



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

**RESPONSE TO THE CONSULTATION PAPER ON
ENHANCEMENT TO THE FUNDING PROFILE CRITERION
UNDER THE DIFFERENTIAL PREMIUM SYSTEMS FRAMEWORK**

ISSUE DATE : 29 AUGUST 2017



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Ref No	DI/CP31-R/2017	Issued on	29 August 2017
TITLE	Response to the Consultation Paper on Enhancement to the Funding Profile Criterion under the Differential Premium Systems Framework		

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1.0 BACKGROUND

- 1.1 PIDM had, on 5 June 2017, issued a Consultation Paper on Enhancement to the Funding Profile Criterion under the Differential Premium Systems Framework (“DPS CP”) for public consultation. The proposed enhancement is part of PIDM’s proactive effort to better reflect the assessment of a member bank’s funding profile under the DPS framework, given the changing regulatory and funding landscape.
- 1.2 We appreciate the feedback provided, as we regard this to be an important aspect of our review process in respect of the DPS Framework. The response from the industry mostly acknowledged the timeliness of the proposed enhancement and were receptive of the proposed indicators under the funding profile criterion. The feedback and recommendations received had also supported PIDM in making the refinements, particularly on the definition of the components used in the indicators.
- 1.3 As part of the consultation process, PIDM is publishing its response to the feedback, which is set out in Section 3.

2.0 SUMMARY OF CHANGES TO THE DPS FRAMEWORK

Funding Profile Indicators

- 2.1 The funding profile indicators will be replaced as follows:

No.	Current Indicators	New Indicators
1.	Loans/Financing to Deposits Ratio	Loans/Financing to Available Funds Ratio
2.	Composition of Individual Depositors	Composition of Core Funds

- 2.2 The current weightage of 25% for the funding profile criterion will remain. Additionally, the overarching objective of the funding profile criterion under the DPS framework have been maintained, with both new indicators being intended to incentivise member banks to fund the business from stable funding sources.

Computation of Indicators and Definition

- 2.3 The formula for both indicators as set out in the DPS CP will be adopted. The definitions of the items for the indicators as detailed in the DPS CP, will be applicable, with some enhancement as follows:



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- (a) 'Non-operational wholesale funding' with the remaining maturity of more than one year will be recognised as part of 'Total Core Funds'.
- (b) 'Structured products' offered by conventional member banks will be included as part of 'Total Available Funds'. However, only structured products with remaining maturity of more than one year, would be recognised as part of 'Total Core Funds'.

Threshold and Score Range

- 2.4 The threshold and score range for both indicators, as set out in the DPS CP, will be adopted. With the expanded recognition of stable funds, the thresholds for both indicators remain relevant in providing incentives for member banks to fund their business using stable funding sources.

Source of Information

- 2.5 The source of information and the reporting of quantitative information for the proposed indicators will be as set out in the DPS CP.



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3.0 FEEDBACK/COMMENTS RECEIVED AND PIDM'S RESPONSE

No.	Feedback/Comments	PIDM's Response
Loans/Financing to Available Funds Ratio		
1.	There were proposals to consider the inclusion of other borrowings, regardless of maturity, as part of 'Total Available Funds'.	PIDM will maintain the components of 'Total Available Funds' as outlined in the DPS CP. The inclusion of other long-term borrowings with remaining maturity of more than one year, is to give recognition to certain borrowings, i.e. term or syndicated loans, which are long-term in nature. This is consistent with the objective of the proposed ratio, which is to provide incentives to the member banks to fund their lending activities using stable funding sources, instead of relying on more volatile and short-term funding.
2.	A few respondents proposed that the threshold be more lenient at mid-range tiers (second and third positions) taking into consideration the member bank's business model and funding strategies.	<p>The threshold and score range outlined in the DPS CP are retained as they remain appropriate in distinguishing the risk profiles of the member banks and in providing incentives for member banks to manage their balance sheet prudently.</p> <p>Additionally, the threshold will also be relevant in differentiating member banks that have more reliance on less stable funding, in particular, interbank borrowings.</p>
Composition of Core Funds Indicator		
3.	Several respondents proposed that the computation of this ratio includes the non-operational wholesale funding with a longer maturity, in consideration of those member banks that do not have retail franchises or those that rely on deposits from corporate customers.	<p>PIDM acknowledges that non-operational wholesale funding with remaining maturity of more than one year may be regarded as a stable source of funds, and would be incorporated in the computation of 'Total Core Funds'.</p> <p>This additional recognition will provide incentives for member banks to build a stable funding base, where member banks could also tap into a long term funding from corporate customers, apart from other forms of stable funds.</p>



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4.	A few respondents proposed for a more granular recognition of the funding instruments in the definition of 'Total Core Funds', such as a 50% recognition of the outstanding debt instruments that has fallen below the one-year residual maturity mark, in order to avoid volatility of the indicator.	<p>At this juncture, PIDM recognises all debt instruments with the remaining maturity of more than one year as part of 'Total Core Funds'. Given the impending regulatory developments, PIDM limits the selection of core funds within the total available funds to a minimum of one-year tenure, which is in tandem with the stable funding recognition (100% ASF) under Basel III-Net Stable Funding Ratio ("NSFR").</p> <p>PIDM also acknowledges that the granularity, as well as application of factors for various funding instruments, would be considered by Bank Negara Malaysia ("BNM") under the implementation of NSFR framework for the member banks.</p> <p>Once these requirements are finalised by BNM, PIDM will conduct the impact assessment and will consider variations to the assessment of funding stability in the future enhancement of the DPS framework.</p>
5.	There were proposals for PIDM to review the distribution of thresholds for various positions, taking into account the member bank's business model and funding strategies.	The threshold and score range outlined in the DPS CP are retained as they remain appropriate in providing incentives for member banks to maintain a strong level of stable funds. Furthermore, the threshold and score range reflects the expanded definition of stable funds, as well as industry trends.
Others		
6.	Respondents also sought PIDM's clarification on the recognition of structured products, given BNM's clarification on the classification and regulatory treatment for structured products as deposits.	<p>PIDM takes note of the classification and regulatory treatment of structured products that do not fulfil the definition of deposits, as clarified by BNM.</p> <p>PIDM also acknowledges that structured products remain as one of the funding sources that are available for the conventional member banks to fund their</p>



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		<p>balance sheet and will be included as part of 'Total Available Funds' for the proposed funding indicators.</p> <p>However, only structured products that are more than one year would be recognised as part of 'Total Core Funds'.</p>

4.0 NEXT STEPS

- 4.1 Upon approval of the amendments to the DPS Regulations by the Minister of Finance, PIDM will issue the revised guidelines on the DPS Framework and shall supersede the existing DPS Guidelines issued on 16 March 2016.

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29 August 2017