

Title

Introduction of New Products

Issuance Date

07-Mar-2014

Effective Date

7-Mar-2014

Applicability

DFIA

FSA

IFSA

Summary

The policy document on Introduction of New Products sets out the applicable regulatory procedures on the offering of new financial products and services by financial institutions and the Bank's expectations regarding the management and control of risk associated with the development, offering and marketing of those products by financial institutions. They also address the responsibilities of financial institutions towards consumers in ensuring that products sold or recommended are suitable, and that consumers are clearly and fully informed of the nature and risks associated with these products. In addition, the policy document further clarifies the supervisory expectations of Shariah compliance review processes that need to be observed by financial institutions that offer Shariah-compliant product.

Highlights

The policy document has been updated to reflect the following:

- a. Requirements to comply with the Risk-Informed Pricing policy document (paragraph 10.3 in the document); and
- b. Requirements to include the information on hurdle rate in the submission of Information Requirements for New Products to the Bank (Appendix 3 in the document).

Issuing Department

Prudential Financial Policy



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Introduction of New Products

Issued on: 7 March 2014

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PART A OVERVIEW

1. Introduction

Policy Objective

- 1.1. The regulatory framework set out in this policy document for the introduction of new products aims to-
- (i) improve the time-to-market for financial institutions to introduce new products or to effect changes to existing products;
 - (ii) promote sound risk management practices in managing and controlling product risk by ensuring the appropriate assessment and mitigation of risk during the product development and marketing stages; and
 - (iii) further strengthen the duty of care owed to consumers in ensuring that products developed and marketed are appropriate to the needs, resources and financial capability of targeted consumer segments.

Scope of Policy

- 1.2. This policy document sets out the applicable regulatory procedures and the Bank's expectations regarding the management and control of risk associated with the development, offering and marketing of new financial products and services by financial institutions. It also addresses the responsibilities of financial institutions towards consumers in ensuring that products sold or recommended are suitable, and that consumers are clearly and fully informed of the nature and risks associated with these products.

2. Applicability

- 2.1. This policy document is applicable to all licensed banks, licensed investment banks, licensed Islamic bank and prescribed development financial institutions (DFIs).
- 2.2. Where applicable, this policy document shall be read in conjunction with relevant regulations on criteria for determining insured deposits issued by Perbadanan Insurans Deposit Malaysia (PIDM).

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- 2.3. This policy document does not apply to-
- (i) stockbroking and capital/fund raising activities of a licensed investment bank or licensed Islamic bank;
 - (ii) the introduction of new delivery channels such as internet, telephone or mobile banking and payment gateway services¹; and
 - (iii) new/improved systems or processes which generally enhance the operations of financial institutions, but which are not directly related to the introduction of “new products” as defined in paragraph 7.2.

3. Legal provisions

- 3.1. The requirements in this policy document are specified pursuant to-
- (i) sections 47,123 and 143(3) of the Financial Services Act 2013 (FSA);
 - (ii) sections 57, 135 and 155(3) of the Islamic Financial Services Act 2013 (IFSA); and
 - (iii) sections 126 and 116 of the Development Financial Institutions Act 2002 (DFIA).

4. Effective date

- 4.1. This policy document comes into effect on 7 March 2014.

5. Related legal and policy documents

- 5.1 This policy document must be read together with the following policy documents as may be amended by the Bank from time to time:
- (a) Risk-Informed Pricing policy document dated 16 December 2013;
 - (b) Submission Requirements for Application for Approval to Issue a Designated Payment Instrument policy document dated 30 June 2013;
 - (c) Shariah Governance Framework for Islamic Financial Institutions dated 22 October 2010; and
 - (d) Imposition of Fees and Charges on Banking Products and Services standards 10 May 2012.

¹ Refers to secure platforms that process merchant payments by providing an interface between the merchant's website and the acquirer's financial processing system. Payment gateways allow online merchants to process and manage payments directly from their website in real time.

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6. Policy superseded

- 6.1. This policy document supersedes the Guidelines on Introduction of New Products (issued on 17 October 2011).

7. Interpretation

- 7.1. The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA and IFSA, as the case may be, unless otherwise defined in this document.

- 7.2. For the purpose of this policy document-

“**S**” denotes a standard, requirement or specification that must be complied with. Failure to comply may result in one or more enforcement actions;

“**G**” denotes guidance which may consist of such information, advice or recommendation intended to promote common understanding and sound industry practices which are encouraged to be adopted;

“**financial institution**” refers to a licensed bank, licensed investment bank, licensed Islamic bank and prescribed development financial institution;

“**Investments Linked-to-Derivatives (ILD)**” and “**Islamic Investments Linked-to-Derivatives (IILD)**” means a structured product with an embedded derivative (e.g. options) where the embedded derivative is normally linked to the performance of an underlying asset such as interest rates, equities and foreign currency rates. An ILD/IILD may be principal-protected or non-principal protected. ILD/IILD products denominated in Ringgit and/or foreign currency may be linked to onshore and/or overseas rates, indices and asset prices;

“**prescribed development financial institution**” means a prescribed institution as defined in subsection 3(1) of the Development Financial Institutions Act 2002;

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“**product**” refers to products and services developed or marketed by a financial institution, including products and services developed or marketed by a financial institution on behalf of another financial institution or a third party²;

“**new product**” refers to-

- (i) a product that is being offered by a financial institution in Malaysia for the first time and includes a product which has never been offered by the financial institution before in Malaysia, notwithstanding the fact that the product may have already been offered by other entities within the financial institution's group outside Malaysia; or
- (ii) a combination of a product and any existing or new product, or variation to an existing product being offered by a financial institution in Malaysia, that results in a material change to the structure, features or risk profile of the existing product.

² Such as bancassurance and agent for remittance service provider.

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PART B POLICY REQUIREMENTS

8. General Requirements

- S** 8.1. The board of directors (board) and senior management of a financial institution are responsible to ensure that product risks are well managed, and the needs and rights of consumers are appropriately addressed.
- S** 8.2. The chief risk officer or other designated senior risk officer identified by the financial institution shall be responsible for determining whether a combination of a product and any existing or new product or variation to an existing product constitutes a material change for the purpose of the definition of “new product” in paragraph 7.2. In determining any material change, the identified officer shall consider the risk implications of the change both from the financial institution's perspective (as provider) and the consumers' perspective (as purchaser). For Shariah-compliant products, the identified officer shall consult the Shariah Committee in assessing whether the proposed variation which would result in a material change would give rise to any Shariah issue that has yet to be deliberated by the Shariah Advisory Council (SAC) of the Bank. The basis for the identified officer's determination shall be documented by such officer and be made readily available for review by the financial institution's oversight and internal control functions and the Bank.
- S** 8.3. The following requirements must be met by a financial institution prior to introducing a new product:
- (i) the new product must fall within the ambit of banking business, investment banking business or Islamic banking business, as appropriate, or other permitted activities/business as specified by the Bank under section 14 of the FSA and section 15 of the IFSA respectively. In the case of DFIs, the new product must fall within the ambit of the respective DFI's prescribed business activities as set out in the lending specification made by the Bank under section 28(1) of the DFIA;
 - (ii) the financial institution has the capacity to adequately manage and control the risks associated with the new product, including the financial capacity to support existing and new product lines;
 - (iii) the financial institution must not knowingly offer a new product that has been prohibited in other countries and which may potentially give rise to public concerns. This requirement does not apply to products which have been approved by the SAC of the Bank;
 - (iv) in offering its new product, the financial institution must comply with all

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necessary approvals and/or any other applicable regulatory requirements, including other related policy documents issued by the Bank as well as regulatory requirements issued by the Securities Commission;

- (v) a financial institution that offers new Shariah-compliant products shall ensure a sound and robust Shariah governance framework is in place that includes a comprehensive end-to-end Shariah-compliant product development and implementation process; and
- (vi) the new Shariah-compliant product must meet the following conditions:
 - (a) the product (including its accompanying documentations) must be approved by the financial institution's Shariah Committee;
 - (b) the product's underlying Shariah contract, structure and features must be similar to the products that have been approved by the SAC of the Bank; and
 - (c) the product must be consistent with the SAC resolutions.

S 8.4. In addition to the requirements set out in paragraph 8.3, financial institutions offering ILD or IILD and negotiable instruments of deposit (NID) or Islamic Negotiable Instruments (INI) shall also comply with the requirements stipulated in Appendices 1 and 2 respectively.

“Launch and file” system

S 8.5. Subject to paragraph 8.1 or unless otherwise notified by the Bank, a financial institution that meets the requirements stipulated in paragraph 8.3 may proceed to offer the new product to consumers upon the submission of a complete list of information as set out in Appendix 3³ to the Bank. This process shall be referred to as the “launch-and-file” system. The submission of information to the Bank shall be signed off by the Chief Executive Officer, Chief Risk Officer or Chief Operating Officer who has the responsibility to ensure that the information submitted pursuant to this paragraph is complete and accurate.

S 8.6. The submission requirements referred to in paragraph 8.5 are not applicable to the following:

- (i) new products that are covered under specific policy documents issued by the Bank, as listed in Appendix 5. For these new products, financial institutions shall comply with the submission requirements (if any) as well as any additional regulatory requirements provided under those policy documents; and
- (ii) situations where the financial institution is engaged in the distribution of financial products originated by another financial institutions under a

³ Paragraph 7 of Appendix 3 is applicable to Shariah-compliant products only.

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permitted outsourcing arrangement or strategic partnership that has been approved by the Bank.

9. General Exceptions

- S** 9.1. The “launch-and-file” system is not applicable to the following new products:
- (i) products involving innovative structures that are being introduced in the Malaysian market for the first time;
 - (ii) Shariah-compliant products that require the SAC resolution which-
 - (a) involve the application of a new Shariah contract⁴ in the Malaysian market; or
 - (b) are a combination of two or more products that were previously approved on a stand-alone basis or constitute a variation in an existing Shariah-compliant product that attract Shariah issues that have not been deliberated by the SAC;
 - (iii) investment products that may potentially expose a consumer to losses exceeding the principal amount invested; and
 - (iv) designated payment instruments (DPI) and designated Islamic payment instruments (DIPI) which require the Bank’s approval pursuant to section 11 of the FSA and section 11 of the IFSA⁵ respectively.
- S** 9.2. With respect to any of the products stated in paragraphs 9.1(i) - (iii), financial institutions shall submit the following information to the Bank prior to the offering of such new product:
- (i) information as required in Appendix 3;
 - (ii) proposed capital and accounting treatment for the new product; and
 - (iii) for products referred to in paragraph 9.1(ii), submission of the information shall only be made after obtaining the approval of the SAC. Submissions for these new products application shall be made via the ‘Product Approval and Repository System’ (PARS). For DFIs, hardcopy submission to the Bank is required.

⁴ Refers to a Shariah contract that has never been introduced in Malaysian market and there is no current SAC resolution on such contract.

⁵ The following instruments are prescribed as DPI and DIPI in the Financial Services (Designated Payment Instruments) Order 2013 and Islamic Financial Services (Designated Islamic Payment Instruments) Order 2013, respectively;

- (a) charge card/charge card-i;
- (b) credit card/credit card-i;
- (c) debit card/debit card-i;
- (d) electronic money; and
- (e) any combination of the payment instruments/Islamic payment instruments prescribed in (a) to (d).

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- S** 9.3. For Shariah-compliant products that require the SAC resolution, to facilitate the deliberation process by the SAC, financial institutions are required to submit information as specified in Appendix 4 three weeks before the next SAC meeting date.
- S** 9.4. For products referred to in paragraph 9.1(iv), financial institutions shall submit the information as required under the “Submission Requirements for Application for Approval to Issue a Designated Payment Instrument”⁶ and items 5 and 6 under Appendix 3.
- S** 9.5. A financial institution shall not offer the products referred to in paragraph 9.1 until-
- (i) for products under paragraphs 9.1(i) and (ii), the expiry of 14 days from the date of receipt by the Bank of the complete submission of information pursuant to paragraph 9.2; or
 - (ii) for DPI and DIPI, the receipt of the Bank’s approval by the financial institution pursuant to section 11 of the FSA and section 11 of the IFSA, respectively.

10. Product Risk Management

- S** 10.1. Financial institutions shall have in place appropriate policies and procedures to prudently manage risks associated with the products it offers and to manage its responsibilities to consumers.
- S** 10.2. The policies and procedures must be commensurate with the complexity of risks associated with the products offered by the financial institution and designed to identify and control product risk across the value chain, including the stages of product development, authorisation and governance, pricing, marketing, sale, distribution, portfolio management, accounting and on-going service and maintenance.
- S** 10.3. For retail financing products, financial institutions shall comply with all the requirements specified by the Bank in the Risk-Informed Pricing policy document with respect to the pricing strategy and practices.
- S** 10.4. Policies and procedures for managing product risk shall be formally endorsed by the board and properly documented. Importantly, the policies and procedures must be communicated by the financial institution in a timely manner to all relevant parts and levels within the organisation and periodically

⁶ As published on BNM’s website (Payment Systems → Application for Approval and Registration).

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reviewed by the financial institution in the light of changing circumstances.

- S** 10.5. The management of product risks must be well integrated within the financial institution's overall governance framework and risk management system. This is to ensure that product innovation is carried out in a manner that is aligned with the financial institution's business objectives, and consistent with its capability and capacity to manage associated risks.
- S** 10.6. Financial institutions must ensure the adequacy and security of the IT systems and infrastructure to support their product suites by performing proper assessments on the IT-related risks, which include strategic, compliance, system support, operational, security, business resumption and reputation risks.

Product management programme

- S** 10.7. Financial institutions must have a product management programme that provides a sound basis for developing appropriate policies and procedures for managing product risk.
- S** 10.8. A good product management programme must-
- (i) clearly set out policies regarding the financial institution's product design and pricing philosophy, including product lines which the financial institution will offer, or is restricted from offering. The policies must reflect the financial institution's corporate strategy, competitive positioning and risk/reward philosophy;
 - (ii) relate the product strategy (e.g. considerations that influence the nature and timing of new product innovations) to the financial institution's consumer relationship philosophy;
 - (iii) define parameters for the authority which approves new products or material variations to existing products, including the circumstances under which such authority may be delegated;
 - (iv) establish restrictions and/or prudent concentration limits for exposures to geographic regions, product lines, distribution channels, economic sectors, consumer groups or any other relevant risk dimension;
 - (v) establish lines of responsibility for managing related risks; and
 - (vi) establish internal communication flows to ensure that new product offerings are fully integrated throughout the financial institution's line functions.

Product approval

- S** 10.9. All new products must be approved by senior management and/or the board as appropriate.

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- S** 10.10. Approving authorities within the financial institution must be clearly defined and documented, setting out the scope of authority given, to whom the authority is given and whether the authority may be further delegated. The levels of authority established shall appropriately reflect the nature and complexity of the financial institution's range of product offerings, the market segments which the financial institution competes in and the capacity of the financial institution to manage related risks.
- S** 10.11. In making the approval, the approving authorities shall be supported by a process that is objective and consistently applied. This will entail provisions for documentation requirements and internal reviews that are necessary for approving authorities to ensure that-
- (i) the new product proposal is consistent with the financial institution's product management programme;
 - (ii) systems and procedures are in place to manage related risks and consumer expectations;
 - (iii) both frontline and back-end staff are adequately trained to support the new product; and
 - (iv) product illustrations and marketing strategies are appropriate and not misleading.
- S** 10.12. Information that is relevant to support a request for an approval of a new product shall include, but is not limited to-
- (i) the objective of introducing the new product, target consumers and a description of strategic alliance arrangements (if any);
 - (ii) the key features of the new product, method of distribution and samples of the term sheet and promotional material;
 - (iii) a quantification of the new product's financial impact, including financial projections based on the target take-up rate and expected market share, risk-adjusted returns, sensitivity of projections to changes in market conditions, and whether adequate capital has been provided for the new product, for both internal and regulatory capital purposes;
 - (iv) an assessment of the potential risks associated with the new product, including exposures to money-laundering risk, and how these risks will be measured, monitored and controlled;
 - (v) an assessment of the appropriateness of the new product for the targeted consumer groups;
 - (vi) an assessment of the skills, expertise and resources required to sell and manage the new product throughout the pre-, during and post-contractual stages. The assessment must address whether these elements are already fully present within the financial institution, and if not, the actions that will be taken to ensure that the necessary

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- elements are met prior to the launch of the product;
- (vii) a description of related accounting and tax implications attached to the new product, highlighting in particular accounting or tax treatments on which the success of the new product will hinge, or which will materially alter the new product's risk-return profile; and
- (viii) whether the new product fully complies with applicable legal and regulatory requirements or restrictions, including a description of any unresolved legal or regulatory issues.

On-going monitoring and control of product risk

- S** 10.13. Financial institutions shall ensure that adequate procedures are in place and operating effectively to monitor and control product risks on an on-going basis. The procedures must provide for the on-going identification, measurement and mitigation of existing and potential risks inherent in the financial institution's product offerings. This includes but is not limited to-
- (i) clearly defined responsibilities within business lines for managing product risks within approved parameters/limits. Business lines must also be responsible for ensuring continuous adherence to approved policies and procedures. The accountability of business lines must be clearly established notwithstanding the presence of other control functions dedicated to compliance and risk management;
 - (ii) clearly delineated lines of responsibility for monitoring and controlling risk by control functions that are independent of business lines;
 - (iii) adequate systems for measuring risk on a continuing basis;
 - (iv) regular reviews of identified risk exposures in the light of changing market conditions not previously factored in to ensure that all material risks are identified and monitored;
 - (v) adequate coverage of the internal audit function to ensure the timely identification of internal control weaknesses, adherence to regulatory requirements and internal policies and procedures, and proper accounting and capital treatment. The internal audit function must be independent of the product management and control functions that it reviews; and
 - (vi) comprehensive and regular reports to the board and senior management on-
 - (a) the overall effectiveness of policies and procedures for managing product risks;
 - (b) current assessment of product risks and any change in the direction of risk (please refer to paragraphs 10.12 (iii) and (iv));
 - (c) material changes in market conditions that may impact the product risk profile going forward; and
 - (d) internal control breaches and weaknesses.

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Compliance with Shariah principles

- S** 10.14. For Shariah-compliant products, financial institutions shall ensure that the product development process⁷ is comprehensive and robust to minimise the possibilities of the new product to be later nullified on Shariah grounds. In particular, financial institutions must ensure that-
- (i) appropriate processes have been established to ensure proper Shariah governance and compliance with all Shariah requirements as prescribed under the “Shariah Governance Framework for Islamic Financial Institutions”⁸. Specifically, all new product proposals must be endorsed and validated by all members of the Shariah Committee in accordance with paragraph 10.15, including the terms and conditions contained in proposal forms, offer letters, agreements and other legal documents used in the product transaction. Similarly, all product manuals, advertisement or marketing materials, product illustrations and brochures used to describe the new product shall be endorsed by the Shariah Committee;
 - (ii) all Shariah issues are thoroughly researched prior to the deliberation by the Shariah Committee and the certification by the Shariah Committee must be backed by the relevant *fiqh* literature, evidence and reasoning; and
 - (iii) there is an effective process in place to monitor Shariah compliance of products on an on-going basis. This includes ensuring that all operational decisions concerning the product are conducted in a Shariah-compliant manner, for instance, only accepting collaterals that are Shariah-compliant for Islamic financing products.
- 10.15 All members of Shariah Committee are required to assess, validate and approve new product applications but approval by a majority of Shariah Committee members is deemed sufficient in complying with the requirement in paragraph 10.14(i).

11. Business Conduct Requirements

- S** 11.1. Financial institutions shall give due regard to the interests of consumers in the development, marketing and sale of new products. The board shall approve policies and procedures that describe the appropriate parameters and

⁷ This covers both pre-product approval (i.e. process of product structuring and developing prior to introduction to the market) and post-product approval process (i.e. process after the product has been offered to the customers and transactions have been carried out).

⁸ Please note that a product which complies with Shariah Governance Framework for Islamic financial institutions may not necessarily qualify as an insured deposit under PIDM’s “Guidelines on the Criteria for Determining Insured Deposits”.

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guidance for the fair treatment of consumers which shall serve to avoid the potential for mis-selling, terms and conditions that are inherently unfair to consumers, and business practices that restrict the freedom of choice to consumers.

- S** 11.2. Policies and procedures regarding product offerings and sales activities shall be aimed at mitigating reputational risk and safeguarding the financial institution from liability under applicable anti-fraud and fair practice laws and regulations. More specifically, the financial institution must ensure that the policies and procedures contain-
- (i) an explicit consideration of consumer-related issues and implications is incorporated within the product development and authorisation stages;
 - (ii) consumers are fully informed through appropriate disclosures of the key features, terms, conditions, relevant Shariah principles (where applicable) and risks associated with the new product;
 - (iii) the new product is appropriate for the target group of consumers taking into consideration their broad needs and risk appetite;
 - (iv) fees and charges imposed on the consumer are equitable and in the case of Islamic financial products, the basis for determining the fees complies with Shariah rulings;
 - (v) staff involved in sales are suitably trained in the products offered, in particular investment products, to properly advise consumers;
 - (vi) compensation arrangements for sales staff do not induce an excessive bias towards high revenue-generating products that are likely to result in unsuitable product recommendations or sales to consumers;
 - (vii) adequate and effective controls are in place to prevent contravention of relevant provisions of laws relating to customer information; and
 - (viii) an adequate and effective system for resolving and monitoring consumer complaints is put in place, and consumers are provided with information on where and how to lodge a complaint. Regular reports by the relevant business lines shall be provided to senior management on trends in the volume and nature of complaints against the financial institution, and actions as well as the time taken to deal with complaints.
- S** 11.3. The financial institution shall ensure that the policies and procedures comply with relevant policy documents on standards on business conduct issued by the Bank, as may be applicable. Financial institutions shall also, where applicable, ensure that accurate representations and the timely dissemination of information concerning deposit insurance as required under relevant regulations issued by PIDM are adhered to.

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Customer suitability assessments

- S** 11.4. Financial institutions that include investment products within the product range, in particular non-conventional and sophisticated investment products, shall develop and implement internal customer suitability procedures aimed at ensuring that these products are only sold to suitable customers. Customer suitability procedures shall be designed to seek sufficient knowledge about the customer to establish that-
- (i) the customer has a practical understanding of the features of the product and the investment risks assumed;
 - (ii) the product would meet the customer's investment objectives and horizon; and
 - (iii) the product is consistent with the customer's appetite for risk.
- S** 11.5. Components of effective customer suitability procedures shall include-
- (i) processes that clearly describe the types of consumers that a product would generally be suitable for;
 - (ii) clear lines of authority for approving transactions with customers that do not meet generic customer suitability categorisations;
 - (iii) sales personnel who are suitably trained to properly analyse customers' needs and risk appetites;
 - (iv) effective supervision of personnel involved in sales; and
 - (v) appropriate documentation and record keeping to facilitate reviews of compliance with approved procedures.
- S** 11.6. Financial institutions shall not recommend products to customers unless it is reasonably satisfied that the product is suitable for the particular customer on the basis of information sought and obtained from the customer. Greater due diligence is expected for new and retail customers.

12. Reporting Requirement

- S** 12.1. The senior management shall ensure that the requirements set out in this policy document are adhered to at all times, with effective oversight by the board. For this purpose, the board is required to submit an annual attestation to the Bank by 30 June of each year that the requirements of the policy document have been met throughout the reporting period. In addition, upon request by the Bank, financial institutions shall submit information on policies and procedures for managing product risk (including specific information on its IT system) and ensuring the fair treatment of consumers to the Bank.

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13. Supervisory and Administrative Actions

- G** 13.1. Actions that may be taken by the Bank for failure to meet the requirements under this policy document, will be subject to appropriate supervisory and administrative actions by the Bank, which may include-
- (i) subjecting any new product introduced by the financial institution to the prior review or specific approval of the Bank before the products may be offered;
 - (ii) directing the financial institution to recall any product offered;
 - (iii) directing the financial institution to compensate consumers that have suffered losses;
 - (iv) directing the financial institution to modify the terms and conditions of any products offered, including any excessive or unreasonable fees and charges imposed, based on a consideration of factors set out in part 11;
 - (v) imposing additional capital charges to provide for additional risks that are not satisfactorily managed by the financial institution; or
 - (vi) publishing details of corrective actions taken against the financial institution.

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APPENDICES

Appendix 1

Additional Requirements for Financial Institutions Offering ILD and IILD Products

- 1.1. Financial institutions must market and term all ILD/IILD products in the contract agreement as “investments” instead of “deposits” to reflect the yield enhancing nature of the product⁹. These products would, however, continue to be subjected to the statutory reserve requirements.
- 1.2. For leveraged ILD/IILD products containing multipliers, the product term sheet must contain cautionary statements that prominently highlight the multiplier elements, and clear illustrations of the multiplier effects on the risk/return components of the product, including illustrations of worst case scenarios. The multiplier effects and illustrations should be clearly explained to consumers during the sales process.
- 1.3. Financial institutions are required to notify the Bank of any ILD/IILD products that have been submitted by the financial institutions to the Bank but which have not been offered to investors within six (6) months from the date of the submission.

⁹ These products may nevertheless continue to qualify as an insured deposit as determined under relevant regulations on criteria for determining insured deposits issued by PIDM.

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Appendix 2

Additional Requirements for Financial Institutions Offering NID or INI

1. Financial institutions must ensure that all NID or INI issued strictly comply with the following requirements, in which no deviations are allowed-
 - (i) issue size shall be more than RM60,000 or its equivalent amount if the NID or INI is denominated in foreign currency;
 - (ii) the investment's principal is protected if held to maturity for NID and for INI that are based on sale contract;
 - (iii) all floating rate NID or INI must be linked to an underlying asset(s) or index(indices);
 - (iv) underlying asset(s) used for sale and purchase of INI based on sale contract must be permissible according to the Shariah principle. The underlying asset(s) must be identifiable asset(s) owned by issuer and used for a single transaction at any particular time; and
 - (v) all NID or INI structures shall enable it to be tradable in the secondary market.

2. Financial institutions must ensure that NID or INI products with investment tenure exceeding 5 years comply with relevant regulatory requirements issued by the Securities Commission.

3. For greater clarity, financial institutions may refer to the Explanatory Notes on NID which serves as a general guide and reference for the financial institutions on the issuance, trading and general procedures for NID and INI in the Malaysian market.

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Appendix 3

Information Requirements for New Products

1. A detailed product description, including its features, structure, target market or customers, and distribution channel. Product illustrations shall also be included where appropriate. For retail loan/financing products, the hurdle rate as estimated based on the requirements of the Risk-informed Pricing policy document shall be submitted.
2. Sample product term sheet.
3. Details of any arrangements (including distribution arrangements) with other parties/strategic alliances (if any) in offering the new product, including information about the strategic partner, associated risks and actions taken to minimise or mitigate the identified risks.
4. Description of the product's key inherent risks from the financial institution's and consumers' perspectives and the systems and/or processes in place to manage the risks.
5. For new products that involve enhancements to the internet, wireless or other forms of electronic banking platforms, financial institutions must also submit the following:
 - (i) an assessment of the IT-related risks¹⁰ and measures put in place to mitigate the risks;
 - (ii) detailed description on application security and application architecture diagram;
 - (iii) detailed IT and network security infrastructure arrangements; and
 - (iv) detailed network diagram (where applicable) depicting external linkages and control checkpoint.
6. Information Submission Checklist for Revision or Introduction of Fees and Charges, as required under the Bank's standards on "Imposition of Fees and Charges on Banking Products and Services" effective 1 September 2007 or any subsequent updates on the standards which may be specified by the Bank from time to time.
7. For Shariah-compliant products which have been approved by the SAC, in addition to the information required under paragraphs 1 to 6, financial institutions shall also submit the following information:
 - (i) product description, including name and features;
 - (ii) product structure, including transaction flows;

¹⁰ Examples of IT-related risks include (but not limited to) strategic, compliance, system support, operational, security, business resumption and reputation.

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- (iii) types of Shariah contract used;
- (iv) relevant SAC resolution that approved the new product structure; and
- (v) verification statement by the Shariah Committee that the new product structure does not attract any Shariah issue that has not been deliberated by SAC. The statement must be signed off by the Chairman of the Shariah committee. In addition, the statement must include any dissenting views from any member of the Shariah Committee and the deliberation and rationale that support such views.

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Appendix 4

Information Requirements For Purposes of SAC Approval/Deliberation

Institusi:

Nama Produk/ Isu:

1. Tujuan Produk Diperkenalkan/ Isu Dibangkitkan
2. Latar Belakang Produk/ Isu
3. Huraian Struktur Produk/ Isu (sertakan gambarajah jika ada)
4. Prinsip/ Konsep/ Jenis Akad Shariah yang diguna pakai
 - (i) Nama prinsip/ konsep/ akad
 - (ii) Definisi*
 - (iii) Pandangan ulama berhubung prinsip yang dicadangkan*
5. Aplikasi Prinsip/ Konsep/ Jenis Akad Shariah*
 - (i) Nyatakan isu-isu Shariah yang timbul daripada struktur yang dicadangkan
 - (ii) Bahaskan isu-isu tersebut berdasarkan takyif fiqhi (penyesuaian fikah) yang jelas*
 - (iii) Nyatakan fatwa semasa mengenainya atau/ dan mana-mana piawaian (standard) Shariah yang muktabar (jika ada)
6. Lampiran
 - (i) Surat pengesahan yang ditandatangani oleh pengerusi jawatankuasa penasihat Shariah (termasuk pandangan yang berbeza oleh mana-mana penasihat Shariah bersama hujah-hujah dan rasional yang menyokong pendapat tersebut)
 - (ii) Dokumen-dokumen yang relevan bagi membantu penghuraian konsep dan struktur produk atau isu yang dibangkitkan

* Sila nyatakan sumber rujukan Shariah

Appendix 5
Products Covered under Specific Policy Documents Specified by the Bank

Instrument/ Mechanism	Applicable Policy Document	Effective Date
Bankers acceptances	<ul style="list-style-type: none"> • Guidelines on Bankers Acceptances • Guidelines on Accepted Bills-i 	<p>1 April 2004</p> <p>15 February 2003</p>
Repurchase transactions	<ul style="list-style-type: none"> • Guidance Notes on Repurchase Agreement Transactions • Sell and Buy Back Agreement Transactions 	<p>July 2006</p> <p>15 August 2002</p>
Securities borrowing and lending programs under RENTAS	<ul style="list-style-type: none"> • Guidelines on Securities Borrowing and Lending (SBL) Programme under RENTAS 	10 December 2001
Asset-backed securities	<ul style="list-style-type: none"> • Prudential Standards on Asset-Backed Securitisation 	10 March 2003