<u>Frequently Asked Questions</u>

Domestic Systemically Important Banks (D-SIB) Framework

Last updated: 5 February 2020

1. What are systemically important banks?

During the global financial crisis (GFC), the distress and failure of large financial institutions created enormous stress in the financial system and harmed the real economy thereby exposing the 'too-big-to-fail' problem. Broadly, the 'too-big-to-fail' problem refers to the situation whereby a financial institution is considered either too large, complex and/or highly interconnected with other parts of the financial system and economy such that its distress or disorderly failure could cause significant disruption to the functioning of the financial system and economy. Such financial institutions are also known as systemically important financial institutions. During the GFC, national authorities had resorted to using public funds in order to reduce the adverse effects arising from the distress or disorderly failure of these institutions and restore stability in the financial system.

In the aftermath of the crisis, a comprehensive set of policies were devised by global standard setting bodies to address the 'too-big-to-fail' problem, one of which is to develop a framework to identify systemically important banks (SIBs) and to increase resilience of SIBs to distress events. At the global level, the Financial Stability Board identifies SIBs, also known as G-SIBs. There are currently 30 G-SIBs[1] that provides a wide range of financial services across many countries, including in Malaysia. G-SIBs are required to hold additional capital buffers and are subject to higher supervisory expectations in the areas of risk management, governance and internal controls.

2. Why does Malaysia need to have D-SIB framework?

The 'too-big-to-fail' problem exists not only at the global level but also at the national level. The D-SIB framework developed by Bank Negara Malaysia (the Bank) therefore aims to strengthen the resilience of the Malaysian banking system and to address the risks posed by domestic SIBs (D-SIBs) to the wider economy. The framework has been informed by international standards and the structural characteristics of the Malaysian banking system. This framework together with the Bank's regulatory framework and supervisory regime will ultimately contribute to a safer and more resilient Malaysian financial system thereby reducing the likelihood of Malaysian taxpayers having to bear losses associated with bank failures.

3. How are D-SIBs identified in Malaysia?

D-SIBs are identified based on an indicator-based measurement approach (IBA). The IBA uses indicators across three categories, namely size, interconnectedness and substitutability to determine the degree of a banking institution's systemic importance i.e. the potential impact of its failure to the domestic financial system and economy. The assessment is also supplemented by the supervisory overlay process, which incorporates information that may not be easily quantified or fully captured by the IBA.

For further details on the assessment methodology, please refer to the Policy Document.

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[1] Refer to https://www.fsb.org/2019/11/fsb-publishes-2019-g-sib-list/

4. Once identified, what does it imply to be a D-SIB?

A D-SIB is required to maintain additional capital buffers to increase its capacity to absorb losses and reduce its probability of facing distress or failure during period of stress. Improved resilience of D-SIBs in turn dampens potential negative spillover effects from the Malaysian banking system to the broader financial system and economy. This complements the Bank's regulatory framework and supervisory regime, which takes into account the nature, scale and complexity of a bank's activities and operations.

5. Are all D-SIBs the same?

No, the degree of systemic importance varies across D-SIBs. As such, D-SIBs are sorted into separate buckets with differentiated capital buffer requirements commensurate with their degree of systemic importance.

6. How does the additional capital requirement affect a D-SIB and its stakeholders (e.g. customers and shareholders)?

Banks in the Malaysian banking system are generally well capitalised and have sufficient buffers to withstand potential losses even under adverse economic and financial conditions. The Bank expects the designated D-SIBs to be able to meet the additional capital buffer requirement, which comes into effect on 31 January 2021, without having to raise additional capital and with minimal impact to their business activities.

7. Are D-SIBs safer than non-D-SIBs?

The D-SIB framework is not intended to differentiate the riskiness or safety of banks in Malaysia. All banks in Malaysia, regardless of its designation under the D-SIB framework, are subjected to the Bank's regulatory framework and oversight which aims to promote the safety and soundness of individual banking institutions.