



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

**EXPOSURE DRAFT ON GUIDANCE PAPER FOR
RESOLVABILITY ASSESSMENT – ISLAMIC FINANCE
SPECIFICITIES IN RESOLUTION**

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SECTION 1: INTRODUCTION

BACKGROUND

- 1.1 As part of the Capability Assessment exercise to be undertaken by a deposit-taking member (“DTM”) under the Resolvability Assessment Framework, PIDM expects the DTM to demonstrate the relevant capabilities to meet the requirements outlined in various guidance papers issued by PIDM. Specifically, for this Islamic Finance Specificities in Resolution guidance paper (“IFSIR Guidance Paper”), an Islamic DTM is to demonstrate its ability to have in place adequate arrangements that ensure Islamic finance specificities, including Shariah requirements, do not impede its resolvability during resolution¹. For the purposes of this IFSIR Guidance Paper, reference to an Islamic DTM refers to a DTM that is either an Islamic bank or a licensed bank operating an Islamic banking “window”².
- 1.2 The requirements outlined in this exposure draft are not exhaustive and do not preclude further communication from PIDM on this matter. Consequently, PIDM retains the discretion to request additional information and analyses beyond the content of this IFSIR Guidance Paper, if deemed necessary to advance resolution planning and improve overall resolvability of the Islamic DTM.
- 1.3 As much as practicable, an Islamic DTM should leverage its existing capabilities and arrangements developed for existing risk management processes and regulatory purposes, including compliance with prudential requirements and recovery planning requirements as well as Shariah rulings issued by the Shariah Advisory Council (“SAC”) of BNM, policy documents on various Shariah standards issued by BNM, and Shariah guidance and rulings issued by the Islamic DTM’s Shariah Committee, to meet or further develop capabilities in this IFSIR Guidance Paper. In such circumstances, a DTM should demonstrate that such capabilities and arrangements

¹ “Resolution” refers to a state whereby a DTM, in BNM’s opinion, has ceased or is likely to cease to be viable (referred to as non-viable). Upon notification by BNM on the DTM’s non viability pursuant to section 98 of the PIDM Act, PIDM may exercise its resolution powers under the PIDM Act to resolve the non-viable DTM in a prompt and least disruptive manner that minimises costs to the financial system. Entry into resolution includes the notification by BNM of the DTM’s non-viability as well as PIDM’s exercise of any of its resolution powers.

² Islamic banking “window” is part of a conventional DTM and provides financial services in a fully Shariah-compliant manner. It is not a separate legal entity and does not have its own balance sheet.

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adequately address the resolution-specific considerations outlined in this guidance paper.

LEGAL PROVISIONS

1.4 The IFSIR Guidance Paper relates to the following legal provisions in the Malaysia Deposit Insurance Corporation Act 2011 ('PIDM Act'):

- (a) Pursuant to section 97A of the PIDM Act, PIDM may draw up, review and amend a resolution plan for the orderly resolution of a member institution; and
- (b) Section 202 of the PIDM Act provides that for the purpose of exercising any of its powers, performing any of its functions or discharging any of its duties, PIDM may require information from a member institution or its related corporation on any matter relating to the business or affairs of such member institution or related corporation.

APPLICATION AND COMMENCEMENT

- 1.5 This IFSIR Guidance Paper is applicable to all Islamic DTMs [which are DTMs that are Islamic banks and licensed banks with an Islamic banking window].
- 1.6 This IFSIR Guidance Paper elaborates on the requirements set out in the Guidelines on Resolvability Assessment Framework for Deposit-Taking Members ³ ("RAF Guidelines") issued by PIDM on <DATE>, and form part of the RAF Guidelines. Islamic DTMs should refer to the Glossary provided in the RAF Guidelines for consistent interpretation of key terms used in this IFSIR Guidance Paper.
- 1.7 Islamic DTMs are expected to undertake Capability Assessment, including in respect of the expectations in this IFSIR Guidance Paper, pursuant to notification from PIDM.

RELATED DOCUMENTS

- 1.8 This IFSIR Guidance Paper must be read together with other relevant legal instruments, policy documents and related documents that have been issued by

³ PIDM plans to finalise and issue the Guidelines on the Resolvability Assessment Framework for Deposit-Taking Members for implementation in 2026.

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PIDM and/or Bank Negara Malaysia (“BNM”) including any amendments, reissuance or replacements thereafter, in particular:

- (a) Policy Document on Investment Account issued by BNM on 10 October 2017 (“BNM’s Policy Document on IA”);
- (b) Policy Document on Shariah Governance issued by BNM on 20 September 2019;
- (c) Policy Document on Recovery Planning issued by BNM on 28 July 2021 (“BNM’s Policy Document on Recovery Planning”);
- (d) Policy Document on Hajah and Darurah issued by BNM on 3 January 2024; and
- (e) Guidelines On Resolution Planning for Deposit-Taking Members issued by PIDM on 8 September 2023.

CONSULTATION PROCESS

- 1.9 PIDM invites written feedback on the proposed requirements, including suggestions on areas to be clarified and alternative proposals for PIDM’s consideration. The written feedback should be supported with clear rationale, including examples and accompanying illustrations, where appropriate, to facilitate an effective consultation process.
- 1.10 In addition to providing general feedback, respondents are also requested to respond to the specific questions set out in this IFSIR Guidance Paper. PIDM may also pose specific questions that seek insights on the arrangements, operations and infrastructure that the Islamic DTMs have in place, where such feedback would assist PIDM’s consideration of the proposed requirements’ impact on the Islamic DTMs.
- 1.11 An Islamic DTM’s Shariah Committee is responsible to advise on the application of Shariah requirements, where applicable, in relation to its resolvability. Accordingly, an Islamic DTM shall refer to its Shariah Committee and seek advice on Shariah requirements in relation to its resolvability prior to submitting its written feedback on this IFSIR Guidance Paper to PIDM.

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- 1.12 A pre-formatted template has been made available on PIDM's website at www.pidm.gov.my and has also been emailed to the Islamic DTM's liaison officer to facilitate the provision of feedback and comments.
- 1.13 Responses must be submitted electronically to PIDM via rsp@pidm.gov.my by 31 May 2026. In the course of preparing your feedback specifically for this IFSIR Guidance Paper, you may direct any queries to the following contact person:
- Dr Subithabhanu Binti Mohd Hussan (subithabhanu@pidm.gov.my / +603-2303 0635)
 - Puan Nur Syafiqah Izzati Zukaflfi (syafiqah@pidm.gov.my / +603 -2303 0711)

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SECTION 2: OVERVIEW

- 2.1 The principles governing Islamic finance are primarily rooted in the mutual risk sharing between contracting parties, the assurance of fairness for all stakeholders, the requirement that transactions be anchored in a Shariah-compliant trade or business activity and the prohibition of *riba'* (interest). Given these distinctive characteristics - commonly referred to as Islamic finance specificities - they must be observed, not only during business-as-usual⁴ ("BAU") but to the extent possible, throughout the resolution process and, where applicable, within any successor entity following a transfer⁵.
- 2.2 PIDM recognises the importance of maintaining the continuity of Islamic finance specificities of the Islamic DTMs in resolution, including when executing a transfer. Accordingly, this IFSIR Guidance Paper sets out clear expectations and recommendations for the Islamic DTMs to strengthen their resolvability upon entry into resolution and throughout the resolution process.
- 2.3 As outlined in the RAF Guidelines, to be considered resolvable, an Islamic DTM should develop capabilities aimed at ensuring continuity of its Islamic finance specificities in a resolution. These capabilities are essential to enable PIDM, as the resolution authority, to resolve the Islamic DTM promptly and in an orderly manner in the event of its failure.
- 2.4 During resolution planning, addressing Islamic finance specificities, including Shariah requirements, is critical for several key reasons:
- (a) the resolution authority's financial stability mandate requires effective and timely actions. This necessitates preparatory work to identify and address harmonisation needs between Shariah principles and the applicable law and legal framework as early as possible; and
 - (b) the specificities of Islamic finance require a review of the potential challenges and impediments and, where necessary, the development of appropriate measures during BAU.

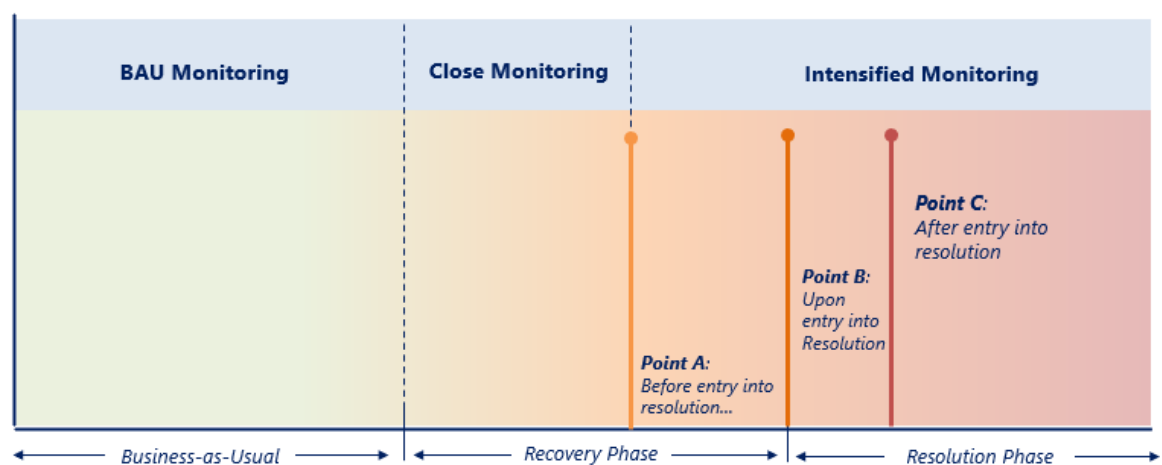
⁴ BNM's existing policy documents, as outlined in paragraphs 1.3 and 1.8 above specifically emphasise Shariah requirements during business-as-usual.

⁵ Transfer may refer to a sale or transfer, depending on the context of the transfer.

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- 2.5 PIDM expects an Islamic DTM to conduct a feasibility assessment to identify potential impediments that could affect the implementation of resolution actions due to specific Islamic finance specificities, including Shariah requirements.
- 2.6 Where the Islamic DTM has identified specific impediment(s), the Islamic DTM is to subsequently develop and execute preparatory measure(s) to facilitate the overall efficacy of the resolution strategy, especially with regard to addressing the identified impediment(s) when executing the resolution strategy.
- 2.7 Where the Islamic DTM is part of a financial group, the group resolvability assessment must assess implications of its resolvability on the resolvability of the group due to specific Shariah requirements or specificities of the Islamic DTM, where applicable. This is due to, for example, in a transfer, specific Shariah requirements of the Islamic DTM may delay or prevent the transfer. This requires appropriate measure(s) to be identified during BAU. For example, where group support is envisaged as part of the resolution action, the ability of other group entities to absorb or unwind the intra-group exposures of the Islamic DTM in a Shariah-compliant manner is pertinent.
- 2.8 Figure 1 illustrates the stress continuum and the three critical phases of resolution:
- Point A: Before Entry into Resolution
 - Point B: Upon Entry into Resolution
 - Point C: After Entry into Resolution

Figure 1: Stress Continuum and the phases of resolution



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2.9 The following table summarises the expectations outlined in **Sections 3** and **Section 4** of this **IFSIR Guidance Paper** which the Islamic DTMs are required to **establish in advance of stress events and maintain throughout the stress continuum**. These expectations are established to safeguard the continuity of Islamic finance specificities, including observance of Shariah requirements, thereby ensuring Islamic DTMs are adequately prepared and able to execute the necessary arrangements effectively upon entry into resolution. The table also explains how these expectations support PIDM's resolvability objectives:

Table 1 : Expectations at different points along the stress continuum

No	Point along the Stress Continuum	Expectations across the stress continuum	How expectations support PIDM's objectives in resolution
1.	"Point A": Before Entry into Resolution	<p>Islamic DTMs should have pre-established capabilities to assess the transferability of contracts in resolution. [Refer to Section 3]</p> <p>Islamic DTMs should have pre-established capabilities to identify and assess the separability of assets of investment account fund(s) in resolution. [Refer to Section 4]</p>	<p>These capabilities allow:</p> <ul style="list-style-type: none"> • PIDM to identify potential contract-related impediments to a transfer strategy in resolution. • PIDM to identify and separate assets of investment account funds(s) in resolution.
2.	"Point B": Upon Entry into Resolution	<p>Islamic DTMs have assessed the transferability of its contracts and identified appropriate shariah principles for a transfer in resolution. [Refer to Section 3]</p> <p>Islamic DTMs have assessed the separability and issues that may impact a transfer of investment account fund(s) in resolution. [Refer to Section 4]</p>	<p>These capabilities allow:</p> <ul style="list-style-type: none"> • PIDM or its Appointed Person⁶ to transfer contracts of the Islamic DTM in a prompt and orderly manner, taking into consideration the issues identified. • PIDM or its Appointed Person to identify and separate assets of investment account fund(s) in a prompt and orderly manner, taking into consideration the issues identified.

⁶ This is a person appointed by PIDM to assume control of and to carry on or manage the non-viable Islamic DTM pursuant to paragraph 99(1)(c) of the PIDM Act.

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No	Point along the Stress Continuum	Expectations across the stress continuum	How expectations support PIDM's objectives in resolution
3.	"Point C": After Entry into Resolution	<p>Islamic DTMs have assessed the transferability of its contracts and identified appropriate shariah principles for a transfer in resolution. [Refer to Section 3]</p> <p>Islamic DTMs have assessed the separability and issues that may impact a transfer of investment account fund(s) in resolution. [Refer to Section 4]</p>	<p>These capabilities allow:</p> <ul style="list-style-type: none"> • PIDM or its Appointed Person⁷ to transfer contracts of the Islamic DTM in a prompt and orderly manner, taking into consideration the issues identified. • PIDM or its Appointed Person to identify and separate assets of investment account fund(s) in a prompt and orderly manner, taking into consideration the issues identified.

2.10 Islamic DTMs are expected to have capabilities to ensure the continuity of Islamic finance specificities upon entry into resolution and throughout resolution. The subsequent sections provide further guidance to achieve this:

- **Section 3** outlines the expectations and requirements pertaining to transferability of contracts in resolution.
- **Section 4** sets out the expectations and requirements pertaining to resolvability of investment account fund(s) in resolution.

2.11 **Applicability of Sections:** All sections apply to Islamic DTMs subjected to the **Full Requirements** and **Tailored Requirements** under the RAF Guidelines.

⁷ This is a person appointed by PIDM to assume control of and to carry on or manage the non-viable Islamic DTM pursuant to paragraph 99(1)(c) of the PIDM Act.

SECTION 3: TRANSFERABILITY OF CONTRACTS IN RESOLUTION

3.1 IDENTIFICATION AND ASSESSMENT OF THE TRANSFERABILITY OF CONTRACTS

3.1.1 Under the Capability Assessment, an Islamic DTM shall establish a comprehensive listing of all of its products and services – including assets, liabilities and funds under management (on and off-balance sheet) – and their underlying Shariah principles and assess whether these can be transferred to a third party in resolution. The Islamic DTM shall clearly document the following:

- (a) name of the product and service offered and the shariah principle(s) that govern each product/service;
- (b) the products and services of its subsidiary(ies) and/or branch(es) in other jurisdictions (where applicable). Such assessment shall consider the Shariah views or preferences of the respective jurisdictions of the subsidiary(ies) and branch(es); and
- (c) if consent is assessed to be required by its Shariah Committee, develop an execution plan to ensure consent can be obtained or managed in advance.

3.1.2 Accordingly, the Islamic DTM is to complete the information in **IFSIR Reporting Template 1.1: Identification and Assessment of the Transferability of Contracts (Appendix 1)**. In conducting an assessment on whether consent is required, the Islamic DTM may leverage the feasibility assessment it has conducted pertaining to consent on recovery options⁸. However, the Islamic DTM should take into account that the objective of recovery planning differs from resolution planning.

3.2 IDENTIFICATION OF APPROPRIATE SHARIAH PRINCIPLES FOR TRANSFER

3.2.1 The appropriate Shariah principle(s) for a transfer may depend on several factors, including the transfer perimeter, the nature of what is being transferred (shares or assets and liabilities), and the underlying Shariah principles governing the portfolios of assets and liabilities to be transferred.

⁸ See Paragraph 14.11, BNM's Policy Document on Recovery Planning

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- 3.2.2 Under the Capability Assessment, an Islamic DTM is required obtain and provide the views of its Shariah Committee on the appropriate Shariah principles applicable for a transfer in the event of a resolution. Notwithstanding this, PIDM reserves the right to determine the appropriate Shariah principles for the transfer during an actual resolution.

Question 1:

In your assessment, and taking into account the composition of assets and liabilities on your balance sheet, which Shariah principle(s) would be most appropriate to facilitate a transfer during resolution? Where feasible, please consider whether certain assets and/or liabilities can be bundled and transferred through a single transaction. Please provide the rationale supporting your view.

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SECTION 4: RESOLVABILITY OF INVESTMENT ACCOUNT IN RESOLUTION

4.1 IDENTIFICATION OF ASSETS OF INVESTMENT ACCOUNT HOLDERS

- 4.1.1 One of the unique products of an Islamic DTM is the investment account (“IA”). Unlike deposits, IA is an investment and the IA holders (“IAHs”) are the investors. As investors, the IAHs assume the risks of their investments, and the Islamic DTMs have no obligation to guarantee **full repayment** of their invested amount⁹. Accordingly, the investment strategy and policy are expected to be aligned with the investment objectives of each IA fund. This includes having a mechanism for risk analysis and a clear methodology for investment asset allocation (including rebalancing, where applicable)¹⁰.
- 4.1.2 The separate management and maintenance of records is fundamental to the integrity of an investment¹¹. This requirement applies to both unrestricted IA (“UA”) and restricted IA (“RA”). Implementing separate management and maintenance of records would strengthen clarity regarding the assets of each IA fund, thereby providing operational capability and enforceability for the fund manager to compute and distribute the profit, as well as to implement the loss-bearing or loss-transfer arrangement to the IAHs in accordance with the underlying Shariah principles and the agreed terms of the investment.
- 4.1.3 In the context of resolution, the separate management and maintenance of records of UA funds is a prerequisite to enable PIDM to promptly identify and segregate the assets of each UA fund when executing relevant resolution action(s)¹².
- 4.1.4 Accordingly, as part of its Capability Assessment - and in addition to the requirements under Section 3.1 which requires the Islamic DTM to establish a comprehensive listing of its products and services including IA, the Islamic DTMs are required to

⁹ Islamic Financial Services Act 2013 defines IA as an account under which money is paid and accepted for the purposes of investment, including for the provision of finance, in accordance with Shariah on terms that there is no express or implied obligation to repay the money in full.

¹⁰ See Paragraph 20.4(d), BNM’s Policy Document on Investment Account

¹¹ See Paragraph 16.1, BNM’s Policy Document on Investment Account

¹² Financial Services Board (FSB)’s Key Attributes of Effective Resolution Regimes for Financial Institutions Revised version 2024 state that the legal framework governing among others, the segregation of client assets should be clear, transparent and enforceable during a crisis or resolution of firms and should not hamper the effective implementation of resolution measures (KA 4.1).

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ensure assets of each IA fund, whether tagged on a one-to-one basis or proportionate basis, are **clearly recorded, easily identifiable** and that **a complete list of the assets of each IA fund at a particular date can be easily produced** during BAU and upon entry into resolution.

- 4.1.5 While Islamic DTMs are required to manage the liquidity risk in accordance with the respective IA fund (i.e. on a per fund basis)¹³, PIDM observes that **most Islamic DTMs, in practice, prefer to maintain high-quality liquid assets (HQLA) at the entity-level**¹⁴ for the UA funds. This approach implies that, during BAU, liquidity for redemptions for a UA fund is provided by the Islamic DTM whenever net redemption is positive (when the total redemptions are more than total placements) on any given day. In order to meet this requirement, liquidity may be provided by the Islamic DTM either through the purchase of underlying assets of the UA fund or by investing in the underlying assets of the UA fund¹⁵.

Question 2:

In reference to section 4.1.5, if your institution holds pooled liquifiable assets at the entity level, please provide a brief explanation of the approach adopted and the rationale. Further, if your approach is to:

- (a) purchase the underlying assets in the IA, **briefly explain how you operationalise the purchase** including the Shariah principle(s) used; and
- (b) invest in the underlying assets of the IA fund, **briefly explain the placement terms** including exit terms.

- 4.1.6 In addition, when an Islamic DTM experiences heightened liquidity stress, maintaining pooled liquifiable assets may give rise to several additional challenges:

- (a) a significant challenge arises when there is a concurrent surge in outflows from both deposits and UA funds. In the absence of dedicated liquefiable assets at the UA fund level, IAHs would lack **clarity on their rights and**

¹³ See Paragraph 22.3, BNM's Policy Document on Investment Account

¹⁴ This flexibility is provided in the prevailing regulatory framework which allows the Islamic DTMs to hold HQLA on a pooled basis (pooled liquefiable assets) at the entity-level as an alternative to holding dedicated liquefiable assets within each UA fund. See Paragraph 10.4, BNM's Investment Account-Discussion Paper, 30 December 2024 and Paragraph 22.7, BNM's Policy Document on Investment Account

¹⁵ See Paragraph 22.9, BNM's Policy Document on Investment Account

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priority to redemption. This uncertainty is further exacerbated if the situation deteriorates into a full-blown crisis.

- (b) the second challenge concerns **the price at which liquidity – whether through purchase or investment - is provided by the Islamic DTM to an IA fund**, particularly in the absence of a secondary market to price or determine the fair value of the assets of an IA fund.
- (c) related to the above is the question of when the Islamic DTM will cease providing liquidity to a UA fund. This consideration is critical, as liquidity stress often correlates with or leads to asset quality deterioration, and vice versa, creating a potential risk transfer between the UA fund and the Islamic DTM.

4.1.7 To demonstrate its resolvability under this Capability Assessment, taking into consideration Section 4.1.5 and Section 4.1.6 above, an Islamic DTM is required to put in place adequate arrangements to **assess the impact of managing liquidity at the entity level on both the assets owned by an IA fund** and the Islamic DTM itself. This assessment shall cover BAU conditions and periods of heightened liquidity stress, including in the run-up to resolution. The assessment shall, at a minimum, consider the following:

- (a) where the approach involves purchasing the assets of a UA fund, the impact of rebalancing on the remaining IAHS and the Islamic DTM. This includes, among others, the asset selection criteria for each rebalancing, the net asset value (NAV) of the assets exchanged during rebalancing, and the pricing at which HQLA is liquidated versus the price at which the IAHS is redeemed; or
- (b) where the approach involves investing in the underlying assets of the UA fund, the terms of investment, associated risks, and potential impact on the Islamic DTMs, particularly in scenarios where liquidity stress continues to deteriorate.

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Question 3:

Would your institution consider invoking suspension or limitation of IA redemption as a measure to address liquidity pressures?

- (a) If your response is yes, please outline the conditions that you have in place to invoke such measures, and the safeguards to protect the interests of the IAHs when such measures are undertaken.
- (b) If your response is no, please explain how your institution will manage the impact of such liquidity pressures. In your assessment, would your institution consider the reputation and investor confidence when making such decision?

- 4.1.8 PIDM notes that Islamic DTMs may periodically undertake rebalancing¹⁶ exercises to maintain the investment objectives of the UA fund. Such rebalancing typically involves replacing certain underlying assets (e.g. delinquent accounts) with a similar asset which it owns (e.g. performing accounts)¹⁷.
- 4.1.9 Where an Islamic DTM undertakes rebalancing - including for the purpose of providing liquidity to IAHs - it **must have the capability to produce a report detailing all such rebalancing exercises conducted within the preceding twelve (12) months**, upon request by PIDM. This requirement applies **only after the Islamic DTM has invoked its recovery plan**. This is in addition to the requirements set out in Section 3.1 and Section 4.1.4.
- 4.1.10 The report required in Section 4.1.9 shall, at a minimum, include the following details:
- (a) The date of the rebalancing exercise;
 - (b) The objective of the rebalancing;
 - (c) The counterparties involved (i.e. the purchaser and the seller);
 - (d) A detailed list of investment assets rebalanced; and
 - (e) The price(s) at which the rebalancing transaction(s) was conducted.

¹⁶ See Paragraph 10.2, BNM's Investment Account-Discussion Paper, 30 December 2024. The term rebalancing includes terms such as portfolio rebalancing or asset rebalancing that may be used by the Islamic DTMs.

¹⁷ See Paragraph 8.3, BNM's Investment Account Discussion Paper, 30 December 2024

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4.2 SEPARATION OF ASSETS OF INVESTMENT ACCOUNT HOLDERS IN RESOLUTION

- 4.2.1 The FSB recommends that an effective resolution regime should allow for the rapid return of segregated client assets or facilitate their transfer to a viable third party or a bridge institution¹⁸. Pursuant to the Islamic Financial Services Act 2013¹⁹ and the PIDM Act²⁰, the priority of payment for IA upon the liquidation of an Islamic DTM is treated separately from Islamic deposits, in accordance with the rights and obligations vested in the IAHS²¹.
- 4.2.2 Under BAU conditions, it may not be operationally efficient to implement one-to-one tagging of assets. Nevertheless, in a resolution scenario, **each IA fund and its corresponding assets must be distinctly segregated** from the other assets owned or managed by the Islamic DTM. Consistent with standard investment principles, if the NAV of an IA fund is calculated to be less than the IA balance, any resulting losses shall be borne exclusively by the IAHS and not by the Islamic DTM. This requirement necessitates not only a clear identification of asset ownership²² but also the capability to effect segregation of assets by individual IA funds.
- 4.2.3 To demonstrate its resolvability under this Capability Assessment, an Islamic DTM is required to put in place adequate arrangements as follows:
- (a) Regardless of whether the investment assets are allocated on a one-to-one basis or a proportionate basis, the Islamic DTM is required to **assess whether the assets of each UA fund are or can be readily separated from the other assets** owned and/or managed during BAU and upon entry into resolution. Accordingly, the Islamic DTM is to complete **IFSIR Reporting Template 1.2: Unrestricted Investment Account Fund (Appendix 1)**;
 - (b) Where the Islamic DTM prevalingly applies proportionate tagging for asset allocation, **the Islamic DTM is required to implement individual tagging**²³. The Islamic DTM is therefore required to:

¹⁸ FSB's Key Attributes of Effective Resolution Regimes for Financial Institutions Revised version 2024

¹⁹ Section 217 (1) (b) of Islamic Financial Services Act 2013

²⁰ Section 134A (2) (aa) of PIDM Act

²¹ See Paragraph 1.1, BNM's Policy Document on Investment Account

²² For RA, the prevailing practice provides clarity.

²³ Proportionate tagging is likely to affect ability to separate assets of IAHS in resolution since they are jointly owned with the Islamic DTM.

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- (i) Assess the key requirements and implications of transitioning to individual tagging;
- (ii) Develop an execution plan for the transition; and
- (iii) Execute the plan, addressing any concerns that may arise in the process, where applicable.

4.3 FINANCIAL REPORTING OF INVESTMENT ACCOUNT

- 4.3.1 Islamic DTMs are guided by the Malaysian Financial Reporting Standards (MFRS) in reporting IA and its assets in financial statements. Under the current regulatory framework²⁴, it is highly unlikely that UA would meet the derecognition criteria under MFRS 9 - Financial Instruments, given the absence of a full asset transfer to the UA fund and the continued involvement of the Islamic DTMs in managing the UA assets. Meanwhile, for RA, a mixed reporting approach by the Islamic DTMs has been observed²⁵.
- 4.3.2 In a resolution scenario, valuation is critical. Regardless of the resolution tool employed, valuation serves as the basis for determining the liquidation claim value for the IAHs. Similar to the “no creditor worse off in liquidation” principle applicable for Islamic DTMs, the liquidation claim value acts as a safeguard for the IAHs. In principle, IAHs should not receive less than what they would have recovered had the IA fund been liquidated. This is essential to maintain investors’ confidence in IA products and to uphold PIDM’s credibility in executing resolution measures.
- 4.3.3 IA assets are predominantly tagged to long-term financing assets, rendering them illiquid. Furthermore, there is no secondary market for IA, which complicates the determination of their true value. A heightened liquidity stress or any unforeseen event that undermines confidence in the Islamic DTM would exacerbate this challenge. This complexity is further compounded by the requirement for on-balance-sheet reporting of IA assets.

²⁴ The Islamic DTMs are required to disclose in the notes to accounts of their annual financial statements, the accounting policy of the IA, movements in IA funds in the IA segregated by types of IA and, average PSR, declared rate of return to IAHs as well as agency fee and performance incentive fee to the Islamic DTMs (Paragraph 27.6, BNM’s Policy Document on Investment Account).

²⁵ Generally, except for a few Islamic DTMs, most Islamic DTMs report their RA on balance sheet.

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- 4.3.4 In resolution, the valuation of IA assets is highly dependent on the quality of the data and the time taken to extract it. It is also influenced by the frequency with which an Islamic DTM undertakes portfolio rebalancing as well as the point at which rebalancing would cease.
- 4.3.5 Currently, the on-balance sheet presentation of IA in the financial statements of the Islamic DTMs lacks clarity. Although the notes to accounts of an Islamic DTM may provide some information on IA, they remain largely insufficient to accurately determine the assets attributable to each IA fund.
- 4.3.6 To demonstrate its resolvability under the Capability Assessment, an Islamic DTM is required to:
- (a) where an Islamic DTM adopts on-balance-sheet reporting for each UA and RA, provide justifications for such reporting;
 - (b) assess the feasibility of identifying, separating and valuing each IA fund in resolution. In conducting this assessment, the following are to be considered:
 - (i) the structure of the Islamic DTM's each IA fund (UA and RA) and its operationalisation;
 - (ii) a potential transfer of each IA fund to a different party other than to whom the Islamic DTM's assets and liabilities and other IA fund(s) are transferred to;
 - (iii) its valuation methodology is applied during BAU for each IA fund.
- 4.3.7 Accordingly, the Islamic DTM is to complete IFSIR Reporting Template 1.3: **Investment Account-Financial Reporting in Appendix 1.**

SECTION 5: IMPLEMENTATION

- 5.1 As part of the requirements of the RAF Guidelines, Islamic DTMs shall prepare a Self-Assessment Report documenting the outcome of the Capability Assessment. As part of the Capability Assessment, the report should demonstrate the relevant capabilities and arrangements required to meet the requirements outlined in **Section 3 and Section 4 of this IFSIR Guidance Paper**, along with the proposed Remediation Action Plan²⁶. The assessment using the IFSIR reporting templates set out in **Appendix 1** shall form part of the Self-Assessment Report.

Question 4:

Beyond the Islamic finance specificities highlighted in Section 3 and Section 4, there may be additional considerations that may arise in relation to:

- a) the other five (5) guidance papers issued by PIDM pursuant to the RAF Guidelines and/or
- b) any structural, operational or other unique characteristics specific to the Islamic DTM.

Based on your assessment, please identify whether there are any additional actual or potential idiosyncrasies, in relation to (a) and (b) above, that may necessitate further capabilities. If such areas are identified, please highlight them.

- 5.2 Additionally, the Islamic DTM is required to describe the degree to which the requirements outlined in **Section 3 and Section 4** are met by completing the Self-Assessment Checklist in **Appendix 2**. The guidance for the grading scale is as follows:

Grading scale	Guidance
Compliant	The requirements are fully met. The Islamic DTM possesses all capabilities and is able to implement them in supporting the execution of the PRS.

²⁶ As outlined in Paragraph 5.1.2 of RAF Guidelines, Remediation Action Plan shall encompass the documentation of impediments, proposed measures to remove impediments, implementation timeline, target completion dates, resources required, estimated cost and personnel responsible for implementation.

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Grading scale	Guidance
Largely compliant	The requirements are largely met. The Islamic DTM possesses most of the capabilities. Shortcomings are few and do not present a material impediment to the execution of the PRS.
Partially non-compliant	The requirements are partially not met. The Islamic DTM possesses some of the capabilities or has initiated steps to establish the capabilities. Shortcomings present a material impediment to the execution of the PRS.
Non-compliant	The requirements have not been met. The Islamic DTM does not possess the capabilities or has not initiated steps to establish the capabilities.
Not applicable	The requirements set out in this IFSIR Guidance Paper are intended to be applicable to all Islamic DTMs. Islamic DTM can mark that capability as “Not Applicable” with accompanying justification as to why it is deemed not applicable for PIDM’s consideration.

- 5.3 Pursuant to the assessment of the Islamic DTM’s resolvability, PIDM will review the Self-Assessment Report and assess whether the measures proposed by the Islamic DTM can effectively reduce or remove the substantive impediments²⁷. The Islamic DTM will be required to provide regular progress updates to PIDM on the implementation of the agreed measures.
- 5.4 PIDM may test and evaluate the Islamic DTM's capabilities in fulfilling the requirements outlined in **Section 3 and Section 4** of this IFSIR Guidance Paper. Such testing may be conducted when PIDM determines that the Islamic DTM has met the specified requirements or when deemed necessary.

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²⁷ Communications to the DTM on the outcome of the assessment will be via a Resolvability Assessment letter from PIDM.

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APPENDIX 1: IFSIR REPORTING TEMPLATES

TEMPLATE 1.1: IDENTIFICATION AND ASSESSMENT OF THE TRANSFERABILITY OF CONTRACTS

Name of Islamic DTM/Jurisdiction:						
Date:						
No.	Product/ Service Class (assets/ liabilities/ others)	On/Off balance sheet	Product Name	Shariah principle(s)	Is consent from customer required for transfer?	If consent is required, state identified measure(s) & status
1	Financing	On	ABC Home Financing	Bai Bithaman Ajil (BBA)	No	Not Applicable
2	Financing	On	XYZ Cashline	Tawarruq	No	Not Applicable
3	Deposit- Customer	On	Afdal Deposit	Qard	Yes	xxx
4	Placements - Fls	On	Arif Deposit	Tawarruq	Yes	xxx
5	IA-Customer	On	Wakalah Term IA	Ijarah Muntahiyah Bittamlik	Yes	xxx
6	IA-Parent	Off	Mudharabah – Parent	Mudarabah	Yes	xxx
7	Sadaqah Fund	Off	Sadaqah Fund	Wakalah	No	xxx
8	Letter of Credit	On	Aman LC	Murabahah	No	Not Applicable
9	Sukuk	On	ABC Sukuk	Wakalah	No	Not Applicable
...						
...						

Note: Samples are provided for guidance only

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TEMPLATE 1.2: UNRESTRICTED INVESTMENT ACCOUNT FUND

(only applicable for Islamic DTMs that offer IA)

Name of Islamic DTM/Jurisdiction: As at:						
No.	IA fund name/ shariah principle	IA fund type (UA/RA & Term/ Daily)	Asset allocation (list down all asset types) & percentage	If practice proportionate tagging, state the % of the IA fund in each asset type	Asset Rebalancing - objective & frequency	Liquidity Buffer (provide details)
1	Prosperity Fund- Wakalah	UA Daily	1. BBA HF - 55% 2. CM PF-45%	1. BBA HF -2% 2. CM PF - 5%	xxx	xxx
2	Wealthy Fund - Mudharabah	UA Term	1.xxx 2.xxx	1. xxx 2. xxx	xxx	xxx
3	RA-Parent- Wakalah	RA Term	1.xxx 2.xxx	Not Applicable	Not applicable	Not Applicable
...						

Note: Samples are provided for guidance only

BBA HF - BBA Home Financing

CM PF - Commodity Murabahah Personal Financing

TEMPLATE 1.3: INVESTMENT ACCOUNT - FINANCIAL REPORTING

(only applicable for Islamic DTMs that offer IA)

Name of Islamic DTM/Jurisdiction: Date:				
No.	IA fund name/ Shariah principle	IA fund type (UA/RA & Term/ Daily)	If practice on balance sheet reporting, state justifications	For on balance sheet reporting, state capabilities to identify, separate the IA assets and conduct valuation
1	Prosperity Fund- Wakalah	UA Daily	1. xxx	1. xxx 2. xxx 3. xxx
2	Wealthy Fund - Mudharabah	UA Term	1. xxx	1. xxx 2. xxx 3. xxx
3	RA - Parent Wakalah	RA - Parent - Term	Prevailingly reported off- balance sheet;	1. assets are tagged one-to-one basis ; 2. no rebalancing practiced; 3. a list of assets can be printed out from the system at any time.
...				

Note: Samples are provided for guidance only

APPENDIX 2: SELF-ASSESSMENT CHECKLIST

To facilitate a consistent and transparent assessment of resolvability, DTMs are required to complete the self-assessment checklist below in accordance with the grading scale set out in this Guidance Paper. The purpose of this assessment is to enable DTMs to demonstrate the extent to which the required capabilities have been established.

DTMs are required to provide a clear justification for each assessment assigned, together with supporting evidence demonstrating how the conclusion was reached. Supporting evidence may include references to documented processes, governance arrangements, system capabilities, contractual provisions, or other relevant materials. Please complete the self-assessment checklist as follows:

No.	Requirements	Assessment (e.g. Compliant/ Largely Compliant/ Partially Non- Compliant/ Non- Compliant / Not Applicable)	Justification and supporting evidence for the assigned assessment ²⁸
Identification and assessment of the transferability of contracts			
1.	The Islamic DTM has assessed all its products and services (on and off-balance sheet) and has prepared a comprehensive listing, including on their transferability to a third party in resolution.		
2.	In the list above, the Islamic DTM has considered transferability of the products and services of its subsidiary(ies) and or branch(es) in other jurisdictions including the Shariah views or preferences of the respective jurisdictions, where applicable.		
3.	In the list above, the Islamic DTM has assessed the specific requirement pertaining to consent to transfer and developed action plans to obtain consent, where applicable.		
Identification of appropriate shariah principles for transfer			
4.	The Islamic DTM's Shariah Committee has been consulted and has given advice on the appropriate Shariah principles for transfer of all its products and services.		

²⁸ DTMs are required to cross-reference each requirement in the checklist to the corresponding section(s) in the Self-Assessment Report to support clarity and traceability.

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No.	Requirements	Assessment (e.g. Compliant/ Largely Compliant/ Partially Non-Compliant/ Non-Compliant / Not Applicable)	Justification and supporting evidence for the assigned assessment ²⁹
Identification of assets of investment account holders			
5.	The Islamic DTM has adequate processes in place to record all assets allocated to each IA fund, regardless tagged to one-to-one basis or proportionate basis and confirms that these assets can be clearly identified and a list of assets allocated to each IA fund can be easily produced in BAU and upon entry into resolution.		
6.	The Islamic DTM assesses the impact of managing the liquidity at entity level on the assets owned by an IA fund as well as the Islamic DTM during BAU and when the Islamic DTM is experiencing a heightened liquidity stress. The Islamic DTM is to keep the assessment results well-documented , including the objectives, approach and impact to the Islamic DTM's shareholders and the IAHs under both scenarios.		
7.	Where an Islamic DTM performs rebalancing including for the purposes of providing liquidity to IAHs, it must have the capability to produce a report on rebalancing exercises that have been conducted within the preceding twelve (12) months when requested by PIDM. This requirement is only applicable once an Islamic DTM has invoked its recovery plan. The report shall include among others the rebalancing date, objective of the rebalancing, counterparties to the rebalancing (i.e. the purchaser and the seller) and the detailed list of investment assets that have been rebalanced and the respective price(s) at which the rebalancing was conducted.		
Separation of assets of investment account holders in resolution			
8.	The Islamic DTM has assessed separability of assets of each IA fund during BAU and upon entry into resolution. The Islamic DTM is to keep the assessment results well-documented and able to produce a report on the assessment results when required by PIDM .		

²⁹ DTMs are required to cross-reference each requirement in the checklist to the corresponding section(s) in the Self-Assessment Report to support clarity and traceability.

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No.	Requirements	Assessment (e.g. Compliant/ Largely Compliant/ Partially Non-Compliant/ Non-Compliant / Not Applicable)	Justification and supporting evidence for the assigned assessment ²⁹
9.	Where the Islamic DTM practices proportionate tagging for asset allocation, the Islamic DTM has developed an execution plan to transition to individual tagging including the timeline.		
Financial reporting of investment account			
10.	The Islamic DTM has assessed the feasibility of conducting valuation for each IA in resolution. In this assessment it has considered the structure and operationalisation of IA , the BAU valuation methodology and a transfer to a different party other than to whom its own assets and liabilities and other IA fund(s) are transferred to.		
IFSIR reporting templates			
11	The Islamic DTM has completed the assessment and is able to submit the completed IFSIR reporting templates (Appendix 1) to PIDM when requested.		
Written feedback to PIDM			
12	The Islamic DTM's Shariah Committee has reviewed the Islamic DTM's written feedback to PIDM prior to submission .		

Question 5:

PIDM welcomes suggestions on how the checklist may be enhanced, including whether the scope adequately captures the key components necessary to self-assess resolvability, and whether any additional elements should be incorporated.