

Client Alert

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Bank Negara Malaysia issues Net Stable Funding Ratio Exposure Draft

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On 27 September 2017, Bank Negara Malaysia (i.e., the Central Bank of Malaysia) ("**BNM**") issued the exposure draft for the Net Stable Funding Ratio policy document ("**Exposure Draft**"). The document sets out the Net Stable Funding Ratio ("**NSFR**") standard, which is a minimum standard that requires licensed banks, licensed investment banks and licensed Islamic banks ("**banking institutions**") to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities.

The NSFR supplements the Liquidity Coverage Ratio ("**LCR**") standard that has been in effect since 1 June 2015. The LCR focuses on short-term resilience of the liquidity risk profile of banking institutions, whilst the NSFR measures funding risk over a period of 1 year.

BNM initially expected to publish the proposed rules for NSFR in 2016, with a view for implementation in 2018. However, the Exposure Draft was only published in September 2017, and the proposed implementation is set to be no earlier than 1 January 2019. The later implementation date is intended to provide banking institutions with sufficient time to prepare themselves operationally, especially in light of the guidance provided by BNM on the calculation of NSFR.

Conclusion

The Exposure Draft, when implemented, will be a step towards increasing the resilience of banking institutions in Malaysia. Whilst there have been concerns that banking institutions would need to raise interest rates for retail and longer-term deposits to comply with the NSFR requirement, BNM anticipates that this will not increase loan prices, but rather, will encourage banking institutions to be more competitive and innovative with their product offering.

