

FITCH: MALAYSIAN BANK REGULATIONS PRUDENT; CHALLENGES AHEAD

Link to Fitch Ratings' Report: Malaysian Banking Prudential Regulations: Prudential and Regulatory Framework Satisfactory; Challenges Ahead
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=651229

Fitch Ratings-Singapore-10 October 2011: Fitch Ratings says that the regulatory framework for banks in Malaysia has seen progressive improvements over the last few years, which should help maintain financial discipline and stability, particularly in the uncertain global economy. However, as with banking regulations in other markets, some challenges lie in implementing Basel III rules in line with new global standards.

In a special report, Fitch says that most domestic banks have satisfactory capitalisation and hence are unlikely to find it overly onerous to adopt Basel III capital rules, although the central bank Bank Negara Malaysia has yet to announce such regulations. In contrast, most Malaysian banks could face challenges in adopting Basel III's liquidity standards, although banks and regulators worldwide are also facing similar issues and are currently pursuing practical solutions.

Given that Malaysia's household debt is likely to stay sizeable, Fitch expects BNM to continue to pay close attention to consumer loans. Precautionary measures could be tightened further to those implemented in 2010-H111 to curb individuals from over-borrowing, particularly in an environment of continued ample liquidity, low interest rates and rising asset prices. This, together with banks' satisfactory risk management, underpins Fitch's view that the country's consumer loans will remain of fairly sound quality. The modest pick-up in delinquencies from consumer loans during the 2008-2009 economic downturn helps support this expectation.

The report also notes that the gradual liberalisation efforts augur well for the progression of the Malaysian financial system as a whole. One notable move was the increase in the foreign shareholding limit in investment and Islamic banks to 70% in 2009, which in comparison to the previous non-controlling ceiling is a more attractive proposition to foreign investors. However, Fitch believes such relaxation is unlikely to extend in the near term to the present 30% cap on foreign shareholding in domestic commercial banks, which account for about 70% of the country's banking system assets.

The special report titled "Malaysian Banking Prudential Regulations" is available on www.fitchratings.com or by clicking on the link above.

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