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Malay Mail - Major Banks Prepared For Basel Funding Rules, Says Fitch Ratings

Malay Mail - Major Banks Prepared For Basel Funding Rules, Says Fitch Ratings

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Major banks prepared for Basel funding rules, says Fitch Ratings

KUALA LUMPUR — Most major Malaysian banks will not have any difficulty in meeting the net stable funding ratio (NSFR) requirement, announced last week, as part of Bank Negara Malaysia's (BNM) implementation of Basel III regulations, said Fitch Ratings.

In a statement today, it said the banking sector had already shifted towards more stable funding structures in recent years, which should reduce vulnerability to market disruptions.

BNM said that more than three-quarters of Malaysian banks have an NSFR which met the minimum requirement, which would be set at 100%.

Indeed, most major banks have strong domestic deposit franchises and prudent funding and liquidity policies that should help them in complying with the new rules.

Moreover, the ratings agency said the banking sector's loan or deposit ratio (LCR) of 133% at end-August 2017 indicated that the system's aggregate funding and liquidity was reasonably healthy.

According to Fitch, most banks have already made efforts to increase their retail deposits in recent years in anticipation of the NSFR rules and in response to the LCR requirements, which BNM started to implement in 2015.

The NSFR and LCR frameworks both consider retail deposits to be more stable than corporate deposits and treat



Bank Negara says that over 75% of Malaysian banks meet the minimum NSFR requirement. — Picture by Reuters

them more favourably.

Fitch said banks were likely to continue prioritising stable sources of funding as they grow their balance sheets.

"We expect banks to move further away from short-term funding, which is discouraged under NSFR and LCR rules," it added.

The rating agency said banks were

also likely to offer higher rates on longer-term deposits and shift towards longer-term wholesale debt funding.

This could, to an extent, raise funding costs and lower net interest margins, but the impact on profitability was unlikely to be significant for large banks, or the banking sector as a whole.

Fitch said banks may also look at

asset management to reduce their required stable funding, noting that highly liquid assets, short-term loans and mortgages with conservative loan or value ratios were all treated favourably under NSFR rules.

"Meanwhile, banks may seek to further streamline committed undrawn facilities, as these would need to be partly pre-funded under the regime," it added.

The new rules would be implemented no earlier than Jan 1, 2019, which would be at least a year behind the scheduled global implementation date of Jan 1, 2018, as set by the Basel Committee.

That said, the implementation could also be delayed in the US and European Union, while only a handful of Asia Pacific jurisdictions, namely Australia, Hong Kong, Indonesia and Singapore have announced plans to implement the rules by Jan 1 next year, it added.

Fitch also said banks would also need to report their NSFR by currency.

"There are no currency-specific NSFR requirements, but disclosure will help BNM monitor the stability of banks' funding sources by major currency exposure," it said.

It added that Malaysia's banking groups with significant overseas operations, such as Maybank and CIMB Group, would generally manage their foreign currency funding and liquidity needs well. — Bernama

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