



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

# **Observation Period Reporting (Capital Adequacy Ratios, Liquidity Coverage Ratio, and Leverage Ratio)**

Applicable to:

1. Financial holding companies

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## **PART A OVERVIEW**

### **1 Introduction**

- 1.1 Capital and liquidity requirements are integral components of the implementation of prudential standards for financial groups. In this regard, the Bank is conducting an observation period reporting to monitor the capital and liquidity positions of the financial holding companies prior to the formal implementation of the requirements. The data collected will allow the Bank to identify transitioning issues and assess any potential impact of the new standards on the financial groups<sup>1</sup>.
- 1.2 This document sets out the reporting requirements for financial holding companies to report their Capital Adequacy Ratios (CAR), Liquidity Coverage Ratio (LCR) and Leverage Ratio (LR). For the avoidance of doubt, compliance with the minimum ratio requirements is not required until otherwise specified by the Bank.

### **2 Applicability**

- 2.1 This document is applicable to all financial holding companies as defined in paragraph 5.2.

### **3 Legal provisions**

- 3.1 The requirements in this document are specified pursuant to sections 143(2) and 266 of the Financial Services Act 2013 (FSA), and sections 155(2) and 277 of the Islamic Financial Services Act 2013 (IFSA).

### **4 Effective date**

- 4.1 This document comes into force on 8 December 2017.
- 4.2 The Bank is committed to ensure that its policies remain relevant and continue to meet the intended objectives and outcome. Accordingly, the Bank will review this policy document within 5 years from the date of issuance or the Bank's last review and, where necessary, amend or replace this policy document.

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<sup>1</sup> Data collected is primarily intended for monitoring by the Bank. The Bank may further disseminate aggregated industry-wide information (but not individual-bank data) gathered to other parties (e.g. to the Basel Committee).

## 5 Interpretation

5.1 The terms and expressions used in this document shall have the same meanings assigned to them in the FSA and IFSA, unless otherwise defined in this document.

5.2 For the purposes of this document–

“**S**” denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement actions;

“**G**” denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

“**financial holding company**” refers to a financial holding company approved pursuant to section 112(3) of the FSA or section 124(3) of the IFSA and holds investment directly or indirectly in corporations that are engaged predominantly in banking business or Islamic banking business;

“**financial subsidiary**” refers to any entity, whether incorporated in or outside Malaysia, engaged substantively in, or acquiring holdings in other entities engaged substantively in, any of the following activities: banking, provision of credit, securities broking, fund management, asset management, leasing and factoring and similar activities that are ancillary to the conduct of these activities.

## 6 Related legal instruments and policy documents

6.1 This document must be read together with the following policy documents:

- (a) *Capital Adequacy Framework (Capital Components)*;
- (b) *Capital Adequacy Framework for Islamic Banks (Capital Components)*;
- (c) *Capital Adequacy Framework (Basel II – Risk-Weighted Assets)*;
- (d) *Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets)*;
- (e) *Liquidity Coverage Ratio*;
- (f) *Leverage Ratio*; and
- (g) *STATsmart Reporting Requirements on Data Submission for Reporting Entities*.

## 7 Policy documents superseded

7.1 This policy document supersedes the policy document on *Observation Period Reporting (Capital Adequacy Ratios and Liquidity Coverage Ratio)*, issued on 16 October 2015.

## **PART B GENERAL REQUIREMENTS**

### **8 Level of application**

- S** 8.1 A financial holding company shall report to the Bank its CAR, LCR and LR at the consolidated level in accordance with Parts C, D and E of this policy document. This shall include the consolidation<sup>2</sup> of all its financial and non-financial subsidiaries, except insurance and takaful subsidiaries.

### **9 Reporting templates**

- S** 9.1 A financial holding company shall not modify the reporting templates in any way either by adding or removing rows, columns or worksheets; or changing the sequence of the worksheets; or changing the format, formulae and colours of the cells, except where the Bank has specifically allowed.

### **10 Regulatory submission**

- S** 10.1 A financial holding company shall submit the completed reporting template(s) on a quarterly basis no later than—
- (a) for CAR and LR reporting, 60 calendar days; and
  - (b) for LCR reporting, 30 calendar days,
- from the quarter-end reporting date<sup>3</sup>.
- S** 10.2 The completed reporting templates shall be submitted through the Statistical Mart for Analysis and Reporting (STATsmart) system. Unless otherwise specified by the Bank, submission of the printed copy of the completed reporting templates is not required.

<sup>2</sup> In accordance with the Malaysian Financial Reporting Standards (MFRS).

<sup>3</sup> For the avoidance of doubt, the first submission for LR shall be for the quarter ended 31 March 2018 and a financial holding company shall submit the completed LR reporting template(s) no later than 31 May 2018.

## PART C CAPITAL ADEQUACY RATIOS

### 11 Specific requirements

- S** 11.1 For the purpose of paragraph 8.1, a financial holding company shall compute its CAR using the following reporting template(s):
- (a) for 2016 and 2017 reporting period, the *"2016 2017 FHC observation period"* template;
  - (b) for 2018 reporting period–
    - (i) for capital components, the *"2018 FHC observation period\_capital components"* template;
    - (ii) for credit risk, the *"2018 FHC observation period reporting\_credit (SA)"* template for a financial holding company adopting the Standardised Approach or the *"2018 FHC observation period reporting\_credit (IRB)"* template for a financial holding company adopting the Internal-Ratings Based Approach;
    - (iii) for market risk, the *"2018 FHC observation period reporting\_market"* template; and
    - (iv) for operational risk, the *"2018 FHC observation period reporting\_operational"* template.
- G** 11.2 A financial holding company may refer to the following manuals in completing the reporting templates:
- (a) Capital Adequacy Framework (Capital Components) – Reporting Manual;
  - (b) Capital Adequacy Framework (Basel II – Risk-Weighted Assets) – Reporting Manual for Credit Risk;
  - (c) Capital Adequacy Framework (Basel II – Risk-Weighted Assets) – Reporting Manual for Market Risk; and
  - (d) Capital Adequacy Framework (Basel II – Risk-Weighted Assets) – Reporting Manual for Operational Risk.
- S** 11.3 When completing the reporting templates, a financial holding company shall–
- (a) not assume any transitional arrangements. In this regard–
    - (i) capital instruments issued by a financial holding company that do not meet the criteria for inclusion as Additional Tier 1 or Tier 2 Capital, shall not be reported in the "C.2(CC)" worksheet; and
    - (ii) capital instruments issued by a financial holding company's subsidiaries that do not meet the criteria for inclusion as Additional Tier 1 or Tier 2 Capital (including the additional loss absorbency trigger referenced to the financial group's CET1 or viability) shall not be reported in the "C.4(MI)" worksheet; and
  - (b) aggregate the risk-weighted assets (RWAs) of each entity or subgroup within the financial group as follows:
    - (i) for domestic banking subsidiaries licensed by the Bank, to apply the Bank's rules<sup>4</sup>;

<sup>4</sup> Refer to the policy documents listed in paragraphs 6.1(a) to (d).

- (ii) for foreign banking subsidiaries not licensed by the Bank–
  - (A) for 2016 and 2017 reporting period, to apply the rules of the host authority(ies) which regulates such foreign banking subsidiaries<sup>5</sup>;
  - (B) for 2018 reporting period, to apply the Bank's rules;
- (iii) for non-bank subsidiaries (other than insurance and takaful), to apply the Bank's rules. If this is not feasible, to apply a 100% risk weight;
- (iv) to exclude insurance and takaful subsidiaries from the computation of the RWAs; and
- (v) the sum of the RWAs shall be further adjusted for any intra-group transaction/exposures.

- S** 11.4 For the purpose of paragraph 11.1, a financial holding company shall–
- (a) fill all cells shaded in green (fill the cell with "0" if not applicable);
  - (b) fill cells shaded in blue, where relevant;
  - (c) not change the formulae in cells shaded in yellow and white;
  - (d) report all amounts in thousands ('000) in Ringgit equivalents based on the prevailing exchange rate as at the reporting date; and
  - (e) unless otherwise specified in the reporting templates, report the numbers as positive amounts, including deductions and items netted off.

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<sup>5</sup> However, the Bank encourages the financial holding company to apply the Bank's rules if the financial holding company already has such capacity.

## PART D LIQUIDITY COVERAGE RATIO

### 12 Specific requirements

- S** 12.1 In computing the LCR position, a financial holding company shall complete the following worksheets:
- (a) “LCR\_Main”;
  - (b) “LCR\_MYR”;
  - (c) “LCR\_USD”;
  - (d) “LCR\_SGD”;
  - (e) where relevant, “LCR\_FX”;
  - (f) where relevant, “LCR\_UA”; and
  - (g) as and when requested by the Bank, “MT\_DHQLA”<sup>6</sup>.
- S** 12.2 In consolidating the information of foreign banking subsidiaries not licensed by the Bank, a financial holding company shall–
- (a) for 2016 and 2017 reporting period, apply the rules of the host authority(ies) which regulates such foreign banking subsidiaries<sup>7</sup>; and
  - (b) for 2018 reporting period, apply the Bank’s rules.
- S** 12.3 When completing the reporting templates for the purpose of paragraph 12.1, a financial holding company shall–
- (a) fill all cells shaded in yellow;
  - (b) disregard the hidden columns and rows; and
  - (c) report all amounts in thousands (’000) in Ringgit equivalents based on the prevailing exchange rate as at the reporting date.

<sup>6</sup> Refer to paragraph 30.17 of the policy document on *Liquidity Coverage Ratio*.

<sup>7</sup> However, the Bank encourages the financial holding company to apply the Bank’s rules if the financial holding company already has such capacity. Nevertheless, if the host jurisdiction does not have effective LCR requirements, the Bank’s rules shall be applied.

## PART E LEVERAGE RATIO

### 13 Specific requirements

- S** 13.1 In computing the LR position, a financial holding company shall complete the following worksheets<sup>8</sup> :
- (a) “LR\_Main”; and
  - (b) “LR\_IA\_On”.
- S** 13.2 When completing the reporting templates for the purpose of paragraph 13.1, a financial holding company shall–
- (a) fill all cells shaded in yellow;
  - (a) disregard the hidden columns and rows; and
  - (b) report all amounts in thousands ('000) in Ringgit equivalents based on the prevailing exchange rate as at the reporting date.

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<sup>8</sup> In accordance with the parameters set out in the policy document on *Leverage Ratio*.