Highlights: BNM Measures - Responding to COVID-19

26 March 2020

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KPMG in Malaysia

Introduction

Weeks of slow-down in economic activities, suspension and cessation of businesses has taken place as a result of the intensifying COVID-19 outbreak in Malaysia. To support efforts by banking institutions to assist individuals, small and medium-sized enterprises (SMEs) and corporations to manage the COVID-19 outbreak, Bank Negara Malaysia (The Bank or BNM)has announced a number of regulatory and supervisory measures that seeks to ease the financial burden of those affected. This is in addition to the BNM relief funds totaling RM3.3billion extended to qualifying SMEs which was announced on the 28th of February 2020.

The additional measures include deferment and restructuring of individual and SME loans or financing facilities, relaxation of supervisory prudential measures to enable excess capital buffers and liquidity reserves to be channeled through the system to enable banks to provide financial assistance and moratoriums to those affected.

These measures are expected to ease financial burdens to the affected segments for the coming six months, but also signals to the markets the expected spill over impact from current financial and operational stresses to the wider population in the coming months. According to MIER research dated 24th March on the impact of COVID-19, a potential 2.4million job loss may occur, with household incomes projected to reduce by 12% relative to baseline, which amounts to RM95 billion approximately.

BNM will provide flexibilities to banking institutions to meet timelines for regulatory submission, in light of efforts required to support the Government in containing the spread of Covid-19. These include additional operational tasks to enable for additional funding facilities, restructuring and moratorium discussions, heightened monitoring and risk management efforts by banks.

The Bank will also be extending the timeline for all ongoing consultations on published discussion papers and exposure drafts to 30 June 2020 and beyond. New initiatives originally planned for 2020 will potentially be delayed under these circumstances.

We laud the efforts of authorities and banking institutions, in their continuous consultation and collaboration to assist and support the Malaysian Economy during this challenging times. The following is a summary of the additional BNM measures announced on 25th March 2020.

** MIER: Malaysia Institute of Economic Research (MIER) paper dated 24th March 2020, The Economic Impacts of COVID-19*

BNM measures on COVID 19 Impacts

28 February 2020

SME financing support (RM3.3bn)

Special Relief Facility (SRF)
of RM2billion:

Up to

RM1million

financing facility

Up to

5.5 **Years tenure**

6 months grace period

3.75%

Financing rate

Agrofood Facility (AF)
of RM1billion:

Up to

RM5million

financing facility

Up to

8 **Years tenure**

3.75%

Financing rate

SME Automation and Digitalisation Facility (ADF)
of RM300m:

Up to

RM3million

financing facility

Up to

10 **Years tenure**

4%

Financing rate

BNM measures on COVID 19 Impacts

24 March 2020

Moratorium	• Individual and SME Loan/financing repayments/ payments, principal and interest • Excludes Credit Cards
Lending Limits	• SCEL exposure to essential vendors increased to 35%, excess of 25% to be pared down by Dec 2022
Prudential Buffers	• Capital buffers can be utilized • Liquidity requirements flexible • NSFR reduced to 80%, effective date remains July 2020
MFRS 9	• Treatment of moratorium • Forward Looking scenario impact
Bank Reporting	• Suspended or delay in new reporting and statistical reporting submissions
New Regulations	• Feedback deadline delayed to 30 June 2020 • Refocusing of BNM initiatives

Moratorium on repayment/payment of loans/financing

SME & Individuals

- Automatic moratorium on all Individual and SME loan/financing repayments/payments, principal and interest (except for credit card balances)
- Moratorium is not considered a rescheduled and restructured account
- Interest continues to be accrued

Treatment of Moratorium:

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

- Optional conversion of credit card balance to term loan < 3 years, effective interest rate <13% p.a. – automatic conversation where customers have difficulty in repayment

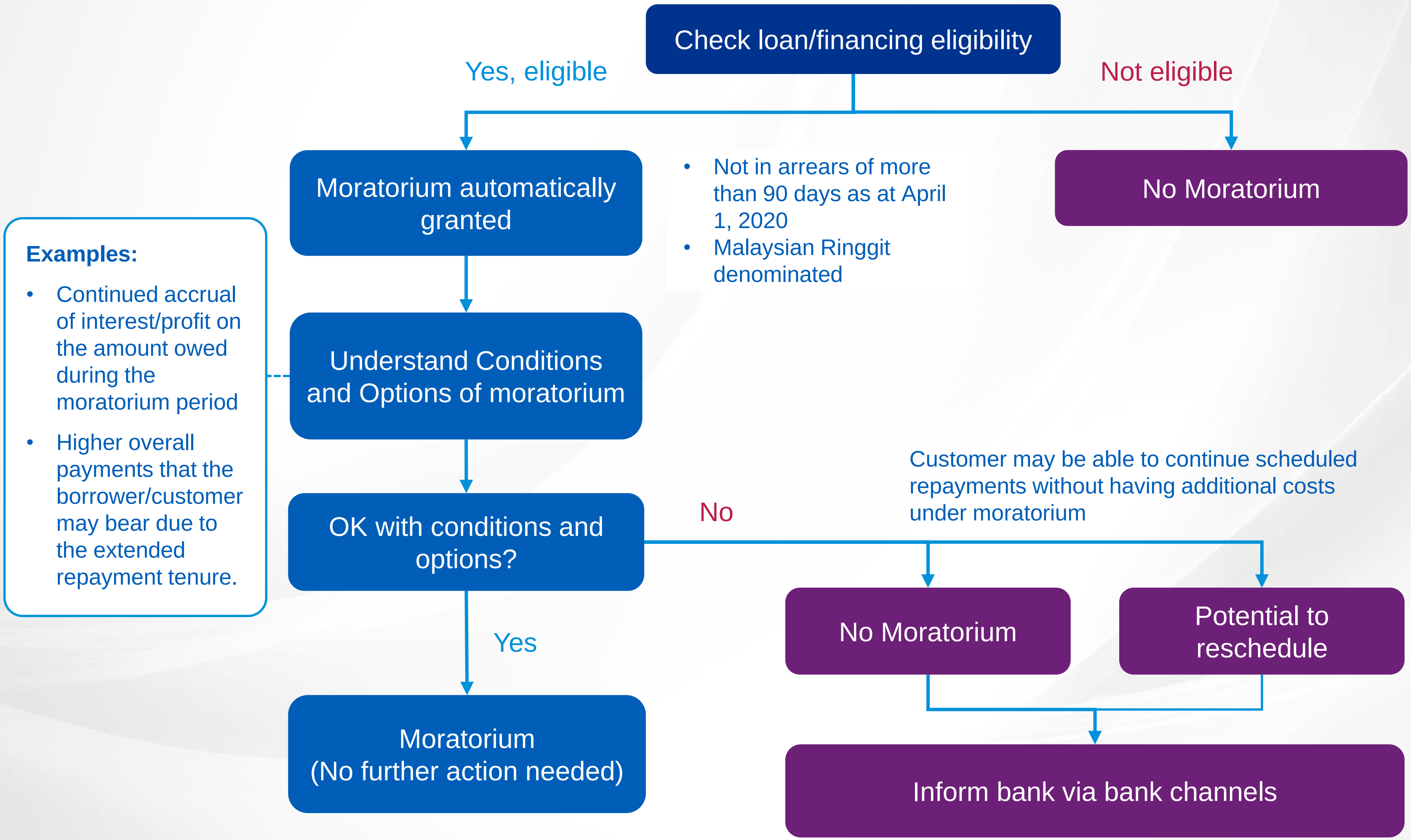
Condition on Moratorium:

- Not in arrears of 90 days (not defaulted) as of 01 April 2020
- Malaysian Ringgit denominated

Required:

Customer must be informed of conditions of repayment post-moratorium

What the moratorium means for borrowers



Lending Limits

Lending restrictions

Lending/financing restrictions uplift immediately for:

1. broad property sector

2. purchase of shares and units of unit trust funds,

SCEL

↑ 35%

SCEL connected parties exposure to Tenaga Nasional Berhad, Petroliam Nasional Berhad and Telekom Malaysia Berhad - increased to 35%, excess of 25% to be pared down by Dec 2022

i Release of restrictions allow for sector growth and capital markets activity

Prudential Buffers - Capital and Liquidity

Capital

2.5% **Capital conservation buffer**

Capital conservation buffer of 2.5% can be utilized

Liquidity Coverage Ratio

<100% **Liquidity coverage ratio**

Operate below the minimum liquidity coverage ratio (LCR) of 100%

Net Stable Funding Ratio

↓80%

NSFR reduced to 80%, effective date remains July 2020

100%

NSFR 100% requirement resumes from 30 September 2021

Reserves

↓0% **Regulatory reserves**

Regulatory reserves held against expected losses can be reduced to 0%.

i * Implications: Release of capital and liquidity from bank balance sheet to support economic flows.

MFRS 9

Continuous consultation is held with MASB and Basel on potential impact of ECL provisioning criteria restricting credit flow to economy

Forward Looking

- 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
- Reflect the temporary nature of the shock
- Fully account for the economic and financial support measures that have been announced to mitigate the impact of COVID-19 on the economy

Stage Transfer Criteria / Staging

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.

* consistent with treatment that moratoriums are not considered as R&R

i * Banks should begin collating data on measures in place and impacts of and to COVID-19

i * Close monitoring of high risk segments ^

^ potential referencing to BNM direction on industries and segments highly in need of economic support, including non-essential services as defined by Malaysian law

Reporting and Submissions by Banks

New statistical reporting

Suspended

Remediation measures

Flexibility in the timelines for banking institutions to implement remediation measures to address supervisory concerns raised by BNM.

Regulatory Submission

Extended timelines for regulatory and supervisory submissions to BNM, except for COVID-19 related data

Data and Statistics submission

- Extended timelines for most statistical submissions to statistics department except for COVID-19 related data
- Suspended enforcement actions for non-compliance with statistical reporting deadlines during this period

New Regulations

Extended feedback period for following exposure drafts

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

Regulatory Calendar 2020

- Cancelled
- Policy and supervisory initiatives in 2020 refocused to monitoring and responding to material risks in the financial sector and supporting financial intermediation activities

i * Implications: delayed roll out in new guidelines and policies until further notice

Adrian Lee
Partner
Head of Financial Services
KPMG in Malaysia
allee@kpmg.com.my

Ahmad Nasri
Partner
Head of Banking
KPMG in Malaysia
aabdulwahab@kpmg.com.my

Yeoh Xin Yi
Partner
Financial Services Advisory
KPMG in Malaysia
xinyiyeoh@kpmg.com.my

kpmg.com/socialmedia

kpmg.com/app