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Dear Clients & Friends

Changes to the capital adequacy requirements for Singapore-incorporated banks

On 8 February 2007, the Monetary Authority of Singapore (the “**MAS**”) disclosed that it will make changes to the capital adequacy requirements for Singapore-incorporated banks and the financial holding companies of the banks (collectively referred to as the “**Banks**” in this Alert).

A Bank is required under the Banking Act to have a minimum capital adequacy ratio of 10 per cent. (the “**total CAR**”). The capital a Bank must set aside to meet all risks is called regulatory capital. The regulatory capital of a Bank is made up of core capital (Tier 1 capital) and supplementary capital (Tier 2 capital). The total CAR is a ratio of the regulatory capital to risk weighted assets (a measure of risk faced by the Bank).

Currently, a Bank needs to maintain at least 7 per cent. of the minimum 10 per cent. total CAR as Tier 1 capital. From 1 March 2007, this will be reduced from 7 per cent. to 6 per cent. Tier 1 capital includes retained earnings and equity.

The total CAR of a Bank will, however, remain at 10 per cent. The MAS also announced that it would give a broader definition as to what can be included as Tier 2 capital. Tier 2 capital may consist of revaluation reserves, unencumbered general provisions, and funds raised from the issuance of subordinated debt instruments. From 1 March 2007, the Banks will be able to hold up to 50 per cent. of Tier 2 capital in instruments that have a shorter maturity than previously required. These instruments do not necessarily have to provide deferment of coupons or write down of principal.

The MAS will also clarify the rules on redemption and the repurchase of these capital instruments.

The revised rules are set out in the MAS Notice on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore (MAS Notice 637), which is available on the MAS website. Please [click here](#) to view the Notice.

Please [click here](#) to read the MAS press release of 8 February 2007 in relation to the above development.

Should you have any queries as to how this may affect your business, please do not hesitate to contact your usual contact at Allen & Gledhill or any of the following:

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