

**Seminar on Islamic Finance  
A New Phase of the Islamic Finance:  
Capturing the Untapped Area to  
Improve the Quality of Economic Development**

**Macroprudential Policy  
and Islamic Finance**

Bali, Indonesia  
*31<sup>st</sup> May 2013*

**Bakarudin Ishak  
Assistant Governor  
Bank Negara Malaysia**

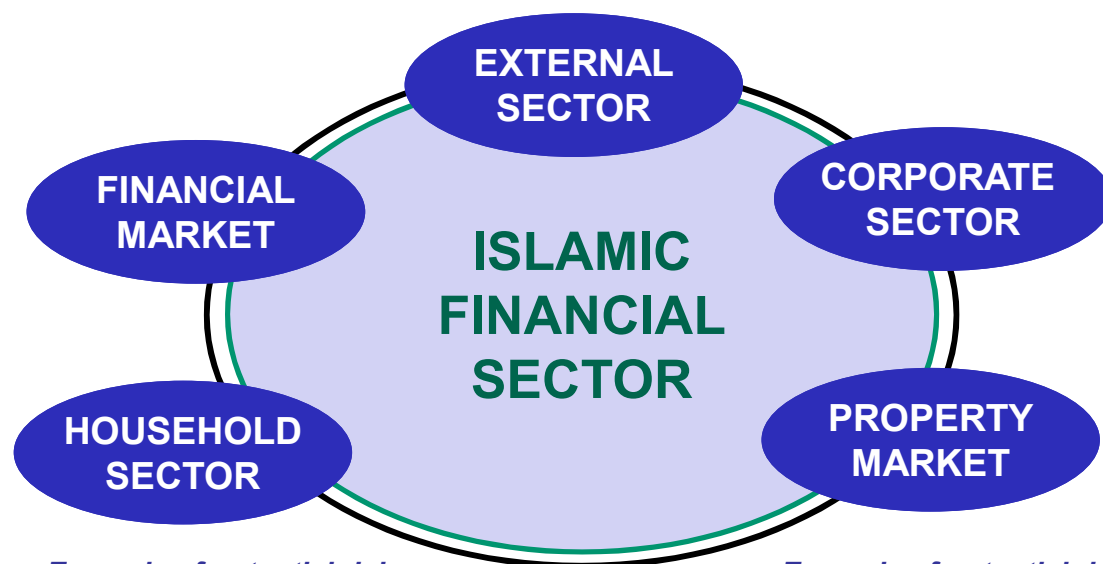
**Disclaimer:** While every care is taken in the preparation of this presentation, no responsibility can be accepted for any errors.  
**Copyright:** All or any other portion of this presentation may be reproduced provided acknowledgement of the source is made.  
Notification of such use is required. All rights reserved.



# Islamic and conventional finance share similar sources of vulnerability

Islamic and conventional finance operate in similar environment

- Intermediary to the real economy
- Leverage to generate profit

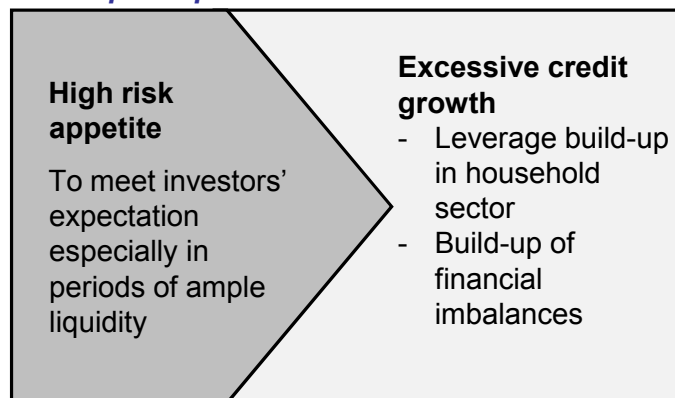


**Macroprudential policy  
in a  
dual financial system**

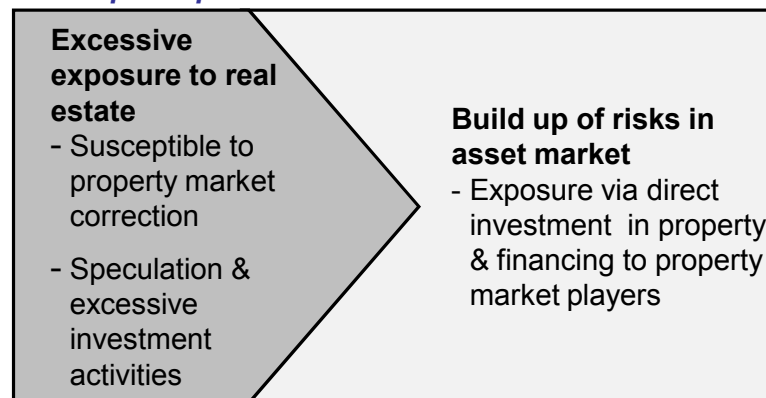
- No differentiation between conventional & Islamic financial institutions

➤ *To avoid regulatory arbitrage*

*Example of potential risk*



*Example of potential risk*



# Effective implementation of macroprudential policy contributes to financial stability

## Wide ranging macroprudential policy instruments

Counter-cyclical capital buffers	Loan-to-value (LTV) ratio	Time-varying provisioning practices
Sectoral capital requirements (variable risk weight)	Debt-to-income or DSR restrictions	Disclosure requirements (greater transparency)



Details in  
Slide 10

## Factors for effective implementation

### TIMING

- **Precise execution** – Assess system readiness & possible impacts to prevent unintended consequences
- **During boom period** – As pre-emptive measure to minimise likelihood of future crisis, i.e. serve as a speed-bump
- **During crisis** – Reduce severity of crisis via upliftment

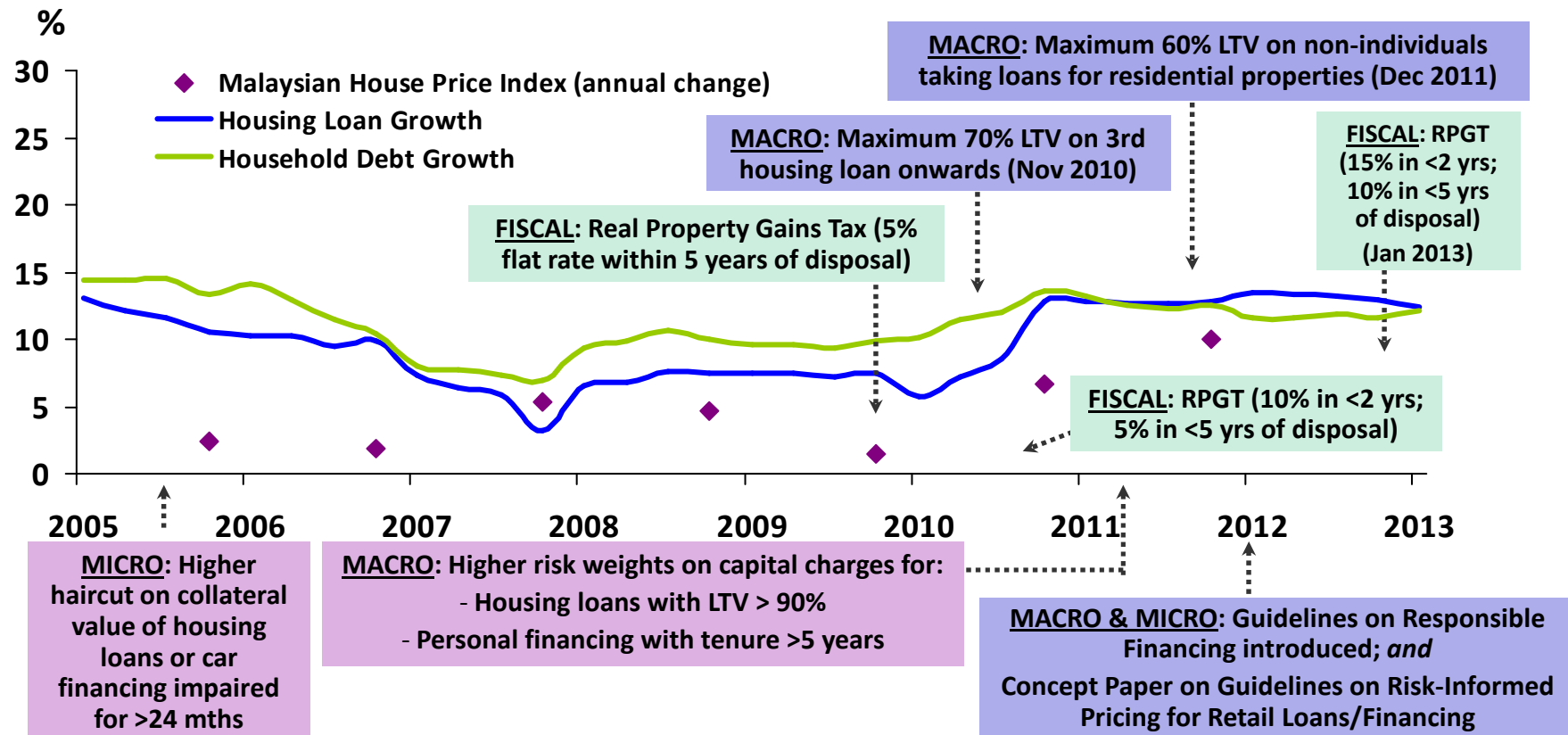
### TARGETED & GRADUAL APPROACH

- **Reduces spillover effects & avoid excessive complexity**
- **Ensures measures can be operationally executed**

**Strong & facilitative legal & regulatory framework**



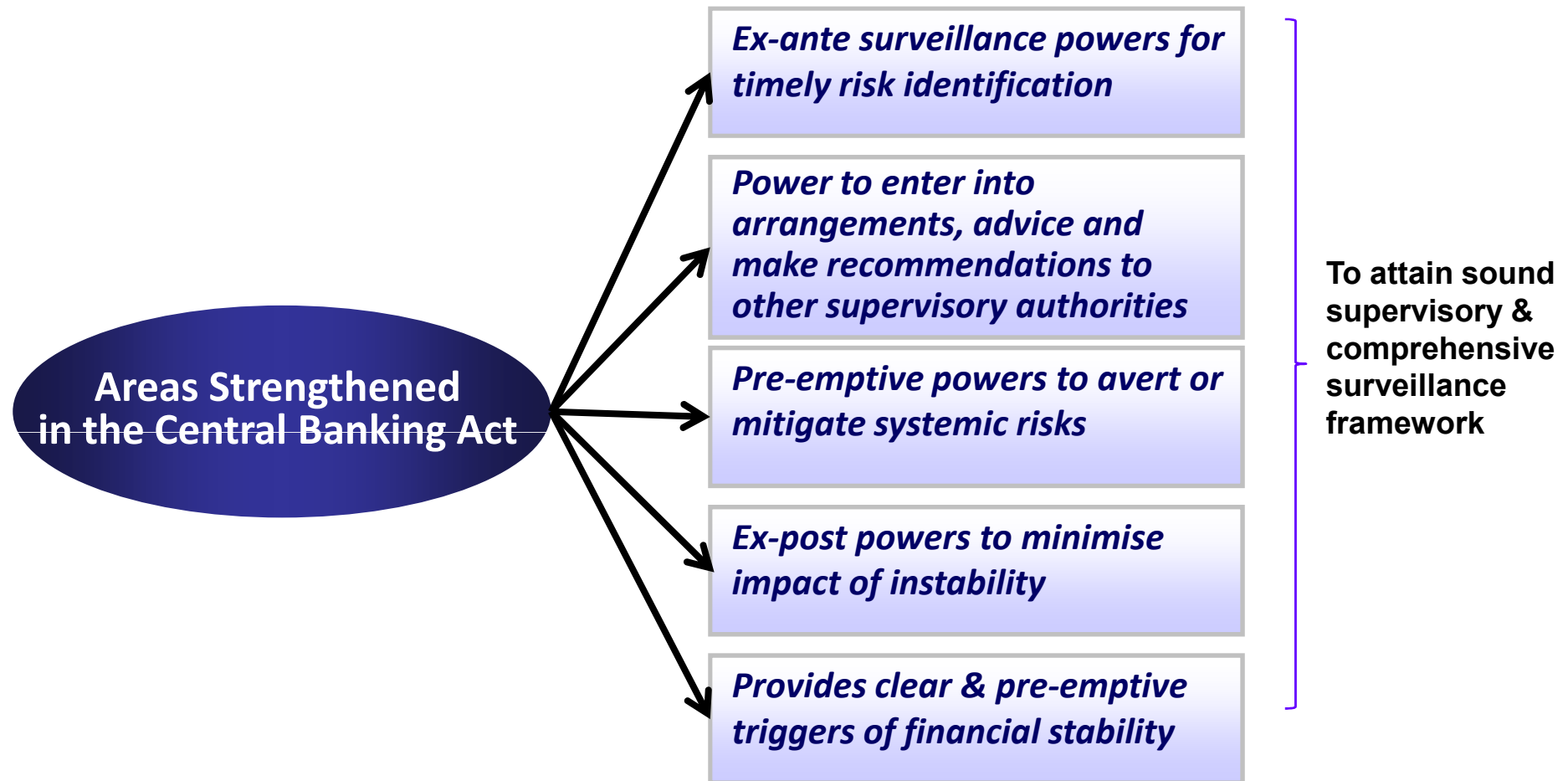
# In Malaysia, macroprudential measures are deployed in a timely & targeted manner for both conventional & Islamic financial sectors



- Targeted implementation to moderate excessive speculation in property market and promote prudent household indebtedness
- Macroprudential policies complement with other microprudential, monetary and fiscal policies



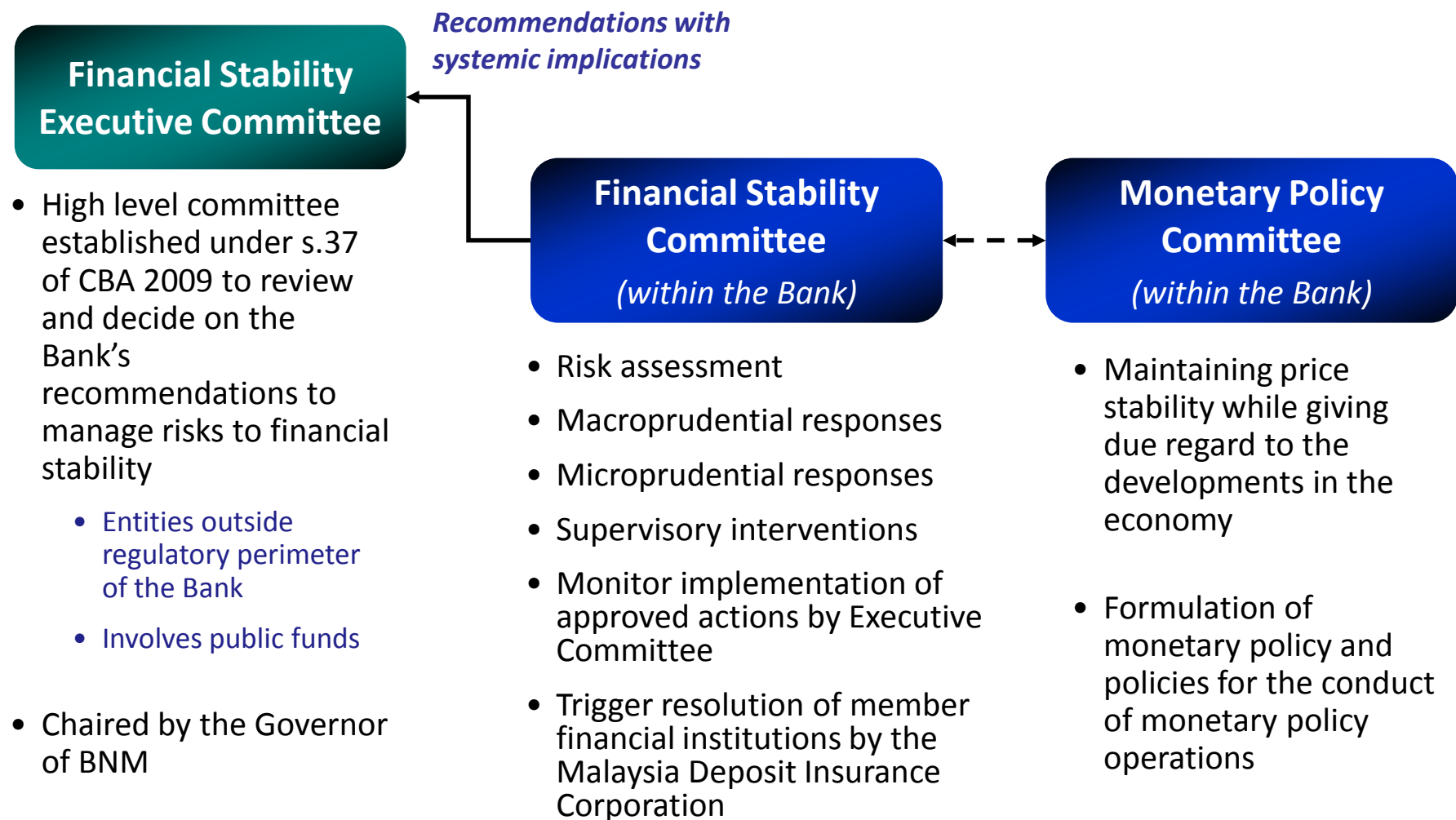
# Strengthening of legislative framework provides comprehensive powers for regulator to effectively implement macroprudential measures



- *Re-engineering functions of Central Bank from sectoral centric to functional centric*
- *Supported by a strong governance arrangement through well established committees*

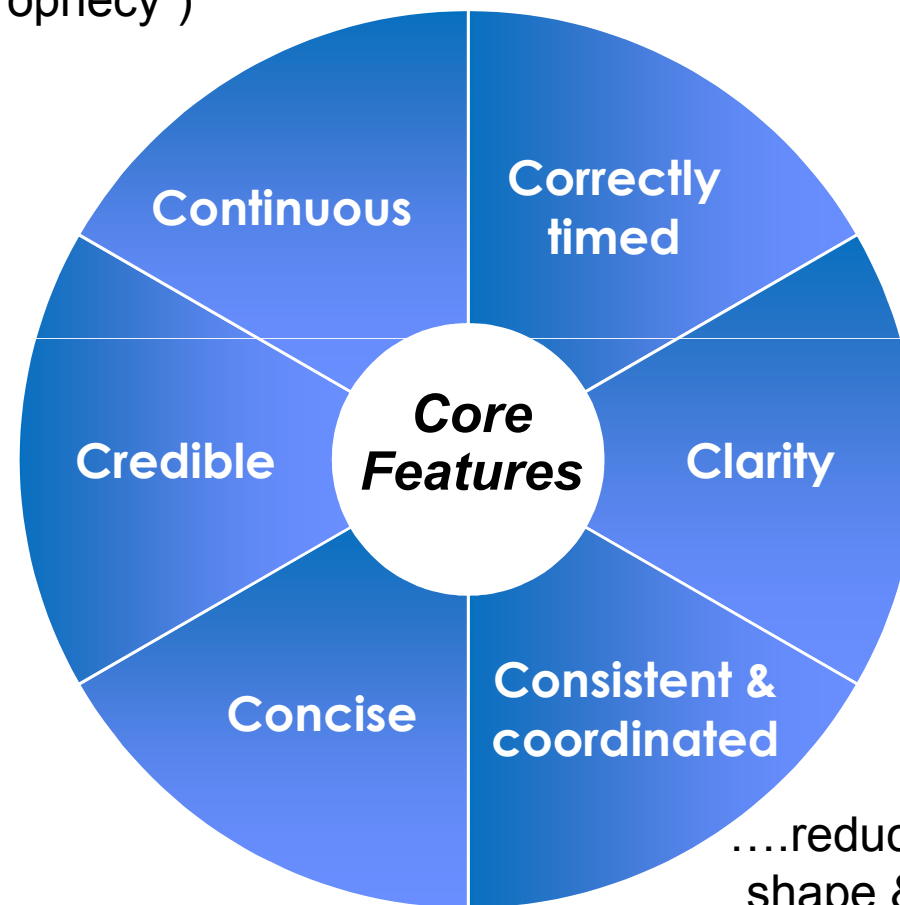


# Institutional & governance arrangements for effective deliberation & consideration of macroprudential measures



# Effective communication is important to promote greater understanding

Effective communication on the use of macro-prudential policies to support confidence & steer financial system towards a sustainable path (avoid over-reaction or “self-fulfilling prophecy”)



....reducing misinformation helps shape & influence expectations



# In summary, macroprudential policy ...

---





Malaysia invites you to an environment  
of innovation and thought leadership  
in Islamic finance.

[www.mifc.com](http://www.mifc.com)

Sukuk Origination | Islamic Fund and Wealth Management | International Islamic Banking | International Takaful | Human Capital Development



# Thank you

## Useful links

### Realignment of Financial Stability Functions

- **FSPSR 2006** - Realignment of Regulatory and Supervisory Functions  
([http://www.bnm.gov.my/files/publication/fsps/en/2006/sp\\_001\\_whitebox.pdf](http://www.bnm.gov.my/files/publication/fsps/en/2006/sp_001_whitebox.pdf))

### Enhancements to Financial Stability Legislative Powers

- **FSPSR 2009** - Safeguarding Financial Stability under the Central Bank of Malaysia Act 2009  
([http://www.bnm.gov.my/files/publication/fsps/en/2009/cp02\\_003\\_whitebox.pdf](http://www.bnm.gov.my/files/publication/fsps/en/2009/cp02_003_whitebox.pdf))
- **FSPSR 2011** - Proposals for New Legislative Framework for Financial Regulation & Supervision  
([http://www.bnm.gov.my/files/publication/fsps/en/2011/cp02\\_003\\_whitebox.pdf](http://www.bnm.gov.my/files/publication/fsps/en/2011/cp02_003_whitebox.pdf))

### Macroprudential Surveillance and Policy Framework

- **FSPSR 2009** - Macroprudential Approach to Financial Surveillance and Regulation in Msia  
([http://www.bnm.gov.my/files/publication/fsps/en/2009/cp01\\_003\\_whitebox.pdf](http://www.bnm.gov.my/files/publication/fsps/en/2009/cp01_003_whitebox.pdf))

# Wide ranging macroprudential policy instruments available to address risks to financial stability

Counter-cyclical capital buffers	▶	To moderate the economic cycle
Sectoral capital requirements (variable risk weight)	▶	To restrain lending in booms or encourage lending in downturns
Maximum leverage ratios	▶	Less susceptible to arbitrage & mismeasuring risk than risk-based tools
Time-varying provisioning practices	▶	To ensure early provisioning against prospective credit losses
Restrictions on distributions	▶	Limits risk of disruption to credit supply – useful in downturns
Time-varying liquidity buffers	▶	Increasing resilience and moderate credit cycle
LTV and loan-to-income restrictions	▶	Enhance resilience to risks from real estate
Margining requirement	▶	Enhance resilience of funding markets
Use of central counterparties	▶	Reduces complexities and potential for contagion risk
Design and use of trading avenues	▶	Prevents sharp falls in liquidity and reduce extreme price volatility
Disclosure requirements	▶	Enhances market discipline



Slide 3

