1970](#) (BA) and various pieces of subsidiary legislation promulgated under the BA. Banks that provide capital markets and financial advisory services will also be governed under the [Securities and Futures Act 2001](#), the [Financial Advisers Act 2001](#) and subsidiary legislation promulgated under these acts. The resolution regime that banks in Singapore are subject to is set out in the BA as well as in the [Monetary Authority of Singapore Act 1970](#) (and which will be moved to the Financial Services and Markets Act 2022 when the relevant changes come into force). Aside from the above, banks in Singapore are also subject to other applicable regulatory instruments issued by MAS including directives, notices, guidelines, codes, practice notes and circulars.

Law stated - 9 February 2024

Regulatory authorities

Which regulatory authorities are primarily responsible for overseeing banks?

MAS is the primary regulator with oversight of banks in Singapore.

Law stated - 9 February 2024

Government deposit insurance

Describe the extent to which deposits are insured by the government. Describe the extent to which the government has taken an ownership interest in the banking sector and intends to maintain, increase or decrease that interest.

Currently, deposits made by non-bank depositors are insured under the Deposit Insurance Scheme (the DI Scheme) up to an aggregate of S\$75,000 per depositor per bank in the event that a full bank or finance company fails (the Maximum DI Coverage). From 1 April 2024, the Maximum DI Coverage will be increased from S\$75,000 to S\$100,000. All licensed full banks and finance companies are required to be DI Scheme members, unless otherwise exempted. The DI Scheme is administered by the Singapore Deposit Insurance Corporation Limited in accordance with the [Deposit Insurance and Policy Owners' Protection Schemes Act 2011](#).

The Singapore government's ownership interests in the banking sector are largely held through its sovereign wealth fund (GIC Private Limited) and private investment company (Temasek Holdings (Private) Limited).

Law stated - 9 February 2024

Transactions between affiliates

Which legal and regulatory limitations apply to transactions between a bank and its affiliates? What constitutes an 'affiliate' for this purpose? Briefly describe the range of permissible and prohibited activities for financial institutions and whether there have been any changes to how those activities are classified.

The key limitations that apply to transactions between banks and their related parties or affiliates are the following.

- Global systemically important banks (G-SIBs) incorporated in Singapore must ensure that their aggregate exposure to:
 - their directors;
 - shareholders with at least 5 per cent voting rights in the bank (substantial shareholders);
 - any group of persons where at least one person in the group is a counterparty to the bank and one person in the group controls every other person in that

group or every other person in the group is economically dependent on one person in the group (connected counterparty group); or

- entities in which the bank owns or controls more than 10 per cent of shares or voting rights respectively (major stake entities),

do not exceed 25 per cent of its Tier 1 capital.

- Banks incorporated in Singapore (that are G-SIBs and headquartered in Singapore) must ensure that their aggregate exposure to any other G-SIB or any other connected counterparty group does not exceed 15 per cent of its Tier 1 capital.
- Banks must establish separate materiality thresholds on an aggregate basis for each type of transaction with related parties (eg, mortgages, unsecured lending and trade finance facilities) and processes for independent approval or review are required for any transaction that exceeds such thresholds (related parties generally include, among others, the bank's directors, key credit approvers, senior management and their family members, and entities that are owned or controlled by them, related corporations, substantial shareholders and major stake companies).
- Affiliated entities of Singapore-incorporated banks (its subsidiaries, companies in which the bank holds more than 10 per cent interest and companies under the control of the bank) are not permitted to hold in aggregate more than 2 per cent voting power over the bank.

The range of activities that banks are generally prohibited or restricted from conducting are the following.

- Non-financial business (namely, business not regulated or authorised by MAS). There are, however, certain prescribed exemptions to this prohibition or restriction – for instance, banks may engage in certain non-financial businesses related or complementary to their core financial businesses. MAS has also relaxed certain aspects of the anti-commingling framework for banks (eg, allowing banks to engage in certain prescribed non-financial businesses, such as the operation of digital online e-commerce platforms, and providing advice on the social impact or environmental impact of a person's investments or activities, provided the restrictions and requirements imposed by MAS, in relation to such non-financial businesses, are satisfied). MAS has also indicated that, as the banking landscape evolves, it will update the list of permissible non-financial businesses periodically.
- Banks must obtain MAS approval before acquiring or holding a major stake in any entity. Such approval is generally not granted if the entity carries on non-financial business unless MAS is satisfied that there are clear synergies with the bank's financial business.
- Banks are allowed to purchase non-controlling stakes (generally 10 per cent or less) in the share capital of any company, which is limited to 2 per cent of the bank's capital funds.
- Banks can invest in immovable properties, provided that such investments do not, in aggregate, exceed 20 per cent of their capital funds (as defined in the BA). Banks are also permitted to manage investment properties that are owned by their banking

groups, properties foreclosed by their banking groups, and properties used in the business of their banking groups.

- Banks are required to limit their property exposure to 35 per cent of their total eligible assets (as defined in the Banking Regulations).

Law stated - 9 February 2024

Regulatory challenges

What are the principal regulatory challenges facing the banking industry?

Shadow banking

The growth of shadow banks continues to be a prominent regulatory challenge facing the banking industry. The increased capital and liquidity requirements under Basel III coupled with technological innovations may drive the conduct of shadow banking by non-financial players that provide services that mirror traditional banking services provided by banks (eg, payment systems and peer-to-peer lending systems). This will increase the competition for clients between banks and such non-financial players, and heighten the risks associated with consumer protection in relation to the provision of innovative products and services. In line with these concerns, efforts have been made by MAS to enhance the competitiveness of the banking industry. For example, MAS awarded four digital banking licences in December 2020. These new digital banks bring unique value propositions, such as the innovative use of technology to serve customer needs and access underserved segments of the financial industry. MAS has also relaxed certain aspects of the anti-commingling framework for banks (eg, allowing banks to engage in certain prescribed non-financial businesses, such as the operation of digital online e-commerce platforms, and providing advice on the social impact or environmental impact of a person's investments or activities, provided that the restrictions and requirements imposed by MAS in relation to such non-financial businesses are satisfied).

Anti-money laundering and combating the financing of terrorism

In the course of serving customers, financial institutions have the responsibility to ensure that they do not inadvertently help to disguise or legitimise ill-gotten gains, particularly where technological advances offer more effective, efficient and inclusive financial services, but also more challenging and complex financial crime risks. MAS encourages financial institutions to emphasise anti-money laundering and combating the financing of terrorism (AML/CFT) as an organisational priority by implementing proper oversight from board and senior management, strong risk awareness measures, and proper AML/CFT controls. MAS has also been proactively engaging banks on their AML/CFT control measures through ongoing dialogue and thematic inspections conducted on banks in Singapore. Where material lapses in a bank's AML/CFT control processes were detected, MAS has also taken formal enforcement actions against errant banks.

Artificial intelligence and machine learning

Financial institutions are increasingly using artificial intelligence and data analytics (AIDA) to bolster operational efficiency, mitigate risks and improve business outcomes. In June 2022, MAS published an information paper setting out its observations from a thematic review of the use of AIDA by financial institutions, which shares observations and good practices noted during its thematic review.

MAS observed that:

- financial institutions are still at a nascent stage of using AIDA models for decision-making in a manner that has a direct impact on consumers; and
- financial institutions are in the early stages of implementing AIDA-specific risk management processes.

MAS indicated that it will continue to work with the financial industry to promote the responsible use of AIDA.

Law stated - 9 February 2024

Consumer protection

Are banks subject to consumer protection rules?

Banks providing common financial products and services – such as bank deposits, loans, unit trusts and securities – must ensure that their sales practices do not breach the provisions for fair trading under the [Consumer Protection \(Fair Trading\) Act 2003](#) (CPFTA). A breach will give consumers a right under the CPFTA to take civil action against a supplier of such products and (or) services. The CPFTA is administered by the Competition and Consumer Commission of Singapore.

Separately, in view of a recent spate of online message phishing scams targeting bank customers, MAS and the ABS have put in place a set of additional measures to bolster the security of digital banking. These measures have been substantially implemented by banks in Singapore, thus providing a significant added layer of security to protect customers' funds. Banks in Singapore, in consultation with MAS, will also be working together to evaluate long-term measures to be implemented. MAS has also indicated that it would be intensifying its scrutiny of major financial institutions' fraud surveillance mechanisms to ensure that they are adequately equipped to deal with the growing threat of online scams. In addition, MAS and the Infocomm Media Development Authority published a consultation paper on 25 October 2023, which sets out a proposed shared responsibility framework (SRF) governing how responsibility for losses arising from phishing scams would be shared among financial institutions, telecommunication operators and consumers. Generally speaking, the proportion of losses that each party bears will depend on whether and how the party has fallen short of its responsibilities.

Law stated - 9 February 2024

Future changes

In what ways do you anticipate the legal and regulatory policy changing over the next few years?

MAS' policies on financial sector supervision are unlikely to change fundamentally and will remain focused on pre-empting systemic risks to the financial system, promoting the safety and soundness of Singapore financial institutions, and ensuring resilient and well-functioning financial markets. That said, the following are some ways in which legal and regulatory policy will or is likely to change in the future.

Enhancing the resolution regime for financial institutions in Singapore

In October 2021, MAS published its response to feedback received on proposed regulations to enhance the resolution regime for financial institutions in Singapore. Banks incorporated in Singapore (and their subsidiaries) will be required to include an enforceable provision in their foreign law-governed financial contracts, which contains early termination rights (the Contractual Recognition Requirement) such that all parties would agree that their exercise of termination rights will be subject to MAS' temporary stay powers in the event of a resolution of the bank.

MAS indicated that there would be a three-year transitional period from the effective date of the MAS (Resolution of Financial Institutions) (Amendment No. 2) Regulations 2021, to implement the Contractual Recognition Requirement. This transitional period will end on 31 October 2024. In addition, MAS also indicated that it will engage the International Swaps and Derivatives Association (ISDA) to explore the possibility of putting in place an ISDA jurisdictional module for Singapore in due course.

Amendments to MAS' investigative and other powers

In July 2021, MAS published a consultation paper on proposed amendments to MAS' investigative and other powers under the various acts. In relation to banks, MAS proposes to introduce the following new powers, among others, under the BA, as follows.

- The power for MAS to require information, including information in electronic form, from any person for the purposes of an investigation. This is an extension of MAS' existing powers, which only enable MAS to obtain information from banks or subsidiaries under inspection or investigation;
- the power for MAS to require any person to appear for examination and statement recording. This new power under the BA would allow an investigator to obtain first-hand information from individuals on matters that may not be recorded in documentary form and thus cannot be procured by compelling the production of documents;
- the power for MAS to obtain a court warrant if an examinee fails to appear for an examination. This is to ensure that MAS' power to examine witnesses is effective;
- the power for any MAS investigator or authorised officer to enter any premises without a warrant, if the investigator has reasonable grounds to suspect that the premises are or have been used by a person being investigated by MAS; and
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the power for MAS to obtain a warrant from the magistrate to seize evidence, including electronic evidence, from premises when:

- a person has failed to comply with an order to produce such evidence; or
- if there is a risk that the evidence will be concealed, removed, tampered with or destroyed if an order is made for the same to be produced.

The new powers that will be granted to MAS over banks in Singapore are still at the consultation stage.

Prudential treatment of cryptoasset exposures by banks in Singapore

In December 2022, the Basel Committee on Banking Supervision (BCBS) published its finalised cryptoasset exposure standards and requested national regulators to implement them by 1 January 2025. The standards published by the BCBS separate cryptoassets into the following two groups, each with two subgroups (namely, Groups 1a and 1b, and 2a and 2b):

- Group 1 includes less volatile cryptoassets that:
 - are tokenised traditional assets (Group 1a); or
 - have effective stabilisation mechanisms that are effective at all times in linking a cryptoasset's value to a traditional asset or a pool of traditional assets (namely, a reference asset) (Group 1b); and
- Group 2 includes riskier cryptoassets that:
 - are ones where a limited degree of hedging is permitted (Group 2a); and
 - are ones where hedging is not recognised (Group 2b).

Generally speaking, cryptoassets under Group 1 are subject to capital requirements based on the risk weights of underlying exposures as set out in the existing Basel Framework.

For Group 2 cryptoassets, a bank's total exposure to Group 2 cryptoassets must not exceed 2 per cent of the bank's Tier 1 capital and should generally be lower than 1 per cent. Where a bank exceeds the 1 per cent limit exposure to Group 2 cryptoassets, more conservative capital treatment requirements will apply to such exposures.

Law stated - 9 February 2024

SUPERVISION

Extent of oversight

How are banks supervised by their regulatory authorities? How often do these examinations occur and how extensive are they?

The Monetary Authority of Singapore (MAS) may inspect, from time to time, the books of banks in Singapore and of any branch, agency, subsidiary or office outside of Singapore opened by Singapore-incorporated banks. The frequency or necessity of such inspections may be determined by MAS according to the bank's impact and risk exposure. For foreign-incorporated banks, the parent supervisory authorities of such banks may also conduct inspections in Singapore of the books of any branch or office of those banks in Singapore, subject to MAS approval and other prescribed conditions under the Banking Act 1970 (BA). Furthermore, MAS is also empowered to investigate the books of banks in Singapore if it has reason to believe that, among other things, the bank is carrying on business in a manner that contravenes the BA or is otherwise detrimental to the interest of depositors and creditors.

Aside from active inspections and investigations, MAS also requires banks to submit regulatory returns including statements of assets and liabilities, minimum liquid assets, and information on exposures to single counterparty groups to assist with its regulatory oversight of these institutions. Banks in Singapore also have the duty to inform MAS immediately if they are aware of any development that may be likely to adversely and materially affect their financial soundness and the suitability of their key appointment holders. In the case of Singapore-incorporated banks, the requirement to inform MAS also extends to any material adverse developments that could affect their related entities or the suitability of their substantial shareholders and controllers.

Law stated - 9 February 2024

Enforcement

How do the regulatory authorities enforce banking laws and regulations?

MAS may apply a wide range of sanctions, including:

- warnings;
- private or public reprimands;
- administrative fines;
- imposition of supervisory conditions;
- licence suspensions or revocations;
- prohibition orders;
- civil penalties;
- removal of directors and officers from office; and
- criminal penalties.

The type of regulatory sanction that MAS metes out depends on the nature and severity of the breach.

Law stated - 9 February 2024

Enforcement

What are the most common enforcement issues and how have they been addressed by the regulators and the banks?

On 19 September 2023, MAS published its fourth enforcement report that sets out the enforcement actions taken by it for the reporting period of January 2022 to June 2023. The four key areas of focus in terms of enforcement issues concerning financial institutions in Singapore are as follows:

- market abuse;
- financial services misconduct;
- breaches of anti-money laundering and combating the financing of terrorism (AML/CFT) requirements; and
- leveraging technology.

In June 2023, MAS imposed a composition penalty totalling S\$3.8 million on Citibank NA, Singapore Branch (S\$400,000), DBS Bank Ltd (S\$2,600,000), OCBC Singapore (S\$600,000) and Swiss Life (Singapore) Pte Ltd (S\$200,000), for its failure to comply with MAS' AML/CFT requirements. It was found that these breaches resulted from, among others, failure to:

- understand the customers' ownership and control structure;
- pay special attention to and inquire into the background and purpose of transactions that were not consistent with the financial institution's knowledge of the customers and their business, or were unusually large and exhibited an unusual pattern that had no apparent economic purpose; and
- establish, by appropriate and reasonable means, the source of wealth of customers and their beneficial owners, who the financial institutions have determined to present higher money laundering or terrorism financing risks.

MAS has also conducted thematic inspections on selected banks, targeted at different regulatory issues. From these inspections, MAS would subsequently set out its supervisory expectations and good practices observed in the form of information papers, which serve as useful guidance for banks to achieve the desired outcomes and good practices expected of them.

Law stated - 9 February 2024

RESOLUTION

Government takeovers

In what circumstances may banks be taken over by the government or regulatory authorities? How frequent is this in practice? How are the interests of the various stakeholders treated?

The Monetary Authority of Singapore (MAS) may elect to exercise its statutory powers to, among others, assume control of and manage a Singapore-incorporated bank's business – or appoint one or more statutory managers to do so – when the bank is or is likely to become

insolvent or where MAS is of such opinion. Directors or officers of the bank must surrender to MAS or the statutory manager any relevant property or book in their control that relates to the bank's business if required to do so. In managing the bank's business, MAS or the statutory manager must take into consideration the interests of the depositors, and shall have all the duties, powers and functions of the board of directors of the bank.

Law stated - 9 February 2024

Bank failure

What is the role of the bank's management and directors in the case of a bank failure? Must banks have a resolution plan or similar document?

In the event of a bank failure, the directors will need to act in a manner to minimise losses to creditors of the bank, such as depositors. MAS may also issue directions that require banks to implement recovery plans, setting out the procedures and establishing the systems required to restore the bank's financial strength and vitality in times of financial pressure or stress.

For foreign banks, the foreign parent institution or head office must be involved in the preparation of the recovery plan, with the board and executive officers having the responsibility to develop and maintain the resolution plan and submission of input to facilitate resolution planning.

Law stated - 9 February 2024

Bank failure

Are managers or directors personally liable in the case of a bank failure?

Directors or executive officers of a Singapore-incorporated bank may be personally liable for a bank failure in certain circumstances (eg, where there was fraudulent or wrongful trading).

Furthermore, MAS may, by court application, compel directors or executive officers (both past and present) of any bank to return any salary, remuneration or benefits received in the previous two years if they have breached or failed to discharge their general duties towards the bank. The court also has the discretion to extend the two-year clawback period where the director or executive officer has acted recklessly, fraudulently or dishonestly.

Law stated - 9 February 2024

Planning exercises

Describe any resolution planning or similar exercises that banks are required to conduct.

MAS has the power to direct banks that are incorporated in Singapore, or (for foreign-incorporated banks) the branches and offices of the bank located within Singapore, to prepare, maintain and submit to MAS recovery and resolution plans.

Recovery plans outline the actions that banks may take to stabilise and restore their financial strength and viability under situations of severe stress, whereas resolution plans facilitate the effective use of MAS' resolution powers and the bank's resolution without disrupting the bank's systemically important functions.

MAS has the power to direct the bank to:

- amend its recovery plan (to address deficiencies therein);
- furnish information and documents that MAS may require to implement its resolution plan;
- remove impediments to the implementation of its recovery plan and resolution plan (eg, changing its practices, organisation and structure, such as its operational, legal and financial structures); and
- implement specific parts of the bank's recovery plan, or other arrangements or measures necessary to restore the bank's financial strength and viability.

In this connection, MAS also expects the bank to:

- appoint (and inform MAS of the appointment of) an executive officer as the key person to oversee the recovery planning process, and facilitate the maintenance and submission of the required information for resolution planning;
- immediately inform MAS where the bank assesses that its viability is or potentially is threatened, or of any event that may necessitate the bank implementing its recovery plan;
- maintain information systems that are able to produce in a timely manner the information required for recovery and resolution planning, resolvability assessment and the conduct of resolution; and
- put in place adequate measures such that outsourcing arrangements that support critical functions and critical shared services can be maintained in crisis situations and in resolution.

Law stated - 9 February 2024

CAPITAL REQUIREMENTS

Capital adequacy

Describe the legal and regulatory capital adequacy requirements for banks. Must banks make contingent capital arrangements?

The capital requirements imposed on banks in Singapore differ depending on whether the bank is Singapore-incorporated or if it is a branch of a foreign-incorporated bank.

Singapore-incorporated banks

Singapore-incorporated banks are required to comply with the following capital adequacy requirements.

- A minimum paid-up capital of S\$1.5 billion is prescribed. However, Singapore-incorporated wholesale banks or subsidiaries of another locally incorporated licensed bank are only required to have a minimum paid-up capital of S\$100 million. Singapore-incorporated merchant banks are only required to have a minimum paid-up capital of S\$15 million.
- Risk-based capital requirements as prescribed by the Monetary Authority of Singapore (MAS), which are more stringent than the Basel III standards, such as:
 - a minimum common equity Tier 1 capital adequacy ratio (CAR) of 6.5 per cent;
 - a minimum Tier 1 CAR of 8 per cent;
 - a minimum total CAR of 10 per cent;
 - a capital conservation buffer of 2.5 per cent above the minimum capital adequacy requirement; and
 - a countercyclical buffer of 2.5 per cent comprising common equity Tier 1 capital above minimum capital adequacy requirement.
- Minimum liquidity coverage ratio (LCR) requirements and minimum liquid asset (MLA) requirements as prescribed by MAS. Banks incorporated in Singapore that are not designated by MAS as internationally active banks or domestic systematically important banks (D-SIBs) can choose between complying with its LCR or MLA requirements (D-SIBs and internationally active banks, which do not have such an option, are required to comply with MAS' LCR requirements). Singapore-incorporated banks that are designated by MAS as internationally active banks or D-SIBs will also be required to comply with further LCR disclosure requirements prescribed by MAS.
- Minimum cash balance requirements as prescribed by MAS.

Foreign-incorporated banks

Foreign banks that hold banking licences in Singapore are required to comply with the following capital adequacy requirements:

- minimum head office capital funds of S\$200 million;
- minimum LCR requirements and MLA requirements as prescribed by MAS. Foreign-incorporated banks that are not designated as internationally active banks or D-SIBs can choose between complying with its LCR or MLA requirements (D-SIBs and internationally active banks, which do not have such an option, are required to comply with MAS' LCR requirements);
- minimum cash balance requirements as prescribed by MAS; and
- minimum asset maintenance requirements as prescribed by MAS.

Contingent capital arrangements

There is no specific requirement for banks in Singapore to make contingent capital arrangements.

Capital adequacy

How are the capital adequacy guidelines enforced?

MAS has the authority under the Banking Act 1970 (BA) to inspect the books of banks incorporated in Singapore and their subsidiaries (whether located in Singapore or out of Singapore), and the books of any branch, agency or office outside Singapore opened by such banks. For foreign banks, the BA provides that parent supervisory authorities may inspect the books of any branch or office of the bank in Singapore subject to certain conditions being fulfilled. MAS also has the general authority to investigate the books of any bank in Singapore where it has reason to believe, among others, that the bank is contravening any provisions of the BA (including any capital adequacy requirements) or has insufficient assets to cover its liabilities to the public.

Failure to meet the capital adequacy requirements may, in some cases, amount to an offence under the BA, which may subject the bank to financial penalties. This may constitute grounds on which MAS may revoke the bank's licence, or restrict or suspend the bank's operations.

Law stated - 9 February 2024

Undercapitalisation

What happens in the event that a bank becomes undercapitalised?

Failure to meet capital adequacy requirements may in some cases amount to an offence under the BA. MAS may revoke the bank's licence, and restrict or suspend the bank's operations during such a period that a bank remains undercapitalised. Furthermore, directors or executive officers of a licensed bank in Singapore may also be criminally liable under the BA for the bank's breach of capital adequacy requirements, where such director or executive officer has failed to take all reasonable steps to secure compliance by the bank with such requirements. MAS may also direct the bank to remove the director or executive officer from his or her office or employment.

Law stated - 9 February 2024

Insolvency

What are the legal and regulatory processes in the event that a bank becomes insolvent?

Singapore-incorporated banks

Singapore-incorporated banks may be wound up under the [Insolvency, Restructuring and Dissolution Act 2018](#) (IRDA) in the event that they become insolvent. The winding-up process may be initiated by, among others, MAS, a creditor of the bank or the bank itself. In a winding-up, there are specified preferential liabilities of a bank prescribed under the BA that

are accorded priority over unsecured liabilities of the bank – for example, deposit liabilities incurred with non-bank customers.

Foreign-incorporated banks

Foreign-incorporated banks that operate in Singapore are registered as foreign companies under the Companies Act 1967. In the event that such a foreign bank goes into liquidation in its home jurisdiction, the IRDA requires the liquidator of the Singapore branch to recover and realise the bank's assets in Singapore and satisfy all liabilities incurred in Singapore before paying the remainder to the liquidator in the foreign bank's home jurisdiction. The priority accorded to the preferential liabilities prescribed by the BA will also apply to the liquidation of a foreign bank that has registered a branch in Singapore.

MAS' resolution powers

MAS is empowered to exercise various resolution powers if, among others, a licensed bank becomes insolvent or is likely to become insolvent. MAS' powers include:

- assuming control and managing the business of the bank;
- ordering the transfer of the whole or part of the bank's business to another licensed entity regulated by MAS;
- ordering the transfer of the bank's shares to a third party; and
- ordering the reduction of the bank's share capital.

Law stated - 9 February 2024

Recent and future changes

Have capital adequacy guidelines changed, or are they expected to change in the near future?

MAS Notice 637 was amended on 28 July 2022 to take into account standards relating to credit risk capital and output floor requirements in the consolidated Basel Framework, as published by the Basel Committee on Banking Supervision. These amendments are effective from 1 January 2023, with transitional arrangements provided that allow Singapore-incorporated banks until 1 January 2028 to implement the new output floor requirements.

Furthermore, on 20 September 2023, MAS published a revised MAS Notice 637 to implement the final Basel III reforms, which are to be effective from 1 July 2024.

Law stated - 9 February 2024

OWNERSHIP RESTRICTIONS AND IMPLICATIONS

Controlling interest

Describe the legal and regulatory limitations regarding the types of entities and individuals that may own a controlling interest in a bank (or non-bank). What constitutes 'control' for this purpose?

The acquisition and ownership of interests in Singapore-incorporated banks and non-banks that are financial institutions are subject to various approval requirements.

In this regard, the Minister of Finance's approval is required before an entity or individual would be able to obtain certain prescribed thresholds of ownership interests in a Bank incorporated in Singapore.

A person must obtain approval prior to becoming:

- a substantial shareholder of a Singapore-incorporated bank: this broadly refers to a person who holds at least 5 per cent of the voting power in the licensed bank;
- a 12 per cent or 20 per cent controller: this refers to a person who:
 - holds at least 12 per cent or 20 per cent of the issued shares of the licensed bank; or
 - is in a position to control at least 12 per cent or 20 per cent of the voting power in the licensed bank; and
- an indirect controller: this refers to any person who:
 - is in a position to determine the policy of the licensed bank; or
 - is in a position to cause the directors of the licensed bank to regularly act in accordance with his or her wishes.

It should be noted that, for the purposes of the various control thresholds described above, a person may be deemed to hold shares in a licensed bank even if he or she does not directly hold such shares (eg, a person who has entered into a contract to purchase or has the right to acquire shares in a licensed bank will be deemed to hold the relevant shares).

In relation to non-banks that are financial institutions, similar approval requirements would apply to individuals or entities seeking to acquire control over other types of regulated non-bank financial institutions, although the relevant thresholds and specific approval requirements would differ.

Law stated - 9 February 2024

Foreign ownership

Are there any restrictions on foreign ownership of banks (or non-banks)?

While there are no express restrictions on foreign ownership of banks (save in respect of digital full banks, which must remain controlled by Singaporeans), the acquisition and ownership of interests in Singapore-incorporated banks remain subject to various approval requirements. In addition, a Singapore-incorporated bank must have a minimum number of directors who are Singapore citizens or permanent residents.

As for other non-bank financial institutions regulated by the Monetary Authority of Singapore (MAS), there are generally no express foreign ownership requirements save for certain exceptions (eg, money-changing licensees have to ensure that more than 50 per cent of their equity shareholdings are beneficially owned and effectively controlled by Singapore citizens).

Law stated - 9 February 2024

Implications and responsibilities

What are the legal and regulatory implications for entities that control banks?

Entities that control Singapore-incorporated banks are expected to remain fit and proper in accordance with MAS-issued guidelines. For example, the Minister for Finance is empowered to require the controllers of a Singapore-incorporated bank to take such steps necessary to cease to hold such control if, among others, MAS is satisfied that such a controller is not fit and proper. The acquisition and ownership of interests in entities that control licensed banks in Singapore may also be subject to approval requirements.

Law stated - 9 February 2024

Implications and responsibilities

What are the legal and regulatory duties and responsibilities of an entity or individual that controls a bank?

An entity controlling a Singapore-incorporated bank that is designated as a financial holding company (DFHC) will be subject to various governance requirements (eg, in relation to the composition of its board of directors and various board committees) under the regulations issued pursuant to the Financial Holding Companies Act 2013, which came into force on 30 June 2022. The Act also imposes further obligations on DFHCs, including:

- disclosure of direct or indirect interests of directors in an exposure or proposed exposure of the DFHC or another company within the group of the DFHC;
- approval from the Minister for Finance is required to acquire control over a DFHC with a bank subsidiary. A person must obtain approval prior to becoming:
 - a substantial shareholder of a DFHC: this broadly refers to a person who holds at least 5 per cent of the voting power in the DFHC;
 - a 12 per cent or 20 per cent controller: this refers to a person who:
 - holds at least 12 per cent or 20 per cent of the issued shares of the DFHC; or
 - is in a position to control at least 12 per cent or 20 per cent of the voting power in the DFHC; and
 - an indirect controller: this refers to any person who:
 - is in a position to determine the policy of the DFHC; or
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is in a position to cause the directors of the DFHC to regularly act in accordance with his or her wishes; and

- approval requirements in respect of the acquisition of major stakes by DFHCs;
- exposure limits;
- capital adequacy requirements; and
- DFHCs that hold domestic systemically important banks are subject to capital adequacy and to higher loss-absorbency requirements than will apply at the DFHC's group level.

Law stated - 9 February 2024

Implications and responsibilities

What are the implications for a controlling entity or individual in the event that a bank becomes insolvent?

MAS is empowered to exercise various resolution powers if a licensed bank becomes insolvent or is likely to become insolvent, which may have an impact on the bank's shareholders. This may include the ordering of a transfer of a licensed bank's shares to a third party and a reduction of the licensed bank's share capital.

Law stated - 9 February 2024

M&A AND CHANGES IN CONTROL

Required approvals

Describe the regulatory approvals needed to acquire control of a bank (or non-bank). How is 'control' defined for this purpose? Do the requirements differ depending on the size or complexity of the institution?

Approval from the Minister for Finance is required to acquire control over a Singapore-incorporated bank. A person must obtain approval prior to becoming:

- a substantial shareholder of a Singapore-incorporated bank: this broadly refers to a person who holds at least 5 per cent of the voting power in the licensed bank;
- a 12 per cent or 20 per cent controller: this refers to a person who:
 - holds at least 12 per cent or 20 per cent of the issued shares of the licensed bank; or
 - is in a position to control at least 12 per cent or 20 per cent of the voting power in the licensed bank; and
- an indirect controller: this refers to a person who:
 - is in a position to determine the policy of the licensed bank; or
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is in a position to cause the directors of the licensed bank to regularly act in accordance with his or her wishes.

The above approval requirements do not differ based on the size or complexity of the Singapore-incorporated bank in question.

It should be noted that, for the purposes of the various control thresholds described above, a person may be deemed to hold shares in a licensed bank even if he or she does not directly hold such shares (eg, a person who has entered into a contract to purchase or has the right to acquire shares in a licensed bank will be deemed to hold the relevant shares).

Similar approval requirements would apply to entities seeking to acquire control over other types of regulated non-bank financial institutions, although the relevant thresholds and specific approval requirements would differ.

Law stated - 9 February 2024

Foreign acquirers

Are the regulatory authorities receptive to foreign acquirers? How is the regulatory process different for a foreign acquirer?

There are no restrictions in the Banking Act 1970 (BA) that currently apply specifically to foreign acquirers or foreign shareholders of Singapore-incorporated banks. However, one of the factors to be considered by the Minister for Finance and the Monetary Authority of Singapore (MAS) in reviewing an application to acquire control over a Singapore-incorporated bank is whether the acquisition is in the national interest. Furthermore, in the context of the recently issued digital full bank licences, MAS expects such digital full banks to be controlled by Singaporeans.

Law stated - 9 February 2024

Foreign acquirers

Under what circumstances can a foreign bank (or non-bank) establish an office and engage in business? For example, can it establish a branch or must it form or acquire a locally chartered bank?

Foreign banks may establish a branch in Singapore or incorporate a Singapore subsidiary to seek a banking licence under the BA – the former option is typically taken owing to the lower capital commitment required.

Notwithstanding the above, where a foreign bank operating in Singapore through a registered Singapore branch has a significant retail presence in Singapore, MAS may require the bank to operate its retail business through a locally incorporated entity.

As for other types of foreign non-bank financial institutions, whether they need to establish a local presence would vary depending on the relevant regulatory regime governing their activities in Singapore.

Factors considered by authorities

What factors are considered by the relevant regulatory authorities in an acquisition of control of a bank (or non-bank)?

The key factors considered in the review of an application to acquire control over a Singapore-incorporated bank are:

1. the fitness and propriety of the controller;
2. the likelihood of the licensed bank continuing to conduct its business prudently and in compliance with the BA, having regard to the likely influence of the controller; and
3. whether the acquisition of interest is in the national interest.

The above factors in (1) and (2) are also generally relevant when MAS decides whether or not to approve the acquisition of other types of non-bank financial institutions regulated by MAS.

Law stated - 9 February 2024

Filing requirements

Describe the required filings for an acquisition of control of a bank. Do the requirements differ depending on the size or complexity of the institution?

The Minister for Finance's prior written approval must be obtained for a person to become a substantial controller, a 12 per cent controller, a 20 per cent controller or an indirect controller in a Singapore-incorporated bank. Such approval may (in addition to certain other factors being fulfilled) be granted if the Minister for Finance is satisfied that it is in the national interest to do so. There is no prescribed form or process for the purposes of such an application and the applicant would need to write to the Minister for Finance to seek such approval. These requirements do not differ based on the size or complexity of the Singapore-incorporated bank in question.

Law stated - 9 February 2024

Time frame for approval

What is the typical time frame for regulatory approval for both a domestic and a foreign acquirer?

The time frame required to obtain regulatory approval will depend on, among others, the identity of the acquirer, and the nature and complexity of the transaction.

Law stated - 9 February 2024

Regulatory trends

Are there any notable recent regulatory trends or developments affecting M&A and changes in control in the banking sector?

The Financial Holding Companies Act 2013 (FHC Act 2013), which came into force on 30 June 2022, imposes further obligations on entities controlling a Singapore-incorporated bank that are designated as financial holding companies (DFHCs).

Under the FHC Act 2013, approval from the Minister for Finance is required to acquire control over a DFHC with a bank subsidiary. A person must obtain approval prior to becoming:

- a substantial shareholder of a DFHC: this refers to a person who:
 - holds at least 5 per cent of the voting power in the DFHC; and
- a 12 per cent or 20 per cent controller: this refers to a person who:
 - holds at least 12 per cent or 20 per cent of the issued shares of the DFHC; or
 - is in a position to control at least 12 per cent or 20 per cent of the voting power in the DFHC; and
- an indirect controller: this refers to any person who:
 - is in a position to determine the policy of the DFHC; or
 - is in a position to cause the directors of the DFHC to regularly act in accordance with his or her wishes.

Law stated - 9 February 2024

UPDATE AND TRENDS

Key developments of the past year

Are there any emerging trends or hot topics in banking regulation in your jurisdiction?

COSMIC Platform

On 20 March 2023, the Monetary Authority of Singapore (MAS) published its 'Response to Feedback Received: FI-FI Information-Sharing Platform for AML/CFT' (Response). The Response clarified the scope and operation of the proposed secured digital platform called 'Collaborative Sharing of Money Laundering/Terrorism Financing (ML/TF) Information & Cases' (COSMIC), which is intended to enhance information exchange between FIs to more effectively detect and disrupt criminal activities. Six prescribed banks will participate in COSMIC in the initial phase, and MAS plans to progressively extend COSMIC to a wider segment of the financial sector and expand the key areas of focus in subsequent phases.

Participant FIs will share risk information with each other where a customer's unusual activities cross the stipulated threshold criteria, and the participant FI knows or has reason to believe that another participant FI has the same customer or is linked to the

customer's transaction. These obligations will apply in cases concerning former, current, and prospective customers of participant FIs (relevant persons). Participant FIs will also be conferred with statutory protection from civil liabilities, and carveouts from the Personal Data Protection Act 2012 and the Banking Act 1970 (BA) will be made in relation to the sharing of information on COSMIC.

Furthermore, on 6 December 2023, MAS published its 'Consultation Paper on the Regulations Relating to FI-FI Information Sharing for AML/CFT'. In this Consultation Paper, MAS is seeking feedback on its proposed scope of 'relevant persons' whose information should be shared through COSMIC.

Enhancements to the Deposit Insurance Scheme

MAS published its 'Consultation Paper on Proposed Enhancements to the Deposit Insurance Scheme in Singapore' on 27 June 2023, to seek views on its recommendations to increase the Deposit Insurance Scheme (DI Scheme) coverage, and to improve the clarity and operational efficiency of the DI Scheme.

In Part 1 of its Response, MAS announced that it would increase deposit insurance (DI) coverage from S\$75,000 to S\$100,000 per depositor with effect from 1 April 2024. The increase will ensure that the vast majority of smaller depositors continue to be fully covered, keeping pace with the growth in average deposit balances. The change will result in 91 per cent of depositors being fully covered by deposit insurance and will ensure that the DI Scheme continues to fulfil its primary objective of protecting smaller depositors in the event of a bank failure.

MAS is also proposing to improve the clarity and operational efficiency of the DI Scheme through, among others, clarifying the computation of insured deposits and excluded amounts, providing greater flexibility on the mode of DI compensation to depositors and introducing a time limit for depositors to claim DI compensation. These proposals are subject to Part 2 of MAS' Response.

New outsourcing requirements for banks and merchant banks in Singapore

MAS' expectations relating to the management of outsourcing risks by banks have previously largely been set out in its 'Guidelines on Outsourcing', which unlike notices issued by MAS, are not technically mandatory obligations. On 11 December 2023, MAS published new notices 658 and 1121 (Notices), as well as its 'Guidelines on Outsourcing for Banks' (Outsourcing Guidelines).

The Notices are effective from 11 December 2024, and apply to all banks and merchant banks in Singapore, respectively (collectively, Banks). The Notices set out the requirements that Banks have to comply with for the purposes of managing the risks associated with the Bank's outsourced relevant services – these requirements are mandatory obligations the breach of which is an offence under the BA. Pursuant to the Notices, Banks will be required to:

- maintain a register of all:

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ongoing outsourced relevant services obtained or received from a service provider; and

- outsourced relevant services obtained or received from a service provider, which involves the disclosure of customer information, to be submitted to MAS bi-annually and at any time upon request by MAS;
- establish a framework for evaluating the ability of the service provider to perform certain acts, and conduct due diligence checks of its service providers against the framework and be satisfied with the results;
- include certain prescribed terms in its outsourcing agreements (or terms to such effect); and
- obtain customer consent in writing when subcontracting any material ongoing outsourced relevant service.

Likewise, the Outsourcing Guidelines are effective from 11 December 2024 and apply to all Banks in Singapore. They set out MAS' expectations of Banks that have entered into or are planning to enter into, an arrangement for ongoing outsourced relevant services, with the exception of arrangements for exempted Outsourced Relevant Services set out in Annex D of the Notices. The extent and degree to which a Bank is expected to implement the expectations in the Outsourcing Guidelines should be commensurate with the nature of risks in, and materiality of, the outsourcing arrangement, including outsourcing arrangements involving a MAS-regulated entity. In essence, a Bank should ensure that outsourced services (whether provided by a service provider or its subcontractor) continue to be managed as if the services were still managed by the Bank.

Transition planning

On 18 October 2023, MAS published its Consultation Paper on Proposed Guidelines on Transition Planning for Banks (Transition Planning Guidelines). The Transition Planning Guidelines sets out MAS' expectation for banks to have a sound transition planning process to enable effective climate change mitigation and adaptation measures by their customers in the global transition to a net-zero economy and the expected physical effects of climate change.

MAS has also previously set out its supervisory expectations in relation to environmental risk in its Guidelines on Environmental Risk Management for Banks. In this connection, the Transition Planning Guidelines are intended to supplement these with additional granularity in relation to banks' transition planning processes. The Transition Planning Guidelines focus on banks' internal strategic planning and risk management processes to prepare for both risks and potential changes in business models associated with the transition.

Law stated - 9 February 2024