



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

**EXPOSURE DRAFT ON RESOLUTION PLANNING
APPROACH FOR DEPOSIT-TAKING MEMBERS**

ISSUE DATE : 1 AUGUST 2022

CLOSING DATE : 12 SEPTEMBER 2022

Ref No	DI/CP41/2022	Issued on	1 August 2022
TITLE	Exposure Draft on Resolution Planning Approach for Deposit-Taking Members		

Executive summary

- While recovery planning is aimed at ensuring that a deposit-taking member (“DTM”) can recover itself or effect an orderly exit from the industry in the event of severe stress, resolution occurs when the DTM fails to recover itself, and this process will be led by Perbadanan Insurans Deposit Malaysia (“PIDM”).
- Resolution refers to the use of PIDM’s powers to manage the failure of any of PIDM’s DTMs. The effectiveness of PIDM’s powers in delivering an orderly resolution will depend on the level of planning done ahead of stress emerging. Planning for resolution well ahead of any stress emerging reduces the risk of a disorderly failure.
- DTMs need to work closely with PIDM on resolution planning (“RSP”) and take the required measures to be resolvable. A lack of preparedness for resolution generally risks transferring the costs of failure from shareholders and other providers of capital to the taxpayers and financial system.
- This exposure draft outlines the following:
 1. PIDM’s approach to resolution planning for DTMs; and
 2. Requirements on DTMs in resolution planning.

Request for industry feedback and comments:

PIDM invites written feedback and comments from the industry on the proposed approach to resolution planning and requirements applicable to DTMs. The written feedback and comments should be supported with clear explanation and examples (as appropriate). The feedback shall be submitted to PIDM via email to **rsp@pidm.gov.my**.

Next steps:

The exposure draft is open for feedback until **12 September 2022**. Subject to industry feedback from this consultation exercise, PIDM plans to issue the relevant Guidelines on Resolution Planning for DTMs for implementation in 2023. As part of the resolution planning process where DTMs are expected to take the relevant measures to be more resolvable, PIDM will engage the industry on details and expectations on key areas of resolvability in due course.

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GLOSSARY

For the purpose of this exposure draft and its appendices -

“bridge institution” refers to a subsidiary of PIDM that is designated as such under paragraph 99(1)(f) of the Malaysia Deposit Insurance Corporation Act 2011 (“PIDM Act”) to assume the business, assets, affairs and liabilities, including critical functions, of a DTM pursuant to paragraph 99(1)(g) of the PIDM Act;

“core business lines” refer to business lines that are significant to a DTM pursuant to paragraphs 11.7 and 11.8 of BNM’s Policy Document on Recovery Planning issued on 28 July 2021 (“BNM’s Policy Document”);

“credible resolution plan” refers to a resolution plan that can be executed without giving rise to significant adverse consequences to the financial system and real economy;

“critical functions” refer to underlying operations, activities or services that are performed by a DTM for third parties where the failure or discontinuance of such function would likely lead to the disruption of services that are essential for the functioning of the real economy and financial stability pursuant to paragraphs 11.12, 11.13 and 11.14 of BNM’s Policy Document;

“deposit-taking member” (“DTM”) refers to a member institution of PIDM that is a licensed bank or an Islamic bank;

“feasible resolution plan” refers to a resolution plan that can be executed effectively within an appropriate time frame with no major impediments that could hinder a prompt and orderly resolution of the DTM;

“financial group” refers to a DTM or its financial holding company and the group of related corporations under the DTM or financial holding company. A “financial holding company” refers to a financial holding company approved by BNM under Section 112(3) of the Financial Services Act 2013 or Section 124(3) of the Islamic Financial Services Act 2013;

“financial institution” refers to a banking institution or financial holding company as defined in paragraph 5.2 of BNM’s Policy Document;

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“insured deposit” refers to a deposit that is insured under Section 42 of the PIDM Act;

“operational plan” refers to a plan that sets out the steps that a DTM takes to execute its preferred resolution strategy in a way that is (i) legally, financially and operationally feasible; and (ii) credible in that the execution of the preferred resolution strategy does not give rise to unmitigated risks to the financial system;

“PIDM Act” refers to the Malaysia Deposit Insurance Corporation Act 2011 (Act 720) as amended from time to time;

“preferred resolution strategy” (“PRS”) refers to a resolution strategy(s) that has been assessed as appropriate in relation to a specific DTM to achieve a prompt and orderly resolution that ensures continuity of critical functions, if any, and promotes or contributes to the stability of the financial system;

“remediation action plan” refers to a plan prepared by the DTM (in consultation with PIDM) to set out the timelines and measures to remediate identified impediments to resolution.

“resolution” refers to a state whereby PIDM may apply its resolution strategies pursuant to sections 25 and/or 99 of the PIDM Act on a DTM. A list of the resolution strategies available to PIDM is set out in **Appendix 1** of this ED;

“resolution plan” refers to a plan that sets out, amongst others, how PIDM’s resolution powers and strategies would be used to resolve a DTM in a prompt and orderly manner that ensures continuity of critical functions, if any, and promotes or contributes to the stability of the financial system. Among the components of a resolution plan include the preferred resolution strategy, outcomes of the resolvability assessment and the operational plan;

“resolvability assessment” refers to an evaluation of the feasibility and credibility of the preferred resolution strategy and operational plan that sets out execution details of the preferred resolution strategy. A key outcome expected from the resolvability assessment is the identification of impediments to resolution and the action plans to address those impediments;

“resolvability expectations” refer to the actions that DTMs are expected to undertake to ensure that an appropriate level of resolvability is achieved;

“senior management” refers to the senior officers of a DTM;

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“senior officer” means a person having the authority and responsibility for planning, directing or controlling the activities of a DTM including the chief executive officer, director, members of decision-making committees and other persons performing key functions such as risk management, compliance, internal audit or other functions as may be specified by BNM under section 47 of the Financial Services Act 2013 or section 57 of the Islamic Financial Services Act 2013, as the case may be.

A reference in this glossary to any document issued by Bank Negara Malaysia is a reference to such latest document made effective by Bank Negara Malaysia and the relevant corresponding provisions.

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SECTION 1: INTRODUCTION

BACKGROUND

- 1.1 PIDM, in collaboration with Bank Negara Malaysia (“BNM”), has embarked on the implementation of recovery and resolution planning (“RRP”) for financial institutions in Malaysia. The RRP framework seeks to put in place an effective and efficient process to enhance supervisability, recoverability and resolvability of these financial institutions.
- 1.2 Recovery planning and resolution planning are two separate, but inter-related components. The recovery plan, prepared and maintained by a financial institution under the supervision of BNM, aims to restore the long-term viability of the financial institution and return it to business-as-usual when it comes under severe stress. For detailed elaboration on recovery planning, please refer to BNM’s Policy Document.
- 1.3 In the event the financial institution’s recovery options are no longer feasible in restoring its long-term viability, the focus would then switch to achieving a prompt and orderly resolution of the failing financial institution. PIDM is mandated under the PIDM Act to act as a resolution authority for its DTMs and to promote or contribute to the stability of the Malaysian financial system.
- 1.4 Resolution refers to the use of PIDM’s powers to manage the failure of its DTMs. In using these powers, PIDM seeks to ensure that prompt and effective actions will be taken to resolve the failing DTM in a least disruptive manner that minimises costs to the financial system, and ensure that financial system stability is preserved. This is commonly referred to as an orderly resolution. Please refer to **Appendix 1** for details of PIDM’s resolution objectives and strategies.
- 1.5 Given the need for a prompt implementation of resolution coupled with the unknown nature and timing of future shocks, there is a much greater emphasis for preparation and flexibility in resolution. In this regard, resolution planning, which is an advanced planning tool, enables PIDM to work with the DTM during business-as-usual to develop a feasible and credible resolution plan that is customised for each DTM to facilitate a prompt and orderly resolution in the event of the failure of a DTM.

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BUSINESS BENEFITS OF RESOLUTION PLANNING TO A DTM

- 1.6 As part of resolution planning, DTMs are expected to develop measures to improve its resolvability. Synergies will be created through the integration of these capabilities into the day-to-day processes and operations of the DTM. The benefits from these efforts and investments in resolution planning include:
- (a) **Enhanced governance** – It is crucial for a DTM to ensure that the roles and responsibilities of the board of directors and senior management in times of stress are well-defined. To achieve this, a DTM may undertake a review exercise to ensure that roles and responsibilities are properly segregated, delegated and documented. Such exercise could also strengthen the DTM’s existing risk management framework.
 - (b) **Improved operational efficiency** – As part of resolution planning, a DTM may identify impediments to resolution and develop capabilities to address the impediments. For example, a DTM may upgrade its information technology system to produce robust, timely and accurate information to support resolution. Such enhancement will benefit the DTM not only during crisis, but also during business-as-usual.
 - (c) **Better risk management and monitoring** – A DTM may develop better understanding of certain aspects of its operations through the assessments and information requirements during the course of resolution planning. This in turn may help the DTM to better manage risk, leading to better decision making. In the long run, this may reduce regulatory and operational risks.
 - (d) **Validation of the feasibility of recovery options¹** – As resolution planning is a follow through from recovery planning, it intends to validate and enhance certain aspects of recovery planning. For example, where the DTM’s recovery options include a transfer or selling off parts of its business, the resolution planning process aims to build on the assessment and where appropriate, substantiates and enhances the feasibility of the recovery options. In addition, resolution planning also facilitates better understanding of the expected benefits and impacts of recovery options in resolution (e.g. in key risk areas such as regulatory capital, liquidity and operational dependencies).

¹ Feasibility assessment on recovery options as per the requirements under BNM’s Policy Document.

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LEGAL PROVISIONS

- 1.7 Pursuant to section 97A of the PIDM Act, PIDM may draw up, review and amend a resolution plan for the orderly resolution of a member institution.
- 1.8 Section 202 of the PIDM Act provides that 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.
- 1.9 In addition, PIDM may make any guidelines as may be necessary pursuant to section 209 of the PIDM Act to enable it to carry out or achieve its objects and purposes under the PIDM Act. This will include guidelines for the purpose of implementing resolution planning.

APPLICATION AND COMMENCEMENT

- 1.10 The resolution planning requirements are applicable to all DTMs.
- 1.11 Resolution planning will be rolled-out to DTMs in phases, in line with the implementation of recovery planning. DTMs will be informed by way of written communication from PIDM on the commencement of resolution planning.

OBJECTIVES OF THIS EXPOSURE DRAFT

- 1.12 The purpose of this exposure draft (“ED”) is to seek views and comments on PIDM’s proposed approach to resolution planning and the requirements applicable to DTMs.
- 1.13 The remaining parts of this ED are structured as follows:

Section 2: Key Elements of PIDM’s Approach to Resolution Planning

Provides a schematic view of PIDM’s approach to resolution planning, highlighting the key elements of the process.

Section 3: Requirements on DTMs

Outlines the key requirements expected of DTMs in the resolution planning process and outlining the roles and responsibilities of DTMs and PIDM.

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Appendix 1: Delivering an orderly resolution

Sets out the resolution objectives, PIDM's powers and available resolution strategies to deliver an orderly resolution.

Appendix 2: Approach to resolution planning

Elaborates on the key stages of resolution planning, from developing the DTM's preferred resolution strategy ("PRS") to resolvability assessment, identifying and remediating impediments to resolution, and maintaining resolvability during business-as-usual.

Appendix 3: Governance expectations

Outlines the governance framework to support resolution planning, with guidances on roles and responsibilities of DTMs' key stakeholders such as board of directors, senior management, business units and control functions.

CONSULTATION PROCESS

- 1.14 PIDM invites written feedback and comments from the industry on this ED.² DTMs are requested to comment on the following:
- (a) Please provide your views on the approach to resolution planning as discussed in **Section 2** and **Appendix 2** of the ED.
 - (b) Please share your views on the proposed requirements for DTMs as set out in **Section 3** and the related appendices of the ED, including the roles and responsibilities expected of a DTM throughout the resolution planning process. If there are any suggestions on the allocation of responsibilities, please provide your views with elaboration and explanation.
- 1.15 The written feedback and comments should be supported with clear explanation, and where relevant, examples. A pre-formatted template will be uploaded on PIDM's website as well as emailed to the DTM's liaison officer to facilitate the provision of feedback and comments.

² For avoidance of doubt, the Appendices included in this ED shall form part of the ED for purpose of this consultation.

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- 1.16 Responses to this ED shall be submitted to PIDM via email to rsp@pidm.gov.my by 12 September 2022.
- 1.17 Following the closure of the consultation process, PIDM will collate the comments received on this ED and publish its response on PIDM's website. Your comments may be made public by PIDM. If you do not wish any of your comments to be made public, please indicate accordingly in your response.
- 1.18 PIDM plans to issue the relevant Guidelines on Resolution Planning for DTMs for implementation in 2023. The feedback and comments from the industry will be considered and, where appropriate, will be incorporated in the Guidelines on Resolution Planning for DTMs.
- 1.19 Any queries or clarification relating to this ED may be directed to rsp@pidm.gov.my.

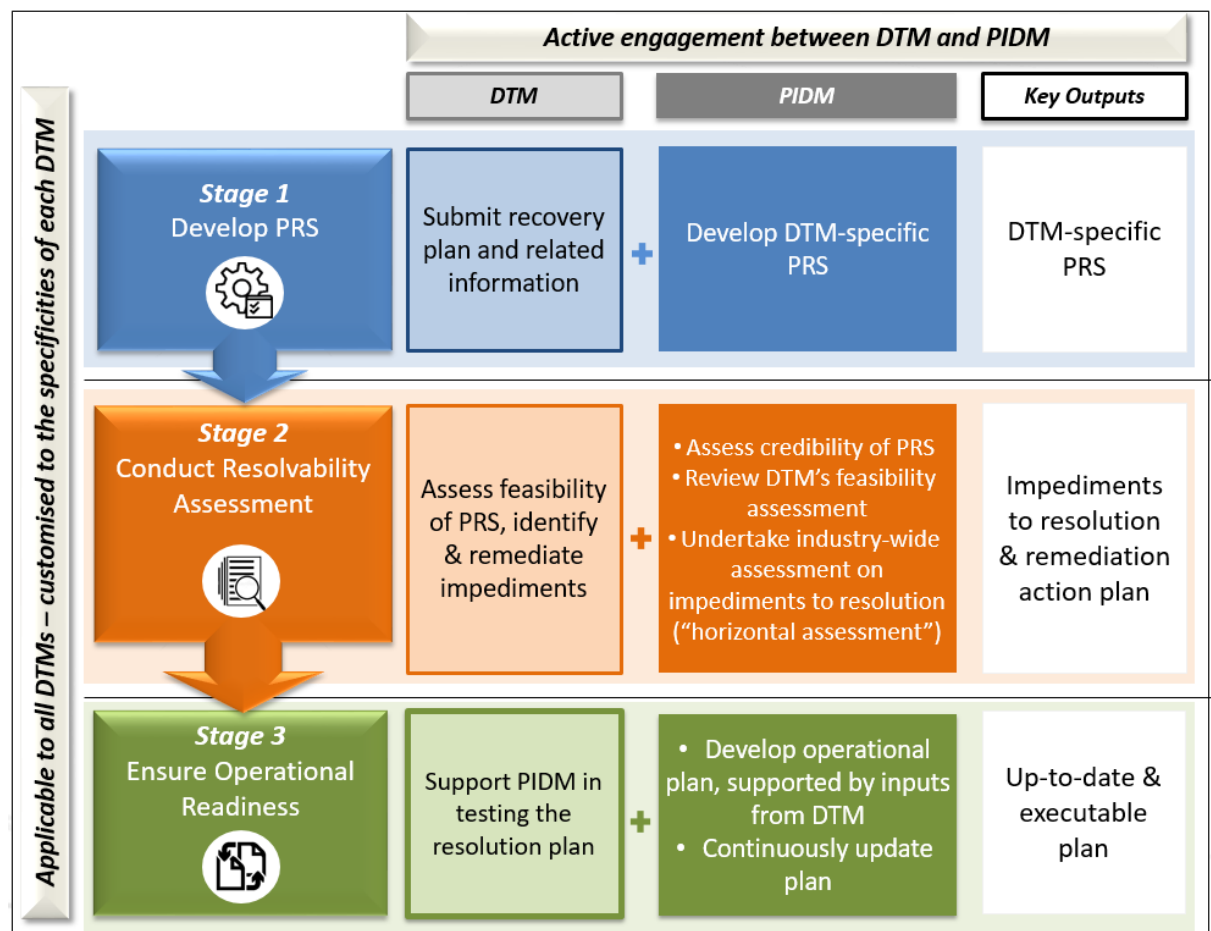
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SECTION 2: KEY ELEMENTS OF PIDM'S APPROACH TO RESOLUTION PLANNING

OVERVIEW

- 2.1 The effectiveness of PIDM's powers in delivering an orderly resolution will depend on the level of planning done ahead of stress emerging, in particular for cases involving large and complex DTMs. In this regard, PIDM's resolution planning process is designed in three (3) stages as depicted in the diagram below.

SCHEMATIC VIEW OF PIDM'S RESOLUTION PLANNING PROCESS



Note: PRS stands for preferred resolution strategy

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The key features of PIDM's approach to resolution planning are as follows:

- (a) **Stage 1 – Develop PRS:** PIDM will develop a DTM-specific PRS based on information submitted by the DTM under recovery planning. PIDM may also ask for additional information to help it develop the PRS under Stage 1;
- (b) **Stage 2 – Conduct Resolvability Assessment:** As the DTM has the most in-depth knowledge of its own business, the DTM will carry out the feasibility assessment of its PRS and take DTM-specific measures to improve its resolvability, in consultation with PIDM. The feasibility assessment under RSP is intended as a follow through and to complement the feasibility assessment³ carried out in the DTM's recovery plan. Some aspects of the feasibility assessment under RSP may be a further extension of the DTM's feasibility assessment on its recovery options such as disposal of branch/subsidiary or portfolios of assets. In this regard, where relevant, the DTM may build on their existing recovery options to put in place measures and capabilities to support the effective implementation of the PRS in resolution. Correspondingly, PIDM will undertake the credibility assessment and implement measures to address industry-wide impediments, in consultation with BNM; and
- (c) **Stage 3 – Ensure Operational Readiness:** PIDM develops the operational plan based on the outcome of the resolvability assessment and tests the resolution plan, supported by the DTM. PIDM expects RSP to be a continuous process, where the DTM has a continued obligation to play a part to build resilience and improve its resolvability over time.

Details on PIDM's approach to resolution planning can be found in **Appendix 2**.

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³ Feasibility assessment on recovery options refers to the requirements under BNM's Policy Document. Further details on feasibility assessment under RSP can be found in Appendix 2.

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COMMUNICATION DURING RESOLUTION PLANNING

2.2 Communication and close engagement between PIDM and the DTMs are key to the success of resolution planning. Some of the key communication that can be expected from PIDM during the resolution planning process are as follows:

- (a) PIDM shall inform DTM by way of written communication on the commencement of resolution planning;
- (b) PIDM shall communicate the outcome of Stage 1, including the PRS(s), to the DTM. The DTM may provide feedback and express its views on the PRS(s) developed by PIDM, supported by rationale and justifications, for PIDM's consideration;
- (c) PIDM shall communicate formally with the Board of Directors ("the Board") of the DTM on the progress and issues (if any) related to resolution planning on an annual basis or as and when required (referred to as the "Resolution Readiness Letter"). Matters highlighted in the Resolution Readiness Letter should be tabled at the DTM's next Board meeting. The Board of the DTM is required to ensure that the DTM responds to PIDM's Resolution Readiness Letter within three (3) months from date of the letter or any other timeline as may be stated in the aforementioned letter. The letter is to provide amongst others, details of the measures or actions taken or planned to be taken, including the related timelines. Where applicable, a detailed remediation action plan to address the related impediments to resolution may form part of the DTM's response.

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SECTION 3: REQUIREMENTS ON DTM

3.1 A DTM shall support the resolution planning process as described in **Appendix 2**, in the manner and within the timeframe as specified by PIDM, as follows:⁴

- (a) **Providing information and support in resolution planning:** prepare and submit the information as described in **paragraph 3.2** in the form and manner and within such timeframe as required by PIDM. While the resolution plan will be developed on a DTM legal entity basis, the information to be provided may be related to the DTM and/or its related corporations (for example, parent company, subsidiaries and sister companies) that are necessary for purpose of resolution planning;⁵
- (b) **Applying sound governance arrangements:** put in place sound and effective governance process to facilitate the resolution planning process. Please refer to **paragraph 3.3** for details;
- (c) **Undertaking feasibility assessment** on the PRS determined by PIDM:
 - (i) **Identifying potential impediments** that may hinder the prompt and effective implementation of the resolution plan (also known as “impediments to resolution”). The outcomes intended for feasibility assessment are outlined in **paragraph 3.4**. Further details on the feasibility assessment will be issued by PIDM for consultation in due course;
 - (ii) **Developing remediation action plan(s) to address identified impediments to resolution** by proposing measures and building the relevant capabilities to address identified impediments to resolution. A DTM is expected to provide PIDM with periodic updates on its action plans and progress in remediating the impediments to resolution; and

⁴ The requirements on DTM for resolution planning set out in this section are not meant to be exhaustive and PIDM may set out additional requirements as and when necessary and relevant.

⁵ For an Islamic DTM which is a subsidiary or sister company of another DTM and where it is more appropriate or practical, the Islamic DTM may leverage on information or remediation action plan(s) prepared by its parent or sister DTM. Notwithstanding this, PIDM may request for DTMs within the same financial group to submit their resolution planning related information separately, as necessary. In this regard, the DTMs should, as much as practicable, ensure that the resolution planning related submissions to PIDM are coherent across the DTMs within the same financial group.

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- (d) **Maintaining capabilities to implement resolution plan:** maintain the capabilities required to support the execution of the resolution plan and supporting PIDM in conducting regular tests to ensure that capabilities and resources are at a level of readiness to effectively implement the plan. This includes, but is not limited to, ensuring operational continuity in resolution (where applicable), structural, data and systems capabilities as well as maintaining required resources to operationalise resolution actions (as necessary).

3.2 Information requirements and support

3.2.1 A DTM shall support PIDM in the development and implementation of a resolution plan. This may include, but is not limited to:

- (a) providing additional information and clarification on the DTM's recovery plan, specifically the strategic analysis section, to support the development of the DTM's PRS(s);
- (b) submitting the necessary information or assessment⁶ on the DTM's resolution capabilities as part of the resolvability assessment process; and
- (c) submitting the necessary information to support the development of the operational plan, which forms part of the resolution plan, to articulate how the PRS(s) will be implemented.

3.3 Governance requirements

3.3.1 **Role of the Board:** The Board of the DTM is ultimately responsible for ensuring that the DTM is resolvable. The Board shall ensure that there are clear roles and responsibilities at the senior management level for the purpose of achieving the requirements in this document, including the designation of a senior officer or an internal governing body⁷ to be responsible for resolution planning matters. The Board is also required to ensure that the DTM responds to PIDM's Resolution Readiness Letter as described in paragraph 2.2 (c) above.

⁶ Information requirements and submission by the DTM will be tailored and targeted, depending on the specificities of the DTM such as its PRS, size, complexities, business profiles, operational dependencies, structures, and etc.

⁷ The Board may leverage on the DTM's existing management or Board committees or establish dedicated resources to perform the role.

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The Board shall oversee and approve, where applicable, the feasibility assessment and the remediation action plan as described in paragraph 3.4.

3.3.2 Role of senior officer/internal governing body designated to be responsible for resolution planning: The senior officer or the designated internal governing body is responsible to provide the necessary support to the Board throughout the resolution planning process. Some of its responsibilities include:

- (a) ensuring the accuracy of information and data submitted;
- (b) allocating adequate and dedicated resources to undertake resolution planning;
- (c) undertaking feasibility assessment and development of remediation action plan;
- (d) updating the Board regularly on the progress and issues in resolution planning (including matters highlighted in the Resolution Readiness Letter and the corresponding response to PIDM); and
- (e) notifying PIDM of any circumstances that may materially affect the DTM's resolution plan.

3.3.3 Role of Shariah Committee: The Shariah Committee is responsible to advise on the application of Shariah requirements, where applicable, during the resolution planning process.

Details of the governance requirements can be found in **Appendix 3**.

3.4 Feasibility assessment and remediation action plan(s)

3.4.1 DTMs are required to conduct a feasibility assessment to assess execution readiness of their respective PRS(s). The feasibility assessment shall be conducted by personnel with the appropriate skills and experience and the intended outcomes include amongst others:

- (a) setting out the implementation steps of the PRS(s) and the estimated implementation timelines as well as evaluating their feasibility;

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- (b) identifying any potential impediments to resolution that may hinder the effective implementation of the PRS(s), e.g. legal, structural, operational or regulatory barriers;
- (c) proposing, developing and implementing remediation action plans to address the impediments to resolution; and
- (d) building and demonstrating the capabilities to support PIDM in executing the PRS(s).

The broad feasibility drivers are set out in **paragraph 2.14 of Appendix 2**. Further details on feasibility assessment and resolvability expectations will be issued by PIDM for consultation in due course.

3.4.2 PIDM may require an independent review⁸ of the feasibility assessment conducted by the DTM, if necessary. The results of the independent review shall be addressed to PIDM and tabled to the DTM's Board for necessary actions.

3.5 **Significant overseas presence:** A DTM with significant overseas presence shall support the development and maintenance of the cross-border components of the resolution plan. For example, a DTM may be involved in identifying and addressing impediments relating to any material financial and/or operational dependencies between the DTM and its foreign subsidiaries to ensure the DTM's resolution plan can be implemented promptly and effectively.

3.6 **Notification and disclosure:** A DTM must notify PIDM promptly if it becomes aware of any change to its business and structure that would create a material barrier or impediment to the implementation of its resolution plan (e.g. a disposal or acquisition of a substantial business undertaking, material restructuring or change in business arrangements). Information arising from resolution planning, including but not limited to information that may pose a risk to or potentially affect public confidence in the DTM and/or the broader financial system, is to be kept confidential and shall not be disclosed.

⁸ The independent review may either be undertaken by the internal audit function of the DTM or an external party who is qualified and competent to conduct such review at the DTM's own costs.

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SUMMARY OF KEY ROLES AND RESPONSIBILITIES OF DTM AND PIDM

Roles & responsibilities of	
	DTM* PIDM
Stage 1 Develop PRS	<ul style="list-style-type: none"> Submit and provide clarification on recovery plan to support PIDM in the development of its PRS(s) Submit further information to support PIDM in the development of PRS(s), if any
Stage 2 Conduct Resolvability Assessment	<ul style="list-style-type: none"> Develop PRS(s), leveraging on information from the DTM Communicate PRS(s) to the DTM
Stage 3 Ensure Operational Readiness	<ul style="list-style-type: none"> Assess feasibility of PRS(s) Provide additional information to support resolvability assessment of PRS(s), if any Identify impediments, develop and implement remediation action plans Build and demonstrate relevant resolution capabilities Respond to PIDM's Resolution Readiness Letter within 3 months from date of letter or such other time as stipulated by PIDM
General expectation	<ul style="list-style-type: none"> Assess credibility of PRS(s) Review the impediments and remediation actions proposed by DTM Conduct horizontal review to assess industry impediments and propose relevant action plans (in consultation with BNM) Issue Resolution Readiness Letter to DTM on an annual basis or as and when required
	<ul style="list-style-type: none"> Support PIDM in the development of operational plan (e.g. submit additional information and assessment) Support PIDM in the testing of the resolution plan
	<ul style="list-style-type: none"> Develop operational plan, supported by relevant inputs from the DTM Conduct testing on the resolution plan, supported by the DTM
	<ul style="list-style-type: none"> Maintain governance, operational, financial and data capabilities as well as resources to support PIDM in the development and execution of the resolution plan
	<ul style="list-style-type: none"> Continuous engagements with the DTM to clarify expectations and provide support

**Applicable to all DTMs, customised to the specificities of each DTM*

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APPENDIX 1: DELIVERING AN ORDERLY RESOLUTION

RESOLUTION OBJECTIVES

- 1.1 PIDM is the resolution authority for its DTMs. In carrying out the resolution of its DTMs, PIDM shall have regard to the following resolution objectives, and will develop a resolution strategy that is assessed to be most suited to achieve the objectives:
- (a) Promote or contribute to the stability of the Malaysian financial system, including continuing the performance of critical functions;
 - (b) Maintain public and market confidence;
 - (c) Minimise cost⁹ and disruption to the financial system;
 - (d) Protect against loss of deposits covered by PIDM; and
 - (e) Minimise loss to public funds.

The above objectives are not ranked in any particular order, and will be assessed collectively.

RESOLUTION STRATEGIES

- 1.2 The PIDM Act empowers PIDM with a wide range of powers¹⁰ to facilitate the effective and orderly resolution of a DTM. PIDM may use these powers individually or collectively. The resolution strategies can be broadly categorised into going-concern and gone-concern approach.
- 1.3 The primary aim of the going-concern approach is to ensure critical functions performed by the non-viable DTM are continued so as to minimise disruptions and impact to the financial system and economy. Strategies under the **going-concern approach** include:
- (a) **Transfer strategy:**
 - (i) **Transfer to a private sector purchaser:** PIDM has the power to transfer all or part of the business or shares of the failing DTM to a private sector acquirer. This is the preferred option as it allows customers and depositors

⁹ Takes into consideration the quantitative and qualitative aspects of the cost.

¹⁰ In executing the resolution strategies for Islamic DTMs, PIDM shall take into consideration Shariah requirements.

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to have continued access to financial services, and the responsibility for continuing the business remains in the private sector;

(ii) **Transfer assets and liabilities to a bridge institution:** When there is no viable private sector solution at the point of resolution, bridge institution may be implemented as a stabilisation tool. A bridge institution is a subsidiary of PIDM set up to assume all or part of the business of a failing DTM, to ensure continuity of critical banking functions and services with the aim of effecting an onward sale to a private sector purchaser at a later time; and

(iii) **Transfer to an asset management company:** PIDM may transfer distressed or non-performing assets of the DTM to an asset management company ("AMC"). The AMC is a special purpose vehicle set up to acquire the DTM's distressed assets and could either be a subsidiary of PIDM or a private sector entity. The aim is to allow for these assets to be carved out and managed separately, thereby enabling the DTM to carry on its remaining businesses more efficiently. The AMC manages these assets with a view to maximise the value through an eventual sale or orderly wind-down.

(b) **Restructuring:** PIDM may restructure the balance sheet, businesses and/or operations of the DTM in order to address the causes of its failure and ensure that the DTM's business, operational or financial viability can be restored or revived to continue as a going-concern post restructuring.

1.4 Under the **gone-concern approach**, the primary aim is to ensure a prompt and orderly dissolution of the DTM and protection of insured deposits. This will be achieved via:

(a) **Winding-up of the DTM:** PIDM may wind-up and liquidate a failing DTM where the insured deposits will be promptly reimbursed by PIDM. The failing DTM's business and assets will then be liquidated by the liquidator. Proceeds from the disposal of assets are then paid to the DTM's creditors in accordance with their hierarchy of claims in liquidation.

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APPENDIX 2: APPROACH TO RESOLUTION PLANNING

GUIDING PRINCIPLES TO RESOLUTION PLANNING

- 2.1 PIDM is guided by the following principles in its design and implementation of resolution planning:
- (a) **Minimising duplication:** As a starting point of the RSP process, PIDM shall leverage on the DTM's recovery plan, specifically the strategic analysis section, to develop the PRS(s) for the DTM. This approach minimises unnecessary duplication and reduces the reporting burden on the DTM;
 - (b) **Proportionality principle:** PIDM will take into consideration the specificities of each DTM (e.g. business profiles, size and complexities) when applying its resolution planning requirements such that the requirements are tailored and targeted to each DTM. PIDM will tailor the level of details and extent of information required as well as the measures to address impediments to resolution to commensurate with the DTM's specific requirements, including consideration of its size and complexity; and
 - (c) **Consultative approach:** Given that each DTM possesses in-depth knowledge and understanding of its own businesses and operations, it is imperative for PIDM to work closely with the DTM in the development of the resolution plan. PIDM expects to engage the DTM by way of regular discussions or dialogues in workshops, checkpoint meetings or other forms of engagements throughout the resolution planning process.

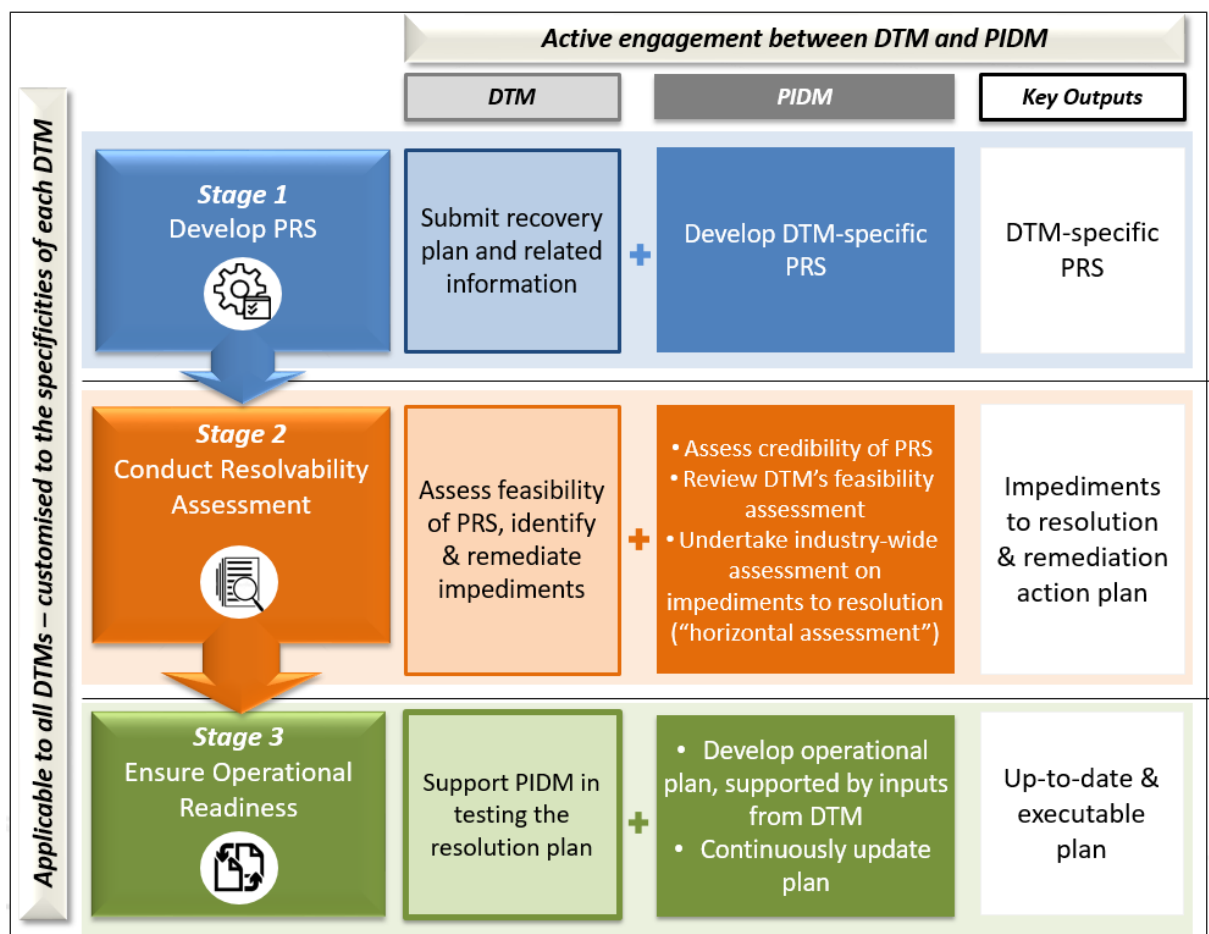
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RESOLUTION PLANNING PROCESS

- 2.2 PIDM's resolution planning process is designed to be implemented in three (3) stages as depicted in the diagram below.

SCHEMATIC VIEW OF PIDM'S RESOLUTION PLANNING PROCESS



Note: PRS stands for preferred resolution strategy

Stage 1: Develop Preferred Resolution Strategy ("PRS")

- 2.3 PIDM will leverage on information obtained from the DTM's recovery plan to develop the PRS specific to the DTM. In the event there are information gaps in the DTM's recovery plan that may be required to support the development of the PRS, PIDM may seek clarification from the DTM.¹¹

¹¹ PIDM may coordinate with BNM in obtaining clarification or additional information relating to the recovery plan to minimise reporting burden.

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- 2.4 The failure and closure of a DTM may cause disruptions to the DTM's customers, financial counterparties and/or the broader financial markets and systems. In order to minimise such disruptions, PIDM's preference is for all non-viable DTMs to be resolved through a transfer strategy (i.e. transfer of shares, businesses and/or portfolio of assets and liabilities to either a private sector purchaser or a bridge institution). A transfer strategy ensures the continuity of functions and facilitates better preservation of the franchise value of the DTM. In this respect, as part of resolution planning, the primary PRS for all DTMs will be the transfer strategy and PIDM expects all DTMs to be "transfer-ready". To be considered as transfer-ready, a DTM should possess the capabilities to support PIDM in executing a prompt and effective transfer in the event of resolution. For example:
- (a) the capability to generate sufficient and accurate information in a timely manner for purposes of valuation (e.g. assets, liabilities, terms of separation and collateral information); and
 - (b) the availability of robust contractual arrangements to support a transfer in resolution to ensure operational continuity and to minimise the impact of separation both operationally and financially.
- 2.5 The feasibility of any PRS could be impacted by other factors beyond PIDM's control. Hence, PIDM may require a DTM to be prepared for an alternative PRS.
- 2.6 The identification of an alternative PRS by PIDM will take into account the specificities of each DTM such as the scale and complexity of the DTM's business. For example, for smaller DTMs with simpler and less complex structure, the alternative PRS may involve a prompt and orderly winding up of the DTM.
- 2.7 PIDM shall communicate the outcome of Stage 1 of the resolution planning process, including the PRS(s), to the DTM. As part of the consultative approach, the DTM may provide further input to the PRS and/or express its views, to be supported by rationale and justifications, for PIDM's consideration. This will not, however, be binding on PIDM. PIDM will ultimately determine the PRS(s) for the DTM.

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Stage 2: Conduct Resolvability Assessment

- 2.8 Once the PRS(s) has been determined, PIDM will work together with the DTM to assess the feasibility and credibility of its PRS(s) through a process called resolvability assessment. To be considered resolvable, broadly the DTM should be organised and operate in a way without any issues that may materially impede the execution of its PRS(s) (referred to as “impediments to resolution”).
- 2.9 Resolvability assessment comprises two (2) components:
- (a) Feasibility assessment (to be undertaken by the DTM) – to assess whether the PRS(s) can be executed effectively within an appropriate timeframe with no major impediments. Further details on feasibility assessment are described in paragraphs 2.12 – 2.15 below; and
 - (b) Credibility assessment (to be undertaken by PIDM) – to assess and ensure that the execution of the PRS(s) does not give rise to significant adverse consequences to the financial system. As part of this assessment, PIDM may conduct a horizontal assessment of industry-wide impediments, in consultation with BNM.
- 2.10 Resolvability assessment is expected to be undertaken in phases over several years, depending on the extent of the impediments identified and the speed in which a DTM addresses the related impediments, including developing the related capabilities to support the implementation of the PRS(s).
- 2.11 Resolvability is best understood as a spectrum, not a binary judgement. PIDM is working towards developing an assessment framework on resolvability which PIDM intends to incorporate into its Differential Premium Systems Framework (“DPS Framework”) as part of PIDM’s strategic objective to provide incentives to DTMs to become more resolvable.

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Feasibility assessment

2.12 Feasibility assessment involves, amongst others, the following:

- (a) Setting out the implementation steps and requirements of the PRS(s) along with the estimated implementation timelines and evaluating their feasibility;
- (b) Identifying any potential impediments to resolution that may hinder the effective implementation of the PRS(s) (e.g. legal, structural, operational or regulatory barriers);
- (c) Proposing, developing and implementing remediation action plans to address any impediments to resolution; and
- (d) Building the related resolution capabilities and demonstrating to PIDM that the DTM meets PIDM's expectations in relation to the resolution capabilities.

2.13 The extent of feasibility assessment is not standardised across all DTMs, but intended to be proportionate to the size and complexity of the DTM and tailored to its PRS(s). Hence, for smaller and less complex DTMs, their feasibility assessment is expected to be less extensive.

2.14 PIDM will guide DTMs in the feasibility assessment by setting out the related resolvability expectations¹² under various feasibility drivers for purpose of building resolution capabilities. These drivers may include, but are not limited to, the following:

- (a) Operational continuity in resolution;
- (b) Data, management information system ("MIS") and valuation;
- (c) Access to financial market infrastructures in resolution;
- (d) Liquidity and funding in resolution;
- (e) Communication in resolution;
- (f) Legal structure; and
- (g) Governance in resolution.

¹² Resolvability expectations refer to the actions that DTMs are expected to undertake to ensure that an appropriate level of resolvability is achieved.

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The priority and focus of the feasibility assessment will be on the primary PRS, followed by the alternative PRS, as appropriate. Further details on feasibility assessment and resolvability expectations will be issued by PIDM for consultation in due course.

- 2.15 The feasibility assessment under RSP is intended as a follow through and to complement the feasibility assessment on recovery options.¹³ For example, the feasibility assessment on transferability under RSP is an extension of the feasibility assessment of recovery options involving a sale or transfer. The assessment under RSP as guided by our resolvability expectations, may cover more extensive areas such as MIS capabilities in generating timely and accurate information as well as the robustness of the DTM's contractual arrangements to support a prompt transfer in resolution.
- 2.16 The DTM is expected to submit information in the manner and within the timeframe as communicated by PIDM,¹⁴ and to demonstrate its capabilities in meeting the resolvability expectations.
- 2.17 In addition, PIDM may also leverage on the DTM's existing submissions, for example, information as required under PIDM's Guidelines on Deposit Information Systems and Submission, for the development of the resolution plan, where applicable.

Identify impediments and propose remediation action plans

- 2.18 Based on the impediments identified during the feasibility assessment process, the DTM (in consultation with PIDM) is then required to develop remediation action plan(s) which sets out the measures to remediate these impediments and the expected timelines. PIDM will review the DTM's impediments and remediation action plan(s) and where required, the DTM must provide additional information or assessment to facilitate the review.
- 2.19 As for the impediments identified under the credibility assessment process, PIDM shall work with BNM and any other relevant authorities to address the impediments, which may involve policy, structural or industry-wide impediments.

¹³ Feasibility assessment on recovery options refers to the requirements under BNM's Policy Document.

¹⁴ For efficiency and efficacy, communications between PIDM and DTMs may be in verbal form during meetings, workshops or conference calls, or in written form such as by emails or letters.

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Resolution Readiness Letter

- 2.20 In addition to the regular discussions and communication at the working levels, PIDM intends to communicate formally with the Board of the DTM on the progress and issues (if any) related to the resolution planning process on an annual basis or as and when required (referred to as the “Resolution Readiness Letter”). Matters highlighted in the Resolution Readiness Letter should be tabled at the DTM’s next Board of Director’s meeting. The Board of the DTM is required to ensure that the DTM reviews, considers and responds to PIDM’s Resolution Readiness Letter within three (3) months from date of letter or any other timeline as may be stated in the aforementioned letter, providing amongst others, the details of the measures and actions taken or planned to be taken, including the related timelines. Where applicable, a detailed work programme by the DTM to address the related impediments to resolution may form part of the DTM’s response.

Stage 3: Ensure Operational Readiness

- 2.21 Based on the outcome of resolvability assessment, PIDM will develop an operational plan for each DTM. The operational plan, which forms part of the resolution plan, would set out, at minimum, the arrangements that a DTM must take to execute its PRS(s), including steps to remediate any impediments to ensure an orderly resolution. The DTM may be required to provide information to support PIDM in the development of the operational plan.
- 2.22 Testing is an integral part of ensuring that the resolution plan is current and relevant, and can be executed effectively. In this regard, testing may be designed and performed in parts or in phases, covering amongst others, key areas of the resolution plan. Key objectives of the testing include the following:
- (a) validate capabilities and the level of readiness to implement the resolution plan and identify areas requiring further enhancement for continuous improvement; and
 - (b) confirm the roles and responsibilities as well as the coordination arrangements between key stakeholders, including PIDM, during resolution and in times of crisis.

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- 2.23 PIDM will work with the DTM to design and conduct testing exercises (which may be in the form of simulations, dry-runs and/or fire drills) covering key legal, operational, financial and governance¹⁵ aspects of its resolution plan. Where appropriate, a DTM may integrate these simulation programmes into its business-as-usual enterprise risk management framework, policies and procedures to enhance risk management and operational efficiency.
- 2.24 PIDM will share key elements of the resolution plan with the DTM. The resolution plan is a living-document to be updated and enhanced over time to reflect the evolvement of the DTM's business and operations. Generally, a resolution plan consists of the following key components:
- (a) an overview of a DTM's legal, operational, business and financial structures and material dependencies;
 - (b) a description of the preferred resolution strategy that is customised to the DTM;
 - (c) findings from the resolvability assessment process, including potential impediments to resolution specific to the DTM and remediation measures or action plans to address the identified impediments to resolution; and
 - (d) an operational plan that articulates and supports the implementation of the preferred resolution strategy.
- 2.25 The resolution plan will be developed on a DTM legal entity basis. For avoidance of doubt, for a DTM with more complex group structure and which is more integrated operationally and financially, resolution planning and development of the resolution plan will take into consideration the DTM's parent company, significant subsidiaries and sister companies (both local and overseas) as well as any material intragroup dependencies.
- 2.26 After a DTM has substantially addressed the key impediments to resolution and met the resolvability expectations to the level satisfactory to PIDM, resolution planning work is expected to be reduced in terms of intensity and frequency. The resolution plan will be continuously reviewed and refined to ensure that the plan is kept up-to-date and relevant.

¹⁵ For avoidance of doubt, selective testings, simulations or fire drills can still be planned and conducted during Stage 2 on certain key operational areas or functions (as appropriate) once it is assessed that the key impediments to resolution have been substantially addressed and the resolvability expectations are met to the level satisfactory to PIDM.

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APPENDIX 3: GOVERNANCE EXPECTATIONS

- 3.1 This section sets out the governance related expectations on the DTM throughout the resolution planning stages reflected in this ED.
- 3.2 A DTM is required to put in place robust governance framework and arrangements to support resolution planning which, at a minimum, should include:
- (a) well-defined roles, responsibilities and accountability of the Board, senior management, business units and control functions; and
 - (b) robust internal policies, procedures and management information systems to support the required submission of information, identification of impediments to resolution, and development of remediation action plan(s) to address impediments. These documents are required to be reviewed regularly by the DTMs to ensure that they remain current, effective and relevant.
- 3.3 The Board of a DTM shall, at a minimum:
- (a) provide effective oversight on all aspects of resolution planning requirements involving the DTM;
 - (b) designate a senior officer or an internal governing body (comprising personnel with the necessary competencies and authority) to be responsible for resolution planning submissions and requirements. The Board may leverage on the existing management or Board committees or establish dedicated resources to perform the role¹⁶;
 - (c) provide constructive challenge to the conclusion, reasoning, and analysis throughout the resolution planning process (e.g. the identified impediments to resolution and the appropriateness of the measures to be taken to address the impediments);

¹⁶ Where the financial group comprises more than one (1) DTM, the financial group may have established existing governance structure for purpose of recovery planning or other risk management planning that is centralised at the group level. In this regard, the Board of a DTM may leverage on the existing arrangements, including resources, for purpose of resolution planning. Nevertheless, the Board of a DTM is still ultimately responsible for the resolution planning of its DTM.

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- (d) oversee and approve the feasibility assessment and remediation action plan(s), where applicable;
 - (e) ensure that the appropriate remediation action plan(s) are implemented in a timely and effective manner to address the identified impediments to resolution, including building and maintaining the necessary capabilities to ensure the DTM can be resolved in an orderly manner;
 - (f) ensure that the matters highlighted in the Resolution Readiness Letter are appropriately addressed in the corresponding response to PIDM;
 - (g) ensure that sufficient resources and appropriate representations across core organisational functions are allocated to support the resolution planning process, including the iterative process of planning and consultation with PIDM;
 - (h) ensure that robust arrangements are in place to ensure the information submitted to PIDM is timely and accurate;
 - (i) ensure that resolution planning forms an integral part of the DTM's existing overall risk management framework and governance arrangements; and
 - (j) promote understanding of, and involvement in, the resolution planning process, at all relevant levels across the organisation.
- 3.4 The senior officer(s) or internal governing body of a DTM designated to be responsible for resolution planning shall, at a minimum:
- (a) be responsible for ensuring the accuracy and integrity of the resolution planning related information submitted to PIDM in any form as may be required;
 - (b) be responsible to undertake feasibility assessment based on the DTM's PRS, as well as identify and propose measures to address impediments to resolution arising from the feasibility assessment;
 - (c) implement the measures identified to address impediments according to the timeline agreed with PIDM, including building and maintaining the necessary capabilities to ensure the DTM can be resolved in an orderly manner;

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- (d) inform PIDM in a timely manner in the event any circumstances arise that may materially affect the DTM's resolution plan, for example in the event of any significant changes to the business, structure or operations of the DTM;
 - (e) provide necessary support to the Board of the DTM throughout resolution planning including providing regular updates to the Board of the DTM on the issues, progress and material developments relating to resolution planning (including the matters highlighted in the Resolution Readiness Letter and the corresponding response to PIDM);
 - (f) coordinate the resolution planning process to ensure that sufficient and relevant resources across core organisational functions are involved throughout the process, including the iterative process with PIDM;
 - (g) ensure that well-defined processes and robust management information systems are in place to provide timely and accurate information for resolution planning on an ongoing basis and as and when required by PIDM; and
 - (h) integrate resolution planning as part of the DTM's existing risk management framework and overall governance processes.
- 3.5 For resolution planning process involving a DTM carrying on Islamic banking business, the DTM's Shariah Committee shall, where relevant:
- (a) advise on the application of Shariah requirements throughout the different stages of resolution planning process, including during the identification of impediments to resolution and the development of remediation action plan(s) to remediate impediments to resolution;
 - (b) advise and provide clarifications on Shariah matters issued by Bank Negara Malaysia, and if relevant, any other authorities, which may impact the development and implementation of the DTM's resolution plan; and
 - (c) provide opinions on any other Shariah matters in general, where necessary.
- 3.6 As and when required, PIDM may request a DTM to submit its governance structure for resolution planning processes, including details of the requirements provided under paragraphs 3.2 to 3.5 herein.