

## **Clarification on reserve fund**

In the past, Malaysian banks were required to set aside a percentage of their profits as buffers (known as reserve fund) before any distribution of dividends can be made. This buffer serves as a prudential tool for banks that can be used during period of stress to ensure that banks can continue to provide financial services without any disruption.

Since 2016, Malaysian banks, both conventional and Islamic, have begun a four-year phase in to maintain a capital conservation buffer based on the Basel standards. With the phasing in of the Basel capital conservation buffer, the need for banks to maintain the reserve fund is no longer necessary given that both requirements are intended for the same purpose.

The reserve fund requirement is different from the statutory reserve requirement (SRR), which is a policy instrument available to the Central Bank for the conduct of monetary policy operations. The SRR for the banks still remains in place.