BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Statutory Reserve Requirement

Issued on: 26 January 2016

PART A OVERVIEW

1. Objective

1.1. The Statutory Reserve Requirement (SRR) is a monetary policy instrument available to Bank Negara Malaysia (the Bank) for purposes of liquidity management. Effectively, banking institutions are required to maintain balances in their Statutory Reserve Accounts (SRA) equivalent to a certain proportion of their eligible liabilities (EL)[1], this proportion being the SRR rate.

1.2. The SRR is a monetary policy instrument available to the Bank to manage liquidity and hence credit creation in the banking system. The SRR is used to withdraw or inject liquidity when the excess or lack of liquidity in the banking system is perceived by the Bank to be large and long-term in nature.

2. Scope

2.1. This requirement applies to–

(i) licensed banks and licensed investment banks, as defined under the Financial Services Act 2013; and

(ii) licensed Islamic banks except for licensed international Islamic banks, as defined under the Islamic Financial Services Act 2013,

which shall be collectively referred to as “banking institutions” for purposes of this policy document.

3. Legal Provision

3.1. Section 26(2)(c) and section 26(3) of the Central Bank of Malaysia Act 2009 (CBA) require reserves to be held by financial institutions at the Bank in accordance with the terms and conditions as may be determined by the Bank.

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[1] as defined in paragraph 6.

3.2. Penalties on the non-compliance of the SRR will be imposed on banking institutions, pursuant to section 26(3)(b) of the CBA.

PART B POLICY REQUIREMENTS

4. Statutory Reserve Requirement Rate

4.1. Effective 1 February 2016, the SRR rate for banking institutions is 3.5% of EL.

4.2. Adjustments to the SRR rates are listed in **Appendix 1**.

5. Maintenance of Balances in Statutory Reserve Accounts

5.1. In principle, banking institutions must maintain in their SRA at the Bank, balances that are at least equal to the ratio prescribed in paragraph 4.1.

5.2. Banking institutions observe the SRR based on the average daily amount of the EL over a fortnightly period (the base period). Each month will have two base periods (viz. Base Period A and Base Period B):

- Base Period A is the average daily amount of EL from the 1st to the 15th day (inclusive); and
- Base Period B is the average daily amount of EL from the 16th to the last day of the month (inclusive).

[It should be noted that in computing the average EL over a base period, negative EL should be zerorised and not netted off against positive EL]

For the reserve maintence period from the 1st to the 15th day of any month, the SRR will be based on the average EL of Base Period A of the preceding month, while for the reserve maintence period from the 16th to the last day of any month, the SRR will be based on the average EL of Base Period B of the preceding month.

5.3. Maintenance of balances in the SRA is nevertheless flexible, with a daily variation from the SRR within a band, which currently stands at ±20% of the prevailing SRR rate. This band, within which the balances of each banking institution are allowed to fluctuate on any day, allows banking institutions the flexibility in managing their liquidity while ensuring that no banking institution behaves imprudently by allowing its reserves on any given day to fall too far.

5.4. As such, banking institutions are required to comply with the SRR at two levels:

5.4.1. On a fortnightly basis (1st to the 15th and 16th to the last day of a month), the average daily balances maintained in the SRA must be at least equal to the SRR rate; and

5.4.2. On a daily basis, balances maintained in the SRA must be within the 20% daily variation band around the prevailing policy rate (balances below the band are not permitted, while balances in excess of the band's ceiling will not be recognised in meeting the average fortnightly requirement).

5.5. The SRR computation and compliance is illustrated in **Appendix 2**.

6. Eligible Liabilities

6.1. As of 1 September 2007, the eligible liabilities (EL) base consists of ringgit denominated deposits and non-deposit liabilities, net of interbank assets and placements with the Bank.

6.2. Additional adjustments made to the EL base:

6.2.1. Exclusion from EL base:

- The entire proceeds amount of Tier 1 housing loans/financing sold to Cagamas Berhad; and
- 50% of the proceeds of Tier 2 housing loans/financing sold to Cagamas Berhad.

6.2.2. Deduction from EL base:

- Banking institutions are allowed to deduct from the EL base holdings of RM marketable securities (defined in **Appendix 3**) in their trading book; and
- Principal Dealers (PD) and Islamic Principal Dealers (i-PD) are allowed to deduct from their EL base the daily holding of specified RENTAS securities in their trading and banking books.

6.3. The detailed EL is listed in **Appendix 4**.

6.4. A deduction from the EL base can however only be effected after the banking institution has undertaken the following:

(i) Submission of Trading Book Policy Statement (TBPS) by the banking institution as specified under the market risk component of the policy documents on Capital *Adequacy Framework (Basel II – Risk-Weighted Assets)* and *Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets)* and confirmation by the Bank that the TBPS is in order; and

(ii) Confirmation by the banking institution that the segregation of RM marketable securities between the banking book and trading book, controls and all other requirements as specified under the policy documents on *Capital Adequacy Framework (Basel II – Risk-Weighted Assets)* and *Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets)* have been put in place.

6.5. Banking institutions must ensure that the amount of RM marketable securities deducted from EL is reflective of the actual amount as reported in the trading book. As such, a verification report must be signed-off either by the internal auditor or compliance officer on a quarterly basis and retained by the banking institution. Should there be any discrepancies, banking institutions are required to submit the concerned verification report to the Bank upon detection of the discrepancy. A sample of the verification report is in **Appendix 5**.

7. Penalties

7.1. Any banking institution which fails to comply with the minimum SRR requirement shall be liable to pay a penalty. The penalty payable is determined as the sum of the **scaled penalty amount** and the **monetary benefit**, as defined in paragraphs 7.3 and 7.4 below, subject to the **maximum penalty** (MP), as described in paragraph 7.2 below.

7.2. The computation of the **maximum penalty**, as provided pursuant to section 26(3) of the CBA, is as follows:

$$\boxed{\text{maximum penalty} = \frac{1}{10} \times \frac{1}{100} \times \text{shortfall} \times \text{number of days}}$$

7.3. The **scaled penalty amount** is calculated as a percentage of the maximum penalty dependent on the number of non-compliances committed by the banking institution, defined as the higher of i) the average number of offences in the last three complete calendar years; and ii) the total number of offences in the current incomplete calendar year:

Number of non-compliances	Scaled penalty amount
One	25% of MP
Two	50% of MP
Three	75% of MP
Four or more	100% of MP

7.4. The **monetary benefit** arising from the non-compliance is computed as follows:

monetary benefit =	shortfall x average interbank overnight rate or Islamic reference rate

The monetary benefit shall be computed on a daily basis for every day during which the deficiency continues.

8. Operational Requirements

8.1. Banking institutions should refer to circulars and guidelines issued by Jabatan Perkhidmatan Statistik and Jabatan Dasar Sistem Pembayaran on reporting and other operational requirements.

APPENDICES

Appendix 1
Adjustments to the Statutory Reserve Requirement Rates

SRR Rate	Effective Date	Variation	Effective Date
3.5%	1 February 2016	2.8% - 4.2%	+/- 20% of SRR Rate 1 May 1998
4%	16 July 2011	3.2% - 4.8%	
3%	16 May 2011	2.4% - 3.6%	
2%	1 April 2011	1.6% - 2.4%	
1%	1 March 2009	0.8% - 1.2%	
2%	1 February 2009	1.6% - 2.4%	
3.5%	1 December 2008	2.8% - 4.2%	
4%	16 September 1998	3.2% - 4.8%	
6%	1 September 1998	4.8% - 7.2%	
8%	1 July 1998	6.4% - 9.6%	
10%	16 February 1998	9.5% - 10.5%	+/- 0.5% from SRR Rate 1 January 1989
13.5%	1June 1996	13% - 14%	
12.5%	1 February 1996	12% - 13%	
11.5%	1 July 1994	11% - 12%	
10.5%	16 May 1994	10% - 11%	
9.5%	3 January 1994	9% - 10%	
8.5%	2 May 1992	8% - 9%	
7.5%	16 August 1991	7% - 8%	
6.5%	16 January 1990	6% - 7%	
5.5%	16 October 1989	5% - 6%	
4.5%	2 May 1989	4% - 5%	
3.5%	1 January 1989	3% - 4%	

Appendix 2
Illustration

Computation of EL in Base Period A and Base Period B

An illustration on the computation of EL in Base Period A and Base Period B in the month of January 2009 is as follows:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
202	197	208	210	205	205	196	194	195	194	195	199	200	200	200

16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
205	214	215	214	217	230	208	207	205	230	240	245	236	241	244	249

EL Base Period A = (202+197+….+200+200) ÷ 15 = RM200m

EL Base Period B = (205+214+…..+241+244+249) ÷ 16 = RM225m

Computation of the SRR

SRR compliance period	1 to 15 February 2009
Corresponding EL base	1 to 15 January 2009
EL Base Period A	RM200m
Prevailing SRR rate during the period 1 to 15 February 2009 (For illustrative purposes only)	2%
Variation band	1.6% to 2.4%

The minimum daily balance to be maintained in the SRA from 1 to 15 February 2009 = RM3.2m (1.6% of EL Base Period A)

Suppose the banking institution’s balances in the SRA from 1 to 15 February 2009 are as follows:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
3.8	4.0	3.6	4.4	4.5	4.6	4.8	4.8	4.4	4.4	4.4	4.3	4.4	4.8	6.4

The maximum amount in the account balance that is recognised is capped at 2.4%

of EL Base A, in this case RM4.8m. Therefore, on 15 February, although the account balance was RM6.4m, only RM4.8m will be recognised for the SRR computation.

Therefore, the average reserve balance for 1 to 15 February 2009:

= (Sum of daily SRR balance ÷ 15 days) ÷ EL Base Period A

= [(3.8 + 4.0 + 3.6 + … + 4.4 + 4.3 + 4.4 + 4.8 + 4.8) ÷ 15] ÷ 200

= 2.2%

Only RM4.8m is recognised although actual balance was RM6.4m.

Appendix 3
Holdings of Selected Securities Deductible from the EL Base

Holdings of all RM marketable securities in the trading book of all banking institutions are eligible for deduction from the EL base for the purpose of SRR computation, except where:

1. securities are sold under repo/sell-and-buy-back agreement (SBBA); and
2. securities are lent or securities that have been used as collateral under securities borrowing and lending (SBL).

The RM marketable securities that are deductible from the EL base computation comprises the following:

1. Specified RENTAS securities issued through the Principal Dealer (PD) and Islamic Principal Dealer (i-PD) network;
2. All private debt securities including Cagamas securities;
3. RM securities issued by Multilateral Development Banks (MDBs) and Multilateral Financial Institutions (MFIs);
4. ABF Malaysia Bond Index Fund (18 July 2005); and
5. Any other securities as specified by Bank Negara Malaysia.

In addition, Principal Dealers and Islamic Principal Dealers may also deduct holdings of all specified RENTAS securities issued through the PD and i-PD network in the banking book, except where:

1. securities are sold under repo/SBBA; and
2. securities are lent or securities that have been used as collateral under SBL.

Note: Specified RENTAS Securities refers to Islamic/Conventional short term and long term scripless securities issued by the Government, Bank Negara Malaysia, Bank Negara Malaysia Sukuk Berhad and any other instrument that may be specified by Bank Negara Malaysia.

Appendix 4
Eligible Liabilities

A RM Eligible Liabilities

RM Demand Deposits Accepted	42110-00-00-0000-Y
RM Savings Deposits Accepted	42120-00-00-0000-Y
RM Fixed Deposits Accepted	42130-00-00-0000-Y
RM Specific Investment Deposits Accepted	42131-00-00-0000-Y
RM General Investment Deposits Accepted	42132-00-00-0000-Y
RM Commodity Murabahah	42133-00-00-0000-Y
RM Call Deposit Accepted	42140-00-00-0000-Y
RM Short-Term Deposits Accepted	42190-00-00-0000-Y
RM Investments Linked to Derivatives Offered	42191-00-00-0000-Y
RM Other Deposits Accepted	42199-00-00-0000-Y
RM NIDs Issued	42150-00-00-0000-Y
RM Repurchase Agreements	42160-00-00-0000-Y
RM Special Deposits (Witholding Tax)	42170-00-00-0000-Y
RM Housing Development Account Deposits	42180-00-00-0000-Y
RM Amounts Due to Designated Financial Institutions	43100-00-00-0000-Y
RM Miscellaneous Borrowings	44100-00-00-0000-Y
RM Interest Payable nie to non-residents	49110-80-00-0000-Y
RM Bills payable to non-residents	49120-80-00-0000-Y
Other RM Miscellaneous liabilities nie due to non-residents	49299-80-00-0000-Y
Less: RM Subordinated Debt Capital	44111-00-00-0000-Y
Exempt Subordinated Debt Capital	44112-00-00-0000-Y
RM Subordinated Debt Capital with Special Approval from BNM	44113-00-00-0000-Y
RM Recourse Obligation on Loans Sold to Cagamas	44140-00-00-0000-Y

B RM Eligible Assets Deductible from Eligible Liabilities

RM Balances in current accounts with Domestic Banking Institutions	32120-10-00-0000-Y
RM Fixed Deposits Placed with Domestic Banking Institutions	32130-10-00-0000-Y
RM Fixed Deposits Placed with Discount Houses	32130-13-00-0000-Y
RM Specific Investment Deposits Placed with Domestic Banking Institutions	32131-10-00-0000-Y
RM Specific Investment Deposits Placed with Discount Houses	32131-13-00-0000-Y
RM General Investment Deposits Placed with Domestic Banking Institutions	32132-10-00-0000-Y
RM General Investment Deposits Placed with Discount Houses	32132-13-00-0000-Y
RM Call Deposits Placed with Investment Banks	32140-12-00-0000-Y
RM Call Deposits Placed with Discount Houses	32140-13-00-0000-Y
RM Other Deposits Placed with Domestic Banking Institutions	32199-10-00-0000-Y
RM Reverse repos with BNM	32500-01-00-0000-Y
RM Reverse repos with Commercial Banks	32500-02-00-0000-Y
RM Reverse repos with Islamic Banks	32500-03-00-0000-Y
RM Reverse repos with Finance Companies	32500-11-00-0000-Y
RM Reverse Repos with Merchant Banks	32500-12-00-0000-Y
RM Reverse Repos with Discount Houses	32500-13-00-0000-Y
RM Overdrawn Vostro A/C of Commercial Banks	33110-02-00-0000-Y
RM Overdrawn Vostro A/C of Islamic Banks	33110-03-00-0000-Y
RM Nostro A/C with Commercial Banks	33120-02-00-0000-Y
RM Nostro A/C with Islamic Banks	33120-03-00-0000-Y
RM Surplus in SPICK	33130-00-00-0000-Y
RM Interbank Placements with Bank Negara Malaysia	33140-01-00-0000-Y
RM Interbank Placements with commercial banks	33140-02-00-0000-Y
RM Interbank Placements with Islamic banks	33140-03-00-0000-Y
RM Interbank Placements with finance companies	33140-11-00-0000-Y
RM Interbank Placements with merchant banks	33140-12-00-0000-Y
RM Interbank Placements with discount houses	33140-13-00-0000-Y
RM Interbank Placements with Cagamas	33140-17-00-0000-Y
RM Loans to Domestic Banking Institutions	34100-10-00-0000-Y
RM Loans to discount houses	34100-13-00-0000-Y
RM Loans to Cagamas	34100-17-00-0000-Y
RM Negotiable Instruments of deposits held	37030-00-00-0000-Y
NIDs Sold Under Repo	38030-00-00-0000-Y
Eligible RM Cagamas Bonds - Tier-2	40150-00-00-0000-Y
SRGF Loans	40190-00-00-0000-Y

	SRGF-2 Loans		40191-00-00-0000-Y
	Less:	RM Interbank Placements with discount houses for overnight	33140-13-11-0000-Y
C	**Eligible Tier 2 Loans Sold to Cagamas - Day i**		40140-00-00-0000-Y
D	**Holdings of selected securities - Day i**		40171-00-00-0000-Y
	Eligible Liabilities for SRR Next Month - Day i (A - B + C - D)		**40130-00-00-0000-Y**

Appendix 5
Verification Report on Holdings of RM Marketable Securities in the Trading Book

Form JP1/JP2/2EL/2009

Pengarah
Jabatan Penyeliaan Konglomerat Kewangan (JP1) / Jabatan Penyeliaan Perbankan (JP2)
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur

Date: ____________

Verification Report on Holdings of RM Marketable Securities in the Trading Book[2]
(For deduction from Eligible Liabilities (EL) base)

Name of Banking Institution: ____

Period for the holdings of marketable securities   From: dd/mm/yy   To: dd/mm/yy

(Please tick √ where applicable)

☐ I hereby confirm that the RM figure reported under the trading book, for EL deduction is accurate and in line with our institution's policies.

☐ There are discrepancies in the RM figures reported for EL deduction[3]. Details are indicated below:

____

____

________________________   ________________________
Reporting Date   Company Stamp

Name: ______________________________
Designation:_____________________________
Telephone No.: __________________________
Email Add: ______________________________

____
Signature

[2] Based on the Definition of Trading Book as indicated under the market risk component of the policy documents on *Capital Adequacy Framework (Basel II – Risk-Weighted Assets)* and *Capital Adequacy Framework for Islamic Banks (Risk Weighted Assets)*.

[3] The verification report must be submitted to JP1/JP2 immediately upon detection of any discrepancies. Where there are no discrepancies, banking institutions should retain the report for supervisory review purposes.