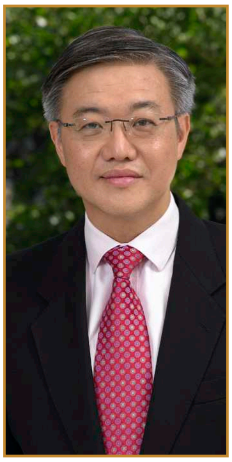

Loo Choon Chiaw

"THE GLOBAL FINANCIAL CRISIS: 6 YEARS ON!"

Q&A with Loo Choon Chiaw, Managing Partner of Loo & Partners

ALB: It has been 6 long years after the global financial crisis (GFC), what has the regulator in Singapore been doing in its regulation of the banking industry?
LCC: The Monetary Authority of Singapore (MAS), the de facto central bank in Singapore, has been focusing in the last 6 years, on the singularly important task of ensuring the presence of only banks with clean bills of health and strong balance sheets in the Singapore's banking industry. The GFC has resulted in the introduction of the Basel III's minimum requirements on Capital Adequacy Ratios (CAR). Even though Basel III's minimum requirement for CAR is 8%, the MAS has required the banks to maintain a CAR of 10%. Remarkably, each of the Big Three local banks, namely the DBS Bank, the United Overseas Bank, and the Overseas-Chinese Banking Corporation respectively, has maintained a CAR higher than the 10% requirement.

ALB: Wouldn't you agree that the Big Three local banks are too conservative in adopting a CAR over and above the 10% requirement imposed by the MAS?
LCC: In the present context, conservatism or more accurately, prudence, may not be a derogatory term. The maintenance of a higher than required CAR by a bank will definitely result in it having less deployable risk capital, and force it to make more effective use of its available capital to produce profits.

ALB: What is your take on the current economy and outlook in Asia?
LCC: As observed by the IMF, while Asia as a whole will be growing, the expected growth rate in both 2014 and 2015 will be around 5.5%, only moderately better than what was achieved in 2013, namely 5.2%.

ALB: Are there any serious concerns over the economy and outlook in Asia?
LCC: Putting aside political risks and uncertainties, for instance, the tension between China and Japan, the Philippines and Vietnam, respectively concerning territorial sovereignty over disputed islands and maritime boundaries in the oil-and-gas rich South China Sea, the geopolitical situation prevailing in Thailand, there are two major concerns confronting the region. Firstly, should a severe slowdown occur in China, negative spillovers will be felt, especially by those economies which are closely linked to China. Secondly, if Abenomics fails to boost economic growth in Japan, the outlook in both Indonesia and Thailand, the economies which have strong trade and foreign direct investment linkages with Japan, will be adversely affected.

ALB: What is the existing regulatory landscape in banking and finance in Asia?
LCC: The regulators in the region have been kept busy in the last 12 months reviewing the banking and finance industry and introducing regulatory reforms, where necessary, aiming to reduce systemic risk and ensure safety and soundness of banks and market infrastructure, including the implementation of Basel III and supervisory requirements over the assessment of risk governance, risk culture and risk data of banks. It is clear that new regulatory initiatives will continue to emerge, as and when the regulators deem necessary.

ALB: Are more regulations desirable?
LCC: The continuing debates on leverage ratio, internal models, stress tests etc would make it difficult for banks to plan effectively. Further, the compliance costs which the banks shall have to incur in addressing new regulations have been increasing sharply. A fine balance will have to be struck lest useful resources are drained by the banks in their compliance of the regulations.

ALB: What are the market sentiments on the banking industry in Asia?
LCC: Market confidence in the banking industry is returning. The majority of Singapore banking customers, like their counterparts in Asia Pacific, have moderate to complete trust in their primary financial services provider, namely, the banks in which the customers have placed most of their deposits with.

ALB: Are there any notable trends in the banking and finance industry in Singapore?
LCC: There are two trends worth noting. Firstly, there is a large group of banks operating from Singapore

Loo&partners LLP
俊昭法律事務所

Loo & Partners LLP

- A: 16 Gemmill Lane
  Singapore 069254
- T: (65) 6322-2288
- F: (65) 6534-0833
- E: ccloo@loopartners.com.sg
- W: www.loopartners.com.sg

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focusing primarily on intra-Asia cross-border credit intermediation. Secondly, banks operating in Singapore are engaging in substantial cross-border lending to Indian and Chinese entities. Whilst India vis-a-vis Singapore has always been a net borrower of funds, China vis-a-vis Singapore was a net lender of funds until recently.

ALB: Does your regulator need to worry about this trend?
LCC: The MAS is certainly aware of this trend. Indeed, it has addressed this trend in its financial stability review. The risk brought about by the growing credit exposures to China and India respectively needs to be viewed in its context and against the backdrop of the rising economic and financial importance of both countries, the uncertain economic growth prospects, the possibility of financial conditions tightening in the near future and related country-specific factors. The banks which have expanded (or are expanding) their businesses in India and China, and thereby increasing their risk exposures there, shall need to take active steps in understanding and managing the associated risks.

ALB: The monetary policy normalisation by Eurozone and United Kingdom, Japan and United States are on the cards. How would it affect the Singapore's banking system?
LCC: From the perspective of Singapore, while a recovery in the advanced economies would be positive, the resultant monetary policy normalisation would likely lead to a significant increase in global interest rates that would in turn strain the Asian economies, including Singapore. Rising global interest rates would result in a corresponding increase in the interest rates in the Asian economies. The impact would be extremely adverse if the increase in interest rate is worsened by a flat or negative economic growth in Asia either due to specific local factors or the benefits of stronger global demand expected to flow from a recovery in the advanced economies have failed to materialise.

ALB: Will Singapore's banking system withstand such a challenge?
LCC: The MAS has been conducting stress tests on the major banks and financial institutions in Singapore. The most recent industry wide stress test (IWST) included scenarios of unprecedented stress, including a contraction in Singapore's GDP for three consecutive years, rising unemployment, and property prices falling by more than what was experienced during the Asian Financial Crisis. The IWST also considered a sensitivity analysis of additional interest rate shocks, in anticipation of the Quantitative Easing (QE) tapering. The IWST results clearly suggest that Singapore's banking system would likely to remain resilient even under unprecedented stressed conditions.

ALB: How did the regulator in Singapore address the concerns caused by virtual currencies (such as Bitcoin and Litecoin)?
LCC: In the context of virtual currencies, which are not legal tender nor even currency in the strict sense of the term, the regulator has thus far adopted a practical approach. It did not ban the virtual currencies per se, however, it has chosen to adopt specific targeted measures in addressing money-laundering and terrorist-financing risks.

ALB: What has kept your banking and finance colleagues busy in the last few months?
LCC: Our banking and finance colleagues have been busy advising several foreign banks who have just received their licences to carry on banking businesses, preparing their template credit and security documentation, vetting their lease agreements and reviewing their compliance handbook etc. Our colleagues have also been attending to a wide range of domestic and international banking and financing works, including quite a few vessel and aircraft financing club deals.

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- To attract and retain committed team members
- To enable each member to attain his or her full potential
- To be our clients' strategic partner in tackling their daily challenges
- To implement changes necessary to serve our clients better, increase efficiency and reduce costs
- To maintain a level of profitability that sustains growth, funds further investments to enhance our overall capabilities and provides fair rewards to members