

Response to feedback received

Financing Facilities with Connected Parties

Introduction

The Financing Facilities with Connected Parties policy document sets out the parameters for development financial institutions (DFIs) to extend financing facilities and investments to connected parties which are of good credit standing in the ordinary course of the DFIs' business while performing its mandate. The policy document is applicable to prescribed development financial institutions pursuant to the Development Financial Institutions Act 2002.

Bank Negara Malaysia (the Bank) received a number of responses from the industry during the consultation period that were broadly supportive of the proposals set out in the concept paper. This document provides the Bank's responses on the comments received during the consultation period. Where appropriate, comments received on the concept paper have been reflected in the final policy document.

Bank Negara Malaysia
13 July 2016

1 Scope of Coverage on Close Relative

- 1.1. Section 28(5) of the DFIA allows the Bank to specify any person other than spouse, child or parent to be subjected to the provision. As such, for the purpose of connected party transaction, the term “close relative” under the Standard includes brother, sister and their spouses.

2 Definition of Board of Directors

- 2.1 A number of respondents requested clarity on the definition of the Board of Directors with regards to the approving authority for the connected party transaction. In this context, the “Board of Directors” refers to the main Board of Directors of a DFI. This is because as the financing relates to connected parties, such transactions need to be approved at Board level and must be deliberated thoroughly and comprehensively to ensure such transactions are conducted in a prudent manner.

3 Clarification on the Composition of the Credit Review Committee

- 3.1 Clarification was sought whether the credit review committee refers to Board level committee. The Bank wishes to clarify that, the Board may delegate the review and monitoring of the connected lending to a credit review committee. The requirement is for the committee to be chaired by a member of the Board and the composition to be determined by the Board comprising persons experienced in credit and risk management.

4 Measures to Monitor the Financing which has been Exempted from the Regulatory Limit

- 4.1 All financing to connected parties are subjected to the policy requirements in this policy document including:
 - a) Regular review and monitoring by the DFIs and made transparent as follows:
 - Regulatory reporting to the Bank on a semi-annual basis; and
 - Disclosure in DFIs’ published financial statements on an annual basis.
 - b) Close monitoring by establishing a robust system to identify, measure and monitor exposures to connected party.
 - c) Regular reviews by the internal audit to ensure compliance with established policies and procedures.