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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), 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 maintenance 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 maintenance 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 (1\textsuperscript{st} to the 15\textsuperscript{th} and 16\textsuperscript{th} 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:

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

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:

<table>
<thead>
<tr>
<th>Number of non-compliances</th>
<th>Scaled penalty amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>25% of MP</td>
</tr>
<tr>
<td>Two</td>
<td>50% of MP</td>
</tr>
<tr>
<td>Three</td>
<td>75% of MP</td>
</tr>
<tr>
<td>Four or more</td>
<td>100% of MP</td>
</tr>
</tbody>
</table>
7.4. The monetary benefit arising from the non-compliance is computed as follows:

\[
\text{monetary benefit} = \text{shortfall} \times \text{average interbank overnight rate or Islamic reference rate}
\]

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

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

EL Base Period A = \(\frac{202+197+\ldots+200+200}{15}\) = RM200m

EL Base Period B = \(\frac{205+214+\ldots+241+244+249}{16}\) = RM225m

*Computation of the SRR*

<table>
<thead>
<tr>
<th>SRR compliance period</th>
<th>1 to 15 February 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corresponding EL base</td>
<td>1 to 15 January 2009</td>
</tr>
<tr>
<td>EL Base Period A</td>
<td>RM200m</td>
</tr>
<tr>
<td>Prevailing SRR rate during the period 1 to 15 February 2009</td>
<td>2%</td>
</tr>
<tr>
<td>(For illustrative purposes only)</td>
<td></td>
</tr>
<tr>
<td>Variation band</td>
<td>1.6% to 2.4%</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.8</td>
<td>4.0</td>
<td>3.6</td>
<td>4.4</td>
<td>4.5</td>
<td>4.6</td>
<td>4.8</td>
<td>4.8</td>
<td>4.4</td>
<td>4.4</td>
<td>4.3</td>
<td>4.4</td>
<td>4.8</td>
<td>6.4</td>
<td></td>
</tr>
</tbody>
</table>

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:

\[
\text{Average Reserve Balance} = \frac{\text{Sum of daily SRR balance}}{\text{15 days}} \div \text{EL Base Period A}
\]

\[
= \frac{[(3.8 + 4.0 + 3.6 + ... + 4.4 + 4.3 + 4.4 + 4.8 + 4.8) \div 15] \div 200}{2.2}\%
\]

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
- RM Savings Deposits Accepted
- RM Fixed Deposits Accepted
- RM Specific Investment Deposits Accepted
- RM General Investment Deposits Accepted
- RM Commodity Murabahah
- RM Call Deposit Accepted
- RM Short-Term Deposits Accepted
- RM Investments Linked to Derivatives Offered
- RM Other Deposits Accepted
- RM NIDs Issued
- RM Repurchase Agreements
- RM Special Deposits (Withholding Tax)
- RM Housing Development Account Deposits
- RM Amounts Due to Designated Financial Institutions
- RM Miscellaneous Borrowings
- RM Interest Payable nie to non-residents
- RM Bills payable to non-residents
- Other RM Miscellaneous liabilities nie due to non-residents

Less: RM Subordinated Debt Capital
- Exempt Subordinated Debt Capital
- RM Subordinated Debt Capital with Special Approval from BNM
- RM Recourse Obligation on Loans Sold to Cagamas

B RM Eligible Assets Deductible from Eligible Liabilities
- RM Balances in current accounts with Domestic Banking Institutions
- RM Fixed Deposits Placed with Domestic Banking Institutions
- RM Fixed Deposits Placed with Discount Houses
- RM Specific Investment Deposits Placed with Domestic Banking Institutions
- RM Specific Investment Deposits Placed with Discount Houses
- RM General Investment Deposits Placed with Domestic Banking Institutions
- RM General Investment Deposits Placed with Discount Houses
- RM Call Deposits Placed with Investment Banks
- RM Call Deposits Placed with Discount Houses
- RM Other Deposits Placed with Domestic Banking Institutions
- RM Reverse repos with BNM
- RM Reverse repos with Commercial Banks
- RM Reverse repos with Islamic Banks
- RM Reverse repos with Finance Companies
- RM Reverse Repos with Merchant Banks
- RM Reverse Repos with Discount Houses
- RM Overdrawn Vostro A/C of Commercial Banks
- RM Overdrawn Vostro A/C of Islamic Banks
- RM Nostro A/C with Commercial Banks
- RM Nostro A/C with Islamic Banks
- RM Surplus in SPICK
- RM Interbank Placements with Bank Negara Malaysia
- RM Interbank Placements with commercial banks
- RM Interbank Placements with Islamic banks
- RM Interbank Placements with finance companies
- RM Interbank Placements with merchant banks
- RM Interbank Placements with discount houses
- RM Interbank Placements with Cagamas
- RM Loans to Domestic Banking Institutions
- RM Loans to discount houses
- RM Loans to Cagamas
- RM Negotiable Instruments of deposits held
- NIDs Sold Under Repo
- Eligible RM Cagamas Bonds - Tier-2
- SRGF Loans
<table>
<thead>
<tr>
<th>Description</th>
<th>Statutory Reserve Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRGF-2 Loans</td>
<td>40191-00-00-0000-Y</td>
</tr>
<tr>
<td>Less: RM Interbank Placements with discount houses for overnight</td>
<td>33140-13-11-0000-Y</td>
</tr>
<tr>
<td>C Eligible Tier 2 Loans Sold to Cagamas - Day i</td>
<td>40140-00-00-0000-Y</td>
</tr>
<tr>
<td>D Holdings of selected securities - Day i</td>
<td>40171-00-00-0000-Y</td>
</tr>
<tr>
<td>Eligible Liabilities for SRR Next Month - Day i (A - B + C - D)</td>
<td>40130-00-00-0000-Y</td>
</tr>
</tbody>
</table>
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.: _____________________

Signature

Email Add: _________________________

---

\(^2\) 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.