

## MAS NOTICE 648

31 December 2013  
Last revised on 24 June 2022

NOTICE TO BANKS  
BANKING ACT, CAP 19

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

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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 must not issue any covered bonds through its branch in Singapore.

[MAS Notice 648 (Amendment) 2020]

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 payment of 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 regardless of whether the cover pool is sufficient to pay off such liabilities;

[MAS Notice 648 (Amendment) 2015]

“cover pool” in relation to an issuance of covered bonds, means a pool of assets that are –

- (a) legally or beneficially owned or legally and beneficially owned by the bank or an SPV,
- (b) held by the bank as trustee, or a replacement trustee, on behalf of an SPV, or
- (c) both,

for the purposes of securing the payment of:

- (i) the liabilities to the holders of the covered bonds;
- (ii) any liabilities arising from the enforcement of the rights of the holders of the covered bonds; and
- (iii) any liabilities to third party service providers appointed for the operation and administration of the covered bond programme;

[MAS Notice 648 (Amendment) 2015]

“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) to (i), and 8(a) of this Notice;

[MAS Notice 648 (Amendment) 2015]

“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 primary purpose of issuing covered bonds or holding the cover pool in relation to such covered bonds or both.

[MAS Notice 648 (Amendment) 2015]

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 must, 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 must comprise mortgage loans secured by residential property (“residential mortgage loans”), whether in Singapore or elsewhere, and may also comprise one or more of the following assets:
  - (i) any other loans secured by the same residential property as the residential mortgage loans;
  - (ii) assets including intangible properties that form part of all the security provided for the residential mortgage loans such as guarantees and indemnities;
  - (iii) any interest held by the bank as trustee or a replacement trustee for the SPV in relation to the residential mortgage loans or the assets referred to in paragraph 6(a)(i) to (ii);
  - (iv) derivatives held for the purposes of hedging risks arising from the particular issuance of covered bonds;
  - (v) cash (including foreign currency);
  - (vi) Singapore Government Securities; and
  - (vii) MAS Bills;

[MAS Notice 648 (Amendment) 2015]  
[MAS Notice 648 (Amendment) 2020]

- (b) the aggregate value of assets referred to in paragraph 6(a)(v) to (vii) must not exceed 15% of the aggregate value of the residential mortgage loans and the assets referred to in paragraph 6(a)(i) to (vii) included in the cover pool;

[MAS Notice 648 (Amendment) 2015]  
[MAS Notice 648 (Amendment) 2020]

(ba) notwithstanding sub-paragraph (b), where –

- (i) the payment obligations to holders of the covered bonds by the bank or SPV, as the case may be, under the terms and conditions relating to an issuance of covered bonds (“relevant payment obligations”) are or will be due and payable within the next 12 months by the bank or SPV, as the case may be, the aggregate value of assets referred to in paragraph 6(a)(v) to (vii) may exceed 15% of the aggregate value of the residential mortgage loans and the assets referred to in paragraph 6(a)(i) to (vii) included in the cover pool up to an amount not more than the total amount of the relevant payment obligations in that 12 month period; or

- (ii) there are differences between the time of receipt and use of the assets referred to in paragraph 6(a)(v) to (vii) in the cover pool by the bank or SPV, as the case may be, the aggregate value of assets referred to in paragraph 6(a)(v) to (vii) may exceed 15% of the aggregate value of the residential mortgage loans and the assets referred to in paragraph 6(a)(i) to (vii) for a period not exceeding one month from the date on which the bank or SPV, as the case may be, has receipt of the assets referred to in paragraph 6(a)(v) to (vii);

[MAS Notice 648 (Amendment) 2015]

(c) the aggregate value of –

- (i) the residential mortgage loans and the assets referred to in paragraph 6(a)(i) to (vii) included in cover pools for all covered bonds issued by the bank, SPV, or both the bank and SPV, as the case may be; and
- (ii) the residential mortgage loans and the assets referred to in paragraph 6(a)(i) to (vii), not falling within sub-paragraph (i) transferred by the bank to the SPV,

must not exceed 10% of the value of the total assets of the bank<sup>1</sup> at all times. For the purposes of determining:

- (A) the aggregate value of assets in the cover pools, the bank or SPV, as the case may be, must include assets used as collateral above an amount equal to 103% of the outstanding nominal amount of the covered bonds secured by those assets; and
- (B) the total assets of the bank, the bank must exclude assets which the bank uses to meet regulatory requirements under sections 38<sup>2</sup>, 39 and 40, read with section 65, of the Banking Act, section 8 of the Deposit Insurance and Policy Owners' Protection Schemes Act (Cap. 77B) and other regulatory requirements as may be prescribed or specified by the Authority;

[MAS Notice 648 (Amendment) 2015]

[MAS Notice 648 (Amendment) 2020]

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

[MAS Notice 648 (Amendment) 2020]

<sup>2</sup> Deleted [MAS Notice 648 (Amendment) 2020]

- (d) the bank must 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 must apply a “look through” approach for the purposes of computing its risk-based capital requirements under MAS Notice 637. Under the “look through” approach, the bank and the SPV must be treated as a single entity for the purposes of MAS Notice 637<sup>3</sup>;

[MAS Notice 648 (Amendment) 2020]

- (e) *deleted*

[MAS Notice 648 (Amendment) 2015]

- (f) for residential mortgage loans included in the cover pool, the bank or SPV, as the case may be, must 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, must conduct the valuation on a more frequent basis where the property market is subject to significant changes in conditions;

[MAS Notice 648 (Amendment) 2020]

- (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, must 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;

[MAS Notice 648 (Amendment) 2020]

- (h) the bank or SPV, as the case may be, must ensure that the aggregate value of assets in a cover pool is at least 103% of the outstanding nominal amount of the covered bonds secured by the assets at all times. For the purposes of this subparagraph, the value of each residential mortgage loan included in the cover pool, and of the assets referred to in paragraph 6(a)(i) secured on the same residential property as the residential mortgage loan and forming part of the cover pool (collectively for the purposes of this subparagraph, the “loans”), shall be –

- (i) where the aggregate value of the loans is more than 80% of the valuation (conducted in accordance with paragraph 6(f)) of the residential property that is used to secure the loans, 80% of the current market valuation of that residential property; or

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<sup>3</sup> This means, for example, that (a) the assets of the cover pool held in the SPV (if any) must be deemed 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.

[MAS Notice 648 (Amendment) 2020]

- (ii) where the aggregate value of the loans is not more than 80% of the valuation (conducted in accordance with paragraph 6(f)) of the residential property that is used to secure the loans, the aggregate value of the loans; and<sup>4</sup>

[MAS Notice 648 (Amendment) 2015]

[MAS Notice 648 (Amendment) 2020]

- (i) the bank or SPV, as the case may be, must keep a register containing such details as is necessary to clearly identify all the assets in a cover pool.

[MAS Notice 648 (Amendment) 2020]

6A For the purposes of determining the total assets of the bank under paragraph 6(c)(B) –

- (a) the bank incorporated in Singapore must comply with all of the following:
  - (i) the bank must compute the assets which the bank uses to meet the regulatory requirements under section 38 of the Banking Act (“relevant assets”), without applying any haircuts specified in MAS Notice 649; and
  - (ii) the bank must compute the assets which the bank uses to meet the regulatory requirements under section 40 of the Banking Act, without applying any adjustment factors specified in any notice in writing issued under section 40(1) of the Banking Act; and
- (b) the bank incorporated in Singapore may do all of the following:
  - (i) where the bank holds assets in excess of that which the bank is required to hold to meet the regulatory requirements mentioned in paragraph 6(c)(B), the bank need only exclude the minimum amount of assets the bank is required to hold to meet the regulatory requirements mentioned in paragraph 6(c)(B);
  - (ii) where the bank holds more than one type of asset which can be used to meet the regulatory requirements under section 38 of the Banking Act, for the purposes of computing the relevant assets, the bank may exclude assets with the lowest haircuts first, followed by assets with the next lowest haircut, and so on; and

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<sup>4</sup> For the avoidance of doubt, a bank incorporated in Singapore must continue to comply with the loan-to-value 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.

[MAS Notice 648 (Amendment) 2020]

- (iii) where a bank holds more than one type of asset which can be used to meet the regulatory requirements under section 40 of the Banking Act, for the purposes of computing the assets which the bank uses to meet the regulatory requirements under section 40 of the Banking Act, the bank may exclude assets with the highest adjustment factor first, followed by assets with the next highest adjustment factor, and so on.

[MAS Notice 648 (Amendment) 2020]

6B For the purposes of determining the total assets of the bank under paragraph 6(c)(B), the bank must compute the relevant assets used to meet the requirements of MAS Notice 649 as follows:

- (a) in the case of a bank referred to in paragraph 24 of MAS Notice 649, in either of the following ways:
  - (i) as the amount of assets which the bank uses to comply with MAS Notice 649 on a consolidated level as required under paragraph 25 of MAS Notice 649; or
  - (ii) as the amount of assets which the bank would have used to comply with MAS Notice 649, if the bank –
    - (A) consolidates the assets and liabilities of all its branches, but not of its other banking group entities (as defined in MAS Notice 649); and
    - (B) deems all assets, liabilities, transactions, exposures or operations of its branches, but not of its other banking group entities (as defined in MAS Notice 649), to be that of the bank for the purposes of Part II of MAS Notice 649 (other than paragraph 25 of MAS Notice 649),

notwithstanding anything to the contrary in paragraphs 25 and 26 of MAS Notice 649,

and the bank must comply with paragraphs 6C and 6D as applicable;

[MAS Notice 648 (Amendment) 2022]

- (b) in the case of a bank not referred to in paragraph 24 of MAS Notice 649 and which has obtained the Authority's approval under paragraph 6 of MAS Notice 649 to comply with the requirements set out in MAS Notice 649 on a country-level group basis ("relevant approval"), in either of the following ways:
  - (i) as the amount of assets which the bank uses to comply with MAS Notice 649 on a country-level group basis; or
  - (ii) as the amount of assets which the bank would have used to comply with MAS Notice 649 if the bank had not obtained the relevant approval,

and the bank must comply with paragraphs 6C and 6D as applicable; and

[MAS Notice 648 (Amendment) 2022]

- (c) in the case of a bank not referred to in paragraph 24 of MAS Notice 649 and which has not obtained the relevant approval, as the amount of assets which the bank uses to comply with MAS Notice 649.

[MAS Notice 648 (Amendment) 2020]

[MAS Notice 648 (Amendment) 2022]

6C A bank that wishes to use the computation method in paragraph 6B(a)(ii) or paragraph 6B(b)(ii) must notify the Authority at least three business days prior to using the computation method.

[MAS Notice 648 (Amendment) 2020]

6D Where the bank has provided notification to the Authority in accordance with paragraph 6C and the bank subsequently wishes to compute the relevant assets in accordance with paragraph 6B(a)(i) or paragraph 6B(b)(i), the bank must notify the Authority at least three business days prior to changing the method of computation.

[MAS Notice 648 (Amendment) 2020]

7 A bank incorporated in Singapore which issues covered bonds must only use its own assets, and not that of other entities in its banking group (as defined in MAS Notice 637) to form the cover pool and must ensure that every of its subsidiary which intends to issue covered bonds only uses the subsidiary's own assets, and not that of other entities in the banking group to form the cover pool.

[MAS Notice 648 (Amendment) 2020]

## **Risk Management Requirements**

8 A bank incorporated in Singapore must, 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, must 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, prepayment, currency, interest rate, counterparty and liquidity risks. The bank or SPV must 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;

[MAS Notice 648 (Amendment) 2020]



- (b) the bank or SPV, as the case may be, must appoint an external third party, qualified to be an auditor under the Companies Act (Cap 50)<sup>5</sup>, as the cover pool monitor to:
- (i) verify annually that the bank or SPV, as the case may be, has complied with paragraphs 6(a) to (i), 6A, 6B, 6C and 6D;
  - (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;

[MAS Notice 648 (Amendment) 2020]

- (c) the bank must 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;

[MAS Notice 648 (Amendment) 2020]

- (d) where a bank transfers the legal right to, or perfects the assignment of, the assets comprising the cover pool, the bank must disclose (together with any form of notice necessary for such transfer or perfection) to each borrower whose residential mortgage loan or asset referred to in paragraph 6(a)(i) to (iii) to which the transfer or assignment applies, the consequences of such transfer or perfection of assignment, as the case may be, 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

[MAS Notice 648 (Amendment) 2015]

[MAS Notice 648 (Amendment) 2020]

- (e) the bank or SPV, as the case may be, must 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.

[MAS Notice 648 (Amendment) 2020]

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<sup>5</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.

## Notification and Other Requirements

9 A bank incorporated in Singapore must 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>6</sup>. In addition, the bank must 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 must 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 must also at the same time submit a Memorandum of Compliance to the Authority. The bank must submit any additional information, as requested by the Authority, relating to its application and issuance of the covered bonds.

[MAS Notice 648 (Amendment) 2020]

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.

### \*Notes on History of Amendments

1. MAS Notice 648 (Amendment) 2015 with effect from 4 June 2015.
2. MAS Notice 648 (Amendment) 2020 with effect from 16 October 2020.
3. MAS Notice 648 (Amendment) 2022 with effect from 1 July 2022.

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<sup>6</sup> The bank must notify the Authority in writing if there are changes to the covered bond programme.

[MAS Notice 648 (Amendment) 2020]