BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Equity Investments

Applicable to–
1. Licensed banks
2. Licensed investment banks
3. Licensed Islamic banks
4. Licensed insurers
5. Licensed takaful operators
6. Financial holding companies
7. Prescribed development financial institutions

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PART A OVERVIEW

1 Introduction

1.1 Section 85 of the Financial Services Act 2013 (FSA), section 97 of the Islamic Financial Services Act 2013 (IFSA) and section 25 of the Development Financial Institutions Act 2002 require a financial institution to obtain the Bank's approval for the establishment or acquisition of a subsidiary, or the acquisition or holding of material interest in a corporation. The approval requirement is intended to ensure that such acquisitions do not expose a financial institution to undue contagion risk as a result of the association with these corporations or hinder effective supervision by the Bank. The Bank generally limits a financial institution from investing in non-financial corporations[1], given the inherent differences in the nature of risks involved and to ensure that the focus of the financial institution is not diverted from its core financial business. In addition, the approval regime also complements the existing prudential safeguards to address risks arising from the equity exposures, including capital adequacy requirements and prudential limits.

1.2 The transformation of the financial landscape in recent years has seen an increased integration between e-commerce activities and e-payments services. The growing interest in integrated digital ecosystems offered by these corporations has further spurred financial institutions to either collaborate with, or hold material equity interest in, these corporations in order to realise business synergies. In light of these developments, a review of the current requirement on equity investments is necessary to ensure that financial institutions continue to remain relevant, competitive and are able to offer a wider range of services to their customers. Moving away from a “one-size-fits-all” limit on equity exposures allows greater flexibility for financial institutions to manage their equity exposures, and facilitates business expediency. The Bank therefore expects greater oversight by the board in ensuring that the financial institution clearly articulates the equity investment risk appetite and determines its own internal limits, consistent with the institution's business strategy, level of expertise and risk management capabilities.

1.3 This policy document sets out the approval and notification requirements relating to equity interests held by financial institutions in corporations. In addition, prudential safeguards are introduced to address risks from equity exposures, including a targeted prudential limit which is intended to replace existing aggregate limits on equity-related exposures applied to banking institutions specified under the *Guidelines on Investment in Shares, Interest-in-Shares and Collective Investments Schemes* (IIS) and *IIS for Islamic Banks*.

[1] Non-financial corporations refer to corporations that are not financial or financial-related corporations. Examples of financial and financial-related corporations are set out in Appendix 1.

2 Applicability

2.1 This policy document is applicable to financial institutions as defined in paragraph 5.2.

2.2 In the case of a financial institution which operates in Malaysia as a branch of a foreign institution, the requirements in this policy document shall apply only in respect of the Malaysian operations of the branch.

2.3 Paragraphs 9, 10 and 11 shall not apply to a licensed insurer, licensed takaful operator, prescribed development financial institution and financial holding company of a financial group engaged predominantly in insurance/takaful business.

3 Legal provisions

3.1 This policy document is specified pursuant to–

(a) section 47(1), section 85(2), section 114(2), section 143 and section 266 of the Financial Services Act 2013 (FSA);

(b) section 57(1), section 97(2), section 126(2), section 155 and section 277 of the Islamic Financial Services Act 2013 (IFSA); and

(c) section 25(5), section 41(1), and section 126 of the Development Financial Institutions Act 2002 (DFIA).

4 Effective date

4.1 This policy document comes into effect on 1 January 2020, subject to the transitional arrangements as set out in paragraph 11.

5 Interpretation

5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA, IFSA, DFIA or the policy documents referred to in paragraph 6.1, as the case may be, unless otherwise defined in this policy document.

5.2 For the purpose of this policy 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 action;

"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;

"banking institution" refers to a licensed bank, a licensed investment bank or a licensed Islamic bank except for a licensed international Islamic bank, as the case may be;

"corporation" refers to a financial, a financial-related and a non-financial corporation, as the case may be;

"financial institution" refers to a licensed person, a prescribed development financial institution and a financial holding company, as the case may be;

"indirect interest" refers to the voting shares or voting power in a corporation acquired or held by a subsidiary of a financial institution;

"indirect acquisition" or "indirect holding" refers to acquisition or holding of the voting shares or voting power in a corporation by any subsidiary of a financial institution; and

"material interest" refers to 20% or more of the voting shares or voting power in a corporation.

6 Related legal instruments and policy documents

6.1 This policy document must be read together with other relevant legal instruments and policy documents that have been issued by the Bank, in particular–

(a) *Approach to Regulating and Supervising Financial Groups;*
(b) *Capital Adequacy Framework (Basel II – Risk-Weighted Assets)*;
(c) *Capital Adequacy Framework (Capital Components)*;
(d) *Capital Adequacy Framework for Islamic Banks (Capital Components)*;
(e) *Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets)*;
(f) *Guidelines on Property Development and Property Investment Activities by Islamic Banks*;
(g) *Single Counterparty Exposure Limit;* and
(h) *Single Counterparty Exposure Limit for Islamic Banking Institutions.*

7 Policy documents superseded

7.1 This policy document supersedes the following guidelines and policy documents:

(a) *Guidelines on Investment in Shares, Interest-in-Shares and Collective Investment Schemes (IIS)* issued on 10 October 2008;
(b) *Guidelines on Investment in Shares, Interest-in-Shares and Collective Investment Schemes (IIS) for Islamic Banks* issued on 29 June 2007; and
(c) paragraph 7.1(ii) of the *Guidelines on Property Development and Property Investment Activities by Islamic Banks* issued on 31 March 2010.

PART B POLICY REQUIREMENTS

8 Approval and notification requirements

S 8.1 A financial institution must obtain the Bank's prior written approval for–
(a) the establishment or acquisition of a subsidiary; or
(b) any direct or indirect acquisition or holding of–
(i) material interest in a corporation;
(ii) 33% [2] or more of the voting shares or voting power in a corporation[3]; or
(iii) any interest referred to in paragraph 8.8.

S 8.2 In respect of paragraph 8.1(b)(i), unless otherwise notified by the Bank in writing, approval is given to a banking institution [4] and a prescribed development financial institution to acquire or hold direct interest in a corporation arising from−
(a) satisfaction of debts or foreclosure of shares pledged as collateral;
(b) debt restructuring or conversion schemes;
(c) equity underwriting activities; and
(d) fund management activities (including private equity, venture capital, unit trust or collective investment scheme).

S 8.3 Except for an application by a licensed Islamic bank or a prescribed development financial institution, the Bank will not consider an application under paragraph 8.1 where the investee corporation will be, or is carrying on, any of the following activities:
(a) manufacturing, processing, refining or otherwise altering goods;
(b) direct selling of non-financial services and products to consumers[5];
(c) property development;
(d) provision of hotel and resort facilities to non-employees; and
(e) management of properties that are not held by the financial institution or any of its subsidiaries.

For the avoidance of doubt, this paragraph does not apply to material interest acquired or held in non-financial corporations arising from the provision of financial services as set out in paragraph 8.2.

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2 The percentage holding for a mandatory offer under the Malaysian Code on Take-Overs and Mergers prescribed under section 217 of the Capital Markets and Services Act 2007.

3 For example, where a financial institution has obtained the Bank's approval to acquire or hold a material interest in a corporation (e.g. at 20%) under paragraph 8.1 (b)(i), the financial institution must also obtain the Bank's approval under paragraph 8.1(b)(ii) if the financial institution increases its shareholding to or exceeding 33% (e.g. to 35%).

4 The approval also applies to indirect interest by a financial holding company in a corporation arising from the provision of financial services by its subsidiary banking institution.

5 For the avoidance of doubt, this does not prohibit a financial institution from acquiring or holding interest in a corporation that operates digital platforms which solely match buyers and sellers of goods and services.

S 8.4 Where the Bank's approval has been obtained under paragraph 8.1, a licensed Islamic bank must ensure that the material interest held in a non-financial corporation engaged in activities are subject to the following:

(a) such interest acquired must be in connection with, or for the purpose of, its Islamic banking business as defined under the IFSA, and the equity investment is structured based on a relevant Shariah contract [6] as approved by the Shariah committee of such licensed Islamic bank;

(b) the interest held are within the risk strategy and risk limit as approved by the board. In determining the risk limit, considerations must be given to the potential risk to the licensed Islamic bank as a result of its association with the corporation; and

(c) submission of a report to the board, at least on an annual basis, on the review of the performance of all of its investee corporations and whether these investments remain consistent with the licensed Islamic bank's business strategies and risk appetite.

G 8.5 In assessing the application under paragraph 8.1, the Bank will have regard to the following factors:

(a) the extent to which the acquisition could give rise to a material increase in contagion risk to the financial institution or broader financial system;

(b) impact of the proposed acquisition on the risk profile and resources of the financial institution, taking into account the financial capacity and risk management capabilities, readiness of existing infrastructure and resources to manage the proposed acquisition; and

(c) impact of the proposed acquisition on the Bank's ability to supervise and implement corrective measures, including on the orderly resolution of the financial institution.

S 8.6 An application for approval must be supported by the submission of the following documents:

(a) a copy of the relevant approval by an approving authority as determined under the financial institution's internal governance framework on the proposed acquisition, including−

(i) deliberation on the business case for the acquisition and the financial institution's assessment of the–

(A) impact of the acquisition to the financial institution's risk profile, financial condition, business continuity, and recovery and resolution plans;

(B) readiness of existing infrastructure, internal controls and governance arrangements to manage the risk arising from the proposed acquisition; and

(C) risk mitigation measures and remedial actions (including exit strategies) in the event of material deterioration in the performance of the investee corporation;

(ii) representation of the financial institution, if any, in the board or management of the investee corporation;

[6] Including, but not limited to, those Shariah contracts that are governed by the specific policy documents issued by the Bank pursuant to IFSA.

(iii) whether there is any restriction in terms of the financial institution's ability to obtain information and documents of the investee corporation; and
(iv) where relevant, any centralised and shared services or functions between the financial institution and the investee corporation;

(b) amount (in Ringgit Malaysia) and type of consideration for the acquisition[7], including details as to how the acquisition will be funded and the basis for the valuation;
(c) where relevant, details of other interest-in-shares[8] held in the investee corporation;
(d) details of the investee corporation, including–
(i) past financial records[9], where available, and future business plans;
(ii) shareholding structure depicting legal and beneficial ownership; and
(iii) organisational structure including information on composition of the board and management team;
(e) where relevant, a copy of the Shariah committee's decision that the proposed equity investment in the investee corporations is in compliance with Shariah; and
(f) any other information as may be required by the Bank.

S 8.7 Where the Bank's approval has been obtained under paragraph 8.1(b)(i), the financial institution must notify the Bank of any subsequent direct or indirect acquisition where it results in an increase in shareholding at any multiple of five (5) per cent above the material interest threshold, at least one month before the proposed acquisition. Such subsequent acquisition shall also be subject to paragraph 8.1(a) or 8.1(b)(ii), where relevant. The notification must be supported by the submission of the following documents:
(a) details of the investee corporation;
(b) proposed increase in, and the resultant level of, shareholding in the investee corporation; and
(c) amount (in Ringgit Malaysia) and type of consideration for the acquisition[7], including details as to how the acquisition will be funded and the basis for the valuation.

A summary of the notification required at the relevant thresholds is provided in Appendix 2.

S 8.8 Notwithstanding paragraph 8.7, the Bank may require a financial institution to obtain its written approval prior to any subsequent increase in the direct or indirect interest beyond the material interest threshold. In considering this, the Bank shall have regard to the following:

[7] For example, cash, in-kind, equity or assumption of liabilities.
[8] Refers to any right to purchase or receive shares of a corporation e.g. equity options, warrants, convertible loan stocks, and etc.
[9] Preferably past 3 financial years unless otherwise specified by the Bank.

(a) the impact of the subsequent increase on the financial or capital position of the financial institution and the effectiveness of the financial institution's risk management capabilities and internal controls to manage risks emanating from such interests, particularly for interest in corporations outside of Malaysia; or

(b) the impact of the performance of the investee corporation on the ongoing safety and soundness of the financial institution.

S 8.9 An application under paragraph 8.1 and notification under paragraph 8.7 must be submitted to Jabatan Penyeliaan Konglomerat Kewangan, Jabatan Penyeliaan Perbankan, or Jabatan Penyeliaan Insurans dan Takaful, as the case may be.

9 Prudential limit and maximum holding period

Aggregate limit on non-financial investments

S 9.1 A financial institution's aggregate direct and indirect acquisition or holding of interest in non-financial corporations, including those held below the material interest threshold, must not exceed 10%[10] of its Tier 1 Capital[11].

S 9.2 A banking institution shall comply with the prudential limit at both the entity and consolidated levels. A financial holding company shall comply with the prudential limit at the consolidated[12] level only.

S 9.3 The 10% limit shall exclude−

(a) interests which are deducted in the calculation of Tier 1 Capital;

(b) for a licensed Islamic bank, direct acquisition or holding of interest in non-financial corporations. For the avoidance of doubt, interest acquired or held in non-financial corporations by a licensed Islamic bank arising from the provision of financial services as set out in paragraph 8.2 are not excluded from the 10% limit and subject to paragraphs 9.5 and 9.6;

(c) interest in non-financial corporations held within the holding period[13] as specified in paragraph 9.4;

(d) interest in excess of the material interest threshold in a non-financial corporation held after the maximum holding period except for those interest referred to in paragraph 9.7;

(e) interest in non-financial corporations which are acquired or held for the purpose of trading[11]; and

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10 For the avoidance of doubt, a financial institution shall continue to aggregate its equity exposures with other exposures in the computation of the prudential limits as set out in the policy documents on *Single Counterparty Exposure Limit* and the *Single Counterparty Exposure Limit for Islamic Banking Institutions*, as the case may be.

11 As defined in the policy documents on *Capital Adequacy Framework (Capital Components)* or *Capital Adequacy Framework for Islamic Banks (Capital Components)*, as the case may be.

12 Interest in non-financial corporations held by the financial holding company and all financial and non-financial subsidiaries, except insurance/takaful subsidiaries.

13 For the avoidance of doubt, any interest below the material interest threshold in a non-financial corporation held after the maximum holding period shall be included within the 10% limit.

(f) equity investments called for by the Federal Government of Malaysia, Bank Negara Malaysia, Association of Banks in Malaysia, Association of Islamic Banking Institutions in Malaysia or Malaysian Investment Banking Association.

Maximum holding period

S 9.4 Where the material interest in a non-financial corporation is acquired or held arising from the provision of financial services as set out in paragraph 8.2, a banking institution must not hold these interests beyond the holding period as set out below:

	Maximum holding period
In satisfaction of debts	12 months from the date of acquisition of equity interest
Equity underwriting activities	
Debt-to-equity conversion schemes	5 years from the date of acquisition of equity interest
Fund management activities	12 months upon liquidation of the fund

S 9.5 Where a banking institution holds any interest in excess of the material interest threshold in a non-financial corporation after the maximum holding period, the banking institution must deduct such interest in the calculation of its CET1 Capital unless otherwise approved by the Bank.

S 9.6 The Bank will not consider an application under paragraph 9.5 where the investee corporation is carrying on any of the activities as listed in paragraph 8.3.

S 9.7 Where the Bank's approval has been obtained under paragraph 9.5, a banking institution shall include such interest in excess of the material interest threshold within the 10% limit as specified in paragraph 9.1.

10 Annual reporting requirement

S 10.1 A financial institution must submit on an annual basis, its holdings of equity interests for the 31 December reporting position using the reporting template provided by the Bank, within 30 calendar days.

S 10.2 The electronic copy of the reporting template must be submitted to Jabatan Penyeliaan Konglomerat Kewangan or Jabatan Penyeliaan Perbankan, as the case may be. Unless otherwise specified by the Bank, submission of the printed copy of the reporting template is not required.

11 Transitional arrangements

S 11.1 Unless otherwise approved by the Bank, a financial institution must ensure that all existing holdings of material equity interest in non-financial corporations be brought into compliance with this policy requirement by 31 December 2021.

APPENDIX 1 EXAMPLES OF FINANICAL AND FINANCIAL RELATED CORPORATIONS

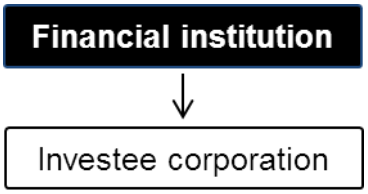
1. A financial corporation includes, but is not limited to, a corporation engaged in any of the following:
   (a) licensed business, approved business or registered business as defined under the FSA or IFSA or corresponding businesses for corporations outside Malaysia;
   (b) licensed entity as defined under the Labuan Financial Services and Securities Act 2010 and the Labuan Islamic Financial Services and Securities Act 2010;
   (c) money services business as defined under the Money Services Business Act 2011 or a corresponding business for corporations outside Malaysia;
   (d) regulated activity carried out pursuant to a Capital Markets Services Licence as defined under the Capital Markets and Services Act 2007 or corresponding activities for corporations outside Malaysia;
   (e) moneylending business as defined under the Moneylenders Act 1951 or a corresponding business for corporations outside Malaysia;
   (f) custodial or trust business; or
   (g) operating a financial market infrastructure[14] that is used for the purposes of clearing, settling, or recording financial transactions.

2. A financial-related corporation refers to a corporation engaged in services which serve or support the business or operations of corporations within a financial group[15].

[14] Including central securities depositories, payment and securities settlement systems, central counterparties, trade repositories.

[15] For example, risk management, finance, legal and compliance, information technology, human resources, security services.

APPENDIX 2 SUMMARY OF APPROVAL AND NOTIFICATION REQUIREMENTS



Interest held (%)	Prior notification required?	Prior approval required?	Description
<20%	✗	✗	Below the material interest threshold
20%	✗	✓	Material interest threshold
25%, 30%	✓	✗	Multiple of 5 per cent above the material interest threshold
33%	✗	✓	Mandatory offer threshold
35%, 40%, 45%, 50%	✓	✗	Multiple of 5 per cent above the material interest threshold
>50%	✗	✓	Acquisition of a subsidiary
55%, 60%, …, 100%	✓	✗	Multiple of 5 per cent above the material interest threshold

For indirect holdings of voting shares or voting power in a corporation, only those held by a subsidiary of a financial institution would require the Bank's approval. A financial institution must also notify the Bank for any subsequent increase in indirect interest beyond the material interest threshold.

