Investment Account

Applicable to:
1. Licensed Islamic banks
2. Licensed banks and licensed investment banks approved to carry on Islamic banking business
3. Prescribed institutions approved to carry on Islamic banking business or Islamic financial business

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PART A OVERVIEW

1. Introduction

1.1 The Islamic Financial Services Act 2013 (IFSA) distinguishes investment account from Islamic deposit, where investment account is defined by the application of Shariah contracts with non-principal guarantee feature for the purpose of investment. Notwithstanding this, the IFSA provides adequate legal basis to support the further strengthening of investment account operation that provides appropriate protection to investment account holders (IAH) whilst ensuring financial stability of the Islamic financial system. Under the IFSA, the priority of payment for investment account upon liquidation of the Islamic financial institution (IFI) is treated separately from Islamic deposit, in accordance with the rights and obligations accrued to the IAH.

Policy objective

1.2 This policy document on investment account aims to outline the regulatory requirements on the conduct of investment accounts. The objectives of this policy document are as follows:

(a) to facilitate the orderly development and operationalisation of investment accounts that are consistent with the IFSA and to ensure compliance with standards on Shariah issued by the Bank;

(b) to establish strong oversight arrangement and sound risk management infrastructure in the management of investment accounts in order to safeguard the interest of the IAH and other stakeholders;

(c) to set out the minimum disclosure requirements that will facilitate fair assessment of investment proposals and performance, and informed decision making by the IAH; and

(d) to outline the prudential requirements in order to support sound risk management of investment accounts and ensure financial stability in the Islamic financial system.

Scope of policy

1.3 This policy document sets out:

(a) specific requirements on the structuring, risk management and market conduct of investment accounts;

(b) oversight requirement over the management of investment account funds and investment assets; and

(c) transparency and disclosure requirements including minimum information to be disclosed in product disclosure sheet, key terms and conditions to be included in primary documents, investment account performance report to the IAH and additional disclosures in the IFI’s financial statements; and

(d) prudential requirements relating to investment accounts.
2. **Applicability**

2.1 The policy document is applicable to all IFIs as defined in paragraph 6.2 that offers products and services classified as investment account.

2.2 Notwithstanding paragraph 2.1:
(a) paragraph 30 of this policy document is only applicable to a DFI approved under section 33B(1) of the Development Financial Institutions Act 2002 (DFIA) to carry on Islamic banking business or Islamic financial business that offers products and services classified as investment account; and
(b) paragraphs 31.3 and 31.4 of this policy document is only applicable to a DFI which is an IAH.

3. **Legal provisions**

3.1 The requirements in this policy document are specified pursuant to:
(a) sections 29(2), 57(1) and 135(1) of the IFSA; and
(b) sections 33E(2), 41(1) and 42C(1) of the DFIA.

3.2 The guidance in this policy document is issued pursuant to section 277 of the IFSA.

4. **Effective date**

4.1 This policy document comes into effect on 14 March 2014 except for the following requirements which come into effect as follows:
(a) Paragraph 9.2 on 1 July 2018; and
(b) Paragraphs 22.5A and 22.6A on 10 October 2017.

4.2 The Bank is committed to ensure that its policies remain relevant and continue to meet the intended objectives and outcome. Accordingly, the Bank will review this policy document within 5 years from the date of issuance or the Bank’s last review and, where necessary, amend or replace this policy document.

5. **Transition arrangement**

5.1 This policy document shall apply to products that are classified as investment account. For the purpose of transition, such Islamic deposits on current account, deposit account, savings account or other similar accounts (e.g. general investment account and specific investment account) under any Shariah contract which is non-principal guaranteed, previously approved under the repealed Islamic Banking Act 1983 shall be exempted from this policy document.

5.2 Unless otherwise stated in this policy document, the prudential requirements applicable to the investment account are as specified in
Part H. For avoidance of doubt, policy documents which have referred to general investment account and specific investment account, shall continue to be applicable to such products during transition.

6. Interpretation

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

6.2 For the purpose of this policy document:

“S” denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement actions;

“G” denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

“development financial institution” or “DFI” means prescribed institutions approved under DFIA;

“Islamic financial institution” or “IFI” means:
   (a) licensed Islamic banks under the IFSA;
   (b) licensed banks and licensed investment banks approved under section 15(1)(a) of the Financial Services Act 2013 (FSA) to carry on Islamic banking business; and
   (c) prescribed institutions approved under section 33B(1) of the Development Financial Institutions Act 2002 (DFIA) to carry on Islamic banking business or Islamic financial business;

“investment account holder” or “IAH”, refers to a customer with an investment account maintained at an IFI;

“restricted investment account” or “RA”, refers to a type of investment account where the IAH provides a specific investment mandate to the IFI such as purpose, asset class, economic sector and period for investment;

“unrestricted investment account” or “UA”, refers to a type of investment account where the IAH provides the IFI with the mandate to make the ultimate investment decision without specifying any particular restrictions or conditions.

7. Related legal instruments and policy documents

7.1 This policy document must be read together with other relevant legal instruments and policy documents that have been issued by the Bank, in particular, the documents listed in Appendix 1.
PART B  PRODUCT STRUCTURING

8.  Shariah compliant investment account

S  8.1  The IFI must ensure that the overall operation of investment account is in compliance with Shariah. The IFI shall be guided by the rulings of the Shariah Advisory Council of the Bank (and the Shariah Advisory Council of the Securities Commission, if applicable), policy documents issued by the Bank and rulings of the IFI’s own respective Shariah committee in structuring the investment account.

S  8.2  The IFI must ensure that the investment account is structured based on the application of Shariah contract(s), including such arrangement which does not create an obligation on the IFI to repay in full, the money accepted from the IAH e.g. mudarabah, musyarakah or wakalah bi al-istithmar.

S  8.3  The IFI must ensure that the structure and terms of the investment account provide sufficient legal enforceability to affect the loss bearing or loss transfer arrangement to the IAH in accordance with Shariah.

9.  Investment objectives

S  9.1  The IFI must clearly outline in the product disclosure sheet\(^1\) and the agreement\(^2\), the investment objectives of the investment account including identifying the types of assets that would be invested in. In developing the investment objectives the IFI must conduct an assessment on the following:

(a) investment and risk management strategies to achieve the investment objectives, including robust analysis of the expected return on investment of the underlying assets and stress testing or scenario analysis; and

(b) suitability criteria of the prospective IAH, especially the criteria that reflects the IAH’s risk appetite, to accept the risks arising from the proposed investment objectives, including study of investor’s preference/behaviour analysis using reliable data and appropriate research methodology.

S  9.2  In the case of RA, the IFI must clearly stipulate in the product disclosure sheet and the agreement any terms and conditions associated with the investment objectives, including:

(a) specification to invest in particular assets;

(b) arrangement to immediately remit the cash flow received from the underlying asset to the IAH; and

(c) where applicable, provision on reinvestment of the cash flow.

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\(^1\) For the purpose of paragraph 25.2  
\(^2\) For the purpose of paragraph 26.1
10. Minimum amount of investment

S 10.1 The IFI must indicate in the product disclosure sheet the minimum amount to be invested by the IAH and where relevant the minimum investment account fund size required to create the investment assets in line with the investment objectives.

S 10.2 Pursuant to paragraph 10.1, the IFI must identify in the product disclosure sheet the strategy in the event that the investment account fund size is less than the minimum amount including soliciting additional investment funds from alternative sources or termination of investment and refund of initial investment to the IAH.

10.3 Deleted

G 10.4 The IFI may also indicate the maximum amount to be invested by the IAH and the maximum investment account fund size accepted.

11. Investment tenure

S 11.1 The IFI must clearly set out the investment tenure of the respective investment account with or without maturity in the product disclosure sheet and the agreement.

S 11.2 The IFI must also indicate in the product disclosure sheet and the agreement the applicable terms of reinvestment by the IAH at the maturity of the investment.

12. Redemption of investment

S 12.1 The IFI must stipulate in the product disclosure sheet and the agreement the terms of redemption of investment account. In determining the terms of redemption, the IFI must take into consideration the following factors:

(a) liquidity of underlying investment assets;
(b) profit distribution terms;
(c) valuation of investment assets; and
(d) liquidity risk management strategies available to the IFI.

S 12.2 The terms of redemption shall include:

(a) specific provision allowing the IAH to redeem prior to the maturity date of the investment account, if applicable;
(b) specific conditions 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 of others;
(c) rights to share in the profit and/or loss following early redemption, such as waiver of share of profits and/or loss of principal investment value;
(d) applicable methodology for the valuation of the underlying investment assets and calculation of profit and loss at redemption; and

(e) operational procedures of redemption including submission of relevant document or form and number of days taken to process the redemption transaction.

(f) specific provisions on the ability of the IFI to suspend redemptions for UA under circumstances allowed by this standard or to invoke any other applicable additional mechanisms that may affect the redemption capability of the IAH such as lock-in period or gating mechanisms upon trigger events as determined and disclosed by the IFI.

13. Profit distribution and agency fee

S 13.1 The IFI must clearly set out the profit distribution terms in the product disclosure sheet and the agreement including:

(a) method of profit distribution;
   (i) if under mudarabah and musyarakah, the share of profit or profit and loss between the IAH and the IFI is based on the agreed profit sharing ratio (PSR); or
   (ii) if under wakalah, the profit distribution is after deducting the agency fee and any agreed performance incentive fee to the IFI;

(b) profit distribution date(s) and manner which the distributable profit shall be paid; and

(c) eligibility criteria for profit distribution e.g. minimum investment period for investment accounts without maturity or early redemption for investment accounts with maturity.

S 13.2 For the purposes of paragraph 13.1(a), the IFI shall comply with the requirements specified in policy document on Rate of Return.

S 13.3 In determining the frequency of profit distribution, in particular for investment accounts without maturity and distribution prior to maturity of investment accounts with maturity, the IFI must consider the following factors:

(a) income recognition criteria i.e. realised or unrealised income;
(b) cash flow for distribution;
(c) stability and sustainability of profit distribution; and
(d) consistency of the distribution policy with the investment objectives.

S 13.4 In determining the appropriate PSR and agency fee, the IFI must at minimum consider the following factors:

(a) expected return on the investment assets;
(b) benchmark rate of return of equivalent investment assets or products; and
(c) expected management or operational costs incurred by the IFI in managing the investment account.
The IFI must not implement profit smoothing practices or displaced commercial risk (DCR) \(^3\) techniques.

### 14. Valuation of investment asset

The IFI must clearly outline in the agreement the valuation policy of the investment assets including:

(a) valuation methodology;
   (i) must be objective, robust, verifiable and consistent with the recognition and measurement criteria of the applicable Malaysian Financial Reporting Standards (MFRS); and
   (ii) impairment assessment on illiquid assets \(^4\) shall reflect current valuation. The IFI shall put in place adequate mechanism to ensure timely and fair recognition and measurement of impairment loss during the period in which it is arises; and

(b) valuation points or frequency;
   (i) must commensurate with redemption terms and investment account performance reporting requirements. For investment accounts which may not be redeemed prior to maturity date, the IFI is required to perform valuation of the investment asset at minimum on a monthly basis.

### 15. Termination of investment account

The IFI must stipulate in the agreement the applicable terms of termination of the investment account fund including:

(a) the manner of which termination shall be conducted;
(b) the valuation methodology of investment assets upon termination;
(c) profit distribution terms upon termination; and
(d) any other operational requirements that will affect the conduct of business with the IAH.

The IFI shall inform the Bank of its intention of terminating any UA funds which has been approved by the Board by submitting a written notification to either Jabatan Penyeliaan Kewangan Konglomerat or Jabatan Penyeliaan Perbankan.

The IFI shall ensure that all liabilities of the investment account fund are discharged before the completion of the termination.

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\(^3\) Refers to the risk arising from the assets managed on behalf of the IAH which may be borne by the IFI’s own capital, when the IFI 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 as a result of commercial and/or supervisory concerns in order to increase the return to the IAH. The profit smoothing techniques are described in GN-3: Guidance Note on the Practice of Smoothing the Profits Payout to Investment Account Holders issued by the Islamic Financial Services Board on December 2010.

\(^4\) For financing assets, the IFI shall refer to requirements in Classification and Impairment Provisions for Loans/Financing.
PART C  MANAGEMENT OF INVESTMENT ACCOUNT

16.  Separate management of investment account

S 16.1 The IFI must separate the management and maintenance of records of investment accounts and the investment assets from other funds and assets managed by the IFI. For this purpose the IFI shall either:
(a) conduct separate management of funds in the manner specified in the policy document on *Rate of Return*; or
(b) appoint a trustee.

S 16.2 Pursuant to paragraph 16.1(a), the IFI must establish appropriate internal controls including the following:
(a) policies and procedures and systems for separate management of investment accounts and investment assets funded by the investment account funds; and
(b) systems for maintenance of records and preparation of financial information disclosure specified in this policy document.

S 16.3 For the purposes of paragraph 16.1(b), the trustee shall be an approved trustee under the Capital Market and Services Act 2007 (CMSA). The IFI shall ensure that the appointed trustee has the appropriate capacity to perform the functions specified in paragraph 16.1.
PART D  OVERSIGHT ARRANGEMENT

17.  Role of the Board

S 17.1 The Board of Directors (the Board) is responsible to establish an effective governance arrangement to facilitate effective monitoring and control of the overall management and conduct of the investment account. The adequacy of the governance arrangement shall commensurate with the nature, scale, complexity and risk profile associated with the conduct of the investment account.

S 17.2 The duties and responsibilities of the Board with respect to giving due regards to the interest of the IAH shall include the following:
(a) approve and review the objectives, strategies, policies and processes of the investment account including profit distribution policy and valuation policy;
(b) ensure the investment operations are performed in accordance with the fiduciary duties and agency duties in the agreed terms and conditions of the investment account, relevant legislations and Shariah rulings;
(c) ensure establishment of effective risk management policies, processes and infrastructure to identify, measure, monitor, control and report the various types of risk associated with the assets funded by the investment account including policies and procedures to determine the significant level of investment account business for the purpose of paragraph 17.3;
(d) ensure the management of investment accounts is conducted by personnel with the appropriate competency and investment expertise; and
(e) 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 the IAH.

Board Investment Committee

S 17.3 The IFI shall establish a separate Board Investment Committee (BIC) when the investment accounts constitute a significant proportion of the total asset of the IFI.

G 17.4 For the purposes of paragraph 17.3, the Board in determining whether the investment accounts constitute a significant proportion of the total asset of the IFI, may consider:
(a) quantitative measures e.g. percentage of investment assets funded by investment account compared to total assets of the IFI; and
(b) qualitative measures e.g. impact on reputation of the IFI or value of the IFI's brand name.

S 17.5 The membership of the BIC shall comprise of only non-executive directors with at least three members. The committee shall be chaired
by an independent director. Key responsibilities of the BIC include assisting the Board in performing the oversight function and provide recommendations in respect of the investment strategies, management and performance of the investment account. The BIC shall hold regular meetings, at least once every quarter and shall report regularly to the Board.

S 17.6 The Board Risk Management Committee (BRMC) is responsible to provide risk oversight on investment account.

18. Shariah Committee

S 18.1 The IFI is responsible to ensure that the overall operation of the investment account is in compliance with Shariah.

S 18.2 The Shariah committee is required to perform the following duties and responsibilities to ensure activities associated with the investment account are conducted in line with Shariah:

(a) endorse the investment account structure, objectives, investment assets and policies and procedures;
(b) advise and provide clarification to the Board on relevant Shariah rulings, decisions or policies on Shariah matters issued by the Bank and any other issues on Shariah affecting the operations and activities of the investment account;
(c) endorse and ensure 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) assess the work carried out by Shariah review and Shariah audit on the investment account operations; and
(e) provide opinion on the Shariah compliance of the investment account and the related operations. The opinion shall be prepared in accordance with the requirements of the Shariah Committee’s Report specified in Shariah Governance Framework for Islamic Financial Institutions and Financial Reporting for Islamic Banking Institutions and Financial Reporting for Development Financial Institutions respectively.

19. Senior management

S 19.1 Senior management of the IFI is responsible for the development and implementation of operational policies that govern the conduct of the investment account.

S 19.2 The roles and responsibilities of the senior management shall include the following:

(a) formulate and implement investment strategies, internal control and risk management system, including profit distribution policy and valuation policy, in line with the investment objectives;
(b) implement relevant internal systems and infrastructure for controlling, monitoring and reporting of investment account operations, performance and risk exposures;

(c) establish policies and procedures for the appointment of key investment personnel and other key functions;

(d) pursuant to (c), identify, assign and train the staff with the right skill set to manage, monitor and review the performance of the investment account operations;

(e) timely reporting to the Board and the Shariah Committee; and

(f) timely disclosure of relevant information to the IAH as set out in the approved internal policies to facilitate investment decision making.
PART E  RISK MANAGEMENT AND INTERNAL CONTROL

20.  Policies and procedures

S  20.1 The IFI must establish risk management policies and procedures to identify, measure, monitor and control the various types of risk associated with the investment assets funded by the investment account to effectively support the investment objectives set out for the investment account.

S  20.2 The IFI shall ensure the internal risk management policies and procedures are in compliance with the regulatory policies specified in the policy document on risk management issued by the Bank.

S  20.3 The IFI must establish an effective risk 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  20.4 The risk management policies and procedures on the investment account shall at minimum, outline the following requirements:

(a) process to identify and monitor risks exposures associated with the investment assets funded by the investment account;
(b) development and implementation of relevant risk mitigation techniques to safeguard the IAH’s interest;
(c) establishment of risk exposure limits to mitigate excessive risk taking;
(d) establish the mechanism for risk analysis and methodology for investment asset allocation or rebalancing;
(e) assessment of the appropriateness of profit distribution policy and valuation policy;
(f) set out the scope and frequency of risks reporting to the Board and the Shariah committee and disclosure to the IAH; and
(g) establishment of a mechanism to monitor and report any observation of non-compliance to the requirements set out in this policy document to the Board.

21.  Investment concentration risk

S  21.1 For UA, the IFI must ensure that the investment account funds are not exposed to investment concentration risk which may produce losses that are substantial enough to threaten the financial condition of the investment account. Investment concentration risk can materialise from excessive exposure to a particular type of asset, a single counterparty, a single geographical location or others. Therefore, the IFI is required to establish internal policies governing the investment concentration risk including:

(a) compliance with the prudential limit;
(b) pursuant to paragraph 20.4(c), setting out internal limits (e.g.
investment limit on specific type of asset, a single geographical location or etc.) that are reflective of its risk appetite and risk bearing capacity, which also takes into account the potential movement in the market value of the underlying exposures; and pursuant to paragraph 20.4(g), monitoring and reporting mechanisms to ensure adherence to the above limits.

S 21.2 Pursuant to paragraph 21.1(a), the investment concentration limit to a single counterparty with regards to UA, shall be 25% of the carrying value of the total net asset value of the respective UA fund.

S 21.3 The IFI 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 IFI shall not increase the exposures to the affected counterparty (including its connected counterparties). The notification shall be submitted to either Jabatan Penyeliaan Kewangan Konglomerat or Jabatan Penyeliaan Perbankan.

G 21.4 With regards to RA, the IFI may set out limits based on the agreement with the IAH. The requirement in paragraph 21.2 is not applicable to RA since the investment mandate and underlying investment assets are determined by the IAH and not the IFI.

22. Liquidity risk

G 22.1 The liquidity risk profile of each investment account fund is different due to the differences in the investment objectives and strategies. The liquidity risk profile would, among others, depend on the types of underlying assets and the level of sophistication of the IAH within each investment account fund.

Internal policies and procedures

S 22.2 The IFI must establish in its internal policies and procedures the assets and liabilities management policies and procedures, including an effective liquidity risk management framework, that commensurate with the risk profile of the investment account fund.

S 22.3 The management of liquidity risk must be conducted according to the respective investment account fund (i.e. on per fund basis), which includes:
   (a) identification of sources of liquidity risk and factors impacting the level of risk;

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5 The computation of an exposure to a single counterparty is as specified in paragraph 9 of the policy document on *Single Counterparty Exposure Limit (SCEL) for Islamic banking institutions*, which was issued by the Bank on 17 December 2013.

6 An investment account fund also refers to investment account on ‘per fund basis’ as described in paragraph 22.3.
(b) identifying the appropriate composition of underlying assets according to, among others, their maturity and cash-flow profile that would commensurate with the potential redemption profile of the IAH;

(c) measurement of liquidity risk, particularly cash flow analysis. In analysing cash flows, the IFI shall include assessment on:
   (i) the IAH’s redemption pattern and behaviour;
   (ii) maturity and cash-flow profile of underlying assets; and
   (iii) liquidity and marketability of the underlying assets as well as contingency needs, if any;

(d) monitoring of liquidity position; and

(e) outlining risk mitigation strategies which includes identifying:
   (i) conditions on redemption;
   (ii) appropriate level of liquefiable assets;
   (iii) appropriate composition of underlying assets, taking into consideration their level of tradability and maturity;
   (iv) mechanisms and strategies to honour redemption which includes avenues for asset disposal, finding replacement for investment from another IAH or usage of liquefiable assets; and
   (v) contingency plans to manage liquidity risk.

Illustration of ‘per fund basis’ is given in Appendix 2.

**Surplus or shortfall of liquidity for UA**

**G 22.4** The IFI may hold liquefiable assets within each of the UA funds using the amounts provided by the IAH of each fund, in line with the investment objectives of the funds (here onwards known as ‘dedicated liquefiable assets’).

**S 22.5** For the purpose of paragraph 22.4, such dedicated liquefiable assets and any other surplus in a particular UA fund belong to that fund and shall be used to manage liquidity needs of that fund only. Notwithstanding this, any surplus liquidity after taking into consideration liquidity requirements as per paragraph 30.2, is allowed to be used by another investment account fund or the IFI, subject to such transaction being conducted on an arm’s length basis.

**S 22.5A** In relation to paragraph 22.5, any transfer of surplus liquidity from a UA fund shall be subject to the following conditions:

(a) The surplus transfer must be consistent with the investment objective and risk strategy of the UA fund;

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7 Assets with cash flow which are uncertain or requires long-to-medium term cash realisation such as project financing are more appropriate as underlying assets in RA.

8 Subject to mandate from or investment strategies disclosed to the IAH, where applicable.

9 For instance, arising from cash inflows exceeding its cash outflows in a given time period.

10 Liquidity requirements as determined under paragraph 27 of the policy document on *Liquidity Coverage Ratio* for licensed banks, licensed Islamic banks and licensed investment banks; and paragraph 30.2 for DFIs approved under section 33B(1) of the DFIA.

11 Allowing use of surplus in consideration of investor’s best interest, which includes ensuring liquidity needs of investors are effectively managed and pricing for the use of funds is appropriate.
(b) The arrangement to execute the surplus transfer must be stipulated in the terms and conditions of the UA which include:
   (i) the mechanisms and Shariah contract\textsuperscript{12};
   (ii) maturity term and provisions for early redemption; and
   (iii) methodology to determine the amount of profit or costs involved; and

(c) The transferable surplus shall exclude the effect of inflows resulting from any preceding surplus transfers.

Please refer to Appendix 3 on illustration of the creation of additional surplus liquidity in a UA fund created by inflows from preceding surplus transfer.

S 22.6 In order to reduce the correlation between funds arising from the use of surplus across funds, the IFI shall:
   (a) ensure that the usage is to address liquidity shortages\textsuperscript{13} only; and
   (b) identify the limit, if any, for usage of surplus of a UA fund by another fund.

S 22.6A The IFI is required to record the surplus transfer accordingly and periodically conduct a review on surplus transfer transactions to validate compliance with paragraphs 22.5, 22.5A and 22.6.

G 22.7 As an alternative to ‘dedicated liquefiable assets’, the IFI may utilise its own funds\textsuperscript{14} to hold liquefiable assets (here onwards known as ‘pooled\textsuperscript{15} liquefiable assets’) which can be used to cover against liquidity shortfall of any UA funds. The IFI may also apply a combination of the ‘dedicated liquefiable assets’ and the “pooled liquefiable assets” to manage liquidity for a particular UA fund. Please refer to Appendix 4 on illustration of ‘dedicated’ and ‘pooled’ liquefiable assets.

S 22.8 If the IFI uses its own funds for purposes of meeting redemption by the IAH, the IFI shall ensure that:
   (a) policies and procedures on the IFI’s involvement are in place, which includes the following:
      (i) application of an appropriate limit\textsuperscript{16} on the IFI’s involvement;
      (ii) instances where the IFI’s involvement is required; and
      (iii) methods used for the involvement, where the method and any terms involved must be in line with the IFI’s fiduciary duty to ensure protection of the IAH’s interest. The IFI is required to consult the Bank (Jabatan Penyeliaan

\textsuperscript{12} For example, cash placement to the IFI based on commodity murabahah.
\textsuperscript{13} Not for purposes of asset expansion.
\textsuperscript{14} Funds sourced from deposits, shareholders or other funds.
\textsuperscript{15} Where the total liquefiable assets maintained using IFI’s funds at pooled-level shall be adequate to cover potential liquidity needs of both the investment account funds and the IFI.
\textsuperscript{16} This should be in line with IFI’s strategy in determining the appropriate amount under ‘pooled liquefiable asset’. 
Kewangan Konglomerat or Jabatan Penyeliaan Perbankan) if methods other than those in paragraph 22.9 are used; and
(b) regular assessment on the impact arising from the IFI’s involvement under stressed conditions are conducted, which includes:
(i) impact to capital requirements where the IFI shall ensure the adequacy of capital against additional risks that may be borne by the IFI from the provision of liquidity to the UA funds; and
(ii) impact to compliance limits e.g. single counterparty exposure limit (SCEL) and investment limits.

G 22.9 The IFI may provide liquidity to the IAH either via purchase of the underlying assets in the fund or investing in the underlying assets of the fund.

**Additional requirements in managing liquidity risk for UA**

S 22.10 The IFI shall identify and apply the appropriate additional measures such as notice/settlement period, lock-in period or gating\(^{17}\) mechanism for each investment account fund in order to further manage liquidity risk in stressed conditions. The identification of an appropriate type of additional measures shall commensurate with the liquidity risk profile of investment account fund.

S 22.11 In applying the additional measures, the IFI shall ensure that:
(a) appropriate policies and procedures are in place, which shall include the following:
(i) identification of trigger events for commencement and ending of the additional measures;
(ii) effective communication strategies to relevant stakeholders especially the IAH. The communication must:
   A. be done in a timely manner;
   B. be done in sufficient clarity in order to minimise potential negative implications\(^{18}\), and
   C. be conducted regularly during the application period; and
(ii) contingency plans and strategies to resolve issues which triggered the use of the additional measures;
(b) applicability of the additional measures are disclosed with sufficient clarity up-front in the agreement with the IAH and product disclosure sheet;
(c) application of the additional measures must ensure fair treatment for the IAHs within a particular investment account fund e.g. imposition of measures must be done simultaneously

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\(^{17}\) Such as limiting redemption amounts within a certain period.

\(^{18}\) Such as misunderstandings or miscommunication between the IFI and the IAH which may further escalate redemptions.
for all the IAHs in the same investment account fund;

(d) there is prior notification and engagement\(^{19}\) with the Bank on the possibility of invoking additional measures. The IFI shall ensure early warning mechanisms are in place to detect potential triggering of events; and

(e) the additional measures taken are temporary and should be uplifted or ceased to be applied when stressed conditions no longer exists or such mechanism is no longer necessary.

S 22.12 The IFI shall have the ability to suspend redemption, subject to compliance with paragraph 22.11. However, suspension of redemption can be invoked only\(^ {20}\) under the following circumstances:

   (a) exceptional circumstances, considering the interest of the IAH, which includes:
       (i) market-wide failures or financial/economic crisis such as stock-market crash or asset price crash;
       (ii) operational issues such as wide-scaled blackout or system failure; or
       (iii) force majeure; or

   (b) exercised in the best interest of the IAH, where:
       (i) underlying assets cannot be liquidated at appropriate\(^ {21}\) price and terms to honour redemption. For this purpose, the price for illiquid assets shall be obtained from or validated by independent third party, which may take place either before or after\(^ {22}\) such suspension; and
       (ii) interests of the IAH would be materially affected if dealings were not suspended.

G 22.13 In ensuring the best interest of the IAH for purposes of paragraph 22.12(b), the IFI may wish to ensure that the circumstances which lead to suspension shall only be those which are expected to prolong and cannot be rectified in the near term. In this regard, temporary difficulties in realising assets or temporary liquidity shortfalls may not, on their own, be sufficient justification for suspension.

S 22.14 Upon invoking of suspension mechanism, the IFI must call for a meeting with the IAH within a reasonable time period to discuss on the next course of action and possible strategies.

S 22.15 Redemption conditions that would significantly mitigate the liquidity risk exposure to the IFI as required under paragraph 22.16 shall also apply to UA funds that are invested into assets which consists of mudarabah

\(^{19}\) Early engagement, where possible, should be conducted by the IFI with the Bank.

\(^{20}\) These requirements do not apply in circumstances e.g. where the fund is liquidated under paragraph 15.

\(^{21}\) An example of inappropriate price is a price which results in significant loss to the IAH if assets were disposed-off immediately i.e. fire sale, where the asset price is expected to stabilize after a period of time or after restructuring of underlying assets.

\(^{22}\) Immediately or within a reasonable period of time.
or *musyarakah* ventures\textsuperscript{23}.

**Additional requirements in managing liquidity risk for RA**

S 22.16 Given that the investment objectives for RA are mandated\textsuperscript{24} by the IAH, the IFI shall ensure that redemption conditions imposed on the IAH would significantly mitigate the liquidity risk exposure to the IFI, which includes:

(a) redemption only upon maturity\textsuperscript{25} of underlying assets;
(b) redemption only upon realisation of underlying assets to a third party (other than the IFI); or
(c) redemption only upon finding replacement of funds from other IAH (other than the IFI).

S 22.17 The IFI shall also identify potential operational issues pertaining to underlying assets that may affect the redemption capacity of the IAH such as cost overrun and delays in project completion. In this regard, the IFI shall:

(a) ensure that such circumstances will not create an obligation or expose the IFI to liquidity risk; and
(b) set clear expectations on the role, rights and responsibilities of the IAH in such circumstances such as additional capital injection by the IAH.

S 22.18 Notwithstanding paragraph 22.16, where the IFI choose to provide liquidity, such as via capital contribution, or any other form of support which may expose the IFI to liquidity risk or potential losses on its capital contribution, the following shall be ensured:

(a) such involvement is done only if supported with strong business justification. In this regard, the IFI shall conduct a thorough assessment and valuation of project viability before making such decisions; and
(b) a new contract based on appropriate terms and conditions, including the IFI’s new role as capital contributor, shall be agreed upon by the contracting parties.

S 22.19 The IFI shall ensure that any conditions, including the redemption conditions, means for honouring redemption and any other additional expectations are clearly disclosed upfront to the IAH in the agreement.

\textsuperscript{23} Excludes *musyarakah* mutanaqisah.

\textsuperscript{24} Underlying assets in RA 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 UA.

\textsuperscript{25} For avoidance of doubt, any extension to the tenure or maturity of the underlying asset must also be supported by an extension of period where redemption by the IAH is also not allowed.
PART F  BUSINESS AND MARKET CONDUCT

23.  Suitability and fair dealing practices

S  23.1  The IFI shall act fairly, responsibly and professionally in its dealing with the prospective IAH on investment account. The IFI shall undertake a customer suitability assessment before accepting placement of the investment account especially by individuals and small and medium enterprises (SMEs) (collectively referred as retail customer).

S  23.2  The prospective IAH must be adequately informed of the risk and return profile of the investment account. At minimum, the IFI shall ensure that the prospective IAH has read and understood the product disclosure sheet.

S  23.3  The following are key considerations that the IFI must observe with regard to the suitability assessment:
   (a)  KNOW YOUR IAH: The IFI must gather sufficient information which would enable the IFI to have sufficient background information on the prospective IAH. This information should include, among other things, the investor’s age, annual income and number of dependants;
   (b)  IAH RISK PROFILE AND NEEDS: The IFI must gather sufficient information on the prospective IAH’s investment objectives, financial situation, risk profile and current portfolio. By gathering this information, the IFI should be able to determine the prospective IAH’s risk profile and needs; and
   (c)  IAH INVESTMENT KNOWLEDGE: The IFI must gather sufficient information on the prospective IAH’s level of financial knowledge, having regard to relevant factors such as the 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 IFI 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  23.4  The IFI shall record its recommendation made to the prospective IAH and a copy of the recommendation shall be provided to the prospective IAH. The IFI must set out the reasons for the recommendation clearly.

S  23.5  In the event the IFI is unable to identify a suitable product for the prospective IAH, the IFI must inform the prospective IAH immediately.

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

27  As defined in Circular on New Definition of Small and Medium Enterprises.
and provide the reasons.

**S 23.6** The IFI 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 read and understood the features and risks of the product upon the explanation from the IFI;
(c) the prospective IAH for UA has read, understood and agreed to the redemption terms of the product, in particular of the suspension of redemption or any other applicable additional mechanisms that may affect the redemption capability of the IAH, which can be invoked by the IFI without requiring approval, consultation or prior notification to the IAH. The IAH has agreed and understood that the invocation of the suspension of redemption shall depend on the circumstances allowed under this standard and the invocation of the other additional mechanisms shall depend on trigger events as identified and disclosed by the IFI; and
(d) the prospective IAH has received a copy of the product disclosure sheet.

**S 23.7** As the case may be, the IFI must also obtain from the prospective IAH a written acknowledgement where the prospective IAH:
(a) declines to provide information requested by the IFI; or
(b) decides to purchase another investment account product that is not recommended by the IFI.

**S 23.8** The recommendation provided by the IFI shall be signed by the IFI and the prospective IAH.

**S 23.9** The confirmation of receiving appropriate recommendation shall not waive the right of the IAH in the case of misselling or negligence by the IFI.

**S 23.10** The IFI 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 IFI in an easily accessible form and place.

**G 23.11** Appendix 5 provides guidance in respect of the form that may be used for the purposes of carrying out a suitability assessment. The IFI may request additional information, if necessary.
PART G     TRANSPARENCY AND DISCLOSURE

24.  General principles

S 24.1 The IFI is required to establish internal policies and procedures on disclosure of information to the IAH. The IFI shall disclose to the IAH fair, accurate, clear and timely information to enable the IAH to make an informed decision.

S 24.2 The policies and procedures on disclosure of information shall include the following:
(a) clear principles of disclosure that are consistent with fair dealing practices which must be observed when dealing in, marketing and offering an 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) applicability of information to various categories of the IAH, such as individuals, SMEs and others; and
(d) financial information disclosure to the IAH and other stakeholders.

S 24.3 The IFI is required to promptly inform the IAH on material changes in the 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 the implementation of any remedial action. This requirement shall take into consideration the IFI's policies on liquidity risk.

S 24.4 Any statement of opinion provided by the IFI on investment account product shall be reasonable, relevant, factually-based, credible and where appropriate, capable of verification.

S 24.5 The IFI shall not represent or use any terms that indicate the investment account product as principal and/or profit guaranteed or equivalent or similar to an Islamic deposit product. For example the use of the terms such as “fixed return” or “fixed income” and “investment deposit”.

25.  Product disclosure sheet

S 25.1 The IFI shall provide product disclosure sheet for each type of investment account offered to retail customers.

S 25.2 For the purpose of paragraph 25.1, 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) nature of the Shariah contract and the roles and responsibilities of the contracting parties;

(ii) type of investment account either RA or UA and the rights and obligations of the contracting parties;

(iii) profit distribution terms including clear illustrations on the application of the PSR and agency fee/performance incentive fee; and

(iv) 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 investment assets and other information 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 of the investment account product;

(h) analysis of past and future performance;

(i) when using past performance of the investment assets to project future returns of the investment account, the IFI 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 IFI 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 IFI must include a prominent warning that the projection of future performance does not guarantee actual performance;

(ii) projection of future performance of the investment account shall include the best case (where feasible), flat case and worst case scenarios, showing a range of potential gains or losses resulting from changes in the value of the investment assets. The purpose is to enhance the customer’s understanding of the impact of different scenarios. The projection shall not exceed 5 years period. The assumptions used must be reasonable and should be clearly stated;

(iii) disclosure on prospective outcome of the investment shall highlight both the potential upside return and downside risk of losses;

(iv) information on future performance shall not appear as the most prominent feature in the communication materials; and

(v) comparative analysis between investment accounts and
similar product must be relevant, fair, accurate and not misleading;

(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

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

(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;
   (ii) in Arial 24-point font, bold capital letters and on the last 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 warning statement

WARNING
THE RETURNS ON THIS INVESTMENT ACCOUNT WILL BE AFFECTED BY THE PERFORMANCE OF THE UNDERLYING ASSETS. THE PRINCIPAL AND RETURNS ARE NOT GUARANTEED 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.
[WHERE THE INVESTMENT ACCOUNT IS NOT PROTECTED BY PIDM TO ADD: “THIS INVESTMENT ACCOUNT IS NOT PROTECTED BY PERBADANAN INSURANS DEPOSIT MALAYSIA”].

G 25.3 Please refer to illustration in Appendix 6.

26. Terms and conditions of agreement

S 26.1 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 and the IFI’s responsibility to perform its duties in accordance with the agreed terms and conditions;
(b) investment objectives and strategies including the investment asset allocation;
(c) PSR and agency fee where applicable;
(d) the IFI’s accountability and responsibility to disclose fair, accurate, relevant and timely information to IAH 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.

27. **Financial information disclosure**

S 27.1 The IFI must maintain accounting records and other records to facilitate the preparation and reporting of true and fair financial information to IAH.

**Investment account performance report**

S 27.2 The IFI shall at minimum prepare and publish periodical performance and manager’s report at the following intervals:

(a) quarterly either based on the particular investment account product launch date or the IFI’s own quarterly reporting period\(^{28}\), and

(b) at the end of the investment either due to termination/closure of investment account fund or maturity of investment asset e.g. investment account product with matched asset and funding structure.

S 27.3 The performance report shall at minimum contain the following information:

(a) summary of the investment account information including description of the investment objectives, strategies and investment asset 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

\(^{28}\) If the IFI choose to report based on its own quarterly reporting period, the IFI shall clearly disclose the performance period of reporting if it is less or more than three (3) months.
Investment Account

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 IFI on the fund performance up to date and a review of future prospects of the investment asset and proposed strategies.

S 27.4 The IFI shall publish the fund performance report and it shall be made available to the IAH either in print or on the IFI’s website in accordance with the IFI’s disclosure policy.

S 27.5 In respect of investment account which has been terminated, the IFI shall prepare a final investment account performance report to the IAH. The final report must state the date on which the investment account affairs were wound up.

Financial reporting

S 27.6 The IFI shall disclose in the notes to accounts of the annual financial statements the following:

(a) accounting policy in respect of investment account including nature of the relationship between the IFI and the IAH and rights and obligations associated with particular type of investment account;

(b) movement of funds in the investment account, which is segregated by types of investment account including:

(i) balance at the beginning of the period;

   A. additional investments received during the period;
   B. redemption of investments during the period;
   C. the IFI’s share in profits, agency fee and performance incentive fee if applicable;
   D. allocated expenses, if any, to the investment account;
   E. balance at the end of the period; and
   F. asset portfolio allocation.

   Please refer to the illustration in Appendix 7; and

(c) average PSR and declared rate of return to IAH, agency fee and performance incentive fee to the IFI, if applicable by respective tenures and types of investment account. Please refer to the illustration in Appendix 8.
PART H PRUDENTIAL REQUIREMENTS

28. Product approval

S 28.1 The file-and-launch system is applicable for investment account as specified under the Guidelines on Introduction of New Product. For clarity purposes, the IFI must submit a new product application for any existing investment deposit product, which the IFI has opted to classify as an investment account.

29. Outsourcing

S 29.1 The IFI shall only outsource its non-core operation functions of the investment account to resident outsourcing service provider.

30. Liquidity framework for DFIs

Regulatory compliance and reporting requirements

S 30.1 Investment account under this policy document is subject to the requirements in the Liquidity Framework, and further requirement as per paragraphs 30.2 to 30.7.

UA 30.2 The DFI is required to calculate the net surplus or shortfall as required under the Liquidity Framework on per fund basis. For this purpose:

(a) the cash inflow and outflow shall be calculated within each investment account fund and shall not be aggregated across funds or aggregated with the DFI’s own funds;

(b) due to inadequate historical data to form behavioural assessment for investment accounts under this policy document, cash flow projection based on historical data of general investment deposits may be used. However, the DFI shall closely monitor for any additional cash outflows and immediately reflect this in the computation, unless specified otherwise by the Bank;

(c) any dedicated liquefiable assets as described in paragraph 22.4 shall be included in deriving the net surplus or shortfall for that particular investment account fund; and

(d) minimum liquidity requirements applied on per fund basis shall be the same with the level of surplus required for the DFI.

29 Refers to the Guidelines on Liquidity Management Framework for DFIs for application by the DFIs approved under section 33B(1) of the DFIA. For the avoidance of doubt, the treatment of IA for licensed banks, licensed Islamic banks and licensed investment banks is prescribed under the Liquidity Coverage Ratio policy document.

30 For the avoidance of doubt, the reporting and compliance requirements for investment deposits shall remain as per the requirements in the Liquidity Framework.


32 Refers to fund from other than the IAH including Islamic depositors and shareholders.
multiplied by the particular investment account fund’s prevailing Net Asset Value for 1 week and 1 month buckets respectively.

S 30.3 Since any liquidity surplus from each investment account fund is not considered as a surplus belonging to the DFI as mentioned in paragraph 22.5, such surplus shall not be recognised in the calculation of the DFI’s net compliance surplus or shortfall.

S 30.4 However, any liquidity shortfall from a particular investment account fund shall be recognised in calculating the DFI’s net compliance surplus or shortfall. This is in view that the DFI may need to use its own funds to honour redemption by the IAH particularly in stressed conditions.

S 30.5 For purposes of paragraph 30.4, the total amount of net shortfall for all investment account funds shall be reported in the reporting for Liquidity Framework as an additional amount to the line item “Compliance requirement as agreed with BNM” in the Summary of Maturity Mismatch Reporting at the DFI’s own fund level. Illustration of the calculation for reporting purposes is given in Appendix 9.

RA S 30.6 Unless otherwise specified by the Bank, the DFI shall exclude RA funds from the liquidity framework calculation arising from the redemption conditions that significantly mitigate the liquidity risk to the IFI as specified in paragraphs 22.16 to 22.19.

S 30.7 Surplus, if any, from RA funds shall not be recognised in calculating the DFI’s net compliance surplus or shortfall.

31. Computation of Capital Adequacy Ratio

IFI as Mudarib/Wakeel (ie. Entrepreneur/Agent) for the Investment Account

S 31.1 Credit and market risk weighted assets funded by investment accounts\(^34\) that fulfil the requirements in this policy document shall be recognised as risk absorbent and excluded from the calculation of capital adequacy ratio\(^35\) of the IFI. However, any committed but unfunded investment accounts (where actual cash has not been received from the IAH) shall not qualify as risk absorbent. Capital Adequacy Ratio computation is given in Appendix 10.

\(^{33}\) Currently the required surplus under the Guidelines on Liquidity Management Framework for Development Financial Institutions is 5% for up to 1 week maturity bucket and 7% for up to 1 month bucket.

\(^{34}\) Using capital provided by the IAH either from RA or UA.

\(^{35}\) For the avoidance of the doubt, this also refers to the exclusion of risk weighted asset funded by investment accounts in calculating the risk weighted capital ratio under the Capital Framework for Development Financial Institutions.
S 31.2 Notwithstanding paragraph 31.1, IFI is required to ensure adequacy of capital\(^{36}\) where the IFI is exposed to the risk of the underlying assets in the investment account funds in circumstances arising from the IFI’s involvement to provide liquidity as described in paragraph 22.8.

DFI\(^{37}\) as the IAH (Fund Provider)

S 31.3 In the case where a DFI (as the IAH) places funds into an investment account offered by another IFI, the DFI as the IAH shall apply the following approaches in calculating its credit and market risk capital requirements:

(a) look-through approach based on the underlying assets in the investment account as if the underlying assets are directly held by the DFI as the IAH. The look-through approach must be used when the following conditions can be fulfilled:

(i) the financial information regarding the underlying assets is sufficient and appropriately granular to enable calculation of the corresponding risk weights; and

(ii) frequency of financial reporting of the investment account must be the same as, or more frequent than, that of the DFI as the IAH.

Illustration of the look-through approach and specific requirements on look-through are given in Appendix 11; and

(b) where conditions in paragraph 31.3(a) are not met, the DFI as the IAH shall treat the investment account as exposure to “other assets” and apply 100% risk weight\(^ {38}\).

G 31.4 For purposes of facilitating the determination of capital adequacy requirements of the DFI as the IAH with regard to the investment account, the IFI as the mudarib/wakeel and the DFI as the IAH may specify in the investment account agreement, the type of information to be disclosed, frequency as well as time period for submission of such information.

32. Statutory Reserve Requirement

S 32.1 All investment accounts are excluded from Eligible Liabilities (EL) base for the purposes of statutory reserve requirement (SRR) computation.

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\(^{36}\) Under the *Risk-Weighted Capital Adequacy Framework (Basel II) – Internal Capital Adequacy Assessment Process (Pillar 2)*.

\(^{37}\) For the avoidance of doubt, the treatment for licensed banks, licensed Islamic banks and licensed investment banks as IAH is prescribed under the *Capital Adequacy Framework for Islamic Banks (Capital Components)*, *Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets)*, *Capital Adequacy Framework (Capital Components)* and *Capital Adequacy Framework (Basel II Risk-Weighted Assets)*.

\(^{38}\) In accordance with the *Capital Framework for Development Financial Institutions*.
APPENDICES

Appendix 1  Related policy documents

(i) Single Counterparty Exposure Limit for Islamic Banking Institutions
(ii) Liquidity Coverage Ratio
(iii) Circular on New Definition on Small Medium Enterprises
(iv) Guidelines on Introduction of New Product
(v) Liquidity Framework
(vi) Liquidity Framework-i
(vii) Guidelines on Liquidity Management Framework for Development Financial Institutions
(viii) Risk-Weighted Capital Adequacy Framework (Basel II) – *Internal Capital Adequacy Assessment Process (Pillar 2)*
(ix) Capital Framework for Development Financial Institutions
(x) Shariah resolutions of the Shariah Advisory Council, Bank Negara Malaysia
(xi) Shariah standards policy documents
(xii) Financial Reporting for Islamic Banking Institutions
(xiii) Capital Adequacy Framework for Islamic Banks (Capital Components)
(xiv) Capital Adequacy Framework (Capital Components)
(xv) Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets)
(xvi) Capital Adequacy Framework (Basel II – Risk Weighted Assets)
(xvii) Rate of Return
Appendix 2  Example of liquidity risk management on ‘per fund basis’

In the event the IFI structures investment account to consist of only one large investment account fund is as per the example in Scenario 1. Alternatively, in the event the IFI structures investment accounts to consist of various types of investment account funds is as per the example in Scenario 2.

Scenario 1: One large investment account fund considered as ‘per fund’

UA Fund

*Example: Objective-Mixed Fund  
Risk Profile: Moderate

Where only one large IA fund is created

Scenario 2: Differentiated investment account funds as individual funds. Therefore, in this example there are 3 separate funds where each one in considered as “per fund”

UA Fund 1

E.g.
Obj: Income & Modest Growth  
Risk Profile: Low

UA Fund 2

E.g.
Obj: Aggressive Growth  
Risk Profile: High

RA Fund

E.g.
Obj: Long-Term Capital Appreciation  
Risk Profile: High

Where several and separate investment account funds are created based on the different objectives and mandate

**MM Instruments: Islamic Money Market Instruments
Appendix 3  Illustration on the creation of additional surplus liquidity in a UA fund created by inflows from preceding surplus transfer

Scenario: Surplus transfer from UA Fund 1 to the IFI.

1. Surplus is transferred to the IFI to meet liquidity needs on a temporary basis.
2. Repayment of amount payable from the IFI is recorded as cash inflows by UA Fund 1.
3. The cash inflows create additional surplus for UA Fund 1.
4. The additional surplus created due to item #3 cannot be further transferred to the IFI.
5. Further surplus transfer, if any, shall exclude the effect of inflows under item #3.
Appendix 4  Illustration of ‘dedicated’ and ‘pooled’ liquefiable assets for UA funds.

The pooled liquefiable assets shall be sufficient to address liquidity shortage of UA fund.
# Appendix 5  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 |
|---|---|
| Date undertaken |  |
| Adviser’s name |  |
| Branch |  |
| Name of product |  |
| Category of product |  |
| Review date |  |

## A. KNOW-OUR-IAH PROCESS

<table>
<thead>
<tr>
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<tr>
<td>Age at time of recommendation</td>
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<tr>
<td>Nationality</td>
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<td>NRIC/ID No/Passport No</td>
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<td>Residential address</td>
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<td>Marital status</td>
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<td>No of dependents</td>
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<td>Remarks</td>
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| 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

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

<table>
<thead>
<tr>
<th>Purpose of investment</th>
<th>Please circle</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saving for specific purpose</td>
<td>Priority</td>
<td>Yes</td>
</tr>
<tr>
<td>Supplementing income in retirement</td>
<td>Priority</td>
<td>Yes</td>
</tr>
<tr>
<td>Investment for growth</td>
<td>Priority</td>
<td>Yes</td>
</tr>
<tr>
<td>Investment for income</td>
<td>Priority</td>
<td>Yes</td>
</tr>
<tr>
<td>Others: State in remarks box</td>
<td>Priority</td>
<td>Yes</td>
</tr>
<tr>
<td>IAH refuses to provide sufficient information</td>
<td></td>
<td>Yes</td>
</tr>
</tbody>
</table>

Remarks

**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**

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

**Existing investment asset the IAH currently holds**

**Performance of current investment asset**

### C. IAH’S INVESTMENT KNOWLEDGE ASSESSMENT

**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**

**Appreciate any special feature of the product**

**Whether IAH understands the nature of the product**

**Whether IAH understand the terms of the product specification**

* 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 IFI)

**Whether the product is recommended by the IFI**

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

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

**Basis of recommendation:**
If the product is not recommended by the IFI, the reasons for non-recommendation shall be documented.
Reasons product is not recommended:

<table>
<thead>
<tr>
<th>Date of recommendation:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

**ACKNOWLEDGEMENT**

<table>
<thead>
<tr>
<th>Remarks</th>
<th>IAH’s signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>The IFI has explained and I have understood the feature and risks of the product.</td>
<td></td>
</tr>
<tr>
<td>All information disclosed is true, complete and accurate.</td>
<td></td>
</tr>
<tr>
<td>I decline to provide certain information required for product suitability assessment and understand that this may adversely affect my suitability assessment.</td>
<td>(* if applicable)</td>
</tr>
<tr>
<td>I acknowledge receipt of a copy of product disclosure sheet and the relevant disclosure document which have been given to me.</td>
<td></td>
</tr>
<tr>
<td>I have decided to purchase another investment account product that is not recommended by the IFI.</td>
<td>(* if applicable)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IAH’s signature</th>
<th>IFI’s representative’s signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name:</td>
<td>Name:</td>
</tr>
<tr>
<td>Date:</td>
<td>Date:</td>
</tr>
</tbody>
</table>

**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.
Appendix 6  Sample Product Disclosure Sheet

<table>
<thead>
<tr>
<th>IMPORTANT/DISCLAIMER</th>
</tr>
</thead>
<tbody>
<tr>
<td>THIS IS AN INVESTMENT ACCOUNT PRODUCT THAT IS TIED TO THE PERFORMANCE OF THE UNDERLYING ASSETS, AND IS NOT A DEPOSIT PRODUCT.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PRODUCT DISCLOSURE SHEET</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Please read and understand this Product Disclosure Sheet together with the general terms and conditions before you apply and decide to accept the &lt;Name of Product&gt;)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PRODUCT NAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;Date&gt;</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BRIEF INFORMATION ON THE PRODUCT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What is this product about?</td>
</tr>
<tr>
<td>[Brief description of the product should include the following information:]</td>
</tr>
<tr>
<td>* Applicable Shariah contract</td>
</tr>
<tr>
<td>* Type of product (Restricted/Unrestricted)</td>
</tr>
<tr>
<td>* Parties involved in the investment activities and their roles and responsibilities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PRODUCT SUITABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Who is this product suitable for?</td>
</tr>
<tr>
<td>[Briefly state the types of investors this product is suitable for. Information provided could include:]</td>
</tr>
<tr>
<td>* Return objectives e.g. income/capital growth/capital preservation</td>
</tr>
<tr>
<td>* Whether their principal investment will be at risk</td>
</tr>
<tr>
<td>* How long the investor prepared to hold their investment for</td>
</tr>
<tr>
<td>* 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</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>KEY PRODUCT FEATURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. What am I investing in?</td>
</tr>
<tr>
<td>* 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</td>
</tr>
<tr>
<td>* Risk assessment on the performance of the investment assets</td>
</tr>
<tr>
<td>* Minimum investment</td>
</tr>
<tr>
<td>* Investment tenure e.g. 1, 3, 6, 9, 12, 18 months</td>
</tr>
<tr>
<td>* Profit sharing ratio (Customer: Bank) and calculation</td>
</tr>
<tr>
<td>* Profit payment method</td>
</tr>
<tr>
<td>* Key terms and conditions i.e. reinvestment procedures and redemption policies</td>
</tr>
</tbody>
</table>

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

a) Profit calculation under Mudarabah/ Musyarakah investment account

<table>
<thead>
<tr>
<th>Date of placement</th>
<th>1/01/2012</th>
<th>Investment tenure</th>
<th>12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of maturity</td>
<td>31/12/2012</td>
<td>Profit Sharing Ratio (PSR)</td>
<td>60:40</td>
</tr>
<tr>
<td>Investment amount</td>
<td>RM50,000</td>
<td>Gross rate of return</td>
<td>5.36%</td>
</tr>
</tbody>
</table>

**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 fee/ Performance fee under wakalah investment account

<table>
<thead>
<tr>
<th>Type</th>
<th>Calculation</th>
<th>Total Amount (RM)</th>
</tr>
</thead>
</table>
| Wakalah fee              | Agency fee x Investment Amount  
                          = 0.1% x RM50,000                                                           | 50                |
| Performance incentive fee| [Gross rate of return – Agency fee – EPR] x Investment amount  
                          = [5.36% - 0.1% - 4%] x RM50,000                                             | 630               |

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

c) Profit payment method

Payment of profit in respect of 12 months investment account 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 depends on the market value of the underlying assets 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 assets. Information on past performance must also be included:

- Actual rate of return of the immediately preceding 5 years on a net basis 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>
<thead>
<tr>
<th>Table 1 Best Market</th>
<th>Table 2 Worst Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Months</td>
<td>Rate of Return (%)</td>
</tr>
<tr>
<td>Jan</td>
<td>5.36</td>
</tr>
<tr>
<td>Feb</td>
<td>5.55</td>
</tr>
<tr>
<td>March</td>
<td>5.79</td>
</tr>
<tr>
<td>April</td>
<td>6.09</td>
</tr>
</tbody>
</table>

b) Fund performance

Launch date: 1 December 2006
Past investment performance chart of 5 years period as follows:

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Return</td>
<td>2011</td>
</tr>
<tr>
<td>Dec-07</td>
<td>Dec-08</td>
</tr>
</tbody>
</table>

Past investment performance to 31 Dec 2012

<table>
<thead>
<tr>
<th>1mth</th>
<th>6mths</th>
<th>1yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund (%)</td>
<td>2.10</td>
<td>11.18</td>
</tr>
<tr>
<td>Benchmark* (%)</td>
<td>1.61</td>
<td>7.27</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3yrs</th>
<th>5yrs</th>
<th>SI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund (%)</td>
<td>8.43</td>
<td>6.52</td>
</tr>
<tr>
<td>Benchmark* (%)</td>
<td>-0.08</td>
<td>-1.4</td>
</tr>
</tbody>
</table>

*To state benchmark fund and basis/source of past performance figures

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:
“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 IFI that the IAH may contact for queries or complaints on the product
   - Website address and email address

Example:

a) For internal dispute resolution, you may contact:
   (Contact details for the IFI’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 : bnmitelelink@bnm.gov.my
   (d) via letter to : Laman Informasi Nasihat dan Khidmat (LINK)
      Bank Negara Malaysia
      P.O. Box 10922
      50929 Kuala Lumpur

WARNING

THE RETURNS ON THIS INVESTMENT ACCOUNT WILL BE AFFECTED BY THE PERFORMANCE OF THE UNDERLYING ASSETS. THE PRINCIPAL AND RETURNS ARE NOT GUARANTEED 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.

The information provided in this disclosure sheet is valid as at <date>
### Illustration of Movement in the Investment Account in the Notes to Accounts

<table>
<thead>
<tr>
<th></th>
<th>Mudarabah</th>
<th></th>
<th>Wakalah</th>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted investment account</td>
<td>Restricted investment account</td>
<td>Unrestricted investment account</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(RM'000)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1 January 20XX</td>
<td>123,400</td>
<td>30,500</td>
<td>65,720</td>
<td>219,620</td>
<td></td>
</tr>
</tbody>
</table>

#### Funding inflows/outflows

- **New placement during the year**
  - Mudarabah: 33,560
  - Wakalah: 9,765
  - Total: 43,325
- **Redemption during the year**
  - Mudarabah: (23,555)
  - Wakalah: (4,567)
  - Total: (28,122)
- **Income from investment**
  - Mudarabah: 18,021
  - Wakalah: 4,863
  - Total: 22,884

#### Company’s share of profit

- **Profit distributed to mudarib**
  - Mudarabah: (7,779)
  - Wakalah: (999)
  - Total: (8,778)
- **Wakalah fee**
  - Mudarabah: -
  - Wakalah: (1,454)
  - Total: (1,454)
- **Wakalah performance incentive fee**
  - Mudarabah: -
  - Wakalah: (351)
  - Total: (351)

**As at 31 December 20XX**

- **Investment asset:**
  - House financing: 33,039
  - Hire purchase receivables: 20,111
  - Trade financing: 43,094
  - Other term financing: 31,602
  - Marketable securities: 15,801
  - Total investment: 143,647
  - Total: 39,562
  - Total: 80,428
  - Total: 263,637

- **Total**
  - Mudarabah: 123,400
  - Restricted investment account: 30,500
  - Unrestricted investment account: 65,720
  - Total: 219,620

- **Total**
  - Mudarabah: 33,560
  - Restricted investment account: 9,765
  - Unrestricted investment account: 28,395
  - Total: 71,720

- **Total**
  - Mudarabah: (23,555)
  - Restricted investment account: (4,567)
  - Unrestricted investment account: (20,766)
  - Total: (48,888)

- **Total**
  - Mudarabah: 18,021
  - Restricted investment account: 4,863
  - Unrestricted investment account: 8,884
  - Total: 31,768

- **Total**
  - Mudarabah: (7,779)
  - Restricted investment account: (999)
  - Unrestricted investment account: (1,454)
  - Total: (8,778)

- **Total**
  - Mudarabah: (351)
  - Restricted investment account: (351)
  - Total: (702)

- **Total**
  - Mudarabah: 33,039
  - Restricted investment account: -
  - Unrestricted investment account: 18,499
  - Total: 51,538

- **Total**
  - Mudarabah: 20,111
  - Restricted investment account: -
  - Unrestricted investment account: 11,260
  - Total: 31,371

- **Total**
  - Mudarabah: 43,094
  - Restricted investment account: -
  - Unrestricted investment account: 24,128
  - Total: 67,222

- **Total**
  - Mudarabah: 31,602
  - Restricted investment account: 39,562
  - Unrestricted investment account: 17,694
  - Total: 88,858

- **Total**
  - Mudarabah: 15,801
  - Restricted investment account: -
  - Unrestricted investment account: 8,847
  - Total: 24,648

- **Total**
  - Mudarabah: 143,647
  - Restricted investment account: 39,562
  - Unrestricted investment account: 80,428
  - Total: 263,637
### Appendix 8 Illustration of Profit Sharing Ratio, Rate of Return and Performance Incentive Fee in the Notes to Accounts

<table>
<thead>
<tr>
<th>Investment account holder</th>
<th>Average profit sharing ratio (%)</th>
<th>Average rate of return (%)</th>
<th>Performance incentive fee (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted investment accounts:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>less than 3 months</td>
<td>50</td>
<td>3.00</td>
<td>2.15</td>
</tr>
<tr>
<td>between 3 to 12 months</td>
<td>55</td>
<td>3.25</td>
<td>2.25</td>
</tr>
<tr>
<td>between 1 to 2 years</td>
<td>55</td>
<td>3.75</td>
<td>2.50</td>
</tr>
<tr>
<td>more than 2 years</td>
<td>75</td>
<td>4.25</td>
<td>2.80</td>
</tr>
<tr>
<td>Restricted investment accounts:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>between 1 to 2 years</td>
<td>55</td>
<td>3.75</td>
<td>-</td>
</tr>
<tr>
<td>between 2 to 5 years</td>
<td>65</td>
<td>4.25</td>
<td>-</td>
</tr>
</tbody>
</table>
Appendix 9

Calculating Liquidity Requirements for Investment Account

Scenario: In this example, the sources of funding for Islamic Bank ABC consist of two broad categories as follows:

(i) Investment account funds which is sourced from investment account holders, Islamic Bank ABC operates two UA funds and DFI’s own funds which is sourced from depositors, shareholders, and others; and

(ii) DFI’s own funds which is sourced from depositors, shareholders, and others.

Inflows

(-) Total DFI’s Compliance Requirement, which consists of:

<table>
<thead>
<tr>
<th>Total Shortfall in UA Funds</th>
<th>(+) Compliance Requirements for Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>(-) Total DFI’s Compliance Requirement, which consists of:</td>
<td></td>
</tr>
<tr>
<td>Shortages in UA</td>
<td></td>
</tr>
<tr>
<td>(+) Liquidable assets (including to cover liquidity shortfall)</td>
<td></td>
</tr>
<tr>
<td>(-) Outflows</td>
<td></td>
</tr>
<tr>
<td>Inflows</td>
<td></td>
</tr>
</tbody>
</table>

DFI’s Own Funds

Net Compliance Surplus/Shortfall for DFI

Liquidity Shortfall

Liquidity Surplus

Reporting under Liquidity Framework

Reporting under Investment Account

[Liquidity risk is mitigated by the steps to calculate compliance with the liquidity requirements:]

Net Compliance Surplus/Shortfall for DFI

(-) Minimum Liquidity Requirements

(+ ) Dedicated liquefiable assets (if any)

Dedicated liquefiable assets (if any)

RA Fund

UA Fund 1

UA Fund 2

Liquidity Shortfall

Liquidity Surplus

Inflows

(-) Outflows

Inflows

(+ ) Outflows

(-) Outflows

(+ ) Outflows

(-) Outflows

Dedicated liquefiable assets (if any)

Liquidity risk is mitigated by the steps to calculate compliance with the liquidity requirements:

Net Compliance Surplus/Shortfall for DFI

(-) Total DFI’s Compliance Requirement, which consists of:

<table>
<thead>
<tr>
<th>Total Shortfall in UA Funds</th>
<th>(+) Compliance Requirements for Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>(-) Total DFI’s Compliance Requirement, which consists of:</td>
<td></td>
</tr>
<tr>
<td>Shortages in UA</td>
<td></td>
</tr>
<tr>
<td>(+) Liquidable assets (including to cover liquidity shortfall)</td>
<td></td>
</tr>
<tr>
<td>(-) Outflows</td>
<td></td>
</tr>
<tr>
<td>Inflows</td>
<td></td>
</tr>
</tbody>
</table>

DFI’s Own Funds

Net Compliance Surplus/Shortfall for DFI

Liquidity Shortfall

Liquidity Surplus

Reporting under Liquidity Framework

Reporting under Investment Account

[Liquidity risk is mitigated by the steps to calculate compliance with the liquidity requirements:]

Net Compliance Surplus/Shortfall for DFI

(-) Minimum Liquidity Requirements

(+ ) Dedicated liquefiable assets (if any)

Dedicated liquefiable assets (if any)

RA Fund

UA Fund 1

UA Fund 2

Liquidity Shortfall

Liquidity Surplus

Inflows

(-) Outflows

Inflows

(+ ) Outflows

(-) Outflows

(+ ) Outflows

(-) Outflows

Dedicated liquefiable assets (if any)

Liquidity risk is mitigated by the steps to calculate compliance with the liquidity requirements:

Net Compliance Surplus/Shortfall for DFI

(-) Total DFI’s Compliance Requirement, which consists of:

<table>
<thead>
<tr>
<th>Total Shortfall in UA Funds</th>
<th>(+) Compliance Requirements for Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>(-) Total DFI’s Compliance Requirement, which consists of:</td>
<td></td>
</tr>
<tr>
<td>Shortages in UA</td>
<td></td>
</tr>
<tr>
<td>(+) Liquidable assets (including to cover liquidity shortfall)</td>
<td></td>
</tr>
<tr>
<td>(-) Outflows</td>
<td></td>
</tr>
<tr>
<td>Inflows</td>
<td></td>
</tr>
</tbody>
</table>

DFI’s Own Funds

Net Compliance Surplus/Shortfall for DFI

Liquidity Shortfall

Liquidity Surplus

Reporting under Liquidity Framework

Reporting under Investment Account

[Liquidity risk is mitigated by the steps to calculate compliance with the liquidity requirements:]

Net Compliance Surplus/Shortfall for DFI

(-) Minimum Liquidity Requirements

(+ ) Dedicated liquefiable assets (if any)

Dedicated liquefiable assets (if any)

RA Fund

UA Fund 1

UA Fund 2

Liquidity Shortfall

Liquidity Surplus

Inflows

(-) Outflows

Inflows

(+ ) Outflows

(-) Outflows

(+ ) Outflows

(-) Outflows

Dedicated liquefiable assets (if any)

Liquidity risk is mitigated by the steps to calculate compliance with the liquidity requirements:
1. Calculation

- Methodology and requirements to calculate “Available Cumulative Mismatch to Accommodate Liquidity Shocks” are specified in the Liquidity Framework.

(b) The methodology and requirements to calculate “Available Cumulative Mismatch to Accommodate Liquidity Shocks” are specified in the Liquidity Framework.

2. Reporting and submission

- This represents the entity (domestic) level reporting done by the DFIs under the Liquidity Framework.

For better clarity, numerical illustration of the steps above is given below:

For the methodology and requirements to calculate “Available Cumulative Mismatch to Accommodate Liquidity Shocks” are specified in the Liquidity Framework.

(a) The DFI shall use the Liquidity Framework reporting requirements for the purpose of calculating and reporting the liquidity.

(b) The DFI shall use the Liquidity Framework requirements to calculate the liquidity needs at the DFI’s own funds level, which shall include an adjustment for any shortfall of liquidity from the UA funds as required for the purposes of calculating and reporting the liquidity needs.

(c) The DFI’s own funds level reporting requirements shall include an adjustment for any shortfall of liquidity from the UA funds as required for the purposes of calculating and reporting the liquidity needs.

(d) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(e) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(f) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(g) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(h) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(i) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(j) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(k) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(l) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(m) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(n) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(o) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(p) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(q) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(r) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(s) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(t) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(u) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(v) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(w) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(x) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(y) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.

(z) The DFI’s own funds level reporting requirements shall include the Liquidity Framework requirements for the purpose of calculating and reporting the liquidity needs.
For purposes of liquidity reporting and compliance requirements, Islamic Bank ABC has to calculate separately the requirements for each of the funds above ie.

- The DFI’s Own Funds, UA Fund 1 and UA Fund 2. The example in Diagram 1 requirements for each of the funds above ie. The DFI’s Own Funds, UA Fund 1 and UA Fund 2. The example in Diagram 1

Scenario: As above

Diagram 1: Liquidity calculation on “Per Fund Basis” for each UA Funds and impact to Liquidity requirements at DFI’s Fund Level

For the calculation for the 51 week bucket:

<table>
<thead>
<tr>
<th>Items (in RM, '000)</th>
<th>1st week</th>
<th>2nd week</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflows from assets and off balance sheet Items:</td>
<td>6,000</td>
<td>2,500</td>
</tr>
<tr>
<td>Outflows from liabilities &amp; off balance sheet Items:</td>
<td>7,500</td>
<td>10,000</td>
</tr>
<tr>
<td>Total Net Maturity Mismatch Under Normal Circumstances</td>
<td>1,500</td>
<td>7,500</td>
</tr>
<tr>
<td>Discounted value of liquefiable securities and undrawn portion of formally available credit lines (if any)</td>
<td>5,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Available cumulative mismatch to accommodate liquidity shocks</td>
<td>3,500</td>
<td>-4,500</td>
</tr>
<tr>
<td>Compliance/Minimum Liquidity requirement as agreed with BNM</td>
<td>2,500*</td>
<td>2,500*</td>
</tr>
</tbody>
</table>

Net compliance/surplus (shortfall) of Fund with BNM

<table>
<thead>
<tr>
<th>Fund</th>
<th>1st week</th>
</tr>
</thead>
<tbody>
<tr>
<td>UA Fund 1</td>
<td>1,000</td>
</tr>
<tr>
<td>UA Fund 2</td>
<td>2,000</td>
</tr>
<tr>
<td>DFI's Own Fund</td>
<td>-7,000</td>
</tr>
</tbody>
</table>

Shortfall needs to be incorporated into DFI's own fund level.
Important notes:

** The inflows and outflows reported at the DF’s own fund level exclude the inflows and outflows of all the UF funds (hence no double counting).

Each UF fund managed by Islamic Bank ABC invests in liquefiable assets as described in paragraph 22.4. These are considered as the amounts of dedicated liquid assets for each UF fund.

This amount consists of liquefiable assets maintained to manage liquidity at the DF’s funds level (eg. deposits with other financial institutions).

Since the inflows and outflows in UF Fund 2 are insufficient to meet its liquidity needs, Islamic Bank ABC is employing the strategy of maintaining both “dedicated liquid asset” and “pooled liquid asset” approach to manage the liquidity risk of UF Fund 2.

Compliance requirement to accommodate deposits withdrawal (ie. 5% x Total Deposits or as agreed with the Bank) +

Assuming the DF accepts a total deposit RM20billion, the DF’s compliance requirement for up to 1 week bucket is:

RM 1.07 billion = (5% x RM 20,000,000,000) + RM 7,000,000

Conclusion: The shortfall in UF Funds increases the DF’s Total Compliance Requirements to RM 1.07 billion as reflected in the table above. This results in a reduction to the DF’s Net Compliance Surplus to RM 93 million.

Assuming the DF accepts a total deposit RM20billion, the DF’s compliance requirement for up to 1 week bucket is:

RM 1.07 billion = (5% x RM 20,000,000,000) + RM 7,000,000

Meanwhile, UF Fund 2 has a net shortfall of RM7million which needs to be covered by the DF as mentioned under paragraph 30.4.

Meanwhile, UF Fund 2 has a net shortfall of RM7million which needs to be covered by the DF as mentioned under paragraph 30.4.

Usage of these surplus funds for purposes other than for UF Fund 1 must be conducted on an arm’s length basis as detailed under paragraph 22.5.

Conclusion:
The shortfall in UF Funds increases the DF’s Total Compliance Requirements to RM 1.07 billion as reflected in the table above. This results in a reduction to the DF’s Net Compliance Surplus to RM 93 million.

Compliance requirement to accommodate deposits withdrawal (ie. 5% x Total Deposits or as agreed with the Bank) +

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Conclusion: The shortfall in UF Funds increases the DF’s Total Compliance Requirements to RM 1.07 billion as reflected in the table above. This results in a reduction to the DF’s Net Compliance Surplus to RM 93 million.
Appendix 10  Computation of Capital Adequacy Ratio incorporating effect from Investment Account

The Capital Adequacy Ratio of the IFI shall be computed as follows:

\[
\text{Total Capital Ratio}^{42} = \frac{\text{Total Capital}^{43}}{\text{Total Risk Weighted Assets}} - \text{Less} \]

\[\text{(Credit and Market Risk Weighted Assets funded by Investment Accounts)}\]

---

42 This formula applies for calculating Common Equity Tier 1 capital, Tier 1 capital and Total Capital ratios accordingly.

43 For the avoidance of the doubt, Total Capital refers to Capital Base and credit and market risk weighted assets refers to risk-weighted assets under the Capital Framework for Development Financial Institutions.
Appendix 11  Look-through Approach (LTA) for the computation of Capital Adequacy Ratio

In the application of LTA, the DFI as the IAH shall apply the treatment applicable for similar asset classes in its portfolio as if the underlying assets are directly held by the DFI, using the relevant rules in the Capital Framework for Development Financial Institutions.