

Frequently Asked Questions (FAQs) – Capital Funds for Islamic Banks

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1. Why did the Bank remove the reserve fund requirement?

The reserve requirement is no longer relevant given that Islamic banking institutions have begun the phasing in of the capital conservation buffer requirement (CCB) under the *Capital Adequacy Framework for Islamic Banks* since 2016. The objective of the reserve fund is similar to CCB in that both are intended to ensure that Islamic banking institutions have sufficient buffer that can be drawn down during periods of stress.

2. Is the reserve fund requirement similar to statutory reserve requirement?

No, the reserve fund requirement is a prudential requirement. It was introduced under section 15 of the repealed Islamic Banking Act 1983. The reserve requirement was transposed into the policy document on *Capital Funds for Islamic Banks* following the enactment of the Islamic Financial Services Act 2013.

3. What is the difference between capital funds and reserve fund requirements?

The minimum capital funds requirements are introduced as an important entry and ongoing requirement to ensure that an Islamic banking institution maintains a minimum size of capital to operate and perform its intermediation function effectively. On the other hand, the reserve fund requirement is a component of capital funds and the intent is to act as an additional buffer that an Islamic banking institution can draw down during periods of stress.