PART A: INTRODUCTION

1. OVERVIEW OF THE GUIDELINES

Objectives

1.1 The revised “Guidelines on Credit Transactions and Exposures with Connected Parties for Islamic Banks” (the Guidelines) seeks to provide greater flexibility for Islamic banks to extend credit and make investments in the ordinary course of business to/ in connected parties which are of good credit and financial standing, while ensuring that connected parties, by virtue of their position that could potentially exert influence over an Islamic bank, do not inappropriately benefit from such transactions to the detriment of the Islamic bank.

1.2 The Guidelines sets out the broad parameters and conditions relating to the conduct of such transactions (hereafter referred to as credit transactions) with connected parties to ensure an appropriate level of prudence. It also outlines the roles and responsibilities expected of the management and the Board of Directors.

Guiding Principles

1.3 As a general principle, all credit transactions must be extended on an arm’s length basis. Credit exposures of Islamic banks should not be overly concentrated on a particular group of customers. The terms and conditions of the credit transactions must be appropriate, based on sound credit risk management practices which serve to safeguard the interests of its various stakeholders and in particular, depositors.

1.4 Islamic banks should establish a mechanism to monitor credit exposures to connected parties, whether individuals or companies, and take the appropriate steps to control, mitigate or reduce risks of connected transactions.

1.5 Islamic banks should ensure that the terms and conditions for credit transactions with connected parties are no more favourable than those granted to other counterparties of similar background and credit standing. The same principles should be applied in the administration of credit transactions with connected parties (e.g. credit review, provisioning, follow-up and recovery actions, etc.) and credit exposures.
1.6 Islamic banks must have a robust system of internal controls to prevent credit transactions which would override established credit approval policies and procedures. This should include appropriate controls and a comprehensive monitoring and reporting mechanism to ensure that credit transactions with connected parties are subjected to rigorous credit reviews and the overall exposure to connected parties remains within acceptable levels.

1.7 The Board of Directors is ultimately responsible to ensure that risks associated with credit exposures to connected parties are effectively managed. Board members are also expected to play a significant role in ensuring the effective implementation of policies and procedures designed to control and manage risk exposures, as well as to promote sound business practices.

Applicability

1.8 The Guidelines shall be applicable to all Islamic banks licensed under the Islamic Banking Act 1983 (IBA).

Legal Provision

1.9 The Guidelines is issued pursuant to section 25 and section 53A of IBA. With the coming into force of the Guidelines, the “Guidelines on Section 26A of Banking Act 1973 – Prohibition of Loans to Directors, Staff and Their Interested Corporations” (BNM/GP6) and relevant sections in several other circulars as listed in Appendix I will be superseded.

1.10 The Guidelines should be read together with the IBA, the Companies Act 1965 and other relevant regulations, guidelines or circulars relating to transactions with related or connected parties that Bank Negara Malaysia may issue from time to time.

1.11 The Guidelines will be effective from 1 January 2008. Earlier adoption is permitted for Islamic banks that are able to comply fully with the requirements of the Guidelines.

1.11.1 The Board of Directors must provide confirmation in writing to Bank Negara Malaysia that the Islamic bank has fulfilled the requirements of the Guidelines two weeks before the effective date or an earlier adoption of the Guidelines.
PART B: POLICY REQUIREMENTS

2. DEFINITIONS AND SCOPE

2.1 Under the Guidelines, connected party refers to any of the following:

(i) **Director** of an Islamic bank, whether as an executive director or otherwise, and whether or not receiving compensation, and his close relatives. This includes alternate directors where permitted by Bank Negara Malaysia.

(ii) **Controlling shareholder** of an Islamic bank and his close relatives. A person shall be deemed to be a controlling shareholder if he fulfils any of the following criteria, whether individually or with other persons acting in concert with him:

   (a) Controls more than 50% of the voting rights;
   (b) Holds more than 50% of the issued share capital whether directly or indirectly (excluding preference shares);
   (c) Controls the composition of the board of directors;
   (d) Has the power to appoint and/or remove all or a majority of the board of directors;
   (e) Controls the controlling shareholder of the Islamic bank; or
   (f) Is a person in accordance with whose directions or instructions, a director of the Islamic bank or its holding company are accustomed to act.

(iii) **Executive officer** of an Islamic bank and his close relatives. An executive officer is defined as a person who is a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Islamic bank (other than in the capacity as a director), whether or not the officer has an official title, or is entitled to salary or other compensation. Examples of such officers include, but are not limited to, the chief executive officer, chief operating officer or members of business and policy-making committees.

(iv) **Officer** who is responsible for or has the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either
as a member of a committee (e.g. Credit or Investment Committee) or individually, and his close relatives.

(v) **Firms, partnerships, companies or any legal entities** which control, or are controlled by, any person (including close relatives in the case of individuals) listed in (i) – (iv) above. For this purpose, ‘control’ shall be determined with reference to the criteria set out in paragraph 2.1(ii).

(vi) **Firms, partnerships, companies or any legal entities** in which any person (including their close relatives in the case of individuals) listed in (i) – (iv) above is interested as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them.

(vii) Any person for whom the person listed (including their close relatives in the case of individuals) in (i) – (iv) above is a guarantor.

(viii) Subsidiary of, or an entity controlled by, an Islamic bank, and its connected parties.

2.2 For the purpose of the Guidelines, the term “officer” shall exclude those that are not described in paragraphs 2.1(iii) and 2.1(iv) above.

2.3 **Person** are referred to individuals, any corporation, statutory body, local authority, society, trade union, co-operative society, partnership and any other body, organisation, association or groups of persons; whether corporate or unincorporated;

2.4 For connected parties who are individuals, **close relative** means those family members who may be expected to influence or be influenced by that individual, as well as dependents\(^1\) of the individual. This includes the individual’s:

(i) spouse and dependents of the spouse;
(ii) child (including step children and adopted children) and spouse of the child;
(iii) parent; and
(iv) brother or sister and their spouses.

\(^1\) This refers to any person who is financially dependent on the individual or his spouse for his livelihood, e.g. a person who receives financial assistance on a regular basis from the individual/spouse.
2.5  **Credit transaction** includes the extension of financing or credit facilities, is defined as leasing activity, off-balance sheet transactions that give rise to credit and/or counterparty risk, the underwriting and acquisition of equities and Islamic private debt securities (IPDS), whether in the primary or secondary market.

2.6  **Capital base** follows the definition as prescribed under the Capital Adequacy Framework for Islamic Banks issued by Bank Negara Malaysia.

2.7  The principles and the requirements of the Guidelines should also be observed for credit transactions and credit exposures with connected parties effected through the Islamic bank’s subsidiaries or other entities controlled by the Islamic bank.

3.  **CREDIT TRANSACTIONS WITH CONNECTED PARTIES**

3.1  Subject to section 133 of the Companies Act 1965 which prohibits the granting of financing to directors, credit transactions between an Islamic bank and its connected parties which are carried out in compliance with these Guidelines are hereby exempted from the provisions of section 25(1) of IBA.

3.2  Due care should be taken in entering into credit transactions with connected parties to ensure that the transactions are on an arm’s length basis. In line with section 26 of IBA, the following principles should be observed:

(i)  The creditworthiness of the connected party is not less than what is normally required of other persons;

(ii)  The terms and conditions of credit transactions with connected parties should not be more favourable than those entered into with other counterparties with similar circumstances and creditworthiness, in respect of tenure, profit rate, amortisation schedules and requirement for collateral;

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2  Broadly, ‘capital base’ would comprise of the total capital Tier 1 + eligible Tier 2 Capital – investment in subsidiaries and holdings of other licensed institutions’ capital.
(iii) The credit transaction should be in the interest of the Islamic bank; and

(iv) The credit transaction is approved by the Board of Directors with not less than three quarters of all the board members present, and such approval is duly recorded in the minutes of the meeting.

3.3 The Board may delegate its authority to approve credit transactions with connected parties, other than transactions falling within the scope of section 26 of IBA, that are not of a material nature provided that:

(i) the delegation should be limited to transactions that meet parameters to be set by the Board. These parameters should address, amongst other things, threshold limits, the nature of transactions and the connected parties involved in relation to which delegation is permitted;

(ii) the delegation and established parameters must be unanimously approved by the Board, with no less than three quarters of the Board members present;

(iii) the authority should be delegated to a properly constituted committee which includes at least 2 non-executive directors who are independent of the transaction and whose composition has been approved by the Board. There should be a clear separation between this committee and the credit review committee (if such a committee is formed) pursuant to paragraph 4.3; and

(iv) all decisions made under the delegated authority must be properly recorded in the minutes of the committee meetings and reviewed on a regular basis by the Board.

3.4 For low valued personal consumption credit facilities as determined by the Board

Examples include motor vehicle financing, house financing, personal financing and credit card facilities which are below a limit to be set by the Board.
decisions should be individually ratified by the Board, or a Credit Committee that is properly constituted in accordance with paragraph 3.3(iii) of the Guidelines.

3.5 Delegated authority to responsible officers is also allowed for derivative transactions such as swaps, forwards and options which are entered into with group entities for risk management purposes. Islamic banks must nevertheless ensure that:

(i) the creditworthiness of the relevant group entity is not less than what is normally required for similar transactions with third parties; and

(ii) the transactions (including applicable terms and conditions) are consistent with the Islamic bank’s internal risk management policies and procedures.

3.6 In line with the principles set out in paragraph 3.1, the administration and management of credit risk for exposures resulting from credit transactions with connected parties (including debt collections, credit reviews, provisioning, write-offs, follow-up actions, legal actions and concentrations of exposures to connected parties) should similarly adhere to approved policies and procedures applied to other counterparties.

3.7 A connected party should abstain from participating directly or indirectly in the deliberation and decision-making process involving a credit transaction and management of the credit exposures (e.g. credit reviews, investment reviews etc) in which he has an interest.

4. CONTROLS OVER CREDIT TRANSACTIONS WITH CONNECTED PARTIES

Oversight by Board of Directors

4.1 The Board of Directors is responsible to establish a clear written policy on credit transactions and management of credit exposures with connected parties. The policy should be periodically reviewed and any changes to the policy should be approved by the Board of Directors.
4.2 The Board of Directors should ensure that a proper mechanism is in place to implement policies and procedures relating to the control and management of risk exposures and risk of malpractices associated with connected party transactions.

4.3 Credit transactions and credit exposures with connected parties must be regularly reviewed, and monitored by the Board of Directors. The Board, may delegate this function to a credit review committee, subject to the following requirements:

(i) The committee is chaired by a member of the Board (either executive or non-executive) who does not have a material credit transaction with the Islamic bank, and must not be empowered to approve credit or investments. The Board shall determine the composition of the committee and the committee should report directly to the Board; and

(ii) The committee should comprise persons experienced in credit and risk management, preferably drawn from those having specialised skills in managing various elements of the credit investment activities. Such persons should be able to evaluate and make recommendations to the Board on risk management issues, the level of risk exposure and appropriate risk mitigants in relation to transactions with connected parties.

4.4 To facilitate the Board in carrying out its functions, management or the credit review committee referred to in paragraph 4.3 should submit regular reports to the Board on:

(i) credit transactions with connected parties;

(ii) the aggregate credit exposures to each connected party and their status; and

(iii) material concentrations.

Policy on Credit Transactions with Connected Parties

4.5 Established internal policies and procedures regarding credit transactions and management of credit exposures with connected parties must specifically address all material aspects and should cover, at a minimum, the following areas:
(i) The types of credit transactions and credit exposures that are subject to the policies and procedures. These should follow the categories as defined in the Guidelines but Islamic banks may include any other types of credit transactions;

(ii) A connected party should be clearly defined in line with the definition provided in the Guidelines. Where appropriate, the Board may include other parties it considers as having the ability to exert significant influence over the Islamic bank;

(iii) Conditions, including profit rates, and other terms and conditions, that must be complied with for credit transactions with connected parties which are consistent with the principles outlined in paragraph 3.1;

(iv) All transactions with connected parties must be approved by the Board or a committee properly constituted by the Board in line with paragraph 3.2. The write-off of connected party exposures exceeding an amount as determined by the Board should also be subject to the Board’s approval;

(v) Credit limits, applicable both for exposures at the individual/entity level and for aggregated exposures to connected parties within the same group or that are otherwise affiliated. The limits should be appropriate to avoid excessive exposures to connected parties that will increase risks to the Islamic bank beyond prudent levels. Such limits may be lower than the permitted under paragraph 5.1 of this Guidelines;

(vi) Procedures for the processing and monitoring of credit transactions and credit exposures with connected parties, including, but not limited to:

(a) procedures for the effective management and review of credit transactions and credit exposures;

(b) clear controls prohibiting a person with an interest in the credit transaction and/or credit exposure from participating in the deliberation, decision making or management of the transaction and/or exposure;
(c) appropriate mechanisms to identify individual and aggregate exposures to connected parties to ensure compliance with approved limits; and

(d) procedures for regular reporting to the management and Board on credit transactions and credit exposure levels with connected parties as well as the status of such exposures.

(vii) Internal controls and other procedures to ensure that exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management for action.

**Monitoring of Connected Lending**

4.6 An Islamic bank should institute appropriate processes that will facilitate its timely identification of parties which are connected to it. Such processes may include declarations by directors, key officers and controlling shareholders of their affiliations and close relatives. The list of connected parties should be updated regularly.

4.7 An Islamic bank must ensure the presence of a robust system to identify, measure and monitor credit exposures to a connected party and compliance with established policies and procedures, as well as to identify exceptions.

4.8 An Islamic bank should establish a system of independent, on-going assessment of credit transactions and credit exposures with a connected party to ensure their compliance with established limits. The results of such reviews should be communicated directly to the Board and senior management.

4.9 The internal audit function should conduct regular reviews into credit transactions and the administration and management of credit exposures with connected parties to ensure compliance with established policies and procedures. The resulting audit reports should be submitted directly both to the Board and the Audit Committee.

4.10 Any exceptions should be reported promptly to the appropriate level of management as established in the policies and procedures. Material exceptions should be
immediately reported directly to the Board or Audit Committee and concurrently to Bank Negara Malaysia.

5. LIMITS ON CREDIT EXPOSURES WITH CONNECTED PARTY

5.1 Total outstanding credit exposures to all connected parties (including credit exposures through subsidiaries or other entities that are under the Islamic bank’s control), except those exempted under paragraph 6.2 below, shall not exceed 100 percent of the capital base or 25 percent of total outstanding credit exposures, whichever is lower. In addition, the Islamic bank shall also comply with the guidelines on Single Customer Credit Limits.

5.2 For purposes of the Guidelines, credit exposures include both outstanding and unutilised credit arising from credit transactions with connected parties.

5.3 For off-balance sheet transactions, the on-balance sheet equivalent (credit equivalent) value of the credit exposure shall be determined by applying a credit conversion factor (CCF) to the nominal principal amount of the off-balance sheet exposures. The applicable CCF shall be based on the nature of the off-balance sheet exposures as listed in the Capital Adequacy Framework for Islamic Banks. For over-the-counter (OTC) market-related contracts, credit exposures shall be determined based on the current exposure method as provided under Appendix 6 (Current Exposure Method) of the Capital Adequacy Framework for Islamic Banks.

5.4 Islamic banks may compute exposures arising from derivative transactions with the same connected party on a net basis if it satisfies the conditions and requirements set out in paragraphs 9 to 12 of Appendix 6 (Bilateral Netting) in the Capital Adequacy Framework for Islamic Banks.

5.5 If Bank Negara Malaysia is satisfied that an Islamic bank is unable to comply with the minimum conditions and requirements prescribed to recognise the bilateral netting arrangements for its derivative transactions, Bank Negara Malaysia may direct the Islamic bank to cease computing its exposures on a net basis.
6. **EXEMPTIONS FROM SPECIFIC REQUIREMENTS OF THE GUIDELINES**

6.1 The following are exemptions from specific requirements of the Guidelines:

6.1.1 Credit facilities extended under schemes of service for staff and executive directors are exempted from paragraphs 3.2(i) and 3.2(ii); and

6.1.2 Credit transactions with subsidiaries are exempted from paragraph 3.2(ii).

6.2 Credit exposures arising from the following credit transactions with connected parties are exempted from the limit under paragraph 5.1:

6.2.1 Credit facilities extended under schemes of service for staff and executive directors;

6.2.2 Credit facilities provided to finance the purchase of a house for own occupation by an individual connected party or his close relatives;

6.2.3 Credit facilities provided to finance the education of children of the connected party;

6.2.4 Credit transactions, partially or entirely secured by cash or bank deposits. The exemption shall be limited to the amount secured by the said security;

6.2.5 Credit facilities provided under special or compassionate circumstances, to an executive officer, or officer, subject to a maximum amount at any one time not exceeding 6 months’ remuneration of the executive officer or officer concerned;

6.2.6 Credit transactions associated with debt-to-equity conversion schemes in which the Islamic bank’s holding does not exceed 33% of the restructured company’s nominal paid-up capital. Islamic banks are, however, prohibited from entering into new/additional credit transactions with the company concerned; and
6.2.7 Credit transactions with development institutions and corporations as listed in Appendix II.

6.2.8 Short-term intra-group liquidity facilities with tenures not exceeding one year.

7. RECORDS

7.1 An Islamic bank is required to maintain the necessary records which will identify connected parties, their related interests and specify their credit exposures. These records should be updated regularly.

7.2 Records regarding each credit transaction with a connected party shall cover, at a minimum, the following:

(i) Name of customer;
(ii) Name of connected party;
(iii) Relationship;
(iv) Date approved and reviewed;
(v) Purpose of the credit transaction;
(vi) Type of exposure;
(vii) Amount of approved transaction;
(viii) Outstanding amount or carrying value;
(ix) Internal credit rating;
(x) Terms and conditions; and
(xi) Security.

7.3 These records should be available for inspection by Bank Negara Malaysia and/or external auditors at any time.
8. **REGULATORY REPORTING**

8.1 An Islamic bank is required to report to Bank Negara Malaysia on a semi-annual basis, its credit exposures to connected parties in the format provided in Appendix III.

8.2 An Islamic bank must immediately report to Bank Negara Malaysia the following:

   8.2.1 any significant non-compliance with policies and procedures in line with paragraph 4.10; and

   8.2.2 any credit transaction with connected parties carried out not complying with the limits specified by Bank Negara Malaysia under the Guidelines.

8.3 The Board is responsible to ensure adequate procedures are in place and effectively implemented to secure the accuracy of reports submitted to Bank Negara Malaysia.

9. **DISCLOSURE**

9.1 An Islamic bank should disclose in its published financial statements on a semi-annual basis, information, regarding credit exposures arising from credit transactions with connected parties. At a minimum, the information should include:

   9.1.1 the aggregate value of outstanding credit exposures with connected parties;

   9.1.2 the percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures; and

   9.1.3 the percentage of outstanding credit exposures with connected parties which is non-performing or in default.
10. CAPITAL ADEQUACY TREATMENT

The amount of credit exposures to a connected party may be deducted from the regulatory capital, or the Islamic bank may be required to collateralise the exposures, if Bank Negara Malaysia is of the opinion that the credit transaction was undertaken in a manner that is inconsistent or not compliant with, the principles and requirements set out in the Guidelines.

11. OTHER CONNECTED PARTY TRANSACTIONS

While the Guidelines addresses credit transactions and exposures with connected parties, the principles herein should be generally observed for all other connected party transactions, particularly in relation to the approval, control (including monitoring and oversight) and limits (where appropriate) of such transactions.

12. CREDIT FACILITIES GRANTED TO OFFICERS OTHER THAN CONNECTED PARTIES

“Officer” is defined in IBA to include any employee of an institution. With the issuance of the Guidelines, an Islamic bank is also exempted from the provisions of section 25(1) of IBA for credit facilities granted to officers other than connected parties as defined under para 2.1 of the Guidelines.

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4 Examples of other connected party transactions include the procurement of goods and services, lease rentals, consulting or professional services with connected parties, the purchase or sale of real estate and other capitalized leases.
Appendix I: List of superseded circulars

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<table>
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<tbody>
<tr>
<td>1.</td>
<td>Zero-coupon bonds issued by Institut Bank-Bank Malaysia</td>
<td>13 Nov 1992</td>
</tr>
<tr>
<td>2.</td>
<td>Lending to director-related companies</td>
<td>17 Nov 1993</td>
</tr>
<tr>
<td>3.</td>
<td>Revised guidelines for investments in private debt securities</td>
<td>18 Feb 1994</td>
</tr>
<tr>
<td>4.</td>
<td>Blanket approval to banking institutions (section on “Guidelines on debt-equity conversion” paragraph D.6)</td>
<td>27 Dec 1995</td>
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<tr>
<td>5.</td>
<td>Issuance of credit cards to directors</td>
<td>18 Jul 1996</td>
</tr>
<tr>
<td>6.</td>
<td>Prohibition on lending to controlling and/or influential shareholders</td>
<td>4 Aug 1999</td>
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<tr>
<td>7.</td>
<td>Prohibition on lending to controlling and/or influential shareholders</td>
<td>16 Oct 1999</td>
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<tr>
<td>8.</td>
<td>Pemberian kemudahan kad kredit oleh institusi perbankan kepada pengarah-pengarah syarikat induk dan syarikat berkaitan</td>
<td>7 Jun 2002</td>
</tr>
</tbody>
</table>
Appendix II: List of Exempted Institutions

1. Cagamas Berhad
2. Credit Guarantee Corporation Berhad
3. Bank Pembangunan Malaysia Berhad
4. Bank Perusahaan Kecil & Sederhana Malaysia Berhad
5. Export-Import Bank of Malaysia Berhad
6. Malaysian Industrial Development Finance Berhad
7. Bank Simpanan Nasional
8. Bank Kerjasama Rakyat Malaysia Berhad
9. Bank Pertanian Malaysia
10. Sabah Development Bank Berhad
11. Sabah Credit Corporation
12. Permodalan Nasional Berhad
13. Permodalan Usahawan Nasional Berhad
14. Khazanah Nasional Berhad
15. Kumpulan Wang Simpanan Pekerja
16. Lembaga Tabung Haji
Appendix III

Name of Islamic Bank: ...............................................................

Appendix III:  Semi-annual Reporting on Credit Transactions and Exposures with Connected Parties

For position as at: .................................

*(to be submitted to Jabatan Penyeliaan Perbankan, no later than 3 weeks after the reporting date)*

<table>
<thead>
<tr>
<th>Financing, credit facility &amp; leasing (except guarantee)</th>
<th>Total Outstanding Value (RM ‘000)</th>
<th>Total number of connected party accounts / counterparty</th>
<th>Total exposure (total outstanding + unutilised limit) (RM ‘000)</th>
<th>Total credit exposure which is non-performing or in default (RM ‘000)</th>
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<tbody>
<tr>
<td>Off-balance sheet exposures¹</td>
<td></td>
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<tr>
<td>Equities and IPDS held</td>
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<tr>
<td><strong>TOTAL</strong></td>
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<tr>
<td>Total exposure to connected parties as % of capital base</td>
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<tr>
<td>Total exposure to connected parties as % of total outstanding credit exposures</td>
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</table>

¹ Off-balance sheet transactions that give rise to credit and/or counterparty risk. These transactions also include guarantees, underwriting obligations, etc.
Appendix IV: Frequently Asked Questions

**Coverage of Guidelines**

1. It is noted that the principles and requirements set out in the Guidelines, including the definition of ‘close relatives’ appears to be different from that of the IBA. The definition in the Guidelines is wider in that it includes a brother or sister of a connected party and their dependents, whereas IBA only covers the parent, spouse or child. How should Islamic banks comply under this situation?

   Islamic banks shall comply with the requirements of the revised Guidelines which are also consistent with the Companies Act 1965. The provisions of IBA are currently being aligned with the parameters of the revised Guidelines.

2. In the past, the definition of ‘close relatives’ did not include brothers and sisters, and their spouses. As such, credit facilities extended to them and their connected persons were not deemed as connected party transactions. However, with the implementation of the Guidelines, they are now deemed as close relatives. Do the Islamic banks need to include these financing which were previously extended to ‘brothers, sisters and their spouses’ in the computation of the outstanding credit exposures?

   Yes. Islamic banks are expected to have in place monitoring systems that should also capture financing which were extended prior to the effective date of the Guidelines to brothers and sisters (and their spouses) of individuals who are connected parties. The amounts to be included in the computation of outstanding credit exposures for the purpose of compliance with the limits under paragraph 5.1 of the Guidelines will be the facility amount that is currently still outstanding. There is no need for such facilities extended in the past to be re-approved or ratified pursuant to the Guidelines.
3. Are the following credit transactions still prohibited under the revised Guidelines:
   ▪ Credit facilities extended by Islamic banks to its non-executive officers / employees of an Islamic bank?
   ▪ Financing by overseas branches of Islamic banks to staff members?

   Unless these officers are deemed to be a connected party as defined in the revised Guidelines, such transactions will no longer be specifically prohibited and will be subject to the Islamic bank’s internal policies.

4. Are credit transactions between Islamic banks and subsidiaries governed by the requirements of the Guidelines?

   Yes, credit transactions between an Islamic bank and its subsidiaries are generally subject to the requirements of the revised Guidelines, except where exemptions are specifically provided as in paragraph 6.1 of the revised Guidelines.

5. Does the coverage of the revised Guidelines include transactions involving non-traditional debt instruments or transactions in the Islamic Private Debt Security market?

   Yes, as long as the transaction results in a credit exposure for the Islamic bank.

6. What is meant by “controlled by” in paragraphs 2.1(vi) and (vii) of the revised Guidelines?

   This may be inferred from the parameters set out in paragraph 2.1(ii) of the revised Guidelines.
Reporting & Disclosure Requirements

7. Are Islamic banks at liberty to decide on how it would monitor and assess credit transactions and exposures to connected parties?

Yes, this discretion should be exercised in accordance with the requirements and spirit of the revised Guidelines.

8. Are exempted credit transactions or credit transactions which do not fulfil the requirements of the Guidelines, excluded from the reporting and disclosure requirements?

All connected party credit transactions are subject to the disclosure requirements of the revised Guidelines. However, those which have been specifically exempted from the limits of Guidelines need not be reported to Bank Negara Malaysia.

Capital Adequacy Treatment

9. How will Bank Negara Malaysia implement capital reduction whenever an Islamic bank does not comply with the limit(s) set out in the Guidelines?

Islamic banks are expected to fully comply with the Guidelines at all times. Capital deduction is only relevant where credit transactions with connected parties are undertaken in breach of the Guidelines. In such cases, the capital deduction is intended to serve as a punitive measure to deter further breaches, and deduction will be applied on a case-by-case basis based on the specific nature and circumstances of the breach.