



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Guidelines on Credit Transactions and Exposures with Connected Parties

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PART A: INTRODUCTION	1
1. OVERVIEW OF THE GUIDELINES	1
Objectives	1
Guiding Principles	1
Applicability	2
Legal Provision	2
PART B: POLICY REQUIREMENTS	4
2. DEFINITIONS AND SCOPE	4
3. CREDIT TRANSACTIONS WITH CONNECTED PARTIES	7
4. CONTROLS OVER CREDIT TRANSACTIONS WITH CONNECTED PARTIES	9
Oversight by Board of Directors	9
Policy on Credit Transactions with Connected Parties	10
Monitoring of Connected Lending	12
5. LIMITS ON CREDIT EXPOSURES WITH CONNECTED PARTY	13
6. EXEMPTIONS FROM SPECIFIC REQUIREMENTS OF THE GUIDELINES	14
7. RECORDS	16
8. REGULATORY REPORTING	16
9. DISCLOSURE	17
10. CAPITAL ADEQUACY TREATMENT	17
11. OTHER CONNECTED PARTY TRANSACTIONS	18
PART C: APPENDICES	19
Appendix I: List of superseded circulars	19
Appendix II: List of Exempted Institutions	20
Appendix III: Semi-annual Reporting on Credit Transactions and Exposures with Connected Parties	21
Appendix IV: Frequently Asked Questions	22

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 1/24
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PART A: INTRODUCTION

1. OVERVIEW OF THE GUIDELINES

Objectives

- 1.1 The revised “*Guidelines on Credit Transactions and Exposures with Connected Parties*” (the Guidelines) seeks to provide greater flexibility for Licensed Institutions (LIs) to extend credit and make investments in the ordinary course of business to/ in connected parties which are of good credit standing, while ensuring that connected parties, by virtue of their position that could potentially exert influence over a LI, do not inappropriately benefit from such transactions to the detriment of the LI.
- 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 LIs should not be overly concentrated on a particular group of borrowers. 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 LIs 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.

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 2/24
------------------	--	--	-----------

- 1.5 LIs 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 LIs 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, and to promote sound business practices.

Applicability

- 1.8 The Guidelines shall be applicable to all banking institutions licensed under the Financial Services Act 2013 (FSA).

Legal Provision

- 1.9 The Guidelines is issued pursuant to section 47 of the FSA.
- 1.10 The Guidelines should be read together with the FSA, the Companies Act 1965 and other relevant regulations, guidelines or circulars relating to

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 3/24
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transactions with related or connected parties that Bank Negara Malaysia (the Bank) may issue from time to time.

1.11 The Guidelines will be effective from 1 January 2008.

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 4/24
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PART B: POLICY REQUIREMENTS

2. DEFINITIONS AND SCOPE

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

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

(ii) **Controlling shareholder** of a LI 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 LI; or
- (f) Is a person in accordance with whose directions or instructions, a director of the LI or its holding company are accustomed to act.

(iii) **Influential shareholder** of a LI and his close relatives.

A person shall be deemed to be an influential shareholder if he fulfils any of the following criteria, whether individually or with other persons acting in concert with him:

- (a) Holds 20% or more interest in shares of a LI, but is not a controlling shareholder; or
- (b) Has the power to appoint at least one person to the board of directors.

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 5/24
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- (iv) **Executive officer** of a LI 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 LI (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.
- (v) **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.
- (vi) **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) – (v) above. For this purpose, ‘control’ shall be determined with reference to the criteria set out in paragraph 2.1(ii).
- (vii) **Firms, partnerships, companies or any legal entities** in which any person (including their close relatives in the case of individuals) listed in (i) – (v) above is interested as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them.
- (viii) Any person for whom the person listed (including their close relatives in the case of individuals) in (i) – (v) above is a guarantor.
- (ix) Subsidiary of, or an entity controlled by, a LI, 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(iv) and 2.1(v) above.

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 6/24
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- 2.3 **Person**, as defined under section 2 of the FSA, includes 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 dependents¹ 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.
- 2.5 **Credit transaction** includes the extension of a credit facility as defined under section 2 of the FSA, leasing activity, off-balance sheet transactions that give rise to credit and/or counterparty risk, the underwriting and acquisition of equities and private debt securities (PDS), whether in the primary or secondary market.
- 2.6 **Total Capital** follows the definition as prescribed under paragraph 7.2 of the *Capital Adequacy Framework (Capital Components)*.
- 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 LI's subsidiaries or other entities controlled by the LI.

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.

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 7/24
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3. CREDIT TRANSACTIONS WITH CONNECTED PARTIES

3.1 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 this regard, 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, interest rate, amortisation schedules and requirement for collateral;
- (iii) The credit transaction should be in the interest of the LI; 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.

3.2 The Board may delegate its authority to approve credit transactions with connected parties 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;

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 8/24
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(iii) except as allowed under paragraphs 3.3 and 3.4 below, 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.

3.3 For low valued personal consumption credit facilities as determined by the Board², LIs may delegate approving authority to at least two responsible officers of the licensed institution who are also independent of the transactions. Any delegation to individual officers should be duly approved by the Board in accordance with paragraph 3.2 (i), (ii) and (iv) of the guidelines. In addition, all such delegated credit decisions should be individually ratified by the Board, or a Credit Committee that is properly constituted in accordance with paragraph 3.2(iii) of the guidelines.

3.4 Delegated authority to responsible officers is also allowed for derivative transactions such as interest rate swaps, currency swaps, currency forwards and options which are entered into with group entities for risk management purposes. LIs 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

² Examples include motor vehicle loans, mortgage loans, personal loans and credit card facilities which are below a limit to be set by the Board.

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 9/24
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(ii) the transactions (including applicable terms and conditions) are consistent with the LI's internal risk management policies and procedures.

3.5 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.

3.6 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

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 10/24
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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 LI, 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 status and aggregate credit exposures to each connected party; 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:

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 11/24
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- (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 LIs 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 LI;
- (iii) Conditions, including interest 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 3.1. 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 LI 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:

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 12/24
------------------	--	--	------------

- (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; and
- (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. A LI 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. A LI 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.

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 13/24
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- 4.8. A LI 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 the Bank.

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 LI's control), except those exempted under paragraph 6.2 below, shall not exceed 100 percent of the Total Capital or 25 percent of total outstanding credit exposures, whichever is lower. In addition, the LI shall also comply with the policy document on *Single Counterparty Exposure Limit*.
- 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

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 14/24
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Framework. For over-the-counter (OTC) market-related contracts, credit exposures shall be determined based on the current exposure method as provided under Appendix VIII (Current Exposure Method) of the *Capital Adequacy Framework (Basel II – Risk Weighted Assets)*.

- 5.4 LIs 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 Appendix VIII (Bilateral Netting) of the *Capital Adequacy Framework (Basel II – Risk Weighted Assets)*.
- 5.5 If the Bank is satisfied that a LI is unable to comply with the minimum conditions and requirements prescribed to recognise the bilateral netting arrangements for its derivative transactions, the Bank may direct the LI 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 3.1(i) and 3.2(ii); and
- 6.1.2 Credit transactions with subsidiaries are exempted from paragraph 3.1(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;

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 15/24
------------------	--	--	------------

- 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 LI's holding does not exceed 33% of the restructured company's nominal paid-up capital. LIs are, however, prohibited from entering into new/additional credit transactions with the company concerned;
- 6.2.7. Credit transactions with development institutions and corporations as listed in **Appendix II**; and
- 6.2.8. Short-term intra-group liquidity facilities with tenures not exceeding one year.

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 16/24
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7. RECORDS

7.1. A LI is required to maintain the necessary records which will identify connected parties, 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 borrower;
- (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 the Bank and/or external auditors at any time.

8. REGULATORY REPORTING

8.1. A LI is required to report to the Bank on a semi-annual basis, its credit exposures to connected parties in the format provided in **Appendix III**.

8.2. A LI must immediately report to the Bank the following:-

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

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 17/24
------------------	--	--	------------

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

9. DISCLOSURE

9.1. A LI 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 LI may be required to collateralise the exposures, if the Bank 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.

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 18/24
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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 transactions³, particularly in relation to the approval, control (including monitoring and oversight) and limits (where appropriate) of such transactions.

³ 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.

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 19/24
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PART C: APPENDICES

Appendix I

Appendix I: List of superseded circulars

	<u>Issuance Date</u>
1. Guidelines on Section 26A of Banking Act 1973 - Prohibition of Loans to Directors, Staff and Their Interested Corporations	18 Sept 1986
2. Zero-coupon bonds issued by Institut Bank-Bank Malaysia	13 Nov 1992
3. Lending to director-related companies	17 Nov 1993
4. Revised guidelines for investments in private debt securities	18 Feb 1994
5. Blanket approval to banking institutions (section on "Guidelines on debt-equity conversion" paragraph D.6)	27 Dec 1995
6. Issuance of credit cards to directors	18 Jul 1996
7. Prohibition on lending to controlling and/or influential shareholders	4 Aug 1999
8. Prohibition on lending to controlling and/or influential shareholders	16 Oct 1999
9. Pemberian kemudahan kad kredit oleh institusi perbankan kepada pengarah-pengarah syarikat induk dan syarikat berkaitan	7 Jun 2002

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 20/24
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Appendix II

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 Licensed Institution:

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

For position as at

(to be submitted to Jabatan Penyeliaan Konglomerat Kewangan¹ or Jabatan Penyeliaan Perbankan²,

no later than 3 weeks after the reporting date)

	Total Outstanding Value (RM '000)	Total number of <i>connected party</i> <i>accounts /</i> <i>counterparty</i>	Total exposure (total outstanding + unutilised limit) (RM '000)	Total credit exposure which is non- performing or in default (RM '000)
Credit facility & leasing (except guarantee)				
Off-balance sheet exposures ³				
Equities and PDS held				
TOTAL				
Total exposure to connected parties as % of Total Capital				
Total exposure to connected parties as % of total outstanding credit exposures				

¹ For financial conglomerates (domestic financial institutions)

² For stand alone commercial banks (foreign banks) and stand alone investment banks

³ Off-balance sheet transactions that give rise to credit and/or counterparty risk. These transactions also include guarantees, underwriting obligations, etc.

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 22/24
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Appendix IV

Appendix IV: Frequently Asked Questions

Coverage of Guidelines

1. **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 banks need to include these loans which were previously extended to ‘brothers, sisters and their spouses’ in the computation of the outstanding credit exposures?**

Yes. Banks are expected to have in place monitoring systems that should also capture loans 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.

2. **Are the following credit transactions still prohibited under the revised GP6:**
 - **Credit facilities extended by banks to its non-executive officers / employees of a bank?**
 - **Loans/Financing by overseas branches of banks to staff members?**

Unless these officers are deemed to be a connected party as defined in the revised GP6, such transactions will no longer be specifically prohibited and will be subject to the bank’s internal policies.

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 23/24
------------------	--	--	------------

3. Are credit transactions between LIs and subsidiaries governed by the requirements of GP6?

Yes, credit transactions between a bank and its subsidiaries are generally subject to the requirements of the revised GP6, except where exemptions are specifically provided as in paragraph 6.1 of the revised GP6.

4. Does the coverage of the revised GP6 include transactions involving non-traditional debt instruments or transactions in the Private Debt Security market?

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

5. What is meant by “controlled by” in paragraphs 2.1(vii) and (ix) of the revised GP6?

This may be inferred from the parameters set out in paragraph 2.1(ii) of the revised GP6.

Reporting & Disclosure Requirements

6. Are 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 GP6.

7. Are exempted credit transactions or credit transactions which do not fulfil the requirements of GP6, excluded from the reporting and disclosure requirements?

All connected party credit transactions are subject to the disclosure requirements of the revised GP6. However, those which have been specifically exempted from the limits of GP6 need not be reported to Bank Negara Malaysia.

BNM/RH/GL 001-25	Prudential Financial Policy Department	Guidelines on Credit Transactions and Exposures with Connected Parties	Page 24/24
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Capital Adequacy Treatment

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

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.