

APPENDIX A

REGULATIONS AND GUIDELINES

Apart from the requirements to be complied by the merchant banks in terms of paid-up capital, capital adequacy ratio, liquidity and statutory reserves, lending guidelines, acceptance of deposits and types of income dealt under Chapter 3, there are other regulations and guidelines governing the operations of merchant banks. Under the statutory and non-statutory frameworks periodic reports and returns have to be submitted to Bank Negara Malaysia (BNM). All these are designed to regulate and control the operations of merchant banks within the prescribed framework.

Guidelines for Financial Institutions (BNM/GP1-GP6)

GP1 - was established to assist financial institutions to advise directors and chief executives on their duties and responsibilities, and the procedures for the appointment of the board of directors and chief executives.

GP2 - provides guidelines on submission of Annual Accounts to BIM.

GP3 - stipulates the minimum requirements that financial institutions should observe in respect of the suspension of interest on non-performing loan accounts, and the procedure for the creation of provision accounts for bad and doubtful loans.

GP4 - deals with the subject of staff training, and the establishment of a Staff Training Fund to discourage staff pinching among the financial institutions and to promote industry-wide training and manpower development in the banking and financing industry. A merchant bank is required to maintain staff training expenditure of 3% of its preceding year's total gross salary.

GP5 - provides guidelines on the credit limit which a licensed bank could loan to a single customer. A merchant bank is required to limit its loan to any customer at 30% of its capital funds. In addition, the sum total of 'large' loans should not exceed 50% of the bank's total credit facilities.

GP6- establishes guidelines which prohibits a licensed bank from extending credit facilities to its directors and staff as well as to their close family members, to firms and corporations in which they are interested and to individuals for whom they are guarantors.

Other Operational Guidelines

a) Capital structure, shareholding and management

There should be substantial Malaysian participation. Merchant banks are encouraged to reflect the racial composition of the country in their capital structure, staffing and management;

b) Uses of Funds

Merchant banks would be given flexibility in the use of funds. They would not, however be allowed :-

- 1) to invest funds, which have been obtained locally, outside the country;
- 2) to grant overdraft facilities;
- 3) to deal in bullion and foreign exchanges for the time being.

c) Immovable Property

A merchant bank should obtain the approval of Bank Negara Malaysia before :-

- 1) undertaking any revaluation of any land and building in its belongings;
- 2) making any firm commitment and acquire any land and buildings; and
- 3) any relocation of its premises or places of business.

Supervision by Bank Negara Malaysia

In addition to the above regulations and guidelines, merchant banks are subjected to close supervision by Bank Negara Malaysia. The supervision will include at least the following:-

- 1) Merchant banks would be required to submit to Bank Negara Malaysia:
 - a) Memorandum and Article of Association (prior to incorporation and any subsequent amendments);

- b) copy of certificate of incorporation;
 - c) Statement of assets and liabilities in such format and at such intervals as may be determined by BNM;
 - d) Audited balance sheet and profit and loss account and publish these statements in at least one local daily Malay and one local daily English newspaper within 6 months of the close of the financial year.
- 2) BNM may from time to time, investigate under conditions of secrecy, any merchant bank, its accounts and transactions and any of its offices or place of business.
- 3) The above terms and conditions for the supervision of operations of merchant banks may from time to time, be reviewed and modified by BNM and any changes would be conveyed to merchant banks by way of directives in order to achieve the policy objectives of the BNM and the government.

As a measure to regulate the activities of merchant banks, Bank Negara Malaysia may from time to time issue other guidelines, or amend the existing rules and terms governing the merchant bank, in the form of Bank Negara Circulars.