



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Concept Paper

Investment Account

Issued on: 6 March 2013

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This concept paper (CP) outlines proposals to facilitate the operationalisation of investment account as defined under section 2 of Islamic Financial Services Act (IFSA). The requirements set out in this regulatory framework for Investment Account (the Framework) aim to promote sound management of investment account, protect stakeholder's interest and maintain financial stability in the dual banking system.

The implementation of the Framework will be supported with the revised Framework on Rate of Return (the RoR). The necessary extracts of the revised draft RoR is reproduced in the Appendix as a reference.

Bank Negara Malaysia (the Bank) invites Islamic banking institutions (IBI) and stakeholders to provide written feedback on this concept paper. Respondents to this CP may seek clarification on specific issue and provide suggestion or alternative proposal to the Bank for consideration. The feedback must be supported with clear rationale, accompanying evidence or illustration, as appropriate to facilitate effective review of the framework.

Additional instructions for Islamic banking institutions

1. IBI are expected to answer the specific questions set out in the Framework and also provide general comments on the CP.
2. Responses shall be submitted to the Bank by 5 April 2013:

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Jabatan Perbankan Islam dan Takaful
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur
Email: faizaljeff@bnm.gov.my and zaireen@bnm.gov.my

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PART A OVERVIEW

1. Objective

- 1.1 The Islamic Financial Services Act 2013 (IFSA) distinguishes the definition of two major sources of funding in Islamic banking institutions (IBI), i.e. Islamic deposit and investment account. The formulation of this regulatory framework for Investment account (the Framework) aims to outline the regulatory requirements on the conduct of investment accounts. The objectives of the Framework are as follows:
- (a) to facilitate the orderly development and operationalisation of investment account that is consistent with IFSA and to promote compliance with standards on Shariah matters issued by the Bank;
 - (b) to promote the implementation of good governance process and sound risk management framework in the management of investment account. Therefore, safeguarding the interest of the investment account holders (IAH) and other stakeholders;
 - (c) to set out the minimum disclosure requirements that will facilitate fair assessment of investment proposals and informed decision making by the IAH; and
 - (d) to outline the prudential regulatory requirements in order to support sound management of investment account and sustain financial stability in the dual banking system.
- 1.2 The Framework sets out the regulatory expectations for investment accounts that encompasses the following:
- (a) Disclosure on product structure and key terms and conditions;
 - (b) Establishment of oversight arrangement over the management of investment accounts and assets funded by the investment accounts;
 - (c) Establishment and implementation of risk management system and internal control system; and

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- (d) Disclosure of information on investment account's performance and risks exposures.

2. Legal provisions

- 2.1 The Framework is issued pursuant to section 29 of the IFSA and section 126 of the Development Financial Institutions Act 2002 (DFIA).

3. Applicability

- 3.1 The Framework is applicable to:
- (a) Islamic banks licensed under the IFSA 2013;
 - (b) Banking institutions carrying Islamic banking business under section 14 of the Financial Services Act (FSA); and
 - (c) Development financial institutions prescribed under Development Financial Institutions Act (DFIA) that carries on Islamic banking business or Islamic financial business under section 129.

These institutions are hereinafter referred to as "Islamic banking institutions" (IBI).

4. Effective date and transition arrangement

- 4.1 The Framework is issued on 3 May 2013 and shall take effect commencing from 1 June 2015.
- 4.2 The IBI are accorded a two-year period to implement the investment account as outlined in the Framework. Nonetheless, the IBI may adopt and offer investment account as specified in the Framework prior to the specified effective date.
- 4.3 The Bank acknowledges that the IBI require time and resources to implement and comply with the requirements outline in the Framework.

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Especially to enhance existing human resource, systems and other financial infrastructures and facilitate consumer understanding. The Bank requires the IBI to undertake immediate initiatives to review their business strategies in the implementation and offering of investment account under the IFSA. In this regard, the IBI are required to:

- (a) Identify the gaps that exist to satisfy the requirements set out in the Framework;
- (b) Conduct assessment on the approach to transform existing unrestricted investment account and restricted investment account to comply with the Framework;
- (c) Determine reasonable time line for the banks to fully comply with the regulatory requirements; and
- (d) Institute the development of necessary infrastructures to support the operationalisation of investment account prior to the effective date as specified by the Bank.

Question 1

The CP proposes a two-year transition period for IBI to comply with the Framework. Please provide your comment on the adequacy of the proposed transition period and highlight major operational consideration (with justification) that need to be addressed to ensure effective implementation of the Framework.

What are your recommendations (if any) to your comment?

5. Related policies

5.1 This framework shall be read together with the respective documents but not limited to such guidelines, as follows:

- (e) Shariah Standard on Mudarabah (BNM/RH/GL 012-4);
- (f) Guidelines on Investor Protection (BNM/RH/GL 018-2);
- (g) Guidelines on Corporate Governance for Licensed Islamic Bank (GP1-i) (BNM/RH/GL/002-1);

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- (h) Guidelines on Corporate Governance for Development Financial Institutions (BNM/RH/GL/005-14);
- (i) Shariah Governance Framework for Islamic Financial Institutions (BNM/RH/GL 012-3);
- (j) Framework on Rate of Return (BNM/RH/GL/008-4);
- (k) Guidelines on Financial Reporting for Islamic Banking Institutions (BNM/RH/GL/008-18)
- (l) Guidelines on Financial Reporting for Development Financial Institutions (BNM/RH/GL/005-16);
- (m) Guidelines on the Recognition and Measurement of Profit Sharing Investment Account (PSIA) as Risk Absorbent (BNM/RH/GL 007-11);
- (n) Guidelines on Product Transparency and Disclosure (BNM/RH/GL 000-3);
- (o) Single Counterparty Exposure Limit (BNM/RH/GL 001-38);
- (p) Guidelines on Introduction of New Product (BNM/RH/GL 008-3);
- (q) Liquidity Framework for Islamic Banking Institutions (BNM/RH/GL/002-12); and

6. Definition and Interpretation

6.1 Unless the context otherwise requires, the meanings of the following terms in these guidelines are as follows:

<i>Guidance</i>	Refers to Practice Guides, are intended to promote common understanding among the IBI in the industry and improve industry practices and include interpretative guidance and examples of possible approaches and practices that can be adopted/ implemented to meet the requirements. The practice guides have no force of law and will be labelled as "PG" in the policy documents and consultative documents issued by the Bank.
<i>Investment account</i>	Has the same meaning as defined under the section 2 of the IFSA.

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Investment account holders (IAH) Refers to the investors who invest funds or capital in the investment account with the IBI.

Requirements Issued pursuant to substantive provisions in the relevant laws administered by the Bank and are binding. In the event of non-compliance, the Bank may take enforcement actions, for example, administrative actions, civil actions, offer to compound or pursue prosecution provided that the Bank is empowered to take such actions under the relevant laws. Requirements will be labelled as “Standards” (S) in the policy documents and consultative documents to be issued by the Bank.

The Bank Means Bank Negara Malaysia, a body corporate which continues to exist under the Central Bank of Malaysia Act 2009.

Mudarabah A form of partnership between one who contributes capital (*rabb al-mal/capital provider*) and the other who contributes efforts in the form of managerial skills (*mudarib/manager*). Profit from the outcome of the partnership is shared between the capital provider and manager according to mutually agreed profit sharing ratio whilst losses are borne solely by the capital provider, provided such loss is not due to the manager’s negligence or violation of specified conditions.

Musharakah A form of partnership between two or more parties (partners) contributing equal or varying amount of capital and jointly managing the venture. Profit from the outcome of the partnership is shared between all partners according to mutually agreed profit sharing ratio whilst losses incurred are proportional to the partners’ capital contribution.

Wakalah bil istithmar An investment agency contract in which the capital provider (*muwakkil*) mandates his agent (*wakil*) to perform particular *mua’alah* transaction or investment and in return the agent will receive a fee (*ujr*) for the service.

Restricted investment account A type of investment account where the IAH authorise IBI to invest their funds in Shariah compliant assets with specific restrictions or conditions such as purpose, asset classes, economic sector and period for investment or others.

Unrestricted investment account A type of investment account where the IAH authorise IBI to invest their funds in Shariah compliant assets without specifying any restrictions or conditions on the management of the funds.

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PART B PRODUCT STRUCTURING

7. Shariah compliant investment account

- S** 7.1 Pursuant to section 28(1) of the IFSA, the IBI are responsible to ensure the overall operations of investment account are in compliance with Shariah requirements. The IBI shall be guided by the Shariah standards of respective contracts issued by the Bank and the rulings of the IBI's own respective Shariah committees in structuring and offering investment account. The opinion of the Shariah Advisory Council (SAC) of the Bank shall be sought to resolve issues pertaining to Shariah matters as outlined in the *Shariah Governance Framework for Islamic Financial Institutions*.
- S** 7.2 In line with the objective of sharing the outcome of the investment or business venture, the investment account is suitable to be structured either based on the Mudarabah, Musharakah or Wakalah bil istithmar (wakalah) contract. The investment account structure, strategies, terms of agreement and asset portfolio must be endorsed by the Shariah committee of the IBI to ensure that the entire operations comply with Shariah requirements.
- S** 7.3 The Shariah committee of the IBI is expected to provide annual certification that the investment account is compliance with Shariah.
- S** 7.4 The IBI must establish a holistic and effective management system that is supported by adequate policies and procedures and competent human resource to ensure that the investment account continue to adhere with Shariah requirements.
- S** 7.5 The IBI must ensure that the terms and conditions of the investment account provide sufficient legal enforceability to affect the loss bearing or loss transfer arrangement to the IAH in accordance with Shariah.

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8. Investment objectives

- S** 8.1 The IBI must clearly outline the objectives of the investment account and provide sufficient disclosure in the product disclosure sheet and legal documentations.
- S** 8.2 The IBI must identify and set out specific investment strategies and risk management strategies to achieve the investment objectives. In addition, the IBI are required to conduct sound assessment by using reliable information and research methodology to identify the suitability criteria of the IAH that qualify to invest in the particular investment account. Especially the criteria that reflect the IAH's risk appetite to accept the risks inherent in the assets funded by the investment account given the projected return on investment.
- S** 8.3 The prospective IAH must be adequately informed of the risk and return profile of the investment account. The IBI must ensure that the funds from the IAH are invested in accordance to the established strategies to achieve the desired investment objectives.
- S** 8.4 In the case of restricted investment account, the terms of investment account must clearly stipulate the restriction imposed by the IAH on the IBI in managing the investment account.

9. Minimum amount of investment

- S** 9.1 The IBI shall indicate the minimum amount of investment by the IAH for the particular investment account.
- PG** 9.2 Where relevant, the IBI should clearly state the expected minimum amount of funds invested in order to facilitate the creation of desirable investment portfolio in line with the investment objectives. The IBI may

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develop alternative strategies to solicit additional investment funds in the event that the funds size is less than the expected minimum amount.

10. Investment tenure

- S** 10.1 The IBI shall clearly set out the maturity date of the investment account where the term of investment is fixed for a specified tenure or period. Alternatively, the IBI shall state the terms and conditions of termination applicable to the investment account.
- S** 10.2 The IBI shall state the applicable terms and conditions of reinvestment of the IAH's capital funds.

11. Redemption of investment

- S** 11.1 The IBI shall stipulate the terms and conditions of redemption or withdrawal of funds from the investment account, which include:
- (a) Time of redemption, of which the IAH is allowed to redeem either on maturity date or any time prior to maturity date of the investment account;
 - (b) Specific qualifying criteria to be satisfied to facilitate early redemption of investment account. For example, subject to the disposal of assets, availability of another IAH to substitute the redemption or others;
 - (c) Rights to share profit following early redemption, such as forfeiture of share of profits and/or loss of principal investment value;
 - (d) Applicable methodology for the valuation of the underlying investment portfolio and calculation of profit and loss at redemption; and

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- (e) Operational procedures of redemption including submission of relevant document or form, applicable lock-in period and number of days taken to process the redemption transaction.

12. Profit sharing and agency fee

- S** 12.1 The IBI shall clearly set out the method of profit distribution between the IBI and the IAH with sufficient explanation provided to the IAH on the following:
- (a) Share of profits and losses between both the IAH and the IBI based on agreed profit sharing ratio (PSR) under Mudarabah and Musharakah; and
 - (b) Agency fee and any agreed performance incentive fee under Wakalah.
- PG** 12.2 In determining the appropriate PSR and agency fee, the IBI may consider the following factors:
- (a) Estimated return on investment;
 - (b) Benchmark rate of return of equivalent investment portfolio or product; and
 - (c) Estimated management or operational costs incurred by the IBI in managing the investment account.
- S** 12.3 The calculation and distribution of profit and/or loss to the IAH and/or the IBI shall be subject to the requirements stated in the *Framework on Rate of Return*.

Question 2

The Bank proposes that only realised profit shall be eligible for distribution to the IAH and the IBI. What is your comment on this proposal?

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- S** 12.4 The employment of profit smoothing practices or Displaced Commercial Risk (DCR)¹ techniques which results in unfair distribution of profit to IAH is prohibited.
- S** 12.5 The IBI shall state the profit payment date of the investment account.

13. Product approval

- S** 13.1 The IBI are required to satisfy all requirements stipulated in the *Guidelines on Introduction of New Product* as an addition to the requirements stated in this Framework. The launch-and-file system is not applicable for investment account as stipulated under the *Guidelines on Introduction of New Product*.

PART C MANAGEMENT OF INVESTMENT ACCOUNT

14. Separate management of investment account

- S** 14.1 The overall management and maintenance of investment account shall be separated from other funds and assets managed by the IBI.
- S** 14.2 The IBI shall establish appropriate policies and procedures and systems to facilitate effective management of funds and asset, maintenance of records and information disclosure associated with investment account.
- S** 14.3 The IBI shall ensure that the investment activities are undertaken based on approved investment mandate and policies and procedures.

¹ Refers to the risk arising from the assets managed on behalf of the IAH which maybe borne by the IBI's own capital, when the IBI foregoes part or all of its share of profits on the IAH funds, and/or make transfer to the IAH out of the shareholders' fund investment profits as a result of commercial and/or supervisory concerns in order to increase the return to the IAH.

15. Valuation of investment portfolio

- S** 15.1 The assets funded by investment account must be fairly valued on a regular basis. The IBI shall establish policies and procedures on valuation of these assets, which identify the applicable valuation methodology and frequency of conducting valuation.
- S** 15.2 The valuation process and methodology must be objective, robust, verifiable and consistent with Malaysian Financial Reporting Standards (MFRS).
- PG** 15.3 The IBI may adopt established market practices in valuation methodology and frequency as follows:

Asset class	Valuation basis	Frequency
Listed securities	Fair value	Daily
Non-listed securities	Based on accepted methodologies under MFRS e.g. mark-to-model	Minimum once a month
Investment property	Cost or fair value model with rental income based on market valuation	Minimum once a year
Financing portfolio	Amortised cost less impairment	Minimum once a month including impairment assessment

Question 3

What are the foreseeable challenges that IBI may encounter in carrying out the valuation exercise and areas that should be regulated to ensure the outcome is fair and comparable?

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PART D OVERSIGHT ARRANGEMENT

16. Role of the Board

- S** 16.1 Pursuant to section 65 (1) of the IFSA, the Board of Directors (the Board) is responsible to establish good governance structure to facilitate effective oversight function on the management and implementation of the investment account. The adequacy governance arrangement shall commensurate with the nature, complexity and risk profile associated with the asset funded by investment account.
- S** 16.2 In line with section 65 (2) and (3)(a) of the IFSA and the *Guidelines on Corporate Governance for Licensed Islamic Bank*, the roles and responsibilities of the Board of IBI with respect to giving due regards to IAH shall include the following :
- (a) Approve and review the objectives, strategies, policies and procedures of the investment account;
 - (b) Ensure the management has the competency in managing investment account and monitor their performance;
 - (c) Ensure the investment operations are performed in accordance fiduciary duties and investment agency as stipulated in the agreed terms and conditions of the investment account, relevant legislations and Shariah rulings;
 - (d) Approve risk management policies and systems to facilitate effective implementation risk management processes to manage risks associated with the assets funded by the investment account;
 - (e) Establish policies and processes to ensure compliance with Shariah requirements;
 - (f) Establish internal controls to ensure the investment account operations and activities are conducted in line with approved internal policy and comply with relevant regulations governing the investment account;

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- (g) Approve policies guidance to determine the appropriate PSR and profit distribution mechanism;
- (h) Establish and approve the policies and processes on the appointment of competent personnel and investment expertise to manage the affairs of the investment account; and
- (i) Approve disclosure policies to ensure reliable, relevant and timely information are disseminated to the IAH to facilitate informed decision making and conduct regular review on the effectiveness of these policies to protect the interest of IAH.

Board Committee

- S** 16.3 The Board has the responsibility to ensure the investment account is effectively managed in accordance with the agreed terms and conditions. In line with section 65 (2)(b) the IBI shall establish a separate Board committee to assist the Board in performing independent oversight function on the management of the investment account given the nature, size and increasing complexity of asset portfolio funded by the investment account. Especially if the portfolio of the investment account constitute a **significant** proportion relative to the total asset portfolio of the IBI.
- S** 16.4 The membership of the Board committee on the investment account shall comprise of at least three individual members, of which at the minimum one third shall comprise of independent members or non-executive member. Key responsibilities of the committee include assisting the Board in performing the oversight function and provide recommendations in respect of the management, operations and performance of the investment account.
- PG** 16.5 The independent member of the investment committee may consist of a senior management personnel not directly involved in the management and operations of the investment account.

Question 4

- (a) Please provide your view on the requirement to establish independent Board committee as a safeguard measure to protect the IAH interest.
- (b) What are other mechanisms that can be employed to ensure independent oversight on the investment account? Do you opine that the appointment of trustee is a more robust approach to ensure independent oversight of investment account?
- (c) What are the other parameters that can be considered in designating the level of significance as specify in paragraph 16.3 above?

17. Shariah Committee

- S** 17.1 In line with section 28(1) of the IFSA, IBI is responsible to ensure the overall operation of investment account is compliant with Shariah.
- S** 17.2 Pursuant to section 29(2)(a)(i) of the IFSA, Shariah committee is expected to perform the following roles and responsibilities to ensure activities associated with investment account are conducted in line with Shariah.
 - (a) Endorse the objectives, strategies, policies and procedures of the investment account are compliance with Shariah;
 - (b) Advise or provide clarification to the Board pertaining to issues on Shariah matters to ensure the overall investment account operations and activities are compliance with Shariah;
 - (c) Endorse the terms and conditions stipulated in the legal documentations, information published in promotional materials, product manuals other publications used in the investment account operations;
 - (d) Conduct review on investment account operations periodically and advise the IBI on relevant Shariah rulings, decision or guidelines on Shariah matters issued by the Bank; and
 - (e) Provide Shariah compliance report stating that the investment

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account has been managed in accordance with Shariah. The statement of Shariah compliance shall be prepared in accordance with the requirements stipulated in paragraph 2.9 and 9 of the *Shariah Governance Framework for Islamic Financial Institutions* and *Guidelines on Financial Reporting for Islamic Banking Institutions* respectively.

18. Senior management

- S** 18.1 Senior management of IBI is responsible for the development and implementation of operational policies and framework that governs the conduct of the investment account.
- S** 18.2 The roles and responsibilities of the senior management shall include the following:
- (a) Formulate and implement investment strategies, internal control and risk management system in line with the investment objectives to safeguard the rights and interests of IAH and other stakeholders;
 - (b) Implement relevant internal systems and infrastructure for controlling, monitoring and reporting of investment operations, performance and risk exposures;
 - (c) Identify, assign and train the staff with the right skill set to manage, monitor and review the performance of the investment operations; and
 - (d) Ensure timely disclosure of relevant information is provided to IAH as set out in approved internal policies to facilitate investment decision making.

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Question 5

- (a) Please highlight the area of expertise that is still lacking in the IBI to carry out the investment account operation, which warrant the Bank to consider allowing the outsourcing of this function.
- (b) How much time would the IBI require to develop or employ such expertise?
- (c) What is your comment if the outsourcing of expertise in investment activities is allowed within the domestic financial group only and during the transition period?

PART E RISK MANAGEMENT AND INTERNAL CONTROL

19. Policies and procedures

- S** 19.1 The IBI must establish risk management policies and procedures and infrastructures to identify, measure, monitor and control the various type of risks associated with the assets funded by the investment account to effectively support the investment objectives set out for the investment account.
- S** 19.2 The IBI shall ensure the internal risk management policies are compliance with the regulatory policies stipulated in the standards on risk management issued by the Bank.
- S** 19.3 The risk management policies and procedures on investment account shall at minimum, outline the following requirements:
 - (a) Process to identify and monitor risks exposures associated with the asset funded by the investment account;
 - (b) Development and implementation of relevant risk mitigation techniques to safeguard IAH interest;
 - (c) Establishment of risk exposure limits to mitigate excessive risk taking;

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- (d) Establish the mechanism for risk analysis and methodology for asset portfolio re-allocation or rebalancing;
- (e) Determine the appropriate valuation methodology to be adopted for specific asset class;
- (f) Set out the scope and frequency of risks reporting to the Board and Shariah committee and disclosure to IAH; and
- (g) Establish the mechanism to monitor and report any observation of non-compliance to the requirements set out in the Framework to the Board.

20. Investment concentration risk limit

- S** 20.1 The IBI shall ensure that the assets funded by unrestricted investment account are not exposed to excessive risk exposures or investment concentration risk with the potential to produce significant adverse impact to the investment account. Therefore, IBI are expected to set out internal limits to restrict exposures to investment concentration risk.
- S** 20.2 In the case of investment concentration to single counterparty², IBI shall limit the investment risk exposure to single counterparty to not more than 25% of the carrying value of the total asset portfolio of the unrestricted investment account.
- PG** 20.3 In the case of restricted investment account, the IBI may set out various prudential limits based on the risk appetite and agreement of the IAH.
- S** 20.4 Compliance with the single counterparty exposure limit shall be observed at all times. The IBI shall put in place procedures and processes to enable ongoing compliance, as well as having monitoring and reporting mechanisms to ensure adherence to the limit.

² The definition of single counterparty is consistent with that outline in paragraph 9.1 of the policy on Single counterparty exposure limit issued by the Bank in February 2013.

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- S** 20.5 IBI must notify the Bank immediately of any breaches together with an explanation on the causes of the breach and remedial actions taken or to be taken (with a proposed time frame) to bring the exposures within the specified limit. During the rationalisation period, the IBI shall not increase the exposures to the affected counterparty (including its connected counterparties).

21. Single counterparty exposure limit

- S** 21.1 In the case where the IAH is a banking institution that place funds in investment account with another IBI (mudarib), the banking institution must apply the look-through approach for the purpose of compliance to single counterparty exposure limit (as describe under Appendix 2 of the guidelines on SCEL for Islamic banks issued by the Bank).

22. Liquidity risk management

- S** 22.1 The IBI shall establish an effective liquidity risk management system for the investment account, which includes the management of liquidity risk by the respective investment account (i.e. per account basis). A sound management of liquidity risk includes the identification and measurement of liquidity risk as well as outlining mechanisms to control liquidity risks of each investment account.
- S** 22.2 The methodology adopted for identification and measurement of liquidity risk associated with the investment account shall include appropriate measurement technique to project cash flows of respective account. The assessments shall include the IAH's redemption pattern, liquidity and tradability of the underlying assets and any contingent funding needs.

- S** 22.3 In assessing IAH's redemption behaviour, the IBI must take into consideration the investment and risk strategies of each investment account that may influence IAH's investment decision. Among the pertinent factors are the risk profiles of underlying assets, the level of sophistication of the IAH and market conditions.
- S** 22.4 The investment account is subject to the requirements in the *Liquidity Framework*. While the IBIs are required to manage liquidity risk of the respective investment account, shortage of liquidity from investment account should be aggregated in the IBI's total outflows in calculating regulatory compliance requirements. In addition, due to inadequate historical data to form behavioural assessment for new investment account, the IBI may use cash flow projection based on historical data of equivalent investment account (structured under the Islamic Banking Act). However, the IBIs shall closely monitor of incremental cash outflow and immediately reflect this as the basis for allocation additional liquidity buffer, unless specified otherwise by the Bank.
- S** 22.5 The IBI may allocate certain proportion of investment account funds to be invested in liquefiable assets in line with the investment objectives and mandates of each account. Such liquefiable assets are considered dedicated³ to a particular investment account fund and can only be used to buffer liquidity needs of that fund only. Similarly, any surplus liquidity in a particular investment account fund (for instance, arising from cash inflows exceeding its cash outflows in a given duration), cannot be utilised to support liquidity needs of other investment account or any other obligations of the IBI.
- PG** 22.6 To ensure management and control of liquidity risk of investment account is robust, the IBI may also employ additional tools commensurate to the level of liquidity risk of a given account. For

³ For the avoidance of doubt, liquefiable assets not specified for a particular purpose/fund (i.e. pooled liquefiable assets) can be used to manage liquidity risk for unrestricted investment account.

example, notice period for redemption, setting redemption frequency or redemption amount for any given period.

Liquidity risk management for restricted investment account

- S** 22.7 Notwithstanding the requirements in paragraphs 22.1 to 22.6, the IBI must not create obligation or exposed the bank to liquidity risk arising from restricted investment account given the investment objectives for restricted investment account are mandated⁴ by the IAH. As such, the IBI must ensure the following:
- (a) maturity of restricted investment account must match with maturity or realised value of underlying assets; or
 - (b) proper measure is established to prevent the bank from exposure to liquidity risk arising from premature redemption. For instance the redemption is subject to the realisation of underlying assets to a third party (other than the IBI) or upon finding replacement of funds from other IAH (other than the IBI).

The IBI are not expected to provide liquidity buffer for restricted investment account given the existence of effective liquidity risk transfer mechanism to the restricted IAH.

- PG** 22.8 To ensure settlement of redemption, the IBI is required to outline the redemption procedures in the product disclosure sheet to facilitate effective and efficient operations.

Question 6

- (a) Do you agree with the requirement to manage liquidity risk by funds basis? If no, please provide justification.
- (b) Paragraphs 24.2 and 24.3 suggested factors/determinants that may influence the redemption profile of investment accounts:

⁴ Underlying assets in restricted investment account are usually those specifically identified by the IAH, which may impose further challenges for efficient disposal or fund replacement compared to the more generic underlying assets under nrestricted investment account.

- i) Do you agree that unrestricted investment account will no longer have redemption profile similar to deposits?
 - ii) The liquidity risk requirements for investment accounts should be stricter than those applied to/practiced by asset management companies as underlying assets may be more illiquid in investment accounts. Do you agree with this statement? If no, please elaborate.
- (c) Restricted investment account must incorporate mechanisms to fully eliminate liquidity risk to the IBI:
- i) Do you agree with this requirement? If no, please provide justification and suggest alternative mechanism to minimise liquidity risk arising from restricted investment account.
 - ii) While mechanism is in place to mitigate liquidity risk, the IBI may still be exposed to pressures to honour redemptions such as reputational risk. Should liquidity buffer still be imposed to RIA for this purpose?
- (d) Please provide your comment on the appropriateness of the following methods for URIA under the Basel III Liquidity Coverage Ratio:
- i) Treatment differentiated by types of fund providers similar to those applied for depositors;
 - ii) Treatment for secured funding which is differentiated by types of collateral/underlying assets; or
 - iii) Regulatory prescription for run-off factors that takes into consideration both sensitivity of fund providers and types of underlying assets.
- (e) Please provide your comment on the feasibility/appropriateness of the following tools to manage liquidity risk in unrestricted investment account:
- i) Gating mechanism to limit redemption amount or redemption frequency;
 - ii) Advance notice period for redemption;
 - iii) Longer settlement periods;
 - iv) Liquidity buffer by fund;

- v) Limitation of maturity of underlying assets; and
- vi) Suspension of redemption as mitigation tool in exceptional cases.

Please suggest additional liquidity management tools, if any.

23. Audit function

- S** 23.1 In line with paragraph 16.2(f) above, the scope of internal audit, Shariah audit and external audit shall cover the operation of investment account and assessment on the aspect of compliance to fiduciary duties as stipulated in the terms of investment account. The auditing process shall commensurate with the nature, complexity and risk profile associated with investment account managed by the IBI.

PART F BUSINESS AND MARKET CONDUCT

24. Suitability and fair dealing practices

- S** 24.1 The IBI shall act honestly, fairly and professionally when dealing, marketing and offering the investment account to prospective IAH. The IBI shall undertake a suitability assessment⁵ before accepting placement of the investment account especially by individuals and small and medium-sized enterprises (SMEs) (collectively referred as retail customer).
- S** 24.2 The following are key considerations that the IBI must observe with regard to the suitability assessment:
- (a) **KNOW YOUR IAH:** The IBI must gather sufficient information which would enable the IBI to have sufficient background information on the prospective IAH. This information should

⁵ A suitability assessment refers to an exercise carried out by the IBI. This exercise would entail the IBI gathering necessary information from the prospective IAH in order to form a reasonable basis for the IBI's recommendation.

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include, among other things, the investor's age, annual income and number of dependants;

- (b) IAH RISK PROFILE AND NEEDS: The IBI must gather sufficient information on the prospective IAH's investment objectives, financial situation, risk profile and current portfolio. By gathering this information, the IBI should be able to determine the prospective IAH's risk profile and needs; and
- (c) IAH INVESTMENT KNOWLEDGE: The IBI must gather sufficient information on the prospective IAH's educational qualification, training, work experience and investment experience. The prospective IAH's knowledge and experience should demonstrate that he has sufficient understanding of the features and risk associated with the product recommended. The IBI should be comfortable with the prospective IAH's level of knowledge. The required level of knowledge or experience possessed by the prospective IAH's should correspond to the complexity of the product.

S 24.3 The IBI shall record recommendation made to the prospective IAH and copy of the recommendation shall be provided to the prospective IAH. The recommendation must set out reasons for the recommendation.

S 24.4 In the event the IBI is unable to identify a suitable product for the prospective IAH, the IBI must inform the prospective IAH immediately.

S 24.5 The IBI must obtain a written acknowledgement from the prospective IAH that:

- (a) all information disclosed by the prospective IAH is true, complete and accurate;
- (b) the prospective IAH has understood the features and risks of the product having obtained the explanation from the IBI; and
- (c) the prospective IAH has received a copy of the product disclosure sheet.

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- S** 24.6 As the case may be, the IBI must also obtain from the prospective IAH a written acknowledgement where the prospective IAH:
- (a) Declines to provide information requested by the IBI; or
 - (b) Decides to purchase another investment account product that is not recommended by the IBI.
- S** 24.7 The recommendation provided by the IBI shall be signed by the IBI and prospective IAH.
- S** 24.8 The IBI must record all the information gathered during the suitability assessment exercise and updates thereto, including any recommendation made. Such information must be retained by the IBI in an easily accessible form and place.
- PG** 24.9 Appendix 2 provides guidance in respect of the form that may be used for the purposes of carrying out a suitability assessment. The IBI may request additional information, if necessary.
- S** 24.10 The confirmation of receiving appropriate recommendation shall not extinguish the rights of the IAH challenge the IBI in the case of misselling or negligence by the IBI.

Question 7

- (a) Do you agree with the suitability assessment requirement specified above? Provide your justification.
- (b) What are the potential issues of satisfying the suitability assessment requirement within the IBI's existing operation and external stakeholders?
- (c) What aspect of the guidance in respect of the suitability assessment form is useful to your understanding and application? Please provide your comment.

PART G TRANSPARENCY AND DISCLOSURE

25. General principles

- S** 25.1 Pursuant to section 135 (1) of the IFSA and 126 of DFIA, the IBI are required to establish internal policies and procedures on disclosure of information to the IAH. It is pertinent for the IAH to have access to fair, accurate, clear and timely information with respect to investment account to enable them to make an informed decision.
- S** 25.2 The policies and procedures on disclosure of information shall include the following:
- (a) Suitability and fair dealing practices in relation to the offering or participating in investment account;
 - (b) Types and nature of information to be made available to the IAH in relation to the operation, performance and termination of investment account;
 - (c) Identify applicability of information to various categories of the IAH, such as retail, small and medium enterprises and others; and
 - (d) Financial information disclosure to the IAH and other stakeholders.
- S** 25.3 The IBI shall also observe the requirements stipulated in the *Guidelines on Product Transparency and Disclosure* issued by the Bank with respect to investment account.
- S** 25.4 The IBI are expected to promptly inform the IAH on material changes in investment environment and appropriate measures to be implemented following this development. For instance changes in asset allocation strategy and risk exposures. The IAH must also be notified on potential implication arising from implementation of any remedial action.

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- S** 25.5 Any statement of opinion provided by the IBI on investment account product shall be reasonable, relevant, factually-based, credible and where appropriate, capable of verification. The IBI shall be accountable for any errors and unfair practices (including misselling) committed by the banks in the implementation of investment account.
- S** 25.6 The IBI shall not represent or use any terms that indicate the investment account product as equivalent or similar to a deposit product. For example the use of “Fixed return” or “Fixed income” and “Investment deposit” terms.

26. Product disclosure sheet

- S** 26.1 The IBI shall provide product disclosure sheet for each type of investment account offered to especially individuals and small and medium-sized enterprises (SMEs) (collectively referred as retail customer).
- S** 26.2 The following information must be made available to the prospective IAH with regard to the offering or marketing of investment account:
- (a) Name of investment account product;
 - (b) Shariah contract adopted and description of the salient features of the contract including;
 - (i) The nature of the Shariah contracts and identify the roles and responsibilities of the contracting parties;
 - (ii) The types of investment account either restricted investment account or unrestricted investment account and identify the rights and obligations of the contracting parties;
 - (iii) The profit sharing ratio and profit distribution method with clear illustrations on the expected outcome following application of the ratio and method; and

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- (iv) The nature of losses associated with the investment account to be borne by the IAH.
- (c) Description of the product structure including investment objectives, strategies and proposed asset portfolio and other agreements relevant to the structure;
- (d) Principal terms and conditions of the investment account product;
- (e) Explanation on any matter of significance to the prospective IAH to make an informed decision;
- (f) Fees and charges if applicable;
- (g) Risks disclosure statement highlighting risk factors in investing in the investment account product;
- (h) Analysis of past and future performance;
 - (i) When using past performance of the underlying instruments/assets (where applicable) to project future returns of the investment account, the IBI are expected to use actual returns of the immediately preceding 5 years (or the available period, if shorter). The past performance figures shall be based on actual historical performance and not simulations, and should not be unduly biased (e.g. based only on a period of exceptionally favourable market conditions). The IBI must clearly state that past performance is not indicative of future performance. Likewise, when using any forecast of the economic trends of the markets, the IBI should include a prominent warning that such forecast is not necessarily indicative of the investment account's future returns.
 - (ii) Projection of future performance of the investment account shall include the best case (where feasible) and worst case scenarios, showing a range of potential gains or losses resulting from changes in the value of the underlying instruments/assets. The projection shall not exceed 5 years period. The assumptions used must be

reasonable and should be clearly stated.

- (iii) Information on future performance shall not appear as the most prominent feature in the communication materials.
 - (iv) Comparative analysis between investment accounts or similar product must be relevant, fair accurate and not misleading.
 - (v) Disclosure on prospective outcome of the investment shall highlight both the potential upside return and downside risk of losses. Assumptions used in the projection made shall be clearly stated.
- (i) Disclaimer statement
- (i) in Arial 12-point font, bold capital letters and on the top of the first page of any document issued pertaining to the offering of the investment account;
 - (ii) in Arial 24-point font, bold capital letters and on the first page of hard copy and soft copy of the promotional slide presentation ; and
 - (iii) in Arial font, bold capital letters, on the first and last pages of any advertising material, in a font size no smaller than the font size of the content and readable with reasonable ease.

Illustration of disclaimer statement

<p>IMPORTANT/DISCLAIMER</p> <p>THIS IS AN INVESTMENT ACCOUNT PRODUCT THAT IS TIED TO THE PERFORMANCE OF THE UNDERLYING ASSETS, AND IS NOT A DEPOSIT PRODUCT.</p>
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- (j) Risk warning statement
- (i) in Arial 12-point font, bold capital letters and at the bottom of the last page of any document issued pertaining to the offering of the investment account;

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- (ii) Paragraph 25.2(i)(ii) above applies to any promotional soft copy slide presentation and/or hard copy print out; and
- (iii) Paragraph 25.2(i)(iii) above applies to any advertising material.

Illustration of warning statement

WARNING

THE RETURNS ON THIS INVESTMENT ACCOUNT WILL BE AFFECTED BY THE PERFORMANCE OF THE UNDERLYING ASSETS. THE RETURNS ARE UNCERTAIN AND CUSTOMER RISKS EARNING NO RETURNS AT ALL. IF THE INVESTMENT IS REDEEMED EARLY, CUSTOMER MAY SUFFER LOSSES IN PART OR THE ENTIRE PRINCIPAL SUM INVESTED.

- S** 26.3 The IBI shall ensure that the above information is disclosed to prospective IAH, whom the investment account is issued and request for a confirmation from such IAH that disclosure was made. However, the confirmation of receiving appropriate information and disclosure shall not extinguish the rights of the IAH to challenge the IBI in the case of misselling or negligence committed by the IBI. Please refer to illustration in Appendix 3.

Question 8

- (a) Do you agree with the product disclosure sheet specified above? Provide your justification.
- (b) What aspect of the illustration in respect of the product disclosure sheet is useful to your understanding and application? Please provide your comments

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27. Terms and conditions of agreement

- S** 27.1 The terms and conditions must be provided in clear and concise manner that can be easily understood by the IAH. The following conditions must be explicitly disclosed in the legal documents:
- (a) Rights and obligations of contracting parties under the applicable Shariah contract, in particular with respect to the IAH's responsibility to assume financial losses associated with the investment account;
 - (b) Investment objectives and strategies including the investment asset portfolio allocation;
 - (c) Profit sharing ratio and agency fee where applicable;
 - (d) The IBI's accountability and responsibility to disclose accurate, relevant and timely information to IAH on investment portfolio and frequency of disclosure;
 - (e) Methodologies used in valuation and frequency of valuation of the investment account;
 - (f) Investment tenure, redemption and reinvestment terms and applicable liquidity risk management policies and tools; and
 - (g) Financial implication following any breaches of contractual terms such as the premature redemption of investment account funds.

28. Investment account performance report

- S** 28.1 In line with section 73 of the IFSA, the IBI must maintain accounting records and other records to facilitate the preparation and reporting of true and fair financial information to IAH.
- S** 28.2 The IBI shall prepare and publish periodical performance and manager's report as follows:
- (a) an interim and annual report for investment account with a

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tenure of 12 months or more;

- (b) a quarterly report for investment account with a tenure of more than 3 months and less than 12 months; and
- (c) a single and final report at maturity for investment account with tenure of 3 months or less.

S 28.3 The performance report shall at minimum contain the following information:

- (a) Summary of the investment account information including description of the investment objectives and strategies and investment asset portfolio allocation;
- (b) Analysis of fund performance and valuation up to date;
- (c) Analysis of historical performance and rate of returns of not less than five years (or available period if shorter);
- (d) Statement on any changes in the investment objectives, strategies, restrictions and limitations during the period with sufficient explanation;
- (e) Details of any profit distributions made and proposed during the period, and the effects in terms of the valuation of the investment account before and after the distribution;
- (f) Description of any charges imposed against the investment account fund during the period; and
- (g) Commentary by the IBI as mudarib on the fund performance up to date and a review of future prospects of the investment asset portfolio and proposed strategies.

S 28.4 The IBI shall publish the fund performance report and be made available to the IAH either in print or on the IBI's website in accordance with the IBI's disclosure policy.

29. Financial reporting

- S** 29.1 In line with section 73 of the IFSA, the IBI must maintain accounting records and other records that will sufficiently enable the preparation and reporting of true and fair financial statements of the IBI.
- S** 29.2 The IBI shall disclose in the annual financial statements the following:
- (a) On the face of the statement of financial position, “Investment account from customer” under a separate line item if applicable under MFRS; and
 - (b) As part of the notes to accounts:
 - (i) accounting policy in respect of investment account including nature of the relationship between the IBI and the IAH and rights and obligations associated with particular type of investment account;
 - (ii) movement of funds in the investment account, which is segregated by types of investment account including:
 - (a) balance at the beginning of the period;
 - (b) additional investments received during the period;
 - (c) redemption of investments during the period;
 - (d) the IBI’s share in profits, agency fee and performance incentive fee if applicable;
 - (e) allocated expenses, if any, to the investment account;
 - (f) balance at the end of the period; and
 - (g) asset portfolio allocation.Please refer to illustration in Appendix 4.
 - (iii) average profit sharing ratio and declared rate of return to IAH, agency fee and performance incentive fee to the IBI if applicable respective tenures and types of investment account. Please refer to illustration in Appendix 5.

Question 9

- (a) Do you agree with proposed disclosure in the financial statements as specified in paragraph 29.2? Please provide your justification.
- (b) What would be the appropriate accounting treatment of the unrestricted and restricted investment accounts under MFRS? Please provide your justification.

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APPENDICES

Appendix 1 Excerpt of Framework on Rate of Return

Asset allocation strategy

- S** 1.1 The IBI is required to establish clear policies and procedures to determine the different risk classifications of asset portfolios. This is to enable the IBI to appropriately mobilise and manage the investment account that commensurate with the risk profile of the respective IAH class.
- S** 1.2 The policies and procedures shall be approved by the Board or its relevant committee(s) and reviewed at least annually.
- PG** 1.3 The IBI may develop a single risk-asset allocation strategy for one type of investment account or diversified risk-asset allocation strategy for the same type of investment account fund. The IBI may also use its existing internal asset risk categorisation policy in determining the risk classifications of asset portfolios.

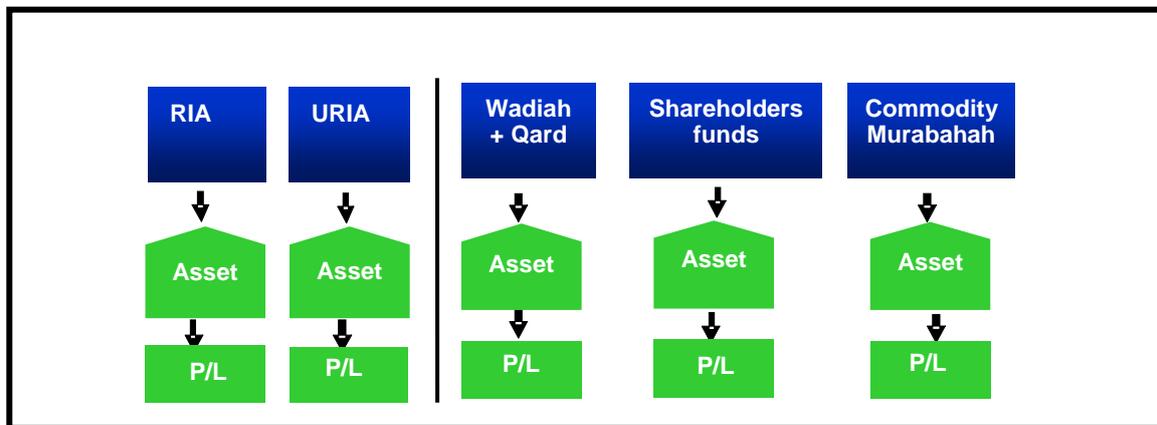
Segregation of funds

- S** 1.4 The IBI is required to establish and maintain one or more separate investment account for the purpose of managing the investment asset portfolio. The assets of such investment account must be kept separated from all other assets funded by other funds.
- S** 1.5 In managing restricted investment account, the IBI is required to match the asset with the specific investment mandate by the IAH.
- S** 1.6 The segregation of investment account with other funds is to enable the IBI to monitor the performance of asset funded by investment account and identify the respective profits and losses associated with the different types of funds

Categories of fund management

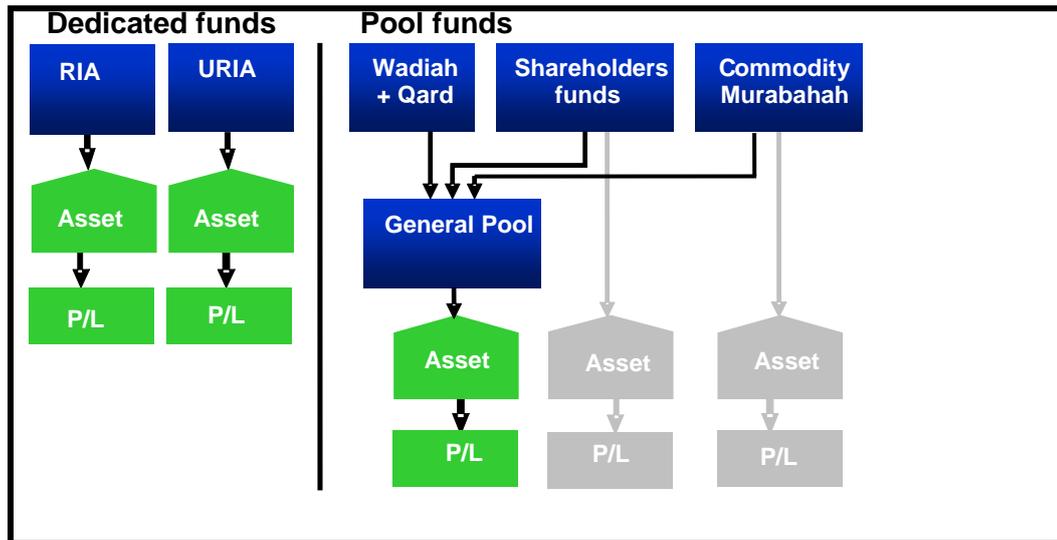
- PG 1.7 Dedicated basis** – funds that are managed separately in accordance with the nature of the Shariah contract including the loss-bearing feature and the relevant investment mandate. These funds are utilised to finance or acquire specific assets or class of assets. Funds that fall under this category include restricted investment account, unrestricted investment account, deposits and shareholders' funds. (Refer illustration 1)

Illustration 1: Dedicated funds



- PG 1.8 Pool basis** – funds that are managed in consolidation according to the underlying Shariah contracts used where there is explicit consent from the fund provider for the IBI to utilise the funds for an income generating activity. The utilisation of these funds is not required to be identified or matched to any specific assets. Funds that fall under this category include Wadiah and Qard deposits and shareholders funds. (Refer illustration 2)

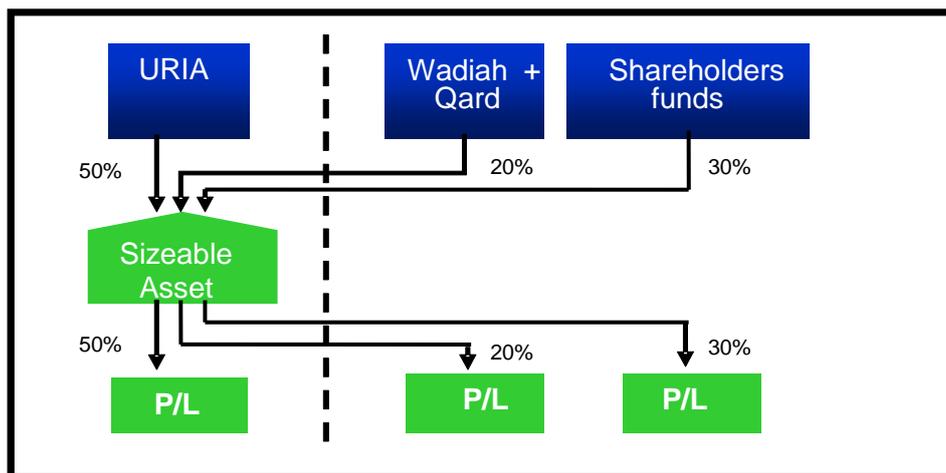
Illustration 2:



Proportionate tagging

- S** 1.9 In the event where the IBI requires additional funding to fund a sizeable asset, the IBI is allowed to allocate funds from the pool funds with the dedicated funds (except for funds with specific investment mandate by IAH) through proportionate tagging. This is to ensure proper allocation of revenues, expenses, profit and loss distribution to the respective fund providers. (Refer illustration 3)

Illustration 3:



- S** 1.10 The IBI is required to separate the management of foreign currency investments from RM funds if there are significant exposure and risk factor to ensure accurate calculation and distribution of profits.

Appendix 2 Minimum format of Suitability Assessment

This IAH Suitability Assessment Form will guide you in choosing the investment account products that suit your investment objectives, risk tolerance, financial profile and investment experience. The information you provide will form the basis of our recommendation. It is important to provide accurate and complete information to ensure that suitable investment account products are recommended according to your investment needs and objectives.

WARNING

THE RECOMMENDATION IS MADE BASED ON INFORMATION OBTAINED FROM THE SUITABILITY ASSESSMENT. IAH ARE ADVISED TO EXERCISE JUDGEMENT IN MAKING AN INFORMED DECISION IN RELATION TO THE INVESTMENT ACCOUNT PRODUCT.

IAH SUITABILITY ASSESSMENT FORM

FILE SPECIFIC INFORMATION

Date undertaken	
Adviser's name	
Branch	
Name of product	
Category of product	
Review date	

A. KNOW-OUR-IAH PROCESS

IAH'S DETAILS

Name	
Age at time of recommendation	
Nationality	
NRIC/ID No/Passport No	
Residential address	
Marital status	
No of dependents	
Contact no	
Email address	
Remarks	

IAH'S EMPLOYMENT STATUS

Current employment status/Profession	
If conducting business, nature of IAH's business	
Annual income	

Expected/actual retirement age	
Is capital or principal security or protection important to the IAH?	
Whether capital/principal investment is protected	
Category of IAH	
Remarks	

B. IAH'S NEED ANALYSIS

IAH's INVESTMENT OBJECTIVES

Duration period the IAH wishes to invest in the product	
Rationale for choosing the product	
General expectation of outcome of the product	

Purpose of investment	Please circle			Remarks
Saving for specific purpose	Priority	Yes	No	
Supplementing income in retirement	Priority	Yes	No	
General lump sum investment for growth	Priority	Yes	No	
General lump sum investment for income	Priority	Yes	No	
Others: State in remarks box	Priority	Yes	No	
IAH refuses to provide sufficient information		Yes	No	
Remarks				

IAH's FINANCIAL SITUATION

IAH's assets, liabilities, cash flow and income	
Proportion of investment out of IAH's net assets (not including IAH's residential property)	
IAH's regular financial commitment	

IAH's RISK TOLERANCE/RISK PROFILE

The risk of loss of capital that the IAH is willing to bear:	
--	--

IAH'S CURRENT PORTFOLIO

Existing investment portfolio the IAH currently holds	
Performance of current investment portfolio	

C. IAH'S INVESTMENT KNOWLEDGE ASSESSMENT

IAH'S RELEVANT KNOWLEDGE

Whether prospective IAH has dealt in securities and/or derivatives	
Relevant knowledge or experience to understand risks associated with the product	
Ability to understand risks involved	
Investment experience	

IAH'S RELEVANT KNOWLEDGE TO UNDERSTAND THE FEATURE OF THE PRODUCTS OFFERED

Appreciate any special feature of the product	
Whether IAH understands the nature of the product	
Whether IAH understand the terms of the product specification	

PRODUCT DETAILS

* To include all the important information relating to the investment account products

* To include all the relevant questions which are crucial in relation to the investment account products to the IAH

D. RECOMMENDATIONS (to be completed by the IBI)

Whether the product is recommended by the IBI

YES	
NO	

If product is recommended by the IBI, the basis of recommendation shall be documented.

Basis of recommendation:

If the product is not recommended by the IBI, the reasons for non-recommendation shall be documented.

Reasons product is not recommended:

Date of recommendation:

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Appendix 3 Minimum format of Product Disclosure Sheet

IMPORTANT/DISCLAIMER

THIS IS AN INVESTMENT ACCOUNT PRODUCT THAT IS TIED TO THE PERFORMANCE OF THE UNDERLYING ASSETS, AND IS NOT A DEPOSIT PRODUCT.

PRODUCT DISCLOSURE SHEET

(Please read and understand this Product Disclosure Sheet together with the general terms and conditions before you apply and decide to accept the <Name of Product>)

PRODUCT NAME

<Date>

BRIEF INFORMATION ON THE PRODUCT

1. What is this product about?

[Brief description of the product should include the following information:

- *Applicable Shariah contract*
- *Type of product (Restricted/Unrestricted)*
- *Parties involved in the investment activities and their roles and responsibilities]*

PRODUCT SUITABILITY

2. Who is this product suitable for?

[Briefly state the types of investors this product is suitable for. Information provided could include:

- *Return objectives e.g. income/capital growth/capital preservation*
- *Whether their principal investment will be at risk*
- *How long the investor prepared to hold their investment for*
- *Any other key information peculiar to the product which would help investors to determine if the product is suitable for them e.g. investment limit and restrictions]*

KEY PRODUCT FEATURES

3. What am I investing in?

- *Investment objective, strategy and policy to achieve the investment objective, e.g. investment focus (types of asset, allocation, country, market/sector/industry), techniques/approaches used in managing the portfolio*
- *Risk assessment on the performance of the investment asset portfolio*
- *Minimum investment*
- *Investment tenure e.g. 1, 3, 6, 9, 12, 18 months*
- *Profit sharing ratio (Customer: Bank) and calculation*
- *Profit payment method*
- *Key terms and conditions i.e. reinvestment procedures, redemption and callability policies*
- *Whether product will employ derivatives strategy or investment in structured products*

***To describe these features with relevant tables, diagrams or illustrations where applicable**

Examples

a) Profit calculation under Mudarabah/ Musharakah investment account

Date of placement	=	1/01/2012	Investment tenure	=	12 months
Date of maturity	=	31/12/2012	Profit Sharing Ratio (PSR)	=	60:40
Investment amount (Principal)	=	RM50,000	Gross Rates	=	5.36%

Profit Calculation (first 6-months tenure)
Principal x PSR X Gross Rates X 180 /365 Days = Amount payable to IAH
RM50,000 X 60% X 5.36% X 180/365 Days = RM792.99

b) Agency fees/ Performance fees under Wakalah investment account

Investment amount (Principal)	=	RM50,000	Gross Rates	=	5.36%
Agency fee	=	0.1%	EPR	=	4.00%

**It has been agreed that the Mudarib (IBI) shall earn performance incentive fee in the basis of any return above the agreed expected profit rate (EPR) of 4%.*

Type	Calculation	Total Amount (RM)
Wakalah fees	Agency fee x Investment Amount = 0.1% x RM50,000	50
Performance Incentive fees	[Gross Rates – Agency fee – EPR] x Investment amount = [5.36% - 0.1% - 4%] x RM50,000	630

c) Profit payment method

Payment of profit in respect of investment up to 12 months shall be one (1) day after the profit declaration day, tentatively the 10th of every month.
Thereafter, actual profit will be provided and accrued on monthly basis until the last month of the investment tenor or up to the interim profit payment period.

d) Key terms & conditions

- (i) Redemption at maturity – the principal amount is payable in full if you redeem your investment only at maturity;
- (ii) Early redemption – you may receive a sum of less than your initial investment if you redeem all or part of the investment before it matures. The actual amount that you will be paid depend on the market value of the underlying asset of which your investment is linked to at the point of redemption less any charge payable, arising from the premature redemption.
- (iii) Redemption process – All redemption should be made on a redemption form to ensure that a record of the redemption exists. Redemption requests received before 2.00pm will be treated as received on that Business Day and redeemed at the Redemption Price applicable for that Business Day. Any redemption request after 2.00pm will be treated as received on the following Business Day and redeemed at the Redemption Price applicable for the following Business Day.

4. What are the possible outcomes of my investment?

[To describe possible future gains/losses in best and worst market scenario and any other possible scenarios showing a range of potential gains or losses resulting from changes in the value of the underlying instruments / assets. Information on past performance must also be included:

- Actual returns of the immediately preceding 5 years on a net basis (net of tax and charges) or the available period, if shorter

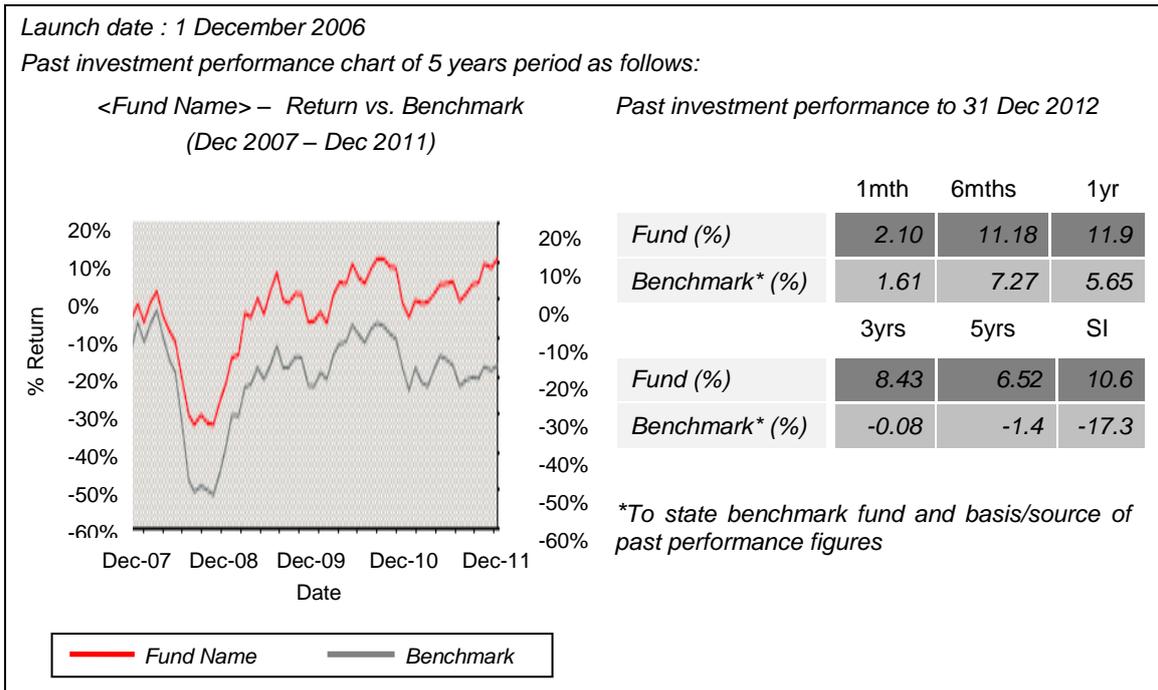
- The basis of calculation of past performance
- The following statement must appear under this section:
“Past performance of the investment is not an indication of its future performance”
***To describe these features with relevant tables, diagrams or illustrations where applicable**

Examples

a) Possible future gains and loss (Investment of RM50,000)

Table 1 Best Market			Table 2 Worst Market		
Months	Rate of Return (%)	Avg. Rate of Return (%)	Months	Rate of Return (%)	Avg. Rate of Return (%)
Jan	5.36	5.70	Jan	5.36	5.29
Feb	5.55		Feb	5.33	
March	5.79		March	5.25	
April	6.09		April	5.21	

b) Fund performance



KEY RISKS

5. What are the key risks associated with this product?

State key risks that would commonly occur, or which may cause significant losses if they occur or both e.g. market risk, equity risk and income risk. Risks peculiar to the product should also be stated e.g. individual investment risk involved in specific investment of securities, liquidity risk and counterparty credit risk. Give appropriate formatting emphasis where investors might lose all of their initial investment. The information should include the following statement:

BNM/RH/CP 008-10	Islamic Banking and Takaful Department	Concept paper on Investment account	Page 44/46
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“You are advised to carefully consider all risk factors before making an investment decision”]

FEES & CHARGES

6. What are the fees and charges involved?

- *All relevant fees and charges payable Indicate if fees payable once-off or per-annum basis*
- *If fees may be increased later, please state so*
- *To state if charges are negotiable*

VALUATIONS

7. Valuation strategy adopted, frequency & where valuations are published (i.e. web address/ newspapers where valuations are published)

CONTACT INFORMATION

8. Who should I contact for further information or to lodge a complaint?

- *Contact details of the IBI that IAH may contact for queries or complaint on the product*
- *Website address and email address*

Example:

- a) *For internal dispute resolution, you may contact:*
(Contact details for the IBI's internal dispute resolution)
- b) *If you are dissatisfied with the outcome of the internal dispute resolution process, please refer your dispute to the BNM TELELINK*
- (a) via phone to : 1-300-88-5465 (1-300-88-LINK)*
- (b) via fax to : +603-2174-1515*
- (c) via email to : bnmtelelink@bnm.gov.my*
- (d) via letter to : Laman Informasi Nasihat dan Khidmat (LINK)*
- Bank Negara Malaysia
P.O. Box 10922
50929 Kuala Lumpur*

The information provided in this disclosure sheet is valid as at <date>

WARNING

THE RETURNS ON THIS INVESTMENT ACCOUNT WILL BE AFFECTED BY THE PERFORMANCE OF THE UNDERLYING INSTRUMENTS / ASSETS. THE RETURNS ARE UNCERTAIN AND CUSTOMER RISKS EARNING NO RETURNS AT ALL. IF THE INVESTMENT IS REDEEMED EARLY, CUSTOMER MAY SUFFER LOSSES PART OR THE ENTIRE PRINCIPAL SUM INVESTED.

Appendix 4 Illustration of Movement in Investment Account in the Notes to Accounts

(RM'000)	Mudarabah		Wakalah	Total
	Unrestricted investment account	Restricted investment account	Unrestricted investment account	
As at 1 January 20XX	123,400	30,500	65,720	219,620
<i>Funding inflows/outflows</i>				
New placement during the year	33,560	9,765	28,395	71,720
Redemption during the year	(23,555)	(4,567)	(20,766)	(48,888)
Income from investment	18,021	4,863	8,884	31,768
<i>Company's share of profit</i>				
Profit distributed to mudarib	(7,779)	(999)	-	(8,778)
Wakalah fee	-	-	(1,454)	(1,454)
Wakalah performance incentive fee	-	-	(351)	(351)
As at 31 December 20XX	143,647	39,562	80,428	263,637
<i>Investment portfolio:</i>				
House financing	33,039	-	18,499	51,538
Hire purchase receivables	20,111	-	11,260	31,371
Trade financing	43,094	-	24,128	67,222
Other term financing	31,602	39,562	17,694	88,858
Marketable securities	15,801	-	8,847	24,648
Total investment	143,647	39,562	80,428	263,637

Appendix 5 Illustration of Profit Sharing Ratio, Rate of Return and Wakalah Incentive Fee in the Notes to Accounts

	Investment account holder		Bank's
	Average	Average rate	Wakalah
	profit	of return	incentive fee
	sharing ratio	(%)	(%)
	(%)	(%)	(%)
Unrestricted investment accounts:			
less than 3 months	50	3.00	2.15
between 3 to 12 months	55	3.25	2.25
between 1 to 2 years	55	3.75	2.50
more than 2 years	75	4.25	2.80
Restricted investment accounts:			
between 1 to 2 years	55	3.75	-
between 2 to 5 years	65	4.25	-