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Development of the Financial Sector

Against the backdrop of an increasingly challenging economic environment, the main policy focus for the financial sector in 2008 was to ensure that the financial sector remained resilient and continued to perform its financial intermediation function effectively in supporting economic activities. Coupled with the heightened surveillance and supervisory oversight on financial institutions, pre-emptive policy measures were introduced to address potential vulnerabilities to safeguard the resilience and soundness of the financial sector. In tandem with this, the Bank continued with efforts to strengthen the institutional capacity of the industry, modernise the financial infrastructure, diversify the financial system and realise the full potential of the Malaysian financial sector in contributing towards economic growth. To further cement Malaysia's position as a leading international Islamic financial hub, the Bank introduced several measures to accelerate the development of Islamic finance, both domestically and globally.

PRESERVING SOUNDNESS AND CONFIDENCE IN THE FINANCIAL SECTOR

Following several years of reforms and capacity building measures, which include further improving the supervisory framework, the Malaysian financial system is now on a much stronger foundation to venture into new businesses, undertake more complex risks and withstand shocks. With the far-reaching effects of the global financial crisis having adverse implications on the regional economies, greater importance has been placed on collaborative and concerted efforts within the region in responding effectively to the impact of the crisis. This includes improved mechanisms for cross-border cooperation between central banks and other regulatory authorities that aim to facilitate cohesive and meaningful action to safeguard regional stability. Towards this end, the Monetary and Financial Stability Committee (MFSC) of the Executives' Meeting of East Asia-Pacific (EMEAP) Central Banks, a dedicated committee comprising 11 central bank deputies in the East Asia and Pacific region, has put in place an integrated regional surveillance and crisis management framework to assist EMEAP economies in addressing concerns arising from the crisis that

affects the regional countries. This cooperative framework has provided a key platform for the region to share information and assess the impact of the evolving global financial crisis on regional economies and the implications for central banks in the region. On 30 October 2008, the MFSC released a joint statement to reaffirm its commitment towards maintaining regional monetary and financial stability.

Following several years of reforms and capacity building measures, which include further improving the supervisory framework, the Malaysian financial system remains resilient and continues to effectively perform its intermediation function

In further accentuating regional coordination in pre-emptively mitigating the effects of the crisis and following the announcements made by a number of regional countries, the Bank and the Ministry of Finance jointly announced on 16 October 2008 that all deposits will be fully guaranteed by the Government through the Malaysia Deposit Insurance Corporation (PIDM) until December 2010. The Government guarantee covers all ringgit and foreign currency deposits with commercial banks, Islamic banks, investment banks and deposit-taking development financial institutions (DFIs) regulated by Bank Negara Malaysia. While it is unlikely that the guarantee would be called upon as the banking sector remains fundamentally strong, this precautionary measure serves to sustain confidence in the system amidst a more volatile global and regional environment.

The Bank also expanded the coverage of the financial safety net to insurance companies and takaful operators, allowing the industry to access the Bank's liquidity facility. While insurance

companies in many other jurisdictions do not have access to such facilities from the central banks, this pre-emptive measure was taken to sustain confidence in the insurance sector. As developments in the global markets continue to unfold, the Bank remains vigilant and stands ready to extend its guarantees to include interbank obligations of banking institutions. These measures complement the enhanced oversight on the financial sector towards preserving confidence and maintaining the overall stability of the financial sector.

ENSURING CONTINUED ACCESS TO FINANCING

With the moderation in export, production and investment activities particularly in the second half of 2008, the challenge was to ensure that viable businesses affected by the economic slowdown continue to have adequate access to financing. Particular attention was given to small and medium enterprises (SMEs) which usually have less financial resources and flexibility to adjust and respond to market developments. Towards this end, efforts were intensified to strengthen the capacity of financial service providers such as the Credit Guarantee Corporation, SME Bank and Agrobank to better support the needs of SMEs. Developments in this area are illustrated in greater detail in the box article "Development of Small and Medium Enterprises" in the Bank's Annual Report 2008.

The Bank introduced three new financing facilities, the SME Assistance and SME Modernisation Facilities, and the SME Assistance Guarantee Scheme to ensure viable SMEs adversely impacted by the current economic slowdown continue to have access to financing

In managing the repercussions of higher commodity prices in the first half of 2008, followed by a slowdown in economic activity in

the second half of 2008, a series of measures were put in place to assist SMEs to enhance their efficiency and productivity as well as to help them manage their cash flow difficulty. To achieve this, two new financing schemes were established during the year, which are the SME Assistance and SME Modernisation Facilities, with a combined facility limit of RM1.2 billion. As at end-2008, these facilities have benefited 4,923 borrowers with new credit facilities approved amounting to RM1.1 billion. Given the good response to the facilities, the Bank established the RM2 billion SME Assistance Guarantee Scheme to replace the two facilities in ensuring that viable SMEs adversely impacted by the current economic slowdown continue to have adequate access to financing.

The worsening global economic conditions and the corresponding impact on the domestic economy further prompted the Government to enhance support granted to SMEs as well as the larger companies. Two new guarantee schemes have been introduced by the Government, which are the Working Capital Guarantee Scheme and the Industry Restructuring Loan Guarantee Scheme. The Working Capital Guarantee Scheme, totalling RM5 billion, will assist in funding the working capital requirements of companies with shareholders' equity below RM20 million, through the provision of a Government guarantee of 80% and the remaining 20% borne by financial institutions. The Industry Restructuring Loan Guarantee Scheme, totalling RM5 billion, aims to support long-term investment activities by large and medium-sized enterprises that would promote increased productivity and higher value-added activities, as well as greater use of green technology. The Government guarantee of 80% or 50%, depending on the size of the company, will help towards enhancing the provision of financing to support these forms of long-term investments.

Recognising the importance of having in place avenues for borrowers encountering financing difficulties to seek assistance, particularly in the current environment, the Integrated Contact Centre was established in July 2008 comprising BNMLINK, BNMTELELINK and the Complaints Management and Advisory section within the Bank. This Centre complements the

various proactive efforts of individual financial institutions in assisting borrowers by serving as an easily accessible platform for the public to raise their financing issues. From October 2008 until January 2009, the Centre received 437 queries relating to access to financing issues from individuals and SMEs, and has since resolved about 65% of these cases.

Towards increasing interaction between banking institutions and borrowers, the Bank facilitates regular dialogues between industry associations and bankers to enable the better understanding of issues faced by businesses. The banking industry has also taken proactive efforts, with the Association of Banks in Malaysia intensifying its interface with borrowers through its toll-free channel, *ABMConnect*, which serves as a platform for general enquiries relating to banking services and credit issues. Since its launch in December 2008, *ABMConnect* has received 639 calls, of which 96% of the complaints and enquiries received were resolved. Banking institutions have also been organising roadshows and clinics all over the country, in an effort to increase interaction and reduce information gaps with their borrowers.

The Bank's Integrated Contact Centre, complemented with the industry's *ABMConnect*, were established to provide various avenues for borrowers encountering financial difficulties to seek assistance

STRENGTHENING INSTITUTIONAL CAPACITY

The significant progress achieved in the transformation of domestic financial institutions has resulted in stronger and more efficient domestic players with enhanced capability to compete and retain market share in the face of a more challenging business environment. A number of Malaysian financial conglomerates have also emerged as leading players in the region, offering a wide range of financial services.

The current economic climate and state of the global capital markets have nevertheless

posed considerable challenges to the overall financial sector and the financial institutions. While considerable efforts were taken to further strengthen the overall financial sector, attention was also directed at addressing potential implications of the challenging operating environment on the resilience of certain sectors, particularly the general insurance industry, where fragmentation and a lack of scale are more apparent. At present, the general insurance industry is fragmented with 40 players, where 20 of the smaller players in total control only a 23.7% market share of gross premiums. In reinforcing the resilience of the general insurance industry as well as its role in facilitating business activity and offering risk protection products, efforts are being channeled towards strengthening the capacity and capability of the general insurers. The Bank continues to promote consolidation and rationalisation within this industry, with the intention of developing general insurers with sufficient capacity and scale of business to contribute meaningfully to the broader economy whilst remaining resilient during challenging market conditions.

Consolidation and rationalisation within the general insurance industry continues to be promoted to develop general insurers with sufficient capacity and scale of business

ENHANCING OPERATIONAL EFFICIENCY AND EFFECTIVENESS

In terms of operational flexibilities, efforts are ongoing to accord greater flexibility to general insurance companies to manage their expenses, especially in the more challenging business environment. The Guidelines to Control the Operating Costs of General Insurance Business (OCC Guidelines) originally issued in 1990, a key component of the regulatory framework for the industry, will be liberalised. The original intention of the OCC Guidelines was to control the escalating costs of the general insurance industry and to ensure that policyholders obtain

insurance coverage at fair prices. The evolution of the industry over the years, coupled with the significantly strengthened prudential regulatory framework and oversight on insurance companies, have reinforced the need to gradually liberalise these prescriptive rules to allow insurance companies more flexibility to manage their operating expenses. This approach would enable insurance companies to manage their expenses in accordance with their business strategies, including distribution channel management.

As a means to enhance the revenue base of insurance companies through more diversified delivery channels and to promote greater insurance penetration, further flexibilities were accorded to encourage the utilisation of bancassurance as one of the key distribution channels for insurance companies. General insurance companies are now freely allowed to leverage on the widespread outreach of bank branches through entering into bancassurance arrangements with banking institutions. Greater bancassurance flexibilities have also been accorded to life insurance companies, including enhanced opportunities to tap on banking institutions' extensive customer database via direct mailing arrangements as well as the ability to pay production and persistency bonuses to their banking partners. These measures are aimed at improving customer service quality and driving higher bancassurance sales, as a means to increase insurance penetration in the country.

ENHANCING THE INFRASTRUCTURE FOR FINANCIAL MARKET DEVELOPMENT

The global financial crisis has demonstrated the speed and magnitude at which the financial markets can transmit shocks, reinforcing the importance of having in place effective infrastructures that would enable forward-looking assessments of the risk-taking activities in the financial markets and their implications to financial stability. To support this need, significant effort was put in place to develop a comprehensive database that is able to collate data and information relating to the debt securities market from various sources. The Information and Surveillance System for Debt Securities (INSIDES), now fully implemented, acts as a one-stop database enabling effective analysis of trends and impact assessments of the financial market. This is complemented by ongoing efforts

to enhance the supporting infrastructure to cater for foreign currency issuances and the shelf listing of debt securities.

To ensure the continued growth and dynamism of the financial markets amidst greater market uncertainties and in line with the recommendation in the Financial Sector Masterplan (FSMP), the Government will be establishing a Financial Guarantee Institution (FGI) to provide greater opportunities for corporations to obtain credit enhancements to access the bond market. The FGI will enable these corporations to have continued access to the financial markets to raise funds, thus reducing financing costs, addressing potential maturity mismatches and diversifying funding sources within the financial system. The Bank is currently developing the supporting prudential regulatory and supervisory frameworks governing the operations of the FGI, which will encompass requirements on capital, reserving and underwriting standards.

SUSTAINING THE CONTINUED DEVELOPMENT OF HUMAN CAPITAL

Despite the more challenging economic environment, the Bank has continued to focus on the development of human capital to support the long-term growth prospects of the financial sector. Recognising the importance of having a coordinated and collaborative approach to human capital development in the financial services industry, the Bank and the Securities Commission jointly established the Financial Services Education Centre (FSEC) to provide high quality training solutions across the different segments of the financial services industry. The FSEC provides a platform for coordinated initiatives among the different training arms through collaboration with Islamic Banking and Finance Institute Malaysia (IBFIM), Institute of Bankers Malaysia (IBBM), Malaysian Insurance Institute (MII) and the Securities Industry Development Corporation (SIDC). Drawing on the complementarities and strengths of these various training institutes, the FSEC aims to enhance the standards and delivery of training to equip the financial industry's workforce with the prerequisite skills and capabilities.

The Financial Sector Talent Enrichment Programme (FSTEP), another industry-led initiative supported by the Bank, involves the development and training of graduates to provide a foundation of the

financial services industry, through a combination of classroom training and practical internships. Following its inception in 2007, the curriculum has been enhanced to be more structured, with an ongoing review of the training syllabus through input from industry players, and includes a particular focus on improving the participants' proficiency in English. Since the programme's inception, 289 participants have completed the programme whilst 318 participants are currently undergoing technical training.

ISLAMIC FINANCE – PURSUING MIFC INITIATIVES

The Malaysia International Islamic Financial Centre (MIFC) initiative encapsulates the country's longstanding experience and expertise in Islamic finance towards cultivating its global growth prospects. Islamic banking and takaful assets (including assets held by DFIs) now constitute 15.2% of the total banking and insurance assets (including assets held by DFIs) of the Malaysian financial system. In 2008, three locally-incorporated foreign banks established full-fledged Islamic subsidiaries, while three Islamic subsidiaries of domestic banking institutions were operationalised. As at end-2008, there were 17 Islamic banking institutions and 16 Islamic banking operations conducted through windows by commercial banks, investment banks and DFIs. A joint venture between a Dubai-based financial institution with companies from Malaysia and Singapore saw the establishment of the world's largest retakaful company in Malaysia, marking an important milestone for the development of the retakaful industry.

The international dimension of Islamic finance in Malaysia was further strengthened with increased participation by both domestic and foreign players engaging in international currency business under the flagship of MIFC. One International Islamic Bank (IIB) licence and one International Takaful Operator (ITO) licence were granted to foreign financial institutions during the year, whilst five domestic and foreign financial institutions were granted approvals to establish International Currency Business Units (ICBUs). On the regulatory front, comprehensive Guidelines on IIB, ITO and ICBU were issued during the year, providing greater clarity on the scope of business, tax incentives and regulatory framework governing these institutions.

As Islamic finance becomes further integrated into the international financial system and as Islamic financial innovation advances to the next level, conformity to the requisite principles of Shariah becomes increasingly important to preserve the resilience of Islamic financial transactions. Hence, initiatives instituted by the Bank were aimed at promoting a clear and accurate understanding and consistent interpretation of Shariah principles in Islamic finance at the domestic and international levels. The International Shariah Research Academy for Islamic Finance (ISRA) was established in March 2008 to enhance the interaction and exchange of ideas among industry players and scholars to promote applied research in the area of Shariah and Islamic finance. Through research and rigorous intellectual dialogue, ISRA aims to promote innovation and dynamism towards driving Islamic finance into new frontiers of development. Academic appreciation of Islamic finance was also enhanced through the introduction of the PhD and Masters programmes in Islamic finance by the International Centre for Education in Islamic Finance (INCEIF) in January and June 2008 respectively.

The Bank has also embarked on an initiative to develop a comprehensive codification of Shariah contracts, known as Shariah Parameters, to enhance the application of Shariah rules and principles, provide clarity and promote a more consistent application of Shariah contracts within the Islamic financial system. This initiative, unique among regulators globally, is expected to provide guidance to the Islamic finance community on matters relating to the *muamalat* (commercial transactions) aspects of the Shariah. It is expected to enhance understanding on the practical application of Shariah principles for Islamic finance, and would contribute towards a more innovative and vibrant development of Islamic financial products and services. The Shariah Parameters, once issued, will serve as a point of reference for the harmonisation of practices among the Islamic finance community.

Despite the pronounced decline in global market activities, Malaysia remained the largest global issuer of sukuk, accounting for 61.4% of total global sukuk outstanding as at end-2008. As at end-2008, the outstanding sukuk market in Malaysia comprised 36% of outstanding debt securities in Malaysia, with outstanding sukuk issued by the private sector accounting for 55.9%

of outstanding private debt securities (PDS). In developing Malaysia as a world-class Islamic financial centre, the Bank continued to pursue strategic branding and promotional activities, albeit on a more selective basis, to advance the growth of Malaysia as an international hub for Islamic finance. Malaysia's efforts in advancing the MIFC initiative are gaining greater recognition, exemplified through MIFC being named as the "Best International Islamic Finance Centre" at the Second Annual London Sukuk Summit Awards of Excellence.

ENHANCING SURVEILLANCE ON MARKET CONDUCT AND STRENGTHENING FINANCIAL CAPABILITY OF CONSUMERS

As part of the Bank's ongoing initiatives to enhance the market conduct practices of financial players and financial capability of consumers, the Bank continued with its initiatives to promote fair and equitable market practices. At the same time, existing channels were enhanced for consumers to seek redress and financial advice.

The AKPK has taken proactive measures to provide assistance to borrowers facing financial difficulties and is currently also working towards engaging employees affected by retrenchment and reduction in working hours

The Bank's Integrated Contact Centre, while addressing issues relating to access to financing, also serves as a key platform for consumers to seek financial advice and surface complaints related to the financial institutions regulated by the Bank. BNMLINK was also extended to the Bank's branches in Johor Bahru and Penang in September 2008. For the year 2008, the Centre attended to 144,988 customer enquiries in total, of which 136,686 were related to financial enquiries and advisory whilst 8,302 were complaints on banking and insurance matters. The Centre has resolved over 74% of these complaints. Besides the Centre, the Credit Counselling and Debt Management

Agency (AKPK) that was established by the Bank in 2006 also provides financial counselling and debt management advice to individuals. To date, AKPK has successfully serviced about 73,000 customers, of which over 21,000 have received assistance under its Debt Management Programme and more than 52,000 have benefited from the credit counselling services. In light of the current economic environment, the AKPK has taken proactive measures to provide assistance to borrowers facing financial difficulties and is currently working towards engaging employees affected by retrenchment and reduction in working hours, to manage their financial position. In addition, AKPK has contributed towards improving financial education through various teaching modules, book publications, roadshows and advertisements.

To safeguard the interests of consumers and maintain public confidence in the industry, the surveillance and enforcement tools within the Bank were enhanced during the year to focus on three main areas, consisting of thematic market examinations, incognito visits to assess the lending behaviour of banking institutions and the level of retail banking service quality, as well as media surveillance to ensure that advertisements and product promotions on the print and electronic media are accurate. These more focused and intensified surveillance activities have enhanced financial institutions' operational procedures to better serve the needs of the customers and improve the level of disclosures of their products and services.

Financial capability initiatives during the year continued to be directed at empowering consumers to make informed decisions, particularly, for planning their future financial needs. Outreach programmes targeting new groups such as the disabled community and newlyweds were included in the year's financial education programme, which included publishing the *Buku Wang Saku* and *insuranceinfo* reading material in Braille for the visually impaired. The "Minggu Kesedaran Kewangan 2008" organised in October 2008 in collaboration with the Financial Mediation Bureau, AKPK and PIDM received overwhelming response, especially from the SMEs and school and university students with a total of more than 17,600 visitors over a span of three days.

ANTI-MONEY LAUNDERING AND COUNTER FINANCING OF TERRORISM

While the risk of money laundering and terrorism financing activities remains small, the Bank continued to exercise vigilance on the evolving money laundering and terrorism financing threats that could potentially undermine confidence in the financial sector. The anti-money laundering and counter financing of terrorism (AML/CFT) legal and regulatory framework were reviewed and amended to comprehensively cover all categories of financial institutions and designated non-financial businesses and professions as set out in the Financial Action Task Force (FATF) 40+9 Recommendations (40 Recommendations on Money Laundering and 9 Special Recommendations on Terrorist Financing). Specific education programmes were organised to enhance the reporting institutions' AML/CFT compliance culture and to provide updated information on AML/CFT developments. These included conducting compliance workshops, conferences, on-site examinations and self-assessment questionnaires to gauge institutions' level of compliance with the relevant AML/CFT requirements.

Given the transnational nature of money laundering and terrorism financing activities, the Bank signed six Memoranda of Understanding (MoUs) with its foreign counterparts in 2008 on the exchange of financial intelligence, bringing the total number of MoUs signed by the Bank to 17. In the Asia/Pacific Group on Money Laundering (APG)'s mutual evaluation exercise conducted on Malaysia in 2007, the report affirmed Malaysia's robust and comprehensive legal framework, preventive measures as well as effective domestic and international inter-agency cooperation arrangements to support capacity building, surveillance and enforcement activities on anti-money laundering. This result has positioned Malaysia as one of the few countries in the region that is comparable to more advanced member countries in complying with the FATF 40+9 Recommendations.

OUTLOOK

The coming year is expected to be a more challenging year for the financial sector, as uncertainties in the global financial environment continue to unfold. Malaysia's financial sector is on a much stronger footing than before. Reforms and

capacity building measures will continue to be instituted to enable our financial institutions to withstand shocks. The financial sector is currently characterised by the stronger capital levels and profitability positions. Ongoing efforts to explore new markets and businesses for expansion and income diversification amidst a more challenging global financial outlook would position Malaysia's financial sector strategically over the long run.

The emphasis in the months to come will be to reinforce the role of the financial sector in playing its intermediation function and ensuring that adequate financing is being channeled to support viable economic activities. Efforts will also be focused on strengthening the core foundations that accord resilience to the financial system to withstand shocks and episodes of financial turmoil. These will be complemented by strengthened prudential regulations to mitigate excessive risk-taking and enhanced surveillance and oversight functions to ensure emerging vulnerabilities are promptly and pre-emptively addressed. Cooperation arrangements between regulatory agencies within Malaysia will continue to be strengthened, establishing clear and unambiguous responsibilities to enable prompt and decisive measures to be taken, where appropriate.

To place the Bank in a greater state of readiness to face future challenges, the holistic review of the Central Bank of Malaysia Act 1958 was completed during the year where the proposed Central Bank of Malaysia Act will provide clarity to the Bank's roles and functions. Amongst others, the proposed Act articulates the regulation and supervision of financial institutions and the promotion of a sound and progressive financial system. In tandem with this, the Bank is also in the process of reviewing all key legislation governing financial institutions and intermediaries that are under the oversight of the Bank and expects to finalise the review by end-2009.

The next phase of development for the financial sector will be spearheaded by the Bank's liberalisation roadmap, in line with Phase 3 of the FSMP which calls for greater integration with the international financial

system. The strategic intent of the various measures contained in the liberalisation roadmap is to enhance the contribution of the financial services sector to economic growth. The role of the financial sector as an effective enabler and driver of economic growth will be reinforced, as well as its ability to catalyse and accelerate the development of other economic

sectors, particularly the services sector. Malaysia's competitive advantage in Islamic finance will be strengthened, expanded and developed as opportunities emerge. In liberalising the financial sector, the Bank will adopt a gradual and phased approach to ensure that the overall stability of the financial system is safeguarded whilst reaping the resultant benefits to the economy.

Regulatory Framework for Foreign Financial Institutions and Investment Banks in Malaysia

Developments in the global financial markets over the recent year have placed great scrutiny on the effectiveness of regulatory and supervisory oversight regimes around the world. These recent events have emphasised the crucial need for sound regulatory and supervisory frameworks which keep pace with the rapidly evolving financial landscape.

This article outlines the key features of the regulatory and supervisory regime that is applied on foreign banking institutions and insurance companies, and on the investment banks operating in Malaysia. The oversight of foreign banks and insurers is aimed at reinforcing the soundness and resilience of their domestic operations, whilst the regulatory framework on investment banks intends to ensure prudent business operations. This supports the objective of maintaining the overall stability of the financial sector.

The Regulatory Approach for Foreign Financial Institutions in Malaysia

Malaysia’s financial system hosts a diversity of foreign financial institutions, with many of them having an entrenched presence – being pioneers during the formative years of the Malaysian financial system in the 19th century. At present, foreign financial institutions control 26% of banking and insurance sector assets. The presence of these financial institutions, each with distinct business strengths and niches, infuses the Malaysian financial community with improved technical expertise, best practices and technology and enables consumers to benefit from world-class products and services.

However, the recent crisis has drawn attention to the far-reaching implications that internationally active financial institutions have on the financial stability of individual economies which host their presence. Given their widespread businesses and the complexity of their operations and governance processes, concerns arise on their transmission of external shocks into host markets. While many globally-renowned financial institutions operate in the Malaysian financial system, the regulatory framework in Malaysia provides adequate safeguards to minimise cross-border contagion effects.

An important feature of Bank Negara Malaysia’s regulatory framework on the Malaysian operations of foreign banking institutions and insurance companies is the requirement for local incorporation. Coupled with the existing comprehensive financial safety net in place, the operations of foreign banking institutions and insurance companies in Malaysia and their customers’ interests are safeguarded as illustrated below:

Key Features of the Regulatory and Supervisory Framework for Foreign Financial Institutions in Malaysia

Local incorporation creates a legal separation between the domestic entity and its foreign parent company

Greater degree of protection to Malaysian consumers

- Assets and capital of the domestic entity are ‘ring-fenced’ to ensure that obligations in Malaysia, especially to bank depositors and insurance policyholders, are firstly fulfilled.
- Repatriation of dividends, payment of management fees and extension of loans and advances to the foreign parent company are subject to compliance with prudential requirements.

Permanent capital commitment to support Malaysian operations

- Imposition of minimum capital requirements on the domestic entity secures dedicated capital funds in Malaysia to safeguard the sustainability and continuity of their Malaysian operations.

Constitution of a separate board of directors in Malaysia whose fiduciary duties are specific to the Malaysian operations

- The board is responsible for the stewardship of the domestic entity, including evaluating the suitability of global strategies in the context of the domestic market and being accountable for the adoption of such strategies.
- The participation of Malaysians on the board is expected to imbue local knowledge and ensure business strategies are aligned with the local environment.

Protection under the financial safety net

Regulatory and supervisory oversight by Bank Negara Malaysia

- Same degree of oversight by Bank Negara Malaysia is exercised on foreign financial institutions, as in the case of domestic players.
- Adequate powers to take prompt and pre-emptive measures to address any emerging risks and vulnerabilities of the financial institution.

The interests of bank depositors and insurance policyholders are safeguarded

- Deposits in the locally-incorporated foreign banks are protected under the Malaysia Deposit Insurance Corporation on the same basis as domestic banking institutions.
- Mechanisms are in place for the protection of insurance policyholders through the insurance guarantee scheme fund.

Eligible for Bank Negara Malaysia's liquidity assistance

- Locally-incorporated foreign banks can access these facilities subject to the same criteria as domestic banks.

The Regulatory Approach for Investment Banks in Malaysia

Investment banks in Malaysia operate within a regulatory regime where similar rigour is applied in the prudential regulatory and supervisory approach as for commercial banks. The characteristics of the Malaysian regulatory and supervisory framework for investment banks include:

Key Features of the Regulatory and Supervisory Framework for Investment Banks in Malaysia

Dual regulation and supervision by Bank Negara Malaysia and the Securities Commission

Clear accountabilities minimise regulatory gaps and overlaps

- Arrangements formalised under a Memorandum of Understanding between the two agencies ensure that responsibilities are unambiguous and well-defined.
- Bank Negara Malaysia is responsible for the prudential regulation of investment banks to ensure their safety and soundness and the overall stability of the financial system.
- The Securities Commission is responsible for the investment banks' business and market conduct in order to promote market integrity and investor protection in the capital market.
- Cohesive arrangements facilitate prompt and decisive action by the two agencies.

Similar regulatory and supervisory regime to commercial banks

Prudential regulation of investment banks

- Investment banks are subject to prudential requirements, which are similarly applied to commercial banks, including Basel II, limits on exposures to single counterparties, connected lending restrictions and corporate governance standards.

Supervisory and surveillance framework

- Comprehensive and holistic risk assessments are conducted on the investment banks' businesses and overall health, including the conduct of on-site examinations.
- Enables early detection and pre-emptive action to be taken to address emerging risks and vulnerabilities in individual investment banks.
- Banking groups that have both commercial banks and investment banks are supervised on a consolidated basis to enable comprehensive assessments of their safety and soundness. Bank Negara Malaysia is also organised internally to support such oversight, with a dedicated department supervising financial conglomerates.

Access to wider sources of funding and liquidity

Able to accept deposits

- Investment banks in Malaysia can accept deposits of RM500,000 and above and are players in the interbank market.
- This provides them with more stable and diversified sources of funding.

Eligible for Bank Negara Malaysia's liquidity assistance

- Investment banks can access these facilities, providing a safety net for their temporary liquidity needs.

The regulatory and supervisory framework for financial institutions in Malaysia will be continuously strengthened to ensure that financial stability is preserved at all times.