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24 Mac 2020

Chief Executive Officer
Licensed Banks
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Tuan/Puan,

Additional Measures to Assist Borrowers/Customers Affected by the COVID-19 Outbreak

Following our letter dated 28 February 2020, Bank Negara Malaysia (BNM) is implementing additional measures to assist borrowers/customers experiencing temporary financial constraints due to the COVID-19. These measures aim to ensure that the financial intermediation function of the financial sector remains intact, access to financing continues to be available, and banking institutions remain focused on supporting the economy during these exceptional circumstances.

Moratorium on repayment/payment of loans/financing

2. To ease the cash flow of small and medium-sized enterprises (SMEs) and individuals that are likely to be most affected by COVID-19, banking institutions will grant an ***automatic*** moratorium on all loan/financing repayments/payments, principal and interest, (except for credit card balances) by individuals and SME borrowers/customers for a period of 6 months from 1 April 2020. The automatic moratorium is applicable to loans/financing that are–

(a) not in arrears exceeding 90 days as at 1 April 2020; and
(b) denominated in Malaysian Ringgit.

3. Banking institutions should provide individuals and SME borrowers/customers with adequate information on how the suspended loan/financing repayments/payments will be treated during the moratorium period[1] and options for the borrowers/customers to resume repayments/payments after the moratorium period, particularly if they anticipate that they may still face some difficulty meeting scheduled repayments/payments. Such information may be provided through a general advisory issued to borrowers/customers through appropriate channels, or published on banking institutions' websites. Banking institutions are generally expected to facilitate the resumption of repayments/payments after the moratorium period consistent with the affordability of borrowers/customers. This includes offering suitable workout plans to repay/pay the principal and interest/profit accrued during the

[1] Including the continued accrual of interest/profit on the amount owed during the moratorium period and higher overall payments that the borrower/customer may bear due to the extended repayment tenure.

moratorium period, taking into consideration the repayment/payment capacity of the borrowers/customers which ultimately allows the borrower/customer to fully settle the loan/financing. Banking institutions must also ensure that individuals and SMEs that do not wish to avail themselves to the automatic moratorium can continue with their current repayment/payment terms with minimal inconvenience.

4. For outstanding credit card balances[2], banking institutions shall offer borrowers/customers the option to convert their credit card balances into a term loan/financing of a tenure of not more than 3 years and an effective interest/profit rate of not more than 13% per annum. For individuals who have demonstrated signs of repayment/payment difficulty (i.e. unable to meet the minimum monthly repayment for the last 3 consecutive months), banking institutions shall ***automatically*** convert their credit card balances into term loans. The requirements in this paragraph shall be observed by banking institutions from 1 April 2020 until 31 December 2020. Banking institutions may also choose to continue extending these options beyond 31 December 2020 in the interests of borrowers/customers.

5. For corporate borrowers/customers, banking institutions are strongly encouraged to facilitate requests for a moratorium on loan/financing repayment/payment in a way that will enable viable corporations to preserve jobs and swiftly resume economic activities when conditions stabilise and improve. This may also include the appropriate consideration of additional financing to support immediate cash flows and the rescheduling and restructuring of existing facilities to allow reasonable time for businesses to fully recover from current disruptions. For the purpose of the regulatory flexibilities provided in paragraph 6 below, loans/financing to corporations in this paragraph shall refer to loans/financing that also meet the conditions in paragraph 2(a) and (b).

6. In relation to any loan/financing that is granted a moratorium[3], converted or restructured and rescheduled[4] as provided in this letter, pursuant to section 47(1) of the Financial Services Act 2013 (FSA) and section 57(1) of the Islamic Financial Services Act 2013 (IFSA), the following regulatory treatment shall apply:

(a) the moratorium period is excluded in the determination of the period in arrears for the purpose of regulatory and accounting classifications;
(b) the loans/financing need not be reported as 'rescheduled and restructured' (R&R) in the Central Credit Reference Information System (CCRIS); and
(c) the R&R loans/financing need not be classified as credit-impaired in CCRIS.

For the avoidance of doubt, the regulatory treatment in this paragraph shall also apply to any requests for a moratorium or to reschedule and restructure received by banking institutions on or before 31 December 2020. In addition, the regulatory flexibilities

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[2] For credit card-i based on ujrah concept, the credit card balances refer to only the outstanding principal amount.

[3] For the avoidance of doubt, granting a moratorium in itself is not considered as 'rescheduled and restructured' unless it is coupled with other concessions granted to the borrowers/customers, for example extending loan/financing tenure or revising the original repayment amount.

[4] Including those rescheduled and restructured under the Small Debt Resolution Scheme (SDRS) and the Corporate Debt Restructuring Committee (CDRC).

specified in our letters dated 21 June 2019 and 28 February 2020 shall continue to be applicable where relevant. The earlier and current regulatory flexibilities are also accorded to prescribed development financial institutions that have adopted similar classifications as banking institutions

7. BNM will continue to provide daily ringgit liquidity to banking institutions through our open market operations, including BNM's reverse repo and standing facilities, to meet any liquidity shortfall during this period. This is to ensure orderly functioning of the money markets and as such, banking institutions are encouraged to make use of the liquidity facilities provided by BNM. Importantly, banking institutions should avoid behaviours, including through increased competition for deposits, that would lead to dislocations and fragmentation in the funding market, and impact credit conditions.

Lending/financing limits

8. To further support lending/financing activities by banking institutions, the following lending/financing requirements will be liberalised:

(a) the requirements on lending/financing to the broad property sector, and lending/financing for the purchase of shares and units of unit trust funds, shall be uplifted with immediate effect. For the avoidance of doubt, exposures of banking institutions shall continue to comply with the requirements on *Single Counterparty Exposure Limit, Credit Risk* and *Internal Capital Adequacy Assessment Process (Pillar 2)*; and

(b) pursuant to section 50(1) of FSA and section 59(1) of IFSA, the limit for exposures to counterparties that are connected to Tenaga Nasional Berhad, Petroliam Nasional Berhad and Telekom Malaysia Berhad based on economic dependence factors set out in the SCEL Policy Document, is temporarily increased from 25% to **35%** of a banking institution's total capital, subject to the following:

   i. the higher limit is only applicable for exposures acquired until 31 December 2021;
   ii. banking institutions must pare down any exposures in excess of 25% of total capital by 31 December 2022; and
   iii. banking institutions shall continue to ensure appropriate risk assessments, monitoring and independent review of exposures in line with the expectations sets out in the policy document on *Credit Risk.*

Drawdown of prudential buffers

9. The prudential buffers built up by banking institutions are intended to be used to support continued lending to/financing of the economy by absorbing potential future losses and meeting liquidity needs during periods of stress. Accordingly, banking institutions are allowed during this period to−

(a) drawdown the capital conservation buffer of 2.5%;
(b) operate below the minimum liquidity coverage ratio (LCR) of 100%; and
(c) reduce the regulatory reserves held against expected losses to 0%.

10. Banking institutions will be given reasonable time to rebuild their buffers after 31 December 2020. At this juncture, BNM expects that, subject to the public health concerns abating and economic conditions improving thereafter, banking institutions should be in a position to restore their buffers to the minimum regulatory requirements by 30 September 2021. BNM will review this timeline if current expectations change materially. BNM will also consider the extent to which individual banking institutions draw down their liquidity buffer. Where BNM judges that liquidity risks of an individual banking institution are significantly heightened due to a lower-than-expected LCR level, BNM may subject the banking institution to closer monitoring and/or require the institution to restore its liquidity buffer more quickly to an acceptable level.

11. The implementation of the Net Stable Funding Ratio (NSFR) requirement shall continue to be effective on 1 July 2020. However, the minimum NSFR requirement applicable on 1 July 2020 is lowered to 80%. Banking institutions shall maintain a minimum NSFR requirement of 100% from 30 September 2021.

12. The specifications in paragraphs 9 to 11 above are made pursuant to section 47(1) of FSA and section 57(1) of IFSA.

13. BNM fully expects that, with these temporary flexibilities, banking institutions will apply its capital and liquidity buffers to support the economy and provide a countercyclical response to the weaker economic conditions. Banking institutions are therefore reminded not to use these drawdowns to increase discretionary distributions of earnings including dividends, share buybacks and bonus payments. Any proposals for potential dividend payments or share buyback schemes should reflect these expectations and remain consistent with the institution's safety and soundness.

MFRS9 and financial reporting requirements

14. Given the high degree of uncertainty, both domestically and globally, surrounding the impact of COVID-19 on the economy, banking institutions are reminded to ensure that any forward-looking information used to incorporate the impact of COVID-19 on the expected credit loss estimates under MFRS 9 is reasonable and supportable. In doing so, banking institutions should also appropriately reflect the temporary nature of the shock, and fully account for the economic and financial support measures that have been announced to mitigate the impact of COVID-19 on the economy. In particular, moratoriums provided to borrowers should not automatically result in a stage transfer under MFRS 9 in the absence of other factors relevant to the assessment of whether there has been a significant increase in credit risk.

15. BNM continues to engage closely with relevant standard setting bodies, including the Basel Committee on Banking Supervision and the Malaysian Accounting Standards Board, on the potential impact of expected credit loss provisioning under IFRS 9/MFRS 9 which could constrain the flow of credit to the economy and amplify macro-economic and financial risks in a procyclical way. Further guidance will be provided to banking institutions where appropriate as these engagements progress.

Other measures

16. To enable banking institutions to focus their efforts and resources in supporting their borrowers and customers, BNM has additionally reviewed its planned regulatory and supervisory activities in 2020 to ease compliance and operational burden on banking institutions. To this end, BNM will–

(a) suspend any new statistical reporting requests, other than those required to address the impact of COVID-19;

(b) provide flexibility in the timelines for banking institutions to implement remediation measures to address supervisory concerns raised by BNM. Banking institutions that require such flexibility should communicate with Jabatan Penyeliaan Konglomerat Kewangan, Jabatan Penyeliaan Perbankan or Jabatan Konsumer dan Amalan Pasaran as relevant;

(c) extend the deadlines for banking institutions to respond to consultations on discussion papers and exposure drafts that have been issued and are currently ongoing to 30 June 2020 and beyond (refer to Appendix I);

(d) extend the timelines for regulatory and supervisory submissions to BNM, including the results of the stress test for the period up to 30 June 2020, and regulatory applications that have been affected by the Movement Control Order. Further details on these extensions will be separately communicated to banking institutions;

(e) extend the timelines for most statistical submissions. Jabatan Pengurusan Data dan Statistik will communicate the new deadlines in due course; and.

(f) suspend enforcement actions for non-compliance with statistical reporting deadlines during this period.

17. BNM will not be issuing the Regulatory Calendar for 2020 in light of our adjusted priorities. Policy and supervisory initiatives in 2020 will be re-focused on monitoring and responding to material risks in the financial sector and supporting financial intermediation activities. This includes enabling the use of technology to improve the provision of financial services and reducing non-essential compliance burdens.

18. Given the fluid and continually evolving environment, we will continue to monitor developments closely and consider further adjustments as may be necessary to respond to changing conditions. We urge banking institutions to use the flexibilities provided constructively to support individuals and businesses that have been hard hit by current developments. This includes prioritising consistent and helpful communications with customers across all customer touch points (e.g. branches, online platforms and call centres) to ensure the effective implementation of financial support measures announced by BNM and Government.

Sekian, terima kasih.

Yang benar,

(Jessica Chew Cheng Lian)
Timbalan Gabenor

Appendix I

List of discussion papers and exposure drafts that are currently under consultation

1. Responsibility Mapping
2. Recovery Planning
3. Risk-Based Authentication for Online Payment Card Transactions
4. Licensing Framework for Digital Banks
5. Climate Change and Principles-based Taxonomy
6. Corporate Strategic Plan (extended until Q1 2021)