

Title

Regulatory Treatment of BNM Mudarabah Certificate (BMC) for Licensed Banks and Licensed Islamic Banks

Issuance Date

29 July 2015

Effective Date

29 July 2015

Summary

This is to inform all licensed banks and licensed Islamic banks on the regulatory treatment accorded to the BNM *Mudarabah* Certificate. This regulatory treatment shall form part of and should be read together with the Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) and Capital Adequacy Framework (Basel II Risk-Weighted Assets).

Applicability

FSA

IFSA



Bilangan Kami : JPIT/PB/2/34/NMK

29 July 2015

Ketua Pegawai Eksekutif
Bank Islam Berlesen
Bank Berlesen

Tuan,

**Regulatory Treatment of BNM *Mudarabah* Certificate (BMC) for
Licensed Banks and Licensed Islamic Banks**

The BMC is an Islamic monetary instrument or *sukuk* issued by Bank Negara Malaysia (the Bank) for the purpose of managing liquidity in the Islamic money market. The BMC is denominated in Ringgit and structured based on profit-sharing agreement between the Bank and *sukuk* holders (*rabbul ma*). The Bank will undertake the role of investment manager (*mudarib*) to mobilise and invest the *sukuk* holders' funds. In line with the *mudarabah* contract, the profit generated from the investment will be distributed between the Bank and *sukuk* holders based on the agreed profit sharing ratio and losses will be borne by *sukuk* holders.

2. With immediate effect, the Bank hereby specifies the regulatory treatment on capital adequacy pursuant to section 47(1) of the Financial Services Act 2013 (FSA) and 57(1) of the Islamic Financial Services Act 2013 (IFSA) for licensed banks under the FSA and licensed Islamic banks under the IFSA that are *sukuk* holders. The determination of Risk Weighted Assets (RWA) associated with the credit risk and market risk exposures for the computation of capital adequacy requirement arising from the investment in BMC shall be subject to the:

- (i) "look-through" approach on the underlying assets of the BMC as specified under Appendix XXI of Capital Adequacy Framework for Islamic Banks (Risk Weighted Assets)¹ (CAFIB RWA) or Appendix XXIV of the Capital Adequacy Framework (Basel II- Risk Weighted Assets)² (CAF RWA), as the case may be; and
- (ii) relevant approach³ adopted for the assignment of risk weight under the CAFIB RWA and CAF RWA.

3. Furthermore, the BMC is recognized as Level 1 high-quality liquid asset (HQLA) for purposes of compliance with Liquidity Coverage Ratio (LCR)⁴ in accordance with paragraph 10.1 of the LCR.

¹ Issued on 27 June 2013

² Issued on 27 June 2013

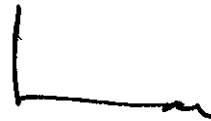
³ Refers to Standardised Approach or Internal Ratings Based (IRB) Approach for credit risk, and Standardised Approach or Internal Model Approach for market risk.

4. The single counterparty exposure limit (SCEL) associated with the investments in BMC shall be determined in accordance with paragraph 11.9 of the Single Counterparty Exposure Limit⁵ or paragraph 11.9 of the Single Counterparty Exposure Limit for Islamic Banking Institutions⁶, respectively.

5. The specification and requirements in this letter shall form an integral part of the CAFIB RWA and CAF RWA until the documents are amended. Any reference to the CAFIB RWA and CAF RWA shall include a reference to this letter.

Sekian, harap maklum.

Yang benar,



(Wan Mohd Nazri b. Wan Osman)
Pengarah
Jabatan Perbankan Islam dan Takaful

s.k. Pengarah, Jabatan Dasar Kewangan Pruden

⁴ Issued on 31 March 2015.

⁵ Issued on 9 July 2014.

⁶ Issued on 9 July 2014.