



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

**EXPOSURE DRAFT ON GUIDANCE PAPER FOR
RESOLVABILITY ASSESSMENT – LIQUIDITY 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 be able to demonstrate the relevant capabilities to meet the six (6) resolvability expectations as outlined in different guidance papers. This guidance paper (“Liquidity Guidance Paper”) specifically outlines the expectations regarding liquidity in resolution and covers capabilities and arrangements required such that, in the run up to and during resolution¹, DTMs are able to:
- (a) appropriately monitor, manage and report on its liquidity positions on a timely basis; and
 - (b) reasonably anticipate its liquidity needs in resolution to facilitate the preparation and implementation of the transfer strategy.
- 1.2 The requirements outlined in this Liquidity Guidance Paper 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 Liquidity Guidance Paper, if deemed necessary to advance resolution planning and improve overall resolvability of the DTMs.
- 1.3 As much as practicable, a DTM should leverage its existing capabilities and arrangements developed for existing risk management processes and regulatory purposes, including compliance with prudential requirements such as stress-testing, recovery planning and contingency funding plan, to meet or further develop capabilities in this Liquidity Guidance Paper. In such circumstances, a DTM should demonstrate that such capabilities and arrangements adequately address the resolution-specific considerations outlined in this Liquidity Guidance Paper.

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.

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LEGAL PROVISIONS

- 1.4 This Liquidity Guidance Paper relates to the following legal provisions in the Malaysia Deposit Insurance Corporation Act 2011 (“PIDM Act”):
- (a) Section 97A: PIDM may draw up, review and amend a resolution plan for the orderly resolution of a member institution; and
 - (b) Section 202: 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 Liquidity Guidance Paper is applicable to all DTMs.
- 1.6 The Liquidity Guidance Paper elaborates on the requirements set out in the Guidelines on Resolvability Assessment Framework for Deposit-Taking Member² (“RAF Guidelines”) issued by PIDM on <DATE>, and forms part of the RAF Guidelines. DTMs should refer to the Glossary provided in the RAF Guidelines for consistent interpretation of key terms used in this Liquidity Guidance Paper.
- 1.7 A DTM is expected to undertake Capability Assessment, including in respect of the expectations in this Liquidity Guidance Paper, pursuant to notification from PIDM.

RELATED DOCUMENTS

- 1.8 This Liquidity Guidance Paper must be read together with other relevant legal instruments, policy documents and related documents that have been issued by PIDM and/or Bank Negara Malaysia (“BNM”) including any amendments, reissuance or replacements thereafter, in particular:
- (a) Policy Document Liquidity Coverage Ratio issued by BNM on 25 August 2016; (“BNM’s Policy Document on LCR”);

² 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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- (b) Policy Document on Stress Testing issued by BNM on 15 June 2017; (“BNM’s Policy Document on Stress Testing”);
- (c) Policy Document Net Stable Funding Ratio issued by BNM on 31 July 2019; (“BNM’s Policy Document on NSFR”);
- (d) Policy Document on Recovery Planning issued by BNM on 28 July 2021; (“BNM’s Policy Document on Recovery Planning”);
- (e) Guidelines on Resolution Planning for Deposit-Taking Members issued by PIDM on 8 September 2023; and
- (f) Policy Document on Liquidity Risk issued by BNM on 15 October 2024 (“BNM’s Policy Document on Liquidity Risk”).

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. In addition to providing general feedback, respondents are also requested to respond to the specific questions set out in this Liquidity Guidance Paper. PIDM may also have specific questions that seek insights on the arrangements, operations and infrastructure that the DTMs have in place, where the feedback would assist PIDM’s consideration of the impact of the proposed requirements on the DTMs.
- 1.10 A pre-formatted template has been made available on PIDM’s website at www.pidm.gov.my and has also been emailed to the DTM’s liaison officer to facilitate the provision of feedback and comments.
- 1.11 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 Liquidity Guidance Paper, you may direct any queries to the following contact person(s):
 - Puan Maiza Tan (maiza@pidm.gov.my) / +603-2303 0629; or
 - Encik Tan Swee Keat (tansweekeat@pidm.gov.my) / +603-2303 0667.

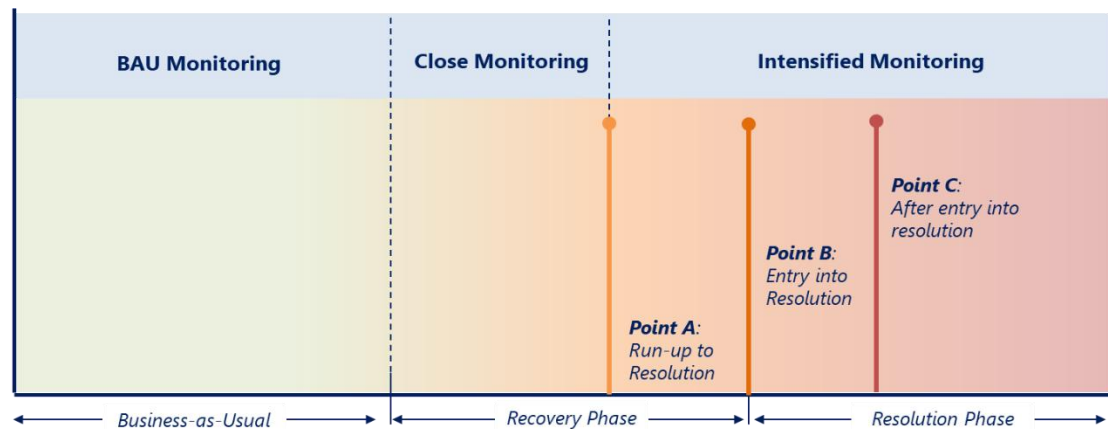
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SECTION 2: OVERVIEW

- 2.1 As outlined in the RAF Guidelines, a DTM is expected to have in place adequate capabilities and arrangements to timely identify, measure and report its liquidity position upon entry into resolution and throughout the resolution process. The resolvability expectations outlined in this Liquidity Guidance Paper are intended to ensure that DTMs possess the necessary capabilities to support PIDM in the planning and execution of the preferred resolution strategy.
- 2.2 Consistent with the principle of proportionality set out in the RAF Guidelines, the scope of resolvability assessment and the extent of preparatory measures will vary depending on whether a DTM falls under the scope of the **Full Requirements** or **Tailored Requirements**. Accordingly, certain requirements under this Guidance Paper are calibrated to reflect the differing expectations applicable to DTMs within each category.
- 2.3 During the run up to resolution and throughout resolution, DTMs are highly susceptible to liquidity crunch as market participants will be hesitant to provide or renew/roll-over funding to a bank under stress. This liquidity pressure can persist even after a successful resolution, driven by concerns about the DTM's long-term viability.
- 2.4 Cognizant of the above, DTM should develop capabilities aimed at enhancing its resolvability in projecting liquidity position during the resolution phase, in addition to its existing capabilities during BAU and during the recovery phase. This is key to enabling PIDM as the resolution authority to resolve the DTM in a prompt and orderly manner in the event of the DTM's failure.
- 2.5 *Figure 1* illustrates the stress continuum and the three critical phases of resolution:
- Point A: Run-up to Resolution
 - Point B: Upon Entry into Resolution
 - Point C: After Entry into Resolution

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Figure 1: Stress continuum and the phases of resolution



- 2.6 The following table summarises the expectations outlined in **Section 3, 4, 5 and 6**, which DTMs are required to **establish in advance of stress events under this Guidance Paper** and **maintain throughout the stress continuum**. These expectations are designed to ensure that 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”: Run up to Resolution³ | DTMs should have pre-established capabilities to measure and report liquidity needs on a T+1 basis, at Point A. [Refer to Section 5] DTMs should have the pre-established capability to identify potential assets to be mobilised for liquidity. [Refer to Section 6] | These capabilities allow: <ul style="list-style-type: none"> ▪ DTMs to monitor and anticipate liquidity needs during the run-up to resolution; and ▪ DTMs to mobilise assets to obtain liquidity during the run-up to resolution. |
| 2. | “Point B”: Upon entry into Resolution⁴ | DTMs should have pre-established capabilities to measure and report liquidity needs on a T+1 basis upon entry | These capabilities allow: <ul style="list-style-type: none"> ▪ PIDM or its Appointed Person⁵ to monitor and anticipate the |

³ Refer to definition of “Point A”: Run up to Resolution as outlined in paragraph 4.6 of this guidance paper.

⁴ Refer to definition of “Point B”: Upon entry Resolution as outlined in paragraph 4.6 of this guidance paper.

⁵ This is a person appointed by PIDM to assume control of and to carry on or manage the non-viable 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 |
|----|---|---|---|
| | | into resolution. [Refer to Section 5] DTMs should have the pre-established capability to furnish information to PIDM or its Appointed Person so that assets can be mobilised to obtain liquidity. [Refer to Section 6] | DTM's liquidity position upon entry into resolution. ▪ PIDM or its Appointed Person to mobilise assets to obtain liquidity upon entry into resolution. |
| 3. | "Point C": After entry into Resolution | DTMs should have the pre-established capabilities to measure and report liquidity needs on a T+1 basis after entry into resolution. [Refer to Section 5] | This capability allows PIDM or its Appointed Person to assess the liquidity needs (if any) of the DTM after its entry into resolution. |

2.7 The ability to provide timely and accurate estimates of the liquidity needs and the liquidity position in the form of a "cash flow mismatch" or "liquidity gap", at both the entity and consolidated level, is important for PIDM to make informed decisions during the implementation of the preferred resolution strategy ("PRS").

2.8 DTMs are expected to have capabilities to measure and report liquidity needs and available assets for use as collateral during resolution. The subsequent sections will provide further guidance to achieve this:

- **Section 3** focuses on the scope of entities and currencies when estimating liquidity needs during resolution.
- **Section 4** sets out a resolution-specific methodology for estimating liquidity needs, aimed at enhancing the DTM's ability to anticipate its liquidity needs during resolution.
- **Section 5** outlines the expectations for DTMs to report liquidity needs timely (T+1 basis), accurately and in a granular manner during resolution, by applying the methodology set out in Section 4.
- **Section 6** outlines the expectations for DTMs to identify potential assets that could be mobilised for liquidity and to provide timely and accurate information on such assets to PIDM, upon request.

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- 2.9 **Applicability of Sections:** All sections apply to DTMs subject to the **Full Requirements** under the RAF Guidelines. For DTMs under the **Tailored Requirements**, only Sections 3, 4 and 5 are applicable, consistent with the principle of proportionality.
- 2.10 DTMs are encouraged to build on and leverage on BNM’s prudential requirements on the management of liquidity risk⁶, including those set out in the policy documents for recovery planning and stress testing⁷, to meet or develop capabilities in this Liquidity Guidance Paper. To this end, DTMs are expected to integrate capabilities developed for resolution planning into their existing liquidity risk management framework and processes.

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⁶ BNM’s Policy Documents on LCR, NSFR and Liquidity Risk.

⁷ BNM’s Policy Documents on Stress Testing and Recovery Planning.

SECTION 3: SCOPE OF ENTITIES AND CURRENCIES

3.1 DTMs are expected to have in place liquidity capabilities and arrangements at the:

- (a) Entity level⁸: Includes the global operations of the DTM (i.e. including its overseas branch operations) on a stand-alone basis, and its Labuan banking subsidiary; and
- (b) Consolidated level⁹: Includes the DTM and all financial and non-financial subsidiaries, except insurance/takaful subsidiaries, and where the DTM is a subsidiary of a financial holding company, the financial holding company and all financial and non-financial subsidiaries, except insurance/takaful subsidiaries.

3.2 DTMs are expected to include within the scope of liquidity for resolution all currencies in which it is active¹⁰, on an aggregated basis.

Question 1

The requirement to implement liquidity capabilities and arrangements at the consolidated level aims to ensure that resolution liquidity needs fully and accurately capture inter-entity cash flows. This includes taking into account both inflows and outflows across entities within the group, particularly when an entity functions as a liquidity provider or receiver within the group.

- (a) Does your institution currently face challenges reporting liquidity at the entity level and/or consolidated level?
- (b) If so, please elaborate on the challenges faced, including the contributing factor(s) to each challenge and the potential impact for your DTM.

⁸ The DTM may refer to the definition of entity level in paragraph 8.2 in BNM's Policy Document on LCR and paragraph 5.2 in BNM's Policy Document on NSFR.

⁹ The DTM may refer to the definition of consolidated level in paragraph 5.2 in BNM's Policy Document on NSFR.

¹⁰ This includes currencies in which a financial institution transacts in or has exposures to as defined in paragraph 9.16 in BNM's Policy Document on Liquidity Risk.

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SECTION 4: METHODOLOGY FOR ESTIMATING LIQUIDITY NEEDS

- 4.1 DTMs should develop robust capabilities to estimate their liquidity position, specifically a “cash flow mismatch” or “liquidity gap”, at both entity and consolidated level. The estimation should enable DTMs to provide PIDM with a forecast of the cumulative net excess or shortfall in liquidity that may arise¹¹. Such capability will allow DTMs or PIDM to better anticipate liquidity needs and to determine appropriate actions to secure funding under resolution conditions.
- 4.2 To facilitate this, DTMs are expected to have in place a documented methodology for simulating both behavioural and contractual cash inflows and outflows associated with on-balance sheet assets and liabilities, as well as off-balance sheet exposure. During resolution, a DTM’s liquidity position may deteriorate significantly due to factors such as increased outflows, reduced inflows, a decline in the value of liquid assets, or a reduction in available unencumbered assets¹².
- 4.3 As an initial step, DTMs may leverage existing capabilities and assumptions developed for risk management and regulatory compliance when refining their methodology for estimating liquidity position and liquidity needs during resolution. However, DTMs should recognize that existing methodologies are designed for stress scenarios which, although severe, do not fully represent resolution conditions. Therefore, DTMs should assess how risks identified in the existing going-concern framework may evolve in resolution, including, for example, the potential for more pronounced cash outflows than those assumed during the recovery phase.
- 4.4 Table 2 below lists the minimum assumptions that DTMs shall consider as the basis for the methodology:

¹¹ DTMs should leverage on capabilities built in accordance with paragraph 9.9 of BNM’s Policy Document on Liquidity Risk.

¹² Unencumbered asset refers to an asset that is not restricted by legal, regulatory, tax, Shariah, accounting or contractual encumbrances or other practical restrictions on the ability of a financial institution to liquidate, sell, transfer, or assign the asset.

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Table 2 : Assumptions used in the run up to and during Resolution

| # | Assumptions | Expectations |
|---|---|---|
| 1 | Funding providers' behaviour during resolution | <p>DTMs are expected to consider the liquidity impact of funding providers' behaviour (e.g wholesale funding providers, retail depositors) during a resolution.</p> <p>DTMs may draw upon relevant supervisory guidance in assessing funding providers' behaviour including but not limited to the roll-over of funding lines, stickiness of deposits¹³. However, DTMs should expect funding providers' behaviour to change during resolution, resulting in a potential loss of access to funding.</p> |
| 2 | Obligor/counterparties' behaviour during resolution | <p>DTMs are expected to consider the liquidity impact of obligors/counterparties' behaviour during a resolution.</p> <p>DTMs may draw upon relevant supervisory guidance in assessing obligor/counterparties' behaviour, including but not limited to contingent liquidity demand arising from drawdown of undrawn commitments¹⁴. However, DTMs should expect obligors/counterparties' behaviour to change during resolution, resulting in materialization of additional unforeseen or unscheduled on/off balance sheet obligations.</p> |
| 3 | Financial obligations related to operational continuity ¹⁵ | <p>DTMs are expected to consider the payment obligations to allow the continued availability of material operational services and/or critical shared services and the underlying operational assets supporting the transfer perimeter¹⁶ during resolution. This includes estimates of DTM's operating expenses and working capital needs such as payments to suppliers, shared service centers, salaries, fees and licenses.</p> <p>Nonetheless, during resolution, DTM should consider that some discretionary expenses may be lower (e.g. marketing or non-essential project-related expenditure).</p> |

¹³ Factors in assessing behavior of funding sources as outlined in paragraph 9.10 of BNM's Policy Document on Liquidity Risk.

¹⁴ Factors in assessing contingent liquidity demand arising from the drawdown of undrawn commitments as outlined in paragraphs 9.13 and 9.14 of BNM's Policy Document on Liquidity Risk.

¹⁵ For further details, refer to section 3.3 of Operational Continuity in Resolution Guidance Paper issued by PIDM.

¹⁶ Transfer perimeter refers to the specific portfolio of assets and liabilities, shares, businesses or legal entities that are intended to be transferred to an acquirer during a resolution. The goal is to ensure the continuity of critical functions while minimising disruption or impact to the financial system and real economy.

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| # | Assumptions | Expectations |
|---|---|--|
| 4 | Availability of High-Quality Liquid Assets (HQLA) for use as collateral | <p>DTMs are expected to estimate the value that can be generated from:</p> <ul style="list-style-type: none"> (a) securities/other assets either through outright sale of the assets or repurchase agreements; and (b) eligible assets ¹⁷ through pledging as collateral for Central Bank Liquidity Facilities. <p>DTMs may draw upon relevant supervisory guidance in the assessment of factors that may affect the value of the assets to be used as collateral during resolution, including but not limited to evolving market conditions, jurisdiction-specific factors, institution-specific factors or concentrations in the DTM's portfolio of assets¹⁸. However, DTMs should consider the possibility that assets eligible as collateral are likely to be encumbered by the time it goes into resolution, and that remaining assets available for use may attract a higher haircut.</p> <p>In assessing the availability and value of the assets for use as collateral, DTMs should also consider any legal, regulatory, tax, Shariah, accounting or contractual encumbrances or other practical restrictions on the ability of the DTM to transfer or assign the asset. DTMs should apply a conservative approach when uncertainty prevents a precise determination of the availability of a specific liquidity source.</p> |
| 5 | Liquidity needs arising from the contractual suspension or termination of contracts | DTMs are expected to estimate the liquidity needs arising from a contractual suspension or termination of contracts where the DTM is not a party to ¹⁹ , due to the absence of contractual recognition of resolution powers to suspend termination rights. |
| 6 | Liquidity needs related to Payment, Clearing and Settlement activities | DTMs are expected to estimate the liquidity needs to satisfy increased obligations related to payment, clearing and settlement activities, as determined by a relevant financial market infrastructure ("FMI") or FMI intermediary. |

¹⁷ For assets eligible for pledging as collateral, DTMs should refer to haircuts communicated in BNM's Policy Document on Restricted Committed Liquidity Facility issued on 15 August 2016 and BNM's Policy Document on Standing Facilities issued on 30 July 2020.

¹⁸ Factors in assessing the marketability or value of which an instrument may be monetised in times of institution-specific or market-wide shocks as outlined in paragraph 15.5 of BNM's Policy Document on Liquidity Risk.

¹⁹ This includes contracts with other entities within the financial group with obligations guaranteed or supported by the DTM or contracts with cross-default clauses.

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| # | Assumptions | Expectations |
|---|--|--|
| | | DTMs may draw upon relevant supervisory guidance in estimating liquidity needs arising from payment, clearing and settlement activities, including but not limited to intraday liquidity, failure-to-settle procedures. ²⁰ |
| 7 | Liquidity needs arising from Shariah Contracts | <p>DTMs are expected to estimate the liquidity needs taking into consideration the specificities of the Shariah Contracts. For example, liquidity risk may arise from having to provide funding support to unrestricted investment account holders during a potential run-off.</p> <p>DTMs may draw upon relevant supervisory guidance on the management of risk pertaining to Shariah Contracts²¹.</p> |

- 4.5 For avoidance of doubt, DTMs shall not assume the availability of parental or group financial support when developing the methodology for estimating its liquidity needs. Any such support, if available, should have been utilised during the recovery phase. For resolution planning purposes, DTMs should assume that such support has either been considered and proven ineffective or is unavailable due to circumstances where the parent or related entity is itself under financial stress.

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²⁰ Management of intraday liquidity needs as outlined in paragraphs 9.21-9.22, 10.2 – 10.3 of BNM’s Policy Document on Liquidity Risk.

²¹ Shariah Risks as outlined in paragraph 12.7 of BNM’s Policy Document on Stress Testing.

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Question 2

Existing supervisory prudential requirements, stress-testing practices, and recovery planning have already provided substantial coverage in the design of liquidity stress scenarios and the conduct on funding liquidity stress tests at both the entity and consolidated levels.

Nonetheless, for resolution planning purposes, the development of methodology must incorporate resolution-specific considerations to generate accurate and reliable estimates of the cumulative net liquidity excesses or shortfall. Such estimates are critical to enable PIDM to make timely and well-informed decisions should the DTM's financial condition deteriorates.

- (a) Do you anticipate any challenges or issues in recalibrating the existing stress testing parameters prescribed under current supervisory guidance to align with the assumptions outlined in Table 2 above? If yes, please provide details on the challenges or issues involved.
- (b) Please describe the extent to which your existing stress testing exercises rely on systems and infrastructure capabilities. Where manual processes are utilised, kindly outline:
 - the degree of manual intervention and the specific steps that require such intervention; and
 - the internal controls established to ensure the accuracy, reliability, and the integrity of the manual process.

4.6 The methodology developed shall be used to estimate the DTM's liquidity needs across the different points of the stress continuum.

- (a) **“Point A”:** Run up to resolution – Point A shall refer to the last month or shorter prior to the point of non-viability. At Point A, the following non-exhaustive assumptions should be made:
 - (i) significant deterioration of the DTM's situation as recovery does not take place;

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- (ii) recovery options forming the preferred recovery strategies²² are mostly exhausted and/or have proven ineffective in recovering the DTM; and
 - (iii) changes to the behavioural and contractual cash inflows and outflows associated with on-balance sheet assets and liabilities, and off-balance sheet items materialise.
- (b) **“Point B”:** Upon entry into Resolution - At Point B, the DTM would have been declared non-viable by BNM under section 98 of the PIDM Act and PIDM exercises any of its resolution powers, which may include assumption of control by PIDM or its Appointed Person.

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²² Preferred recovery strategy is defined as a combination or sequence of feasible recovery options that a financial institution deems to be the most credible and effective to address a specific stress scenario developed for its recovery plan in BNM’s Policy Document on Recovery Planning.

SECTION 5: REPORTING OF LIQUIDITY DURING RESOLUTION

- 5.1 DTMs should have the capability to report liquidity needs on a T+1 basis to facilitate effective decision making by PIDM in the run up to and during resolution. The reporting of its liquidity needs to PIDM, once the DTM is assessed to be at Point A should apply the methodology developed, referred to in Section 4 of this Liquidity Guidance Paper.
- 5.2 DTMs are expected to establish processes and develop capabilities, including a robust management information system (MIS) and resources that enable timely, accurate and granular reporting. For the purposes of resolution planning, DTM is expected to be able to:
- (a) generate projections of liquidity needs by producing a “cash flow mismatch” or “liquidity gap” (i.e. cumulative net excess or shortfall in liquidity) for both entity level and consolidated level, in the run-up to and during resolution;
 - (b) rapidly adjust the assumptions for the key drivers of liquidity needs in its projections for different phases of resolution.
- 5.3 For avoidance of doubt, a DTM is not required to submit estimations of its liquidity positions prior to Point A. The prescribed methodology shall be applied solely for the purpose of estimating liquidity positions once the DTM has been assessed to be at Point A, at which juncture PIDM will formally notify the DTM.
- 5.4 DTMs are expected to be able to generate projections of liquidity needs across time periods and for each maturity bucket. The maturity buckets should be granular²³ to increase the accuracy of the estimation of liquidity needs during a resolution. At this stage, no pre-defined template is considered, and the DTM is granted flexibility in determining the best approach to present its analysis when tested.

²³ The maturity buckets should be daily for the first 7 days (e.g. overnight, greater than overnight up to 2 days, greater than 2 days up to 3 days), followed by weekly for the next 3 weeks (e.g. greater than 7 days up to 2 weeks, greater than 2 weeks up to 3 weeks) and monthly for the next 2 months (e.g. greater than 4 weeks up to 2 months, greater than 2 months up to 3 months). The final maturity bucket is for inflows and outflows that are greater than 3 months.

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- 5.5 As a starting point, DTMs can refer to Table 2b: Contractual Maturity Mismatch, which forms part of the reporting requirement for the LCR Monitoring Tool²⁴. For each of the maturity buckets, DTMs are expected to provide details of outflows by each category of liability and off-balance sheet commitment and inflows by each category of loan/financing and credit/financing facilities. DTMs should make assumptions about how the forecasted maturity of the outflows and inflows may vary from the contractual terms due to behavioural optionalities.
- 5.6 In addition to having liquidity capabilities and arrangements at the entity and consolidated levels, DTMs are expected to assess whether additional analysis is warranted for individual subsidiaries, branches or business lines that are exposed to significant liquidity risks during resolution.

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²⁴ As outlined in paragraph 29.1 of BNM's Policy Document on LCR.

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Question 3

As outlined in BNM's *Liquidity Risk Policy Document*, DTMs are required to maintain the capability to measure and report prospective cash flows for assets, liabilities, off-balance sheet commitments and derivatives across multiple time horizons under both business-as-usual and stressed conditions, including severe stress. These estimates must be made available at a higher reporting frequency with a shortened reporting lags when warranted.

Building on this requirement, DTMs should also have the capability to measure and report, at the level of granularity as specified in footnote 23 of this Liquidity Guidance Paper, on a T+1 basis to support resolvability and enable the effective execution of the resolution.

Kindly describe your system and infrastructure capabilities to generate projections of liquidity needs on a T+1 basis for each item of on-balance sheet assets and liabilities, as well as off-balance sheet items, during resolution.

- (a) Where different capabilities exist for individual balance sheet items, please provide an explanation of these variations. For example, the DTM's system/infrastructure may be able to generate more granular or more frequent estimates for certain position, such as deposit outflows, compared to other asset and liability clauses.
- (b) Where manual processes are utilised, please explain how such manual intervention may or may not impede the ability to generate T+1 liquidity projections upon request. In your response, kindly outline any operational constraints, dependencies, or risks introduced by manual steps, as well as any mitigating measures in place to ensure timely and accurate reporting.

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SECTION 6: IDENTIFICATION AND MOBILISATION OF COLLATERAL

6.1 **Applicability of Section:** This section applies to DTMs subject to the **Full Requirements** under the RAF Guidelines. For DTMs under the **Tailored Requirements**, this Section is **not applicable**.

6.2 DTMs should have the ability to maximise the amount of mobilisable assets in resolution to meet its financial obligations. In times of crisis, markets might have concerns about the DTM's solvency and counterparties are likely to require assets as collateral for additional reassurance before providing funding. To ensure that secured funding can be obtained, DTMs are expected to be able to:

- (a) identify potential assets and provide detailed information on the assets to PIDM or its Appointed Person for use as collateral in a granular and timely manner;
- (b) mobilise collateral in an efficient and effective manner; and
- (c) have in place a collateral management framework to govern the execution of resolution process.

6.3 IDENTIFICATION OF COLLATERAL

6.3.1 DTMs are expected to develop robust capabilities to identify assets that can be used as collateral in a granular and timely manner. It should be noted, however, that at the point of resolution, a significant portion of the DTM's liquid assets is likely already sold or encumbered.

6.3.2 Therefore, while the existing supervisory requirements on collateral management may serve as a starting point, the identification and mobilisation of collateral in the context of resolution must adopt a broader approach. The objective is to expand the pool of assets that can be mobilised, thereby increasing the range of funding options available during resolution.

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6.3.3 Accordingly, the identification of collateral should extend to lower quality and less liquid assets, including those that are not eligible for ordinary BNM liquidity facilities. The collateral should be clearly segregated by assets type and eligibility to counterparties and funding providers, thereby facilitating faster and more efficient mobilisation of resources during resolution. DTMs are expected to classify its assets into four (4) classes as shown in Figure 2 below:

Figure 2: Classification of Assets for use as Collateral

| | Securities | Other Assets |
|--------------|--|--|
| Eligible | Eligible Securities as outlined in <i>Appendix 1 of BNM's Policy Document on Standing Facilities</i> and <i>Appendix 2 of BNM's Policy Document on Restricted Committed Liquidity Facilities</i> | Portfolios of Loan / Financing Facilities that conforms to eligibility criteria set out by Cagamas Berhad (See Footnote 25) |
| Non-eligible | All Securities other than outlined in <i>Appendix 1 of BNM's Policy Document on Standing Facilities</i> and <i>Appendix 2 of BNM's Policy Document on Restricted Committed Liquidity Facilities</i> | Portfolios of Loan / Financing Facilities other than that which conforms to eligibility criteria set out by Cagamas Berhad (See Footnote 25) |

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²⁵ Refers to portfolios of housing loans/financing, commercial and industry property loans/financing, hire purchase and leasing debts, and/or personal loans/financing that are considered by Cagamas Berhad for provision of liquidity and funding.

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Question 4

As outlined in BNM’s Policy Document on Liquidity Risk, DTMs are required to maintain the capability to manage their collateral positions effectively, including assets currently pledged as collateral and unencumbered liquid assets available for mobilisation as collateral. For resolution planning purposes, however, a broader perspective is required in identifying assets that can be used to generate liquidity. This includes assets that are less liquid and of lower quality, which may nonetheless be capable of being pledged to obtain funding under stressed or resolution conditions.

- (a) Do you currently assess the total pool of available unencumbered assets, including illiquid assets - such as mortgages and other financing portfolios - that may be pledged to obtain funding from third-party fund providers? In your response, please also clarify whether your assessment extends to securities beyond those eligible for BNM’s Standing Facilities and Restricted Committed Lending Facilities.
- (b) Are enhancements or upgrades to your existing system and infrastructure capabilities required to enable the identification of unencumbered assets, including illiquid assets? If yes, please indicate the expected timeline for developing and implementing these system capabilities.
- (c) Do you anticipate any challenges in meeting the expectation as set out in Para 6.3 of this Liquidity Guidance Paper? If so, kindly elaborate on each of the challenges, including the contributing factor(s) and the potential implications for the DTM. In doing so, please outline challenges such as:
 - limitations in system capabilities to identify or classify unencumbered assets, particularly illiquid or lower-quality assets;
 - data gaps or inconsistencies across business units;
 - operational constraints arising from reliance on manual processes; and
 - difficulties in establishing timely valuations or determining the eligibility of such assets for secured funding arrangements.

6.4 MONITORING AND MOBILISATION OF COLLATERAL

- 6.4.1 DTMs are expected to develop capabilities to mobilise assets in a timely manner to access secured funding and support financial continuity throughout a resolution. As such, DTMs must keep information on the assets identified in Paragraph 6.3 up-to-date and generate it rapidly when needed to facilitate the funding provider’s assessment and funding decisions.

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6.4.2 The DTM shall maintain at a minimum, information that may be required by the funding provider, which includes but are not limited to the following:

- (a) asset class and sub-class, where relevant;
- (b) market value or book value of assets, where market value is not available;
- (c) currency denomination;
- (d) maturity profile, including origination date and maturity date;
- (e) location and governing law of asset;
- (f) legal rights to the asset, including (e.g. rights of re-hypothecation or legal restrictions on transfer or assignment);
- (g) other key attributes of securities (e.g. ISIN, issuer, credit rating, call or put features, coupon rate); and
- (h) other key attributes of loan/financing facilities, consistent with data maintained for Central Credit Reference Information System (CCRIS) reporting to BNM (e.g. classification of exposures, repayment terms, interest/financing rate).

6.4.3 In addition, DTMs are expected to document the steps required and timeframes to access, mobilise and monetise the collateral. DTMs should leverage on the existing capabilities and arrangements developed for collateral management to meet expectations outlined in this Liquidity Guidance Paper.²⁶

6.4.4 Where DTMs possess portfolios of loans/financing that conforms to eligibility criteria set out by Cagamas Berhad, DTMs should assess the potential fund providers for these assets, which may include existing or potential counterparty lines it has established with Cagamas Berhad as well as any other prospective fund providers.

6.4.5 It is important to note that having collateral does not grant automatic access to this form of support, which remains a discretionary decision of the authorities.

²⁶ Paragraphs 16.1 and 16.2 of BNM's Policy Document on Liquidity Risk outlines the requirements on collateral management, including ensuring that relevant systems are in place for active and timely management of the financial institution's collateral on an on-going basis.

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6.5 COLLATERAL GOVERNANCE AND MANAGEMENT

- 6.5.1 DTMs are expected to ensure that their collateral management framework is adequate to support the execution of the PRS during resolution and would not be adversely impacted by a PRS involving the separation of the financial group. As a start, DTMs should be able to describe how collateral governance and management are currently structured in Business-As-Usual so that such information can be used by PIDM or the Appointed Person, upon assumption of control to determine how collateral may be mobilised during resolution.
- 6.5.2 The DTM shall provide at a minimum, details on the level of centralisation of the collateral management function, the decision-making bodies within the different entities of the financial group and the main business units involved in the identification and mobilisation of collateral, including collateral which are less liquid during resolution.

Question 5

Relevant systems may already be in place to support the active and timely management of a DTM's collateral positions on an ongoing basis. Such active management - including for assets that are less liquid and of lower quality - is essential to ensure that collateral can be mobilised promptly to meet funding needs during resolution.

- (a) Please describe your existing collateral governance and management framework, including how your systems and infrastructure support the monitoring of available collateral and facilitate the timely mobilisation of collateral to meet funding requirements.
- (b) Please explain whether your existing collateral governance and management framework also extends to illiquid assets - such as mortgages and other financing portfolios - that may be pledged to obtain funding from third-party fund providers, as well as securities beyond those eligible for BNM's Standing Facilities and Restricted Committed Lending Facilities.

SECTION 7: IMPLEMENTATION

- 7.1 As part of the requirements of the RAF Guidelines, 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 4, 5 and 6** of this Liquidity Guidance Paper, along with the proposed Remediation Action Plan²⁷. At this stage, no pre-defined template is mandated for the Self-Assessment Report, allowing DTM the flexibility to determine the best approach for demonstrating its analysis.
- 7.2 Additionally, the DTM is required to describe the degree to which the requirements outlined in **Sections 4, 5 and 6** of this Liquidity Guidance Paper are met by completing the Self-Assessment Checklist in Appendix 1. The guidance for the grading scale is as follows:

| Grading scale | Guidance |
|--------------------------------|--|
| Compliant | The requirements are fully met. The DTM possesses all capabilities and is able to implement them in supporting the execution of the PRS. |
| Largely compliant | The requirements are largely met. The 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 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 DTM does not possess the capabilities or has not initiated steps to establish the capabilities. |
| Not applicable | The requirements set out in this Liquidity Guidance Paper are intended to be applicable to all DTMs. Nonetheless, the DTM can mark that capability as “Not Applicable” with accompanying justification as to why it is deemed not applicable for PIDM’s consideration. |

²⁷ 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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- 7.3 Pursuant to the assessment of DTM’s resolvability, PIDM will review the Self-Assessment Report and assess whether the measures proposed by the DTM can effectively reduce or remove the substantive impediments²⁸. DTMs will be required to provide regular progress updates to PIDM on the implementation of the agreed measures.
- 7.4 PIDM may test and evaluate the DTM's capabilities in fulfilling the requirements outlined in **Sections 4, 5 and 6** of this Liquidity Guidance Paper. Such testing may be conducted when PIDM determines that the DTM has met the specified requirements or when deemed necessary.

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²⁸ Communications to the DTM on the outcome of the assessment will be via a Resolvability Assessment letter from PIDM.

APPENDIX 1: 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 ²⁹ |
|---|--|---|---|
| Methodology for estimating liquidity needs | | | |
| 1 | The DTM has developed a methodology for estimating liquidity needs in resolution at both the entity level and consolidated level . | | |
| 2 | The DTM has developed a methodology for estimating liquidity needs during resolution in the form of a “cash flow mismatch” or “liquidity gap” for currencies in which it is active in , on an aggregated basis. | | |
| 3 | The DTM has developed a methodology for estimating liquidity needs during resolution which includes all of its on-balance sheet assets and liabilities, and off-balance sheet items . | | |
| 4 | The DTM has developed a methodology which takes into consideration all the resolution centric assumptions outlined in <i>Table 2: Assumptions used during Resolution</i> . | | |

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 |
|--|--|---|---|
| 5 | The DTM has developed a methodology to estimate liquidity needs for all three points of the stress continuum , which are Point A: Run up to resolution, Point B: Upon entry into resolution and Point C: After entry into resolution and considers the possible exhaustion of recovery options outlined in the Recovery Plan, leading up to the point of non-viability. | | |
| Reporting of Liquidity Needs | | | |
| 6 | The DTM is able to report its liquidity needs in the run up to resolution and during resolution at short notice (i.e. T+1 basis) . | | |
| 7 | The DTM is able to recalibrate assumptions and parameters underlying the methodology, including estimates of haircuts for liquid assets at short notice (i.e. T+1 basis) to reflect revisions to the liquidity estimates arising from rapidly changing market conditions, in the run up to resolution and during resolution | | |
| 8 | The DTM is able to report its liquidity needs in resolution across time periods and for each maturity buckets in a granular manner as outlined in <i>footnote 23</i> . | | |
| Identification and Mobilisation of Collateral | | | |
| 9 | The DTM is able to identify assets, including assets which are of lower quality and that are less liquid for use as collateral in a granular and timely manner. The assets shall include all which have been outlined in <i>Figure 2: Classification of Assets for use as Collateral</i> . | | |
| 10 | The DTM is able to provide up-to-date information and generate it rapidly when needed, to facilitate the funding providers' risk assessments and funding decisions. | | |
| 11 | The DTM is able to provide information on the operational steps and the timing to access, mobilise and monetise the collateral. | | |

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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 |
|-----|--|---|---|
| 12 | The DTM has a structured collateral governance and management in place and can clearly identify the decision-making bodies and the main business units responsible for the identification and mobilisation of collateral. | | |

Question 6

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.

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