



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Large Exposures Limit Exposure Draft

Applicable to:

1. Licensed banks
2. Licensed Islamic banks
3. Licensed investment banks
4. Financial holding companies
5. Bank Kerjasama Rakyat Malaysia Berhad

Issued on: 13 December 2024

BNM/RH/ED 028-31

This Exposure Draft (ED) sets out the proposed regulatory requirements and guidance on the large exposures limit applied to a single counterparty and its group of connected persons, which is expected to come into effect on 1 June 2026. Once in effect, these requirements will supersede the Policy Document on Single Counterparty Exposure Limit and the Policy Document on Single Counterparty Exposure Limit for Islamic Banking Institutions, both issued by Bank Negara Malaysia (the Bank) on 9 July 2014.

The Bank invites written feedback on the proposals in this ED, including responses to specific questions set out in this ED, suggestions for specific issues, areas to be clarified or elaborated further, as well as alternative proposals that the Bank should consider. The written feedback should be constructive and be supported with clear rationale and appropriate evidence, examples or illustrations, to facilitate the Bank's assessment. Where appropriate, please indicate the applicable paragraph in the ED.

Responses must be incorporated in the template provided and submitted electronically to the Bank by **31 March 2025** to pfpconsult@bnm.gov.my. Submissions received may be made public unless confidentiality is specifically requested by the respondent for the whole or part of the submission.

In addition, to gauge the impact of the proposals, banking institutions are required to submit information referred in paragraph 22.1 using the reporting template i.e. Appendix 3, for position as of 28 February 2025 (at entity level only).

In the course of preparing your feedback, you may direct any queries to the following officers:

1. Aden Nadia binti Jabbari (adennadia@bnm.gov.my);
2. Janneni Suthakaran (janneni@bnm.gov.my); or
3. Muhammad Zahir bin Mokhtar (zahir@bnm.gov.my).

TABLE OF CONTENTS

PART A	OVERVIEW.....	1
1	Introduction	1
2	Applicability	2
3	Legal provisions	2
4	Effective date	2
5	Interpretation and specifications.....	2
6	Related legal instruments and policy documents	5
7	Policy documents superseded	5
PART B	POLICY REQUIREMENTS.....	6
8	Risk management requirements	6
9	Definition of connected counterparties	7
10	Large exposures limit	9
11	Exposures excluded from the computation of the large exposures limit	11
12	Measurement of exposures.....	12
13	Calculation of exposure value for trading book positions	13
14	Offsetting long and short positions in the trading book.....	14
15	Eligible credit risk mitigation techniques.....	15
16	Exposures to sovereign and central banks.....	17
17	Interbank exposures.....	17
18	Exposures to investment accounts.....	18
19	Collective investment undertakings, securitisation vehicles and other structures	19
20	Exposures to central counterparties	20
PART C	COMPLIANCE AND REPORTING REQUIREMENTS	22
21	Compliance with the large exposures limit	22
22	Regulatory reporting requirements	22
	APPENDICES	24
Appendix 1	Conditions for an additional LEL of 10% of Tier 1 Capital for exposures to TNB and Petronas and their connected counterparties.....	24
Appendix 2	Decision tree in determining the counterparty to structures with underlying assets	28
Appendix 3	Reporting template	29

PART A OVERVIEW

1 Introduction

- 1.1 Risk concentration refers to an exposure with the potential to incur losses that are material enough to threaten the financial condition of a banking institution. Risk concentration can emanate from material exposures to a single counterparty or a group of connected counterparties, a particular instrument or a particular market segment. The magnitude of this risk can be amplified by common or correlated risk factors which in times of stress can adversely affect the creditworthiness of each individual counterparty contributing to the concentration. Therefore, a large exposures framework aims to act as a backstop to risk-based capital requirements in ensuring that risks arising from large exposures to counterparties are always within a prudent limit.
- 1.2 This policy document aims to–
 - (a) protect a banking institution from incurring large losses arising from the default of an individual counterparty or a group of connected counterparties;
 - (b) ensure banking institutions have in place appropriate and effective measurement and control of risks associated with large exposures; and
 - (c) manage systemic risks by reducing contagion or interconnectedness among banking institutions.
- 1.3 This policy document sets out the following:
 - (a) the prudential limit for exposures to a single counterparty and persons connected to it;
 - (b) what constitutes “connected”, “counterparty” and “exposure”;
 - (c) requirements on banking institutions in relation to its management and monitoring of exposures to a single counterparty and persons connected to it;
 - (d) scope and treatment of exposures applicable to a single counterparty and persons connected to it;
 - (e) requirements with respect to on-going compliance with the large exposures limit (LEL); and
 - (f) regulatory reporting to the Bank.
- 1.4 The requirements in this document are based on the Basel Committee on Banking Supervision's Large Exposures Framework (LEX) with the objective of promoting the safety and soundness of banking institutions. Where necessary and appropriate, the requirements have been modified to take into account the unique characteristics of the Malaysian economy and financial system. This policy document complements the capital adequacy framework on credit risk, market risk and central counterparties.

2 Applicability

- 2.1 This policy document is applicable to all banking institutions as defined in paragraph 5.2.

3 Legal provisions

- 3.1 The requirements in this policy document are specified pursuant to–
- (a) sections 47(1), 50, 143(1) and 144 of the Financial Services Act 2013 (FSA);
 - (b) sections 57(1), 59, 155(1) and 156 of the Islamic Financial Services Act 2013 (IFSA); and
 - (c) sections 29, 41(1) and 116 of the Development Financial Institutions Act 2002 (DFIA).
- 3.2 The guidance in this policy document is issued pursuant to section 266 of the FSA, section 277 of the IFSA and section 126 of the DFIA.

4 Effective date

- 4.1 This policy document comes into effect on 1 June 2026 except for paragraphs 22.1 to 22.2, which shall come into force on 31 December 2027 and paragraphs 9.8, 10.1(a), 10.1(c) and 19.1 to 19.13, which shall come into force on 1 June 2028.

Question 1

Please provide feedback on the adequacy of the proposed transition period of 2 years, with clear justification if a longer period is required. In managing the LEL, please indicate and rank the possible action plans that may be undertaken by your institution in the next 3 to 5 years:

1. Capital raising via issuance of ordinary shares;
2. Capital raising via issuance of additional Tier 1 Capital;
3. Pare down outstanding exposures;
4. Others (please elaborate further); and
5. None of the above given that the Tier 1 Capital as the LEL base is sufficient to cater for large exposures.

5 Interpretation and specifications

Interpretation

- 5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA, IFSA and DFIA, as the case may be, unless otherwise defined in this policy document.

5.2 For the purpose of this policy document–

“**S**” denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;

“**G**” denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

“**banking institution**” refers to–

- (a) a licensed bank, licensed investment bank and financial holding company under the FSA;
- (b) a licensed Islamic bank (excluding a licensed international Islamic bank) and financial holding company under the IFSA; and
- (c) Bank Kerjasama Rakyat Malaysia Berhad;

“**board**” refers to the board of directors of a banking institution;

“**banking business**” includes “investment banking business”;

“**Islamic banking institution**” refers to–

- (a) a licensed Islamic bank (excluding a licensed international Islamic bank);
- (b) a licensed bank and a licensed investment bank to which the Bank has granted approval pursuant to section 15(1)(a) of the FSA to carry on Islamic banking business; and
- (c) Bank Kerjasama Rakyat Malaysia Berhad;

“**Investment account holder**” or “**IAH**”, refers to a customer with an investment account maintained at an Islamic banking institution;

“**large exposure**” refers to total exposures to a single counterparty or to a group of connected counterparties which are equal to or above 10% of the banking institution’s Tier 1 Capital;

“**qualifying central counterparty**” or “**QCCP**” refers to an entity that meets the criteria set out in the Policy Document on Capital Adequacy Framework (Exposures to Central Counterparties);

“**related counterparty**” refers to a counterparty which is a related corporation of a banking institution, and includes related banking entities and non-bank related corporations;

“**related banking entity**” of a banking institution refers to a related corporation which is a licensed person ¹ or a prescribed institution ² under the laws administered by the Bank or regulated by a foreign regulatory authority to carry on

¹ Refers to a licensed person under the FSA or IFSA.

² Refers to a prescribed development financial institution under the DFIA.

banking business or Islamic banking business or business which corresponds, or is similar, to banking business or Islamic banking business, and includes:

- (a) a holding company or subsidiary of a banking institution;
- (b) a subsidiary of a holding company of a banking institution; or
- (c) any other related corporation within the corporate group of a banking institution;

“Restricted Investment Account” or **“RA”** refers to a type of investment account where the IAH provides a specific investment mandate to the Islamic banking institution such as purpose, asset class, economic sector and period of investment;

“senior management” refers to the chief executive officer and senior officers;

“Tier 1 Capital” has the same meaning assigned to it under the Policy Document on Capital Adequacy Framework (Capital Components); and

“Unrestricted Investment Account” or **“UA”** refers to a type of investment account where the IAH provides the Islamic banking institution with the mandate to make the ultimate investment decision without specifying any particular restrictions or conditions.

Specification of “connected”, “counterparty” and “exposure”

5.3 For purposes of sections 50(3) of the FSA, 59(3) of the IFSA and 29(1B) of the DFIA, as the case may be, the Bank specifies the following:

“connected” is as specified in paragraph 9.2 of this policy document;

“counterparty” refers to any person with whom a banking institution has an exposure;

“exposure” refers to all claims, commitments and contingent liabilities defined under the risk-based capital framework³. This includes both on- and off-balance sheet exposures included in either banking or trading book in ringgit or foreign currency denomination (based on their ringgit-equivalent amounts) and instruments with counterparty credit risk under the, including but not limited to–

- (a) outstanding loans, advances and receivables;
- (b) deposit placements and margins held with counterparties;
- (c) debt and equity securities held, including exposures arising from holdings of primary market securities for distribution;
- (d) investments in collective investment undertakings, securitisation vehicles and other structures;
- (e) exposures arising from derivative contracts; and
- (f) exposures arising from off-balance sheet instruments.

³ Such as those listed paragraph 6.1(a) to (f).

6 Related legal instruments and policy documents

- 6.1 This policy document must be read together with other relevant legal instruments and policy documents that have been issued by the Bank, including any amendments or reissuance thereafter, in particular–
- (a) Capital Adequacy Framework (Capital Components) issued on 14 June 2024 (hereinafter referred to as the “CAF CC PD”);
 - (b) Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 14 June 2024 (hereinafter referred to as the “CAFIB CC PD”);
 - (c) Capital Adequacy Framework (Basel II – Risk-Weighted Assets) issued on 18 December 2023 (hereinafter referred to as the “RWCAF PD”);
 - (d) Capital Adequacy Framework for Islamic Banks (Basel II – Risk-Weighted Assets) issued on 18 December 2023 (hereinafter referred to as the “RWCAFIB PD”);
 - (e) Capital Adequacy Framework (Standardised Approach for Credit Risk) issued on 20 November 2024 (hereinafter referred to as the “SACR PD”);
 - (f) Capital Adequacy Framework (Exposures to Central Counterparties) issued on 15 December 2023;
 - (g) Climate Change and Principle-based Taxonomy issued on 30 April 2021;
 - (h) Investment Account issued on 10 October 2017; and
 - (i) Islamic Banking Window issued on 11 November 2024.

7 Policy documents superseded

- 7.1 This policy document supersedes the following documents that have been issued by the Bank:
- (a) Single Counterparty Exposure Limit issued on 9 July 2014;
 - (b) Single Counterparty Exposure Limit for Islamic Banking Institutions issued on 9 July 2014;
 - (c) Specification pursuant to sections 47(1) and 50 of the FSA and sections 57(1) and 59 of the IFSA relating to the single counterparty exposure limit (“SCEL”) issued on 1 March 2023;
 - (d) Treatment of Exposures under Restricted Investment Account’s (RA) Commitments issued on 18 June 2018; and
 - (e) Regulatory Treatment of BNM *Mudarabah* Certificate (BMC) for Licensed Banks and Licensed Islamic Banks issued on 29 July 2015.

PART B POLICY REQUIREMENTS

8 Risk management requirements

- S** 8.1 The board must ensure that–
- (a) the banking institution establishes, and adheres at all times to, the internal policies governing risk concentrations, as approved by the board;
 - (b) the internal policies are reviewed (at least annually) in order to remain current, adequate and appropriate for the banking institution. Any material change to the established internal policies must be approved by the board before such change is implemented; and
 - (c) independent reviews⁴ are conducted regularly (at least annually) to verify compliance to the prudential requirements specified by the Bank as well as the banking institution’s internal policies.
- S** 8.2 Senior management of a banking institution must–
- (a) establish and implement internal policies, processes, procedures and limits governing risk concentrations;
 - (b) establish and maintain adequate systems (either automated or otherwise) that are able to identify, measure and monitor the aggregate exposures to single counterparties in a timely manner; and
 - (c) establish processes to clearly communicate and monitor compliance with the internal policies, procedures and limits throughout the banking institution.
- S** 8.3 The internal policies, processes, procedures and limits governing risk concentration must at a minimum include the following:
- (a) procedures for identifying, measuring, monitoring⁵, controlling and reporting single counterparty exposures of the banking institution. This includes having detailed internal parameters in identifying persons connected to the single counterparty;
 - (b) internal exposure limits⁵ that are aligned with the banking institution’s risk appetite and capital adequacy;
 - (c) processes that provide assurance that the internal limits are complied with;
 - (d) measures to manage, address and ensure compliance with the LEL, including governing authorities and procedures for approving exceptions to the internal limits; and
 - (e) nature and frequency of reporting to the board and senior management.
- S** 8.4 A banking institution must also have adequate policies, processes and procedures to monitor exposures and counterparties that are excluded from the LEL as specified in paragraph 11.1.

⁴ The independent review shall be carried out by a person independent of risk-taking activities.

⁵ Exposures must be monitored on a gross and net basis (where credit risk mitigation is accounted for).

9 Definition of connected counterparties

- S** 9.1 In computing the exposure to a single counterparty, a banking institution is required to aggregate its exposures to a single counterparty together with its exposures to persons connected to the single counterparty⁶ described in paragraph 9.2 as they may present a common risk to the banking institution.
- S** 9.2 A banking institution shall regard a person as “connected” to a group of counterparties if at least one of the following criteria is met:
- (a) control relationship: one of the counterparties has control over the other counterparty, whether directly or indirectly, through shareholding, shared management or common directorship; or
 - (b) economic interdependence: if one of the counterparties was to experience financial difficulties, in particular funding or repayment difficulties, the other counterparty as a result, would also likely encounter funding or repayment difficulties.
- S** 9.3 In assessing whether there is control relationship between counterparties, a banking institution shall automatically consider that the criterion in paragraph 9.2(a) is satisfied if one entity owns more than 50% of the voting rights of the other entity.
- S** 9.4 A banking institution shall assess the connectedness between counterparties based on control if at least one of the following criteria is met:
- (a) voting agreement (e.g. control of a majority of voting rights pursuant to an agreement with other shareholders);
 - (b) significant influence on the appointment or dismissal of an entity’s administrative, management or supervisory body, such as the right to appoint or remove a majority of members in those bodies, or the fact that a majority of members have been appointed solely as a result of the exercise of an individual entity’s voting rights; or
 - (c) significant influence on senior management where an entity has the power, pursuant to a contract or otherwise, to exercise a controlling influence over the management or policies of another entity (e.g. through consent rights over key decisions).
- S** 9.5 A banking institution shall also refer to the criteria specified in the Malaysian Accounting Standards Board or other acceptable internationally recognised accounting standards⁷ for further qualitative guidance to determine whether a counterparty is connected to another counterparty through a control relationship.

⁶ For the avoidance of doubt, for the purposes of computation of the LEL, all exposures and persons connected to the single counterparty must be aggregated and subject to the LEL related requirements in this policy document including the requirements in paragraphs 10.1 (LEL) and 22.1 (regulatory reporting requirements).

⁷ Please refer to the definitions of “accounting standards” and “approved accounting standards” under the Financial Reporting Act 1997.

- S** 9.6 Where a single counterparty is connected to more than one group of counterparties, a banking institution must aggregate the exposure to every counterparty in each group of the counterparty.
- G** 9.7 For the purpose of paragraph 9.2(a), a banking institution may disaggregate its exposures to a single counterparty and persons connected to such single counterparty in computing the LEL in exceptional cases, where such control does not necessarily result in the entities concerned constituting a group of connected counterparties. The exceptional circumstances under which a banking institution may seek to disaggregate LEL to a single counterparty and persons connected to such single counterparty include the existence of specific circumstances or corporate governance safeguards where control relationship does not necessarily result in the relevant persons constituting a group of connected counterparties.
- S** 9.8 For the purpose of paragraph 9.2(b), a banking institution shall conduct economic interdependence assessments if the aggregate exposure to a single counterparty exceeds 5% of Tier 1 Capital and establish connectedness if at least one of the following criteria is met:
- (a) where 50% or more of one counterparty's gross receipts or gross expenditures (on an annual basis) is derived from transactions with the other counterparty (e.g. the owner of a residential/commercial property and the tenant who pays a significant part of the rent);
 - (b) where one counterparty has fully or partly guaranteed the exposure of the other counterparty, or is liable by other means, and the exposure is so significant that the guarantor is likely to default if a claim occurs;
 - (c) where a significant part of one counterparty's production/output is sold to another counterparty, which cannot easily be replaced by other customers;
 - (d) when the expected source of funds to repay the financing of both counterparties is the same and neither counterparty has another independent source of income from which the financing may be serviced and fully repaid;
 - (e) where it is likely that the financial difficulties of one counterparty would cause difficulties for the other counterparties in terms of full and timely repayment of liabilities;
 - (f) where the insolvency or default of one counterparty is likely to be associated with the insolvency or default of the other counterparty; or
 - (g) when two or more counterparties rely on the same source for the majority of funding and, in the event of the common provider's default, an alternative provider cannot be found.

The above criteria are non-exhaustive and banking institutions shall consider other relevant aggregation criteria based on institutional experience and judgement which may be indicative of economic interdependence between a single counterparty and its connected counterparties.

Question 2

The Bank is proposing to change the threshold level to conduct the assessment on economic interdependence from 10% of Total Capital to 5% of Tier 1 Capital, in line with LEX. Please provide feedback on the number of counterparties that need to be re-assessed based on the change in the threshold level, and any potential implementation challenges to comply with the requirements, taking into consideration the proposed transitional period of up to 2 years.

- G** 9.9 For the purpose of paragraph 9.2(b), a banking institution may disaggregate its exposures to such connected person from the computation of the LEL if the counterparty can demonstrate that the counterparty which it is economically related to can overcome financial difficulties, or potential default of the connected person, by obtaining another business partner or a separate funding source within a timely manner.
- S** 9.10 A banking institution must maintain adequate documentation on the following:
- (a) its assessment of the relationship between its counterparties to establish any existence of a group of connected counterparties;
 - (b) the basis of the banking institution's determination of a connected counterparty group; and
 - (c) the due diligence conducted to support any disaggregation.

The banking institution must ensure that the documentation is accessible to the internal control and risk management functions of the banking institution at all times.

10 Large exposures limit

- S** 10.1 A banking institution's LEL shall be—
- (a) 25% of the banking institution's Tier 1 Capital;
 - (b) for exposures to Tenaga Nasional Berhad (TNB) and Petroliam Nasional Berhad (Petronas) and their connected counterparties, banking institutions are allowed an additional LEL of 10% of Tier 1 Capital in addition to the LEL provided in paragraph 10.1(a), subject to meeting the conditions and requirements listed in Appendix 1; and
 - (c) a limit as may be approved by the Bank which shall not exceed 50% of the banking institution's Tier 1 Capital, in the case of exposures to a counterparty which is a related banking entity (whether operating in or outside Malaysia).

Question 3

The Bank would like to seek feedback on the sufficiency of the:

1. additional LEL i.e. 10% of Tier 1 Capital, taking into consideration the concentration risk and risk appetite of your banking institution; and
2. qualifying criteria as listed in Appendix 1.

Additionally, please provide feedback on the challenges banking institutions face in availing to the additional limit for TNB and Petronas and their connected counterparties, while managing compliance with the new Tier 1 Capital base, instead of Total Capital. Please substantiate your views with clear justification.

Question 4

Structuring large financing via syndication is an alternative to enable banking institutions to finance large-scale projects while adhering to large exposures limits. Please highlight limitations or challenges faced, if any, in such financing structures.

Question 5

The LEX scopes out intragroup exposures but acknowledges that it remains a source of concentration risk that may endanger a banking institution's survival. This is also in line with essential criteria 5 of the Basel Core Principle 20 on Transactions with Related Parties. As such, the Bank proposes to retain the current treatment of applying a limit for intragroup exposures, as prescribed in paragraph 10.1(a) and 10.1(c) due to the following reasons:

1. Intragroup exposures are not risk-free and is subject to capital charges under the risk-based capital requirements, and sound risk management practices; and
2. Timing issues relating to facilitating client's cross-border transactions has been addressed via the expansion on the definition of intraday.

Please provide feedback on any foreseeable challenges your institution may face in complying with the requirements and substantiate your views with clear justification.

- S** 10.2 A banking institution's total exposure to all related counterparties (including related banking entities and non-bank related corporations) shall not exceed 100% of the banking institution's Tier 1 Capital at any time.

- S** 10.3 For purposes of paragraph 10.1(c), a banking institution shall submit an application to the Bank⁸ if the banking institution intends to adopt the higher LEL of up to 50% for its related banking entities. In seeking the Bank's prior written approval, the banking institution must demonstrate to the Bank that the following criteria are met:
- (a) there is no known or foreseeable legal or practical restriction⁹ in the related banking entity's jurisdiction for the related banking entity to transfer capital resources or repay liabilities to the banking institution;
 - (b) the related banking entity is subject to adequate prudential regulation and supervision by a regulatory authority in its jurisdiction and complies with an equivalent LEL framework on a consolidated basis; and
 - (c) the Bank will have timely access to relevant information of the banking institution pertaining to its related banking entity as may be required for the Bank to make an informed assessment of risks associated with the banking institution's exposures to the related banking entity¹⁰.
- S** 10.4 Where there is any change to the circumstances set out in paragraph 10.3(a), 10.3(b) or 10.3(c) at any time after an approval by the Bank has been granted pursuant to paragraph 10.1(c), the approval may be revoked in writing by the Bank.
- S** 10.5 A banking institution is required to comply with the LEL at both the entity and consolidated level¹¹. In addition, a banking institution carrying on Islamic banking business through an Islamic banking window¹² (IBW) must also comply with the requirements in this policy document at IBW¹³ as if it is a stand-alone Islamic bank licensed under the IFSA.

11 Exposures excluded from the computation of the large exposures limit

- S** 11.1 The following exposures are exempted from the LEL:
- (a) exposures to, or any exposures explicitly and unconditionally guaranteed by, a sovereign or central bank within the rating category 1 as set out in the SACR PD¹⁴;

⁸ Jabatan Penyeliaan Konglomerat Kewangan or Jabatan Penyeliaan Perbankan.

⁹ Such as restrictions that may exist in regulations applicable to the related banking entity or in the terms and conditions of shareholding agreements or capital instruments issued by the related banking entity.

¹⁰ As part of its assessment, the Bank will also consider the adequacy of the home/host supervisory cooperation arrangements in place with the relevant authority in the jurisdiction of the related banking entity, including the authority's ability and willingness to share detailed information concerning the related banking entity.

¹¹ Reference is made to the definition of entity and consolidated level under the CAF CC PD and CAFIB CC PD.

¹² Refers to a licensed bank or a licensed Islamic bank to which the Bank has granted an approval pursuant to section 15(1)(a) of the FSA to carry on Islamic banking business. Reference should also be made to the Policy Document on the Islamic Banking Window.

¹³ Islamic banking business operations conducted at overseas branches are not required to observe a separate compliance.

¹⁴ For the avoidance of doubt, exposures to, and exposure unconditionally guaranteed by, the Bank or the Federal Government of Malaysia is excluded from LEL computation. Notwithstanding, exposures to entities established by the Federal Government of Malaysia (e.g. MOF Inc, Khazanah Nasional) or the Bank that are not guaranteed explicitly by either of them are not exempted from LEL.

- (b) exposures of an overseas branch or subsidiary of a banking institution to the sovereign government or central bank in the jurisdiction where it is located, where the exposure is denominated in the local currency of that jurisdiction and held to meet regulatory requirements imposed by the central bank in that jurisdiction;
- (c) intraday interbank exposures;
- (d) exposures to a banking institution^{15,16} in the Malaysian interbank money market with a remaining maturity of one year and below;
- (e) exposures deducted in the calculation of a banking institution's Total Capital as specified in the CAF CC PD and CAFIB CC PD (e.g. investments in financial subsidiaries)¹⁷;
- (f) exposures funded by RA and UA which are maintained by an Islamic banking institution and where actual money has been paid into the RA or UA of the IAH. For the avoidance of doubt, only Islamic banking institutions acting as the *Mudarib/Wakeel* (i.e. Entrepreneur/Agent) are allowed to exclude the exposures. For banking institutions that are the IAH, the exposures shall be included in the computation of the LEL;
- (g) exposures funded by RA that is backed by a commitment from an IAH to transfer the funds into the RA at a date or upon drawdown by a customer (RA commitment) and fulfils all the criteria in paragraph 18.2. For the avoidance of doubt, only Islamic banking institutions acting as the *Mudarib/Wakeel* are allowed to exclude these exposures. For the parent banking institution that is the IAH, the exposures shall be included in the computation of the LEL; and
- (h) exposures to QCCPs^{18,19} related to clearing activities.

12 Measurement of exposures

- S** 12.1 For the purpose of determining compliance with the LEL, the exposure value to a single counterparty must be measured in accordance with the Financial Reporting Standards, unless specified otherwise.
- S** 12.2 The exposure value for instruments that give rise to counterparty credit risk and are not securities financing transactions (SFTs) must be treated as the exposure at default in accordance with the standardised approach for counterparty credit risk (SA-CCR) or the current exposure method (CEM), whichever is appropriate²⁰.

¹⁵ For the avoidance of doubt, this exclusion does not apply to a banking institution's exposures to another bank outside of Malaysia (e.g. a foreign bank's exposure to its parent bank overseas).

¹⁶ This also refers to a development financial institution that is a prescribed institution under the DFIA.

¹⁷ This general approach does not apply where an exposure is 1250% risk-weighted. When an exposure is 1250% risk-weighted, such exposure must be added to any other exposures to the same counterparty and the sum is subject to the LEL, except if the exposure is specifically exempted from LEL for other reasons.

¹⁸ This includes indirect exposures to the QCCP where the transactions are performed via a clearing member acting as a financial intermediary.

¹⁹ The recognition of a QCCP is as set out in the Policy Document on Capital Adequacy Framework (Exposures to Central Counterparties).

²⁰ The Bank plans to issue an Exposure Draft on SA-CCR in 2025.

- S** 12.3 A banking institution must calculate the exposure value for their SFT exposures by applying the comprehensive approach with supervisory haircuts as set out in the SACR PD.
- S** 12.4 A banking institution must convert off-balance sheet exposures into an on-balance sheet credit equivalent amount by applying the credit conversion factors (CCFs) as set out in the SACR PD, with a floor of 10%.

Question 6

The Bank invites views on the proposed approach to apply CCF to be consistent with SACR PD.

13 Calculation of exposure value for trading book positions

- S** 13.1 A banking institution must aggregate all exposures to a single counterparty arising from both the trading book and the banking book, for computation of the LEL to a single counterparty.
- S** 13.2 Exposures referred to under this Part²¹ is associated with the default of a single counterparty, for exposures captured under the trading book. As such, a banking institution must ensure that positions in financial instruments such as bonds and equities must remain within the LEL. For the avoidance of doubt, trading book exposures that are not associated with a counterparty, such as commodities or currencies, are not subject to the LEL.
- S** 13.3 The exposure value for non-derivative (“plain vanilla”) debt instruments and equity instruments is the accounting value of the exposure i.e. the market value of the respective instruments.
- S** 13.4 Banking institutions shall convert instruments such as swaps, futures and forwards into individual legs or positions based on the requirements as set out in Part D Market Risk of the RWCAF PD and the RWCAFIB PD. A banking institution shall only recognise transaction legs representing exposures that are associated with counterparties for the purposes of computing the LEL²².
- S** 13.5 A banking institution with an exposure to options shall calculate the exposure value based on the changes in option prices that would result from a default of the respective underlying instruments, according to the table below. Banking institutions shall aggregate resulting positions in options with other exposures to the relevant counterparties of such option positions and floor the net exposures at zero.

²¹ Refers to paragraph 13 of this document.

²² For example, a futures on stock X is decomposed into a long position in stock X and a short position in a risk-free interest rate exposure in the respective funding currency.

Option position	Exposure measurement approach
Long call option	Option market value
Short call option	Option market value
Long put option	Option strike price minus option market value
Short put option	Option strike price minus option market value

- S** 13.6 In the case where a banking institution has provided credit protection through credit derivative transactions, the exposure value of the reference asset is based on the amount that is due in the case the reference asset triggers the instrument, minus the absolute value of the credit protection. Where the market value of the sold credit derivative is positive from the perspective of the banking institution, the banking institution must add the positive market value of the credit derivative to other exposures to the protection buyer. For credit-linked notes, a banking institution as a protection seller (through holding of credit-linked notes) shall calculate the exposure value from positions both in the bond of the credit-lined note issuer and in the underlying instrument referenced by the credit-linked note.
- S** 13.7 A banking institution with exposures in investment transactions (e.g. index positions, securitisation, hedge funds or investment funds) must apply the requirement as specified in paragraphs 19.1 to 19.13. Following the treatment in paragraphs 19.1 to 19.7, a banking institution shall assign the amount invested in a structure to, as the case may be:
- the structure itself (i.e. as a distinct counterparty);
 - the counterparty corresponding to the underlying assets; or
 - the unknown client.

14 Offsetting long and short positions in the trading book

- S** 14.1 A banking institution shall offset long and short positions of the same issue²³ from the same counterparty and consider a net position for purposes of computing the LEL of the counterparty.
- S** 14.2 A banking institution that has positions in different issues relating to the same counterparty shall offset these long and short positions for purposes of computing the LEL of a single counterparty only when the short position is junior to the long position, or if the positions are of the same seniority.
- G** 14.3 In determining the relative seniority of positions, a banking institution may allocate securities into broad buckets of degrees of seniority (e.g. “Equity”, “Subordinated Debt” and “Senior Debt”).
- S** 14.4 A banking institution shall recognise positions in different issues arising from the same counterparty that are hedged by credit derivatives provided that the underlying of the hedge and the position hedged fulfils the requirement under paragraph 14.2.

²³ Two issues are defined as the same if the issuer, coupon, currency and maturity are identical.

- S** 14.5 For the avoidance of doubt, in calculating the exposure value, a banking institution shall not offset long and short positions in different issues of any instrument held in the trading book relating to the same counterparty, if the allocation by seniority is not feasible.
- S** 14.6 For cases where the position is hedged by credit derivatives, a banking institution must ensure that any reduction in exposure to the original counterparty will correspond to a new exposure to the credit protection provider, following the principles underlying the substitution approach as specified in paragraph 15.3, except in the case of paragraph 14.7.
- S** 14.7 Where a credit default swap (CDS) is used as credit protection and neither the CDS provider nor the referenced entity is a financial entity, a banking institution must ensure that the amount assigned to the credit protection provider is the counterparty credit risk exposure value calculated according the approach in Appendix VIII (Current Exposure Method) of the RWCAF PD or Appendix VI (Counterparty Credit Risk and Current Exposure Method) of RWCAFIB PD and not the amount by which the exposure to the original counterparty is reduced. For the purposes of this paragraph, a banking institution shall consider financial entities as comprising of:
- (a) regulated financial institutions which refer to a parent and its subsidiaries where any substantial legal entity in the consolidated group is supervised by a regulator that imposes prudential requirements consistent with international standards; and
 - (b) unregulated financial institutions which refer to legal entities whose main business include the management of financial assets, lending, factoring, leasing, provision of credit enhancements, securitisation, investments, financial custody, central counterparty services, proprietary trading and other financial services activities identified by the Bank.
- S** 14.8 A banking institution is prohibited from adopting the practice of netting across the banking book and trading book.
- S** 14.9 When offsetting results in a net short position with a single counterparty, a banking institution shall not consider such net exposure as an exposure, for computation of the LEL as specified in paragraph 10.1.

15 Eligible credit risk mitigation techniques

- S** 15.1 Eligible credit risk mitigation (CRM)²⁴ techniques are those that meet the minimum requirements and eligibility criteria for the recognition of unfunded credit protection²⁵ and financial collateral under the simple approach of the SACR PD and this policy document. In cases where a banking institution applies an eligible CRM instrument, the banking institution must ensure all the conditions for

²⁴ Collateral can be pledged by the counterparty or by a third party on behalf of the counterparty.

²⁵ Unfunded credit protection refers collectively to guarantees and credit derivatives, the treatment of which is described in Part G of the SACR PD.

recognition under the SACR PD and this policy document are met before the CRM is used to reduce the exposure value for computation of the LEL.

Question 7

The Bank would like to seek feedback on the expanded list of eligible financial collateral under the simple approach (as listed in paragraph 49.28(b) and (c) of the SACR PD). Are there any additional eligible financial collateral that can be considered as an effective CRM to reduce the exposure value for purposes of computing the LEL to a single counterparty?

- G** 15.2 For the purposes of paragraph 15.1, a banking institution may reduce the exposure value of the original counterparty where the recognised amount is:
- (a) the value of the protected portion in the case of unfunded credit protection;
 - (b) the value of the portion of claim collateralised by the market value of the recognised financial collateral where the banking institution applies the simple approach under the SACR PD;
 - (c) the value of the collateral recognised in the calculation of the counterparty credit risk exposure value for any instruments with counterparty credit risk; and
 - (d) the value of the collateral adjusted after applying the standard supervisory haircuts as set out in the SACR PD.
- S** 15.3 Whenever a banking institution recognises a reduction of the exposure to the original counterparty due to an eligible CRM technique, it must also recognise an exposure to the CRM provider. The banking institution must ensure that the amount assigned to the CRM provider is the amount by which the exposure to the original counterparty is reduced²⁶.
- S** 15.4 Other forms of collateral that are recognised under the internal ratings based approach as prescribed in RWCAF PD and RWCAFIB PD (e.g. receivables, commercial and residential real estate and other collateral) are not eligible to reduce exposure values for computation of the LEL.
- S** 15.5 In accordance with maturity mismatch requirements as set out in the SACR PD, a banking institution is allowed to recognise hedges with maturity mismatches only when their original maturities are equal to or greater than one year and the residual maturity of a hedge is not less than three months.
- S** 15.6 Where there is a maturity mismatch in respect of credit risk mitigants (e.g. collateral, on-balance sheet netting, guarantees and credit derivatives), a banking institution must determine the adjustment of the credit protection for the purpose of calculating large exposures using the same approach under the maturity mismatch requirements as set out in the SACR PD.

²⁶ Except in the case of credit default swaps, as defined in paragraph 14.7.

- S** 15.7 Where a banking institution has in place legally enforceable netting arrangements for financing and deposits, the banking institution must ensure that the calculation of exposure values for LEL purposes is consistent with the calculation under the capital requirements (i.e. net credit exposures subject to the conditions set out in the on-balance sheet netting requirements in the SACR PD).

16 Exposures to sovereign and central banks

- S** 16.1 A banking institution must exclude any exposures to a sovereign or central bank that falls within rating category 1 as set out in the SACR PD from the computation of the LEL but remain subject to regulatory reporting requirements²⁷ as set out in paragraph 22.1. Such excluded exposure shall also include any portion of an exposure guaranteed by, or secured by financial instruments issued by the said sovereign, provided the eligibility criteria for recognition of the credit risk mitigation, set out in Part G (Credit Risk Mitigation) of the SACR PD, are met.
- S** 16.2 Where two (or more) entities that are outside the scope of the sovereign exemption²⁸ are controlled by or economically dependent on an entity that falls within the scope of the sovereign exemption as defined in paragraph 16.1, and are otherwise not connected, those entities are not deemed to constitute a group of connected counterparties.
- S** 16.3 Notwithstanding paragraphs 16.1 and 16.2, if a banking institution has an exposure to an exempted entity which is hedged by a credit derivative, the banking institution must recognise an exposure to the counterparty providing the credit protection as set out in paragraphs 15.3 and 15.7, regardless on whether the original exposure is exempted.

17 Interbank exposures

- S** 17.1 Intraday interbank exposures are not subject to the LEL including for reporting purposes.
- S** 17.2 Intraday exposures include exposures arising from client-driven cross-border payment and settlement transactions where these exposures do not last longer than the following Malaysian business day. For the avoidance of doubt, exposures arising from proprietary trading activities are not covered by this exemption.
- S** 17.3 Exposures to a banking institution licensed by the Bank or a development financial institution in the Malaysian interbank money market with a remaining maturity of one year and below is exempted from the computation of the LEL.

²⁷ If it meets the definition of a large exposure as described in paragraph 5.2.

²⁸ For the avoidance of doubt, this refers to sovereign exposures excluded from the computation of the LEL described in paragraph 16.1.

18 Exposures to investment accounts

- S** 18.1 For exposures funded by RA or UA which are maintained by an Islamic banking institution and where actual money has been paid into the RA or UA by an IAH, the Islamic banking institution shall exclude such exposure from the computation of the Islamic banking institution's LEL.
- S** 18.2 An Islamic banking institution with an exposure funded by RA that is backed by a commitment from an IAH²⁹ to transfer the funds into the RA at a date or upon drawdown by a customer which fulfils all the criteria below, is allowed to exclude such exposure from the computation of the LEL:
- (a) the RA qualifies and is treated as an off-balance sheet item for the Islamic banking institution;
 - (b) the exclusion only applies to a single large financing facility³⁰ where the size of exposure exceeds 25% of the Islamic banking institution's Tier 1 Capital;
 - (c) the terms of the financing facility between the Islamic banking institution and a customer stipulates that the disbursement under the financing facility is subject to the Islamic banking institution receiving the funds from the IAH; and
 - (d) the terms of the RA arrangement between the IAH and Islamic banking institution stipulate that:
 - (i) the RA commitment is irrevocable, unless the financing facility has been terminated or settled; and
 - (ii) the IAH shall bear any losses incurred by the customer and the Islamic banking institution resulting from non-fulfilment of the IAH's commitment to transfer funds into the RA.
- S** 18.3 Prior to adopting the regulatory treatment in paragraph 18.2, an Islamic banking institution shall notify the Bank in writing and submit the following:
- (a) an attestation that all the conditions in paragraph 18.2 are met; and
 - (b) strategy to improve capital position as an alternative to RA over the next 3 years.
- G** 18.4 Notwithstanding paragraphs 18.1, 18.2 and 18.3, the Bank reserves the right to require the Islamic banking institution to account for the RA commitments in the LEL if the criteria set out in paragraph 18.2 are not met or implementation of the capital improvement strategy by the Islamic banking institution is deemed inadequate by the Bank.
- S** 18.5 A banking institution which is an IAH having an RA or UA exposure³¹, shall apply the look-through approach (LTA) to ascertain the underlying asset and compute this as an exposure to the counterparty. The banking institution shall aggregate

²⁹ A locally incorporated banking institution or locally incorporated financial holding company that is within the group and rated at least AA-.

³⁰ This includes claims, commitments and contingent liabilities from on- and off-balance sheet transactions.

³¹ Where either actual money has been paid into the RA or UA by the IAH (see paragraph 18.1) or where the exposure funded by an RA is backed by a commitment from an IAH that meets the conditions set out in paragraph 18.2.

such exposure with all other exposures to such counterparty for LEL purposes. In the case where the relevant information of the underlying asset is not available, the banking institution must apply the requirements set out in paragraph 19.6.

19 Collective investment undertakings, securitisation vehicles and other structures

- S** 19.1 A banking institution shall calculate the exposure value for exposures arising from structures³² that the banking institution invested in, regardless whether such exposures are held in the banking book or trading book in accordance with paragraphs 19.2. to 19.13.
- G** 19.2 A banking institution may assign the exposure value to the structure itself (i.e. as a distinct counterparty) if the banking institution can demonstrate:
- (a) the whole investment in a structure or exposure amount to each underlying asset of the structure is smaller than 0.25% of Tier 1 Capital of the banking institution; and
 - (b) it has not been influenced by regulatory arbitrage considerations in deciding not to apply LTA to calculate the exposure value to the structure (e.g. the banking institution has not circumvented the LEL by investing in several individually immaterial transactions with identical underlying assets).
- S** 19.3 Where the banking institution's exposure to the whole structure is above the threshold (i.e. equal to or above 0.25% of its Tier 1 Capital), the banking institution shall proceed to assess if the underlying asset within such structure³³ meets the threshold to apply LTA and thereafter apply the measurement approach set out in paragraphs 19.9 to 19.10. Please refer to Appendix 2 for an illustration on the decision tree in determining the counterparty for structures with underlying assets.
- S** 19.4 Where a banking institution's exposure to each of the underlying asset of a structure is equal to or above 0.25% of its Tier 1 capital, the banking institution shall apply the LTA. A banking institution may assign the exposure value arising from other underlying assets of the structure that are each below 0.25% of Tier 1 Capital to the structure (partial use of LTA is permitted).
- S** 19.5 If a banking institution is unable to identify the underlying assets of a structure—
- (a) where the total amount of its exposure does not exceed 0.25% of Tier 1 Capital, the banking institution shall assign the total exposure amount of its investment to the structure; or
 - (b) otherwise, it shall assign such total exposure amount to the unknown client.
- S** 19.6 The banking institution shall aggregate all unknown exposures as if they relate to a single counterparty (i.e. the unknown client), to which the LEL would apply.

³² Such structures include collective investment schemes, securitisations, investments in index positions and other structures with underlying assets. This includes BNM *Mudarabah* Certificate.

³³ This treatment also applies to RAs and UAs where a banking institution is an IAH and has an exposure arising from money paid into a RA or an UA maintained by an Islamic banking institution or where the exposure funded by an RA is backed by a commitment from an IAH that meets the conditions set out in paragraph 18.2.

- S** 19.7 If the LTA does not need to be applied, a banking institution's exposure to the structure shall be the nominal amount of the investment in the structure.
- S** 19.8 When a banking institution is required to apply the LTA, the banking institution must ensure that the exposure value assigned to a counterparty is equal to the pro rata share that the banking institution holds in the structure multiplied by the value of the underlying asset in the structure³⁴.
- S** 19.9 When a banking institution is required to apply the LTA, the banking institution must measure the exposure value to a counterparty for each tranche within the structure, assuming a pro rata distribution of losses amongst investors in a single tranche. For purposes of computing the exposure value to the underlying asset, a banking institution shall–
- (a) consider the lower of the value of the tranche in which the banking institution invests and the nominal value of each underlying asset included in the underlying portfolio of assets; and
 - (b) apply the pro rata share of the banking institution's investment in the tranche to the value determined above.
- S** 19.10 A banking institution shall identify third parties that may pose additional risk factors inherent to the structure itself rather than risk arising from the underlying assets. These third parties may be a risk factor for more than one structure that a banking institution invests in. Third parties may include, but not limited to, originator, fund manager, liquidity provider and credit provider.
- S** 19.11 A banking institution shall ensure that the exposure amount assigned to a third party is equal to a banking institution's exposure to a structure up to the maximum contractual obligation amount that the third party has with the structure.
- S** 19.12 A banking institution must treat a structure that shares common additional risk factors as a group of connected counterparties. Where multiple third parties are identified as drivers of additional risk to the same structure, the banking institution shall assign the exposure resulting from the investment in the relevant structures to each of the third parties.
- S** 19.13 The requirement set out in paragraph 19.8 is for banking institutions to recognise an exposure to the structure instead of the underlying assets, and is independent of the general assessment on additional risks.

20 Exposures to central counterparties

- S** 20.1 A banking institution's exposures to a QCCP related to clearing activities are excluded from the computation of the LEL but remain subject to regulatory reporting requirements as set out in paragraph 22.1.

³⁴ For example, a banking institution holding a 1% share of a structure that invests in 20 assets each with a value of 5 must assign an exposure of 0.05 to each of the counterparties.

- S** 20.2 For non-QCCPs, a banking institution shall measure the exposure as a sum of clearing exposures as described in paragraph 20.3 and non-clearing exposures described in paragraph 20.5. The banking institution must also comply with the LEL.
- S** 20.3 A banking institution must identify exposures to a non-QCCP related to clearing activities and sum these exposures based on the exposure value as set out in the table below, for computation of the LEL:

Type of exposure	Exposure value
Trade exposures	Based on exposure method prescribed in other parts of this policy document for the respective type of exposures
Segregated initial margin	Exposure value is zero ³⁵
Non-segregated initial margin	Exposure value is the nominal amount of initial margin posted
Pre-funded default fund contribution	Nominal amount of the funded contribution ³⁶
Unfunded default fund contribution	Exposure value is zero
Equity stakes	Exposure value is the nominal amount ³⁷

- S** 20.4 For exposures subject to clearing services (i.e. the banking institution acts as a clearing member or a client of a clearing member) by a non-QCCP, the banking institution must determine the counterparty to which exposures must be assigned by applying the requirements as specified in paragraph 10 of the Policy Document on Capital Adequacy Framework (Exposures to Central Counterparties).
- S** 20.5 A banking institution must measure other exposures not directly related to the clearing services provided by the CCP (e.g. funding facilities, credit facilities, guarantees, etc.) according to the requirements in this policy document, as for any other type of counterparty. The banking institution must aggregate these exposures which shall be subjected to the LEL.

³⁵ When the initial margin (IM) posted is bankruptcy-remote from the CCP (i.e. it is segregated from the CCP's own accounts, for example, when the IM is held by a third-party custodian), such amount cannot be lost by the banking institution if the CCP defaults. As such, the IM posted by the banking institution can be exempted from the LEL.

³⁶ The exposure value for pre-funded default fund contributions may need to be revised if applied to QCCPs and not to non-QCCPs only.

³⁷ If equity stakes are deducted from the level of capital on which the LEL is based, such exposures must be excluded from the definition of an exposure to a CCP.

PART C COMPLIANCE AND REPORTING REQUIREMENTS

21 Compliance with the large exposures limit

- S** 21.1 The LEL must be observed by banking institutions at all times.
- S** 21.2 A banking institution must immediately notify the Bank in writing of any breach of the LEL supplemented, with background information and an appropriate explanation as to how and why the breach occurred and remedial actions taken or to be taken (with a proposed time frame) to bring the exposures within the LEL. During the rationalisation period, the banking institution shall not increase its exposures to the affected counterparty.

22 Regulatory reporting requirements

- S** 22.1 A banking institution must submit to the Bank using the reporting template and adhering to the instructions set out in Appendix 3, the exposure values of the following, on both gross and net basis³⁸:
- (a) 20 largest^{39, 40} exposures to a single counterparty and its connected counterparties irrespective of the values of these exposures relative to the banking institution's Tier 1 Capital;
 - (b) all other exposures to a single counterparty and its connected counterparties that meet the definition of a large exposures on a gross basis;
 - (c) all exempted exposures that meet the definition of large exposures on a net basis, particularly exposures listed in paragraph 11.1(a), 11.1(b), 11.1 (d), 11.1(e) and 11.1(h); and
 - (d) all exposures to TNB and Petronas and their respective connected counterparties.
- S** 22.2 Banking institutions are required to submit the information referred in paragraph 22.1 on a quarterly basis for entity and consolidated⁴¹ level starting from the reporting date of 31 December 2027. A separate submission of information for IBW is not required. A banking institution must submit the relevant information to the Bank within 60 days from the quarterly reporting dates⁴².

³⁸ After applying CRM.

³⁹ Excluding TNB, Petronas and exempted exposures.

⁴⁰ Largest exposures are defined on a net basis after applying CRM.

⁴¹ For reporting purposes, each banking group is required to submit consolidated level reporting on either–

(a) where a banking institution is not a subsidiary of another financial institution, the consolidation of the banking institution and all financial and non-financial subsidiaries, except insurance/takaful subsidiaries; or

(b) where a banking institution is a subsidiary of a financial holding company, the consolidation of the financial holding company and all financial and non-financial subsidiaries, except insurance/takaful subsidiaries.

⁴² The quarterly reporting dates are 31 March, 30 June, 30 September and 31 December.

Question 8

The Bank seeks comments on the following:

1. frequency and submission deadline of the reporting requirement; and
2. clarity on the reporting template.

In addition, kindly submit the reporting information based on the requirements in this ED, using the attached Appendix 3 template (in excel format), for position as of 28 February 2025.

APPENDICES

Appendix 1 Conditions for an additional LEL of 10% of Tier 1 Capital for exposures to TNB and Petronas and their connected counterparties

1. These exposures relate to the following energy transition projects and are classified as either C1 or C2 under the Policy Document on Climate Change and Principle-based Taxonomy:
 - (a) National Energy Transition Roadmap⁴³;
 - (b) National Biomass Action Plan 2023 – 2030;
 - (c) Hydrogen Economy and Technology Roadmap;
 - (d) Sabah Energy Roadmap and Master Plan 2040;
 - (e) Long-Term Low Emission Development Strategies and Nationally Determined Contribution Roadmap Action Plan⁴⁴;
 - (f) Sarawak Energy Transition Roadmap⁴⁴; and
 - (g) Any other national energy transition roadmaps or projects, as approved by the Bank. For the purpose of this, banking institutions via the Association of Banks in Malaysia (ABM) or Association of Islamic Banking and Financial Institutions Malaysia (AIBIM), shall submit an application to the Bank⁴⁵ demonstrating that the proposed national energy transition roadmaps or projects to be included in the list have a clear and objective reference to facilitate climate transition by the Government.

The additional LEL shall be utilised no later than 31 December 2030. The Bank will review the necessity to extend the timeline and endeavour to inform banking institutions on the outcome of the review by 31 December 2029.

2. Banking institutions are not required to pare down their outstanding exposures by 31 December 2030, to be within the LEL of 25% of Tier 1 Capital (refer illustration below) and are allowed to hold these exposures until maturity.
3. Notwithstanding, in view of the higher risk concentrations, banking institutions are required to step up controls over these exposures as follows:
 - (a) the board should put in place appropriate measures to monitor the performance of these exposures. This includes requiring senior management to provide periodic reporting to the board to facilitate monitoring;
 - (b) determine appropriate credit risk mitigation arrangements consistent with prudent risk management;
 - (c) establish early warning indicators to detect early signs of deterioration in a counterparty's ability to honour its obligations, and to enable early intervention actions; and

⁴³ For avoidance of doubt, this includes the Corporate Green Power Programme (CGPP), the Large Scale Solar Programme (LSS5) and the Corporate Renewable Energy Supply Scheme (CRESS).

⁴⁴ The roadmap has not been issued.

⁴⁵ Jabatan Dasar Kewangan Pruden.

- (d) undertake periodic independent credit reviews to assess the scope, effectiveness and timeliness of credit risk monitoring activities to ensure they are commensurate with the higher credit concentration risk.

Illustration on the application of the additional LEL

Example 1: Changes in exposure

Bank A has a Tier 1 Capital of RM8 billion as of 1 January 2025 and it remains the same on 1 January 2030. Therefore, the maximum LEL is 25% for exposures that do not meet the conditions in Appendix 1 (hereinafter referred to as “other exposures”) or 35% for exposures that meet the conditions in Appendix 1 (hereinafter referred to as “climate-related exposures”).

On 1 March 2025, i.e. three months later, Bank A has a new exposure to a counterparty that is connected to TNB based on economic dependence criteria that is a climate-related exposure.

Below are examples of scenarios based on different levels of current exposures and new exposures to TNB:

	Current exposure	New climate-related exposure on 1 March 2025	Total exposure	LEL headroom until 31 December 2030
Scenario 1	RM1.2 billion LEL: 15%	RM0.8 billion LEL:10%	RM2.0 billion LEL: 25%	RM0.8 billion for any type of exposures subject to an overall 25% limit for other exposures.
Scenario 2	RM2.0 billion LEL: 25%	RM0.4 billion LEL:5%	RM2.4 billion LEL: 30%	RM0.4 billion for climate-related exposures but no further headroom for other exposures.
Scenario 3	RM2.0 billion LEL: 25%	RM0.8 billion LEL:10%	RM2.8 billion LEL: 35%	No new exposures allowed.

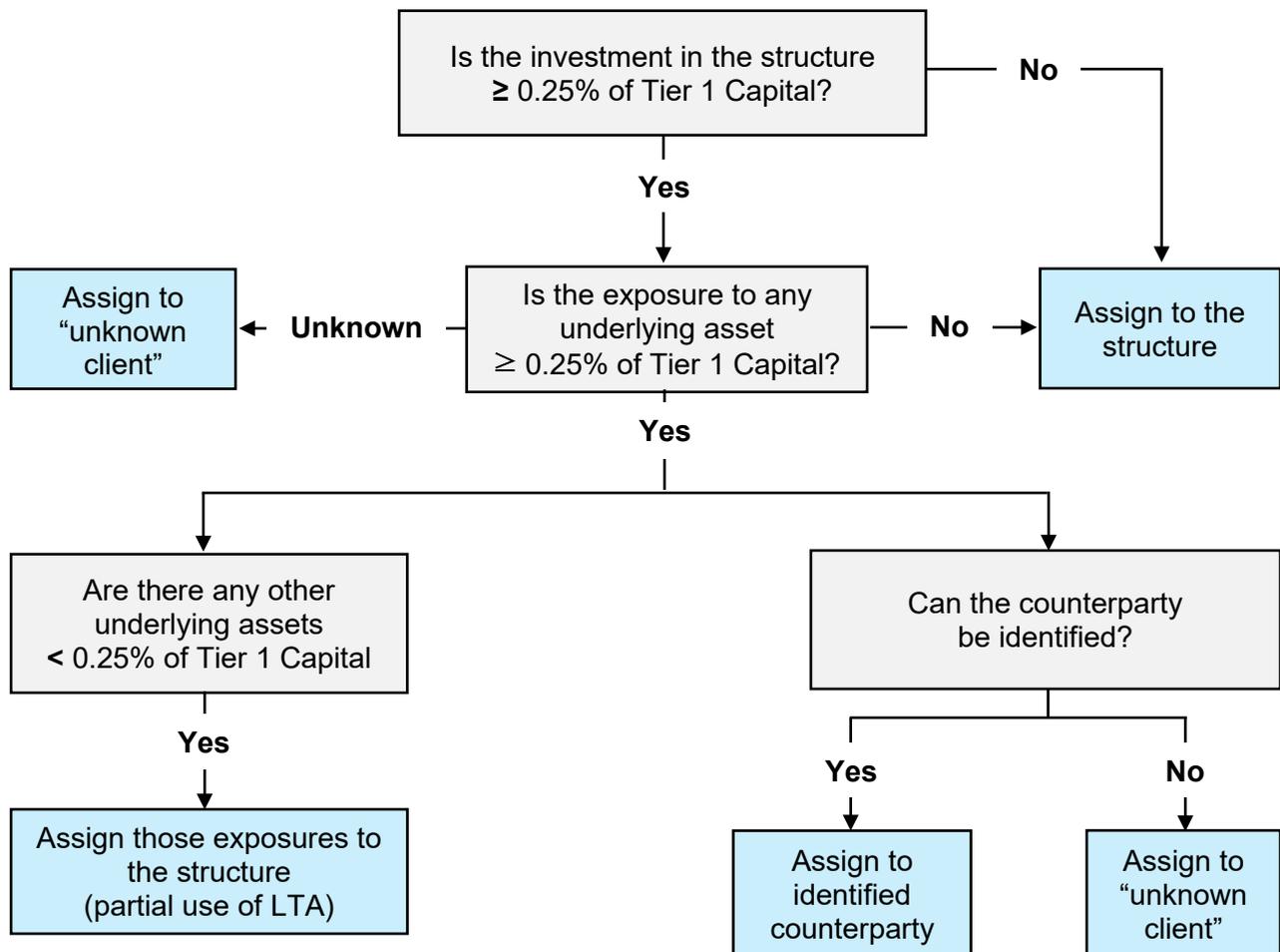
In all scenarios, with effect from 1 January 2031, assuming Bank A has reached the LEL of 35%, Bank A does not need to pare down the additional 10% of climate-related exposures.

Example 2: Decrease in Tier 1 Capital

Bank B has a Tier 1 Capital of RM8 billion as at 1 March 2030 and this has decreased to RM7 billion as at 31 March 2023, with exposures to TNB on both dates remaining status quo, as follows:

Exposures to TNB	Scenario 1	Scenario 2	Scenario 3
As at 1 March 2030 where Tier 1 Capital is RM8 billion			
Total exposure	RM2.4 billion LEL: 30%	RM2.4 billion LEL: 30%	RM2.8 billion LEL: 35%
<i>Of which are climate-related exposures</i>	<i>RM1.0 billion LEL: 12.5%</i>	<i>RM0.5 billion LEL: 6.25%</i>	<i>RM1.0 billion LEL: 12.5%</i>
As at 31 March 2030 where Tier 1 Capital is RM7 billion			
Total exposure	RM2.4 billion LEL: 34%	RM2.4 billion LEL: 34%	RM2.8 billion LEL: 40%
<i>Of which are climate-related exposures</i>	<i>RM1.0 billion LEL: 14.2%</i>	<i>RM0.5 billion LEL: 7%</i>	<i>RM1.0 billion LEL: 14.2%</i>
Action required	No action is required as it is within the LEL of both maximum 35% on aggregate basis and within 25% for other exposures.	Although the LEL is below 35%, other exposures are 27% which is 2% in excess. To pare down other exposures to be within the 25% limit.	To manage exposures to remain within the respective limits of 25% for others and 35% on aggregate basis.

Appendix 2 Decision tree in determining the counterparty to structures with underlying assets



Possible cases of additional risk could arise from, for example:

- Fund manager
- Liquidity provider
- Credit protection provider

Appendix 3 Reporting template

Please refer to the attached excel template and reporting instructions.