This exposure draft (ED) presented by Labuan FSA sets out the proposed risk-based capital requirements for the Labuan (re)takaful operators and Islamic windows of Labuan (re)insurers.

Following the implementation of *the Guidelines on Insurance Capital Adequacy Framework* in 2024 for the insurance industry, this ED seeks to replace the margin of solvency requirements for the takaful industry. The proposed framework is intended to enhance the risk sensitivity of the capital adequacy requirements for the takaful industry while ensuring greater comparability in the measurement of capital adequacy across the insurance and takaful industries.

Labuan FSA welcomes and values feedback on the requirements of the ED. The comments or inputs may encompass suggestions, recommendations and alternatives, which should be supported with clear rationale, practicality and relevance for Labuan FSA's consideration.

In addition to soliciting feedback on the ED, Labuan FSA is concurrently undertaking a Quantitative Impact Study (QIS) to evaluate the potential impact of the proposed requirements. A separate guidance note has been issued setting out the scoping and submission procedures for the QIS.

Feedback and completed QIS templates shall be submitted electronically to Labuan FSA using the response templates by **Friday, 12 June 2026** to the following email address. Should you require any clarification on the ED or the QIS, please contact the following officers:

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Guidelines on
Takaful Capital Adequacy Framework

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PART A OVERVIEW

1.0 Objectives

1.1 The requirements detailed in the *Guidelines on Takaful Capital Adequacy Framework* (the Guidelines) aim to ensure that each Labuan takaful operator maintains a capital adequacy level that is commensurate with the risk profile of the takaful operations and acts as financial buffer for the takaful exposure. The Guidelines aim to achieve the following objectives:

(i) enable all obligations under a takaful contract to be met; and

(ii) ensure the development of strong takaful industry in Labuan International Business and Financial Centre.

1.2 The Guidelines have been developed based on the following principles:

(i) ensuring compliance with Shariah;

(ii) allowing greater flexibility for a Labuan takaful operator to operate at different risk levels in line with its business strategies, so long as it holds commensurate capital and observes the prudential safeguards set by Labuan Financial Services Authority (Labuan FSA);

(iii) promoting transparency as a means to protect the interests of participants;

(iv) providing better alignment of risk and reward objectives of a Labuan takaful operator consistent with its fiduciary duty to manage the takaful business in a sound manner;

(v) providing incentives for Labuan takaful operators to manage business in a risk-focused manner and adopt prudent practices;

(vi) promoting convergence with international practices so as to enhance comparability across jurisdictions and reduce opportunities for regulatory arbitrage within the financial sector; and

(vii) providing an early warning signal on the deterioration in the capital adequacy level of a Labuan takaful operator, hence allowing prompt and

pre-emptive supervisory actions to be taken.

1.3 A primary consideration in the Guidelines' development is the fiduciary duties of the Labuan takaful operator towards the participants to ensure appropriate management of the takaful funds and the overall takaful business operations, in line with the objective of Shariah. In particular, the Guidelines are designed to ensure that a Labuan takaful operator has an appropriate amount of capital to meet the responsibility to provide for the costs of running the takaful operations as well as the potential interest-free loan (qard) in the unlikely event of deficit in the takaful funds.

Question 1

What is the takaful operating model currently adopted by your company?

- Mudarabah (profit-sharing model)
- Wakalah (agency-based model)
- Hybrid model (please specify) e.g. Wakalah + Mudarabah, Wakalah + Ju'alah, etc.
- Others (please specify)

1.4 The Guidelines also recognise the ownership and obligations of the various funds in the takaful operations, as well as the extent to which the funds are impacted by the different risks involved in the takaful operations. The Guidelines are designed with the following considerations in determining the capital adequacy position for a Labuan takaful operator:

(i) the capital required for shareholders' fund (or, in the case of a Labuan takaful operator branch, its working fund) is reflective of the risks directly borne by the Labuan takaful operator, whilst the capital required for individual takaful fund is reflective of the risks borne by those takaful funds. For a takaful fund, where the capital required is not adequately covered by capital available within that takaful fund, the excess capital required is a proxy for the potential qard that may need to be extended by the Lauan takaful operator in the future; and

(ii) the capital available in the shareholders' fund is fully available to support risks borne by the Labuan takaful operator as well as the potential qard to

the takaful funds as proxy by the excess capital required for the takaful funds. The capital available in a takaful fund is available only to meet the risks of the takaful fund itself and acts to reduce the potential qard that may need to be extended by the Labuan takaful operator in the future.

To this effect, the Guidelines recognise that a lower amount of capital available needs to be held by shareholders to support potential qard obligations where takaful funds are stronger and have its own resources.

Question 2

Under what circumstances does your company provide qard (interest-free loan) to the takaful funds, for example to address (i) liquidity needs, (ii) solvency requirements or (iii) both?

1.5 The Guidelines set out:

(i) the requirements applicable to each Labuan takaful operator to determine the adequacy of the capital available in its takaful and shareholders' funds to support the 'Total Capital Required' (TCR). This serves as a key indicator of Labuan takaful operator's financial resilience and its ability to support the takaful business. It will be used as input to determine supervisory interventions by Labuan FSA; and

(ii) the valuation bases for assets and liabilities and Labuan FSA's expectations on Labuan takaful operators' investment and risk management policies.

2.0 Applicability

2.1 The Guidelines are applicable to all Labuan takaful licensees under the following categories, excluding Labuan captive takaful business:

(i) Labuan (re)takaful operators licensed under Part VII of the Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA); and

(ii) Labuan (re)insurers carrying on Labuan (re)takaful business approved under Part VII of the LIFSSA.

2.2 Unless otherwise stated, the term "Labuan takaful operator" in the Guidelines refers collectively to all Labuan takaful licensees as specified under paragraph 2.1.

2.3 Non-Malaysian takaful business generated by a Labuan branch may be exempted from the Guidelines, subject to Labuan FSA's prior approval if:

(i) there is an explicit undertaking from the branch's head office to satisfy the liabilities arising from non-Malaysian takaful business in the event that the branch is unable to fulfil its obligations;

(ii) the financial position of the Labuan takaful operator's group is strong;

(iii) the branch is subjected to consolidated supervision by a recognised and competent home supervisory authority; and

(iv) the Labuan takaful operator's home supervisory authority is willing to cooperate with Labuan FSA in the supervision of the Labuan takaful operator.

3.0 Legal Provisions

3.1 The Guidelines are issued pursuant to section 4A of the Labuan Financial Services Authority Act 1996 (LFSAA) for the purpose of clarifying the requirements on margin of solvency for Labuan takaful operators under section 84 of the LIFSSA.

3.2 Any person who fails to comply with the Guidelines may be subject to enforcement actions which include an administrative penalty under section 36B and section 36G of the LFSAA and/or other enforcement action provided under the LFSAA, or other applicable laws governed by Labuan FSA.

4.0 Effective Date

4.1 The Guidelines shall come into effect on **1 January 2028** and would remain effective as well as applicable unless amended or revoked. Labuan takaful operators may adopt the requirements set out in these Guidelines prior to their effective date.

4.2 The Guidelines' requirements will supersede and replace any reference to the margin of solvency for Labuan takaful operators under the following policy documents:

No.	Policy Document	Areas Superseded
1.	Application for Licence - Labuan Insurance and Insurance-Related Activities dated 30 August 2001 (Amended)	Minimum solvency margin for general, life, composite and reinsurance specified under paragraph 3 (page 2)
2.	Clarification Note for Directive on Minimum Capital Requirement by Labuan Licensed Entities dated 13 October 2015	Capital adequacy/solvency requirements specified under paragraph 4.1 (B)(i)(b), (ii)(b) and (iii)(b) (pages 1 and 2)

Question 3

Do you foresee any implementation challenges if the proposed requirements come into effect on 1 January 2028, with a one-year parallel run in 2027? If yes, please provide alternative implementation timeline and the rationale for such proposal.

PART B CAPITAL ADEQUACY

5.0 Capital Adequacy Ratio – the Formula

5.1 The Capital Adequacy Ratio (CAR) measures the adequacy of capital available in the takaful and shareholders' funds of a Labuan takaful operator to support the TCR. A Labuan takaful operator shall compute the CAR as follows:

$$CAR = \frac{\textbf{Total Capital Available}}{\textbf{Total Capital Required}} \times 100\%$$

5.2 A Labuan takaful operator shall compute and report its CAR at a more granular level, where required by Labuan FSA.

~~5.3 For a Labuan insurer carrying on participating life business, the CAR shall be computed as follows:~~

$$\sout{CAR_{Life} = \min\left(CAR_{all\_funds}, CAR_{all\_funds\_excl.\ par}\right)}$$

~~where,~~

~~- CAR_{all_funds} is the CAR taking into account all the insurance and shareholders' funds; and~~

~~- $CAR_{all\_funds\_excl.\ par}$ is the CAR taking into account all the insurance and shareholders' funds, excluding the participating life insurance fund.~~

~~The modified computation method reflects the ability of Labuan insurers, subject to meeting policyholders' reasonable expectations, to adjust the level of non-guaranteed benefits to take into account the emerging experience of the participating life insurance fund. It also preserves the fundamental principle that the valuation surplus of the participating life insurance fund shall not be used to support the capital requirement of other insurance or shareholders' funds.~~

6.0 Total Capital Available

6.1 A Labuan takaful operator shall determine the 'Total Capital Available' (TCA) as follows:

$$TCA = Capital\ Available_{\ Shareholders'\ Fund} + \sum_{all\ i} Min\ [Capital\ Available_{Takaful\ Fund\ i}, 120\%\ of\ TCR_{Takaful\ Fund\ i}]$$

where 'i' refers to each takaful fund established by a Labuan takaful operator, as per the fund segregation requirements stipulated in the *Guidelines on Valuation Basis for Liabilities of Labuan General Takaful Business* and the *Guidelines on Valuation Basis for Liabilities of Labuan Family Takaful Business*, unless specified otherwise by Labuan FSA as part of supervisory assessment.

Question 4

Do you consider the proposed formula and parameters for calculating the total capital available to be appropriate given the possibility of various takaful models applied in different markets? If not, please provide alternative methodology and the supporting justification.

6.2 The TCA considers in totality the capital available in the shareholders' fund as they are fully available to support the risks of the business or to give a qard to the PRFs when needed. Where takaful funds have their own capital, the support needed from the shareholders' fund or the potential for the shareholders' fund to give a qard is reduced. As such, the TCA allows the capital available in the takaful funds to also be recognised to reflect the reduced burden on the shareholders' fund. However, the recognition is limited to meeting the individual fund's own capital required with an additional 20% buffer to meet the Supervisory Target Capital Level requirement (see paragraph 22.0 on Supervisory Target Capital Level). The limitation in the recognition is set to reflect the inability for a Labuan takaful operator to use the capital available of the takaful fund to meet the risks of other than that of the takaful fund itself.

6.3 The TCA of a Labuan takaful operator shall be the aggregate of Tier 1 and Tier 2 capital of the Labuan takaful operator less deductions in paragraph 7.1. The main criteria used in the classification of a capital element into either Tier 1 or Tier 2 shall be the degree of its permanence and whether it is free and clear of any encumbrances.

6.4 The total amount of Tier 2 capital of a Labuan takaful operator shall not exceed the amount of Tier 1 capital at all times.

6.5 Tier 1 capital of a Labuan takaful operator shall include the aggregate of any of the following:

(i) issued and fully paid-up ordinary shares (or working fund[1], in the case of a Labuan takaful operator branch);

(ii) share premiums;

(iii) paid-up non-cumulative irredeemable preference shares;

(iv) capital reserves;

(v) retained profits[2]; and

(vi) the valuation surplus[3] maintained in the takaful funds.

~~(vii) 50% of future bonuses[4].~~

6.6 Capital instruments which qualify as Tier 2 capital shall include any of the following:

(i) cumulative irredeemable preference shares;

(ii) mandatory[5] capital loan stocks and other similar capital instruments;

(iii) irredeemable subordinated debts;

(iv) available-for-sale reserves[6];

(v) revaluation reserves for self-occupied properties and other assets;

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[1] This item shall include the additional working funds injected by head office of the Labuan takaful operator.
[2] In the event that a Labuan takaful operator has accumulated losses, the losses shall be deducted from capital.
[3] Gross of deferred tax, if any. Negative liabilities shall be recognised in full.
[4] ~~Future bonuses are defined as max [0, (Par reserves on total benefits – Par reserves on guaranteed benefits only calculated on the bases described in Paragraph 10.2 of the **Guidelines on Valuation Basis for Liabilities of Labuan Life Insurance Business**)]. For the purpose of determining future bonuses, the value of 'Par reserves on guaranteed benefits only' should be zerorised if it is negative.~~
[5] Refers to irredeemable loans stocks or capital instruments which are mandatorily convertible to equity.
[6] In the event that a Labuan takaful operator has fair value losses for available-for-sale instruments, the losses should be deducted from capital.

(vi) general reserves;

(vii) subordinated term debts; and

(viii) qard from shareholders' fund[7].

6.7 Subordinated term debts may include term debt and limited life redeemable preference shares which satisfy the following conditions:

(i) unsecured, subordinated and fully paid-up;

(ii) have a minimum original term to maturity of five years;

(iii) early repayment or redemption shall not be made without prior written approval of Labuan FSA;

(iv) the instruments should be subjected to straight line amortisation over the last five years of their life[8];

(v) no restrictive covenants; and

(vi) the amount eligible for inclusion shall not exceed 50% of Tier 1 capital. In exceptional cases, this limit may be exceeded with the prior written consent of Labuan FSA.

6.8 A Labuan takaful operator that plans to issue any new capital instruments is required to seek Labuan FSA's prior written approval on the classification of the instruments under the Guidelines.

7.0 Deductions from Capital

7.1 For the purpose of calculating CAR, the following deductions shall be made by a Labuan takaful operator from the aggregate of Tier 1 and Tier 2 capital to arrive at the TCA:

(i) goodwill and other intangible assets (e.g. capitalised expenditure) of the

[7] To be considered as capital of the relevant takaful fund that received the qard.
[8] E.g. a subordinated term debt with original term to maturity of 7 years and remaining term of 2 years, will be recognised as Tier 2 capital only up to 40% (since only 2 out of 5 years remaining) of the issued amount.

Labuan takaful operator;

(ii) deferred tax income or deferred tax expenses and deferred tax assets of the Labuan takaful operator;

(iii) assets pledged to support credit facilities obtained by the Labuan takaful operator or other specific purposes[9];

(iv) investment in the Labuan takaful operator's subsidiaries;

(v) all credit facilities granted by the Labuan takaful operator and secured by its own shares; and

(vi) qard to takaful fund (in respect of shareholders' fund).

7.2 Assets pledged for a Shariah-compliant repurchase agreement (Shariah-compliant repo) entered into by a Labuan takaful operator which do not exceed 5% of the TCA are excluded from paragraph 7.1(iii). However, the Labuan takaful operator must apply the relevant capital charges under Part H of the Guidelines to such assets falling within the 5% limit. Any assets pledged for the Shariah-compliant repo which exceed the 5% limit must be deducted by the Labuan takaful operator from the computation of TCA as required under paragraph 7.1.

8.0 Total Capital Required

8.1 The TCR of a Labuan takaful operator shall be the aggregate of its TCR for each takaful fund and, the TCR for shareholders' fund. There is an explicit allowance for diversification between asset and takaful liabilities risks. Further details applicable to the TCR are set out in Part C of the Guidelines.

8.2 The target criteria for calibration of capital charges correspond broadly to Value at Risk at 99.5% confidence level over a one-year time horizon.

[9] A Labuan takaful operator is allowed to pledge its assets as security or collateral to:
(i) obtain utilities such as electricity, water, telephone, petrol supply and medical facilities;
(ii) secure a mortgage loan where the property is assigned to a financial institution for the purpose of that property; and
(iii) obtain overdraft facilities to meet temporary shortfall in current accounts.
The assets pledged for purpose (ii) above shall be sourced from the shareholders' fund. Pledging of assets for purposes other than those mentioned above requires prior written approval of Labuan FSA.

PART C CAPITAL REQUIRED TO MITIGATE MAJOR RISKS

9.0 Total Capital Required

9.1 ~~The TCR for each fund is the higher of (A) the aggregate of (i) the square root of the sum of (a) the squares of the aggregate of capital charges for credit and market risks, and (b) the squares of the capital charges for takaful risks, and (ii) the capital charges for operational risks, or (B) the surrender value capital charges, where applicable.~~

A Labuan takaful operator shall compute the TCR as follows:

$$TCR_{Company} = \sum_{all\ i} TCR_{Takaful\ Fund\ i} + TCR_{Shareholders'Fund}$$

$$= \sum_{all\ i} max\left\{\left[\sqrt{(Credit\ Risk\ Capital\ Charges_t + Market\ Risk\ Capital\ Charges_t)^2 + Insurance\ Liability\ Capital\ Charges_t^2}\right] + Operational\ Risk\ Capital\ Charges_t, Surrender\ Value\ Capital\ Charges_t\right\}$$

where

- 'i' refers to each takaful fund established by a Labuan takaful operator, as per the fund segregation requirements stipulated in the *Guidelines on Valuation Basis for Liabilities of Labuan General Takaful Business* and the *Guidelines on Valuation Basis for Liabilities of Labuan Family Takaful Business*, unless specified otherwise by Labuan FSA as part of supervisory assessment; ~~These fund types shall include the shareholders' fund/ working fund and the sub-funds from the insurance fund. For general insurance, there is only one general fund while for life insurance, the sub-funds are divided into participating ordinary life fund, non-participating ordinary life fund, participating annuity fund, non-participating annuity fund, investment linked operating/non-unit fund and investment linked unit funds.~~

- 'Capital Required$_{\text{Takaful Fund i}}$' refers to

$$\sum\left(\sqrt{\begin{matrix}(Credit\ Risk\ Capital\ Charges + Market\ Risk\ Capital\ Charges)^2 \\ + Takaful\ Liabilities\ Risk\ Capital\ Charges^2\end{matrix}}\right)$$

for takaful fund i; and

- 'Capital Required$_{\text{Shareholders' Fund}}$' refers to:

$$\sum\left(\sqrt{\begin{matrix}(Credit\ Risk\ Capital\ Charges + Market\ Risk\ Capital\ Charges)^2 \\ + Expense\ Liabilities\ Risk\ Capital\ Charges^2\end{matrix}} + Operational\ Risk\ Capital\ Charges\right)$$

for shareholders' fund.

9.2 A Labuan takaful operator shall compute the TCR for all takaful funds and the shareholders' fund. ~~In the case of an investment-linked fund, the Labuan insurer shall compute the TCR for the non-unit portion of the fund, except for operational risk capital charges, where the Labuan insurer shall compute the TCR for the entire fund~~.

9.3 For takaful funds, the credit, market and takaful liabilities risk charges are applicable to the Participants' Risk Fund (PRF) only.

10.0 Capital Charges for Credit Risk

10.1 The credit risk capital charges (CRCC) aim to mitigate a Labuan takaful operator's risks of losses resulting from asset defaults, related losses of income and the inability or unwillingness of a counterparty to fully meet its contractual financial obligations.

10.2 A Labuan takaful operator shall compute the CRCC for each fund as follows:

$$CRCC = \sum_{all\ i}[exposure\ to\ counterparty_i \times credit\ risk\ charge_i]$$

where 'i' refers to the different exposures to counterparties in the respective takaful funds and shareholders' funds.

10.3 A Labuan takaful operator shall apply the CRCC as set out in **Appendix I**.

11.0 Capital Charges for Market Risk

11.1 The market risk capital charges (MRCC) aim to mitigate a Labuan takaful operator's risk of financial losses arising from:

(i) the reduction in the market value of its assets due to exposures to equity, profit rate, property and currency risks;

(ii) non-parallel movements between the value of its liabilities and the value of its assets backing the liabilities due to profit rate movements (i.e. the profit rate mismatch risk); and

(iii) its concentration of exposures to particular counterparties or asset classes as set out in paragraph 10.1 of **Appendix II**.

11.2 A Labuan takaful operator shall compute the MRCC for each fund as follows:

$$MRCC = \sum_{all\ i} [market\ exposures_i \times market\ risk\ charge_i]$$

where 'i' refers to different asset classes in the respective takaful funds and shareholders' funds.

11.3 The MRCC for profit rate mismatch risks shall be applicable only for family takaful funds, general takaful funds with discounted liabilities and shareholders' fund of a Labuan takaful operator conducting:

(i) family takaful business only; or

(ii) general takaful business only, where the liabilities are discounted.

11.4 A Labuan takaful operator shall apply the MRCC as set out in **Appendix II**.

12.0 Capital Charges for General Takaful Liabilities

12.1 For a Labuan takaful operator carrying on general takaful business, the general takaful liabilities risk capital charges (GCC) aim to address the risk of under-estimation of its general takaful liabilities and adverse claims experience, over and above the amount of provision already provided for at the 75% level of confidence.

12.2 A Labuan takaful operator shall compute the GCC as follows:

$$GCC = \sum_{all\ i} \begin{matrix}[capital\ charge\ for\ claims\ liabilities_i] + \\ [capital\ charge\ for\ contribution\ liabilities_i]\end{matrix}$$

$$= \sum_{all\ i} \begin{matrix}[value\ of\ claims\ liabilities_i\ X\ risk\ charge_i] + \\ [value\ of\ provision\ for\ unexpired\ risk\ _i\ X\ risk\ charge_i]\end{matrix}$$

where 'i' refers to the different classes of the general takaful business.

12.3 A Labuan takaful operator shall apply the GCC as set out in **Appendix IV**.

12.4 To arrive at the GCC, a Labuan takaful operator shall apply the risk charges to its claims liabilities and provision for unexpired risk computed at the 75% level of confidence for each class of business after allowing for diversification.

12.5 A Labuan takaful operator is required to hold, among others, reserves in respect of contribution liabilities, defined as the higher of (i) provision for unexpired risk (URR); or (ii) provision for unearned contribution (UCR). Where the Labuan takaful operator holds a higher URR compared to UCR, this excess amount cannot be applied to reduce the amount of the GCC. The Labuan takaful operator shall apply the valuation basis for general takaful liabilities as set out in the *Guidelines on Valuation Basis for Liabilities of Labuan General Takaful Business*.

12.6 Where a Labuan takaful operator holds the UCR as the value of its contribution liabilities, the Labuan takaful operator shall use the following formula to recognise a lower capital charge for contribution liabilities:

$$Capital\ charge\ for\ contribution\ liabilities_i$$

$$= Max[0, (Value\ of\ unexpired\ risk\ reserves_i\ \times\ risk\ charge_i) -$$

$$(Value\ of\ contribution\ liabilities_i - Value\ of\ provision\ for\ unexpired\ risk_i)\ ]$$

where 'i' refers to the different classes of the general takaful business.

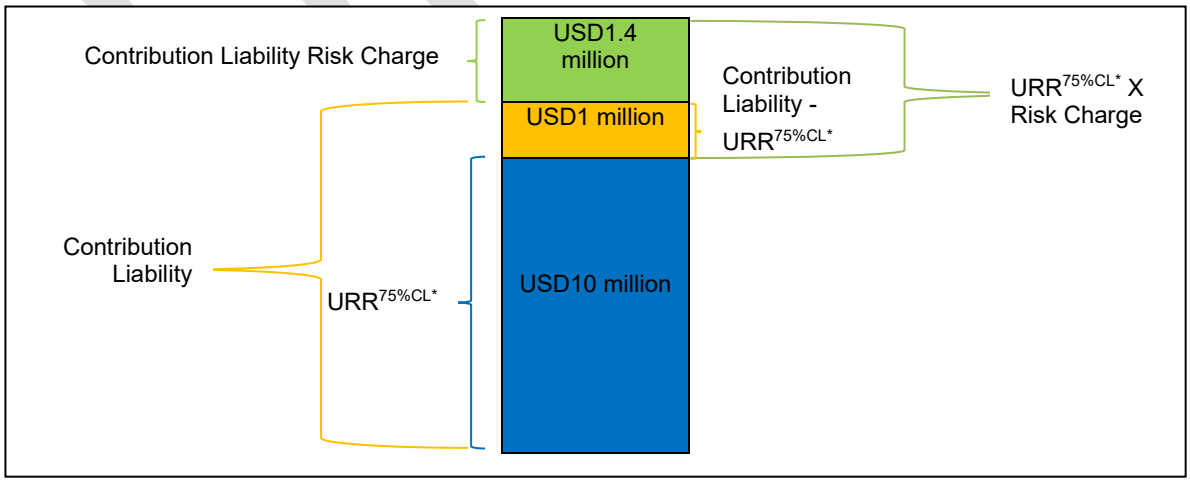
Example:

Let us assume a Labuan takaful operator writes Fire class of business with the following details.

- Contribution liability = USD11 million;
- URR$^{75\%\ Confidence\ Level}$ = USD10 million; and
- Effective risk charge = 24%

The effective risk charge is USD2.4 million being 24% of the URR$^{75\%\ Confidence\ Level}$, but if the contribution liability for the Fire business is already greater than the URR$^{75\%\ Confidence\ Level}$ by USD1 million (i.e. USD11 million – USD10 million), a Labuan takaful operator is allowed to take credit for this USD1 million excess. Essentially, the final contribution liability risk charge for the Fire class reduces from the effective risk charge of USD2.4 million to USD1.4 million (i.e. USD2.4 million – USD1 million excess). The reduction in contribution liability risk charge (at business class level) can only be applied when the UCR is higher than URR at total fund level e.g. Malaysian business fund. For illustration purposes, Diagram 1 below shows the risk charge portion in a bar chart based on this example.

Diagram 1



**Confidence Level*

13.0 Capital Charges for Family Takaful Liabilities

13.1 For a Labuan takaful operator carrying on family takaful business, the family takaful liabilities risk capital charges (FCC) aim to address the risk of under-estimation of its family takaful liabilities and adverse claims experience, over and above the amount of provision already provided for at the 75% level of confidence.

13.2 A Labuan takaful operator shall compute FCC for each fund, (except for family takaful certificates which are covered under paragraph 13.5), as follows:

$$FCC = V^* - V - PAD$$

where

- 'V*' is the adjusted value of family takaful liabilities computed using the parameters stipulated in **Appendix V**;
- 'V' is the best estimate value of family takaful liabilities; and
- 'PAD' is the Provision of Adverse Deviation as defined in the *Guidelines on Valuation Basis for Liabilities of Labuan Family Takaful Business*.

~~For participating business, V*, V and PAD shall refer to the liabilities on guaranteed benefits only, discounted at the risk-free discount rate.~~

Example:

Let us assume a Labuan takaful operator applies the stress factors as prescribed in **Appendix V** and the resulting reserves for each scenario are as per below:

- High Mortality, High Lapse – USD10 million;
- High Mortality, Low Lapse – USD13 million;
- Low Mortality, High Lapse – USD9 million;
- Low Mortality, Low Lapse – USD11 million; and

V* would be based on the scenario that results in the highest liability number which in this case is the High Mortality, Low Lapse reserve of USD13 million.

Suppose that the best estimate reserve is USD8 million and that the 75% level of

confidence reserve is USD9.5 million. The PAD is therefore USD1.5 million (i.e. USD9.5 million – USD8 million).

The resulting FCC would be = USD13 million – USD8 million - USD1.5 million = USD3.5 million.

13.3 A Labuan takaful operator shall apply the stress factors for major risks inherent in family takaful liabilities as set out in **Appendix V**. Where the valuation assumptions are not separated according to the categories as prescribed in **Appendix V**, the stress factors applied to derive V* in respect of the combined risk rates shall be the highest stress factors of the constituent risks as prescribed in the same appendix.

13.4 For products which have liabilities affected by risks other than those listed in **Appendix V** (e.g. products with investment guarantees that would have impact on the liabilities of the Labuan takaful operator in adverse market or credit risk events), the additional risks above the 75% confidence level shall be quantified and included by the Labuan takaful operator in the determination of its internal target capital level as per Part F of the Guidelines.

13.5 For a short-term medical and health takaful standalone certificate or rider, as well as short-term personal accident plan for which contributions and claims liabilities have been provided for, the applicable risk charges of the Labuan takaful operator shall correspond to that as required for general takaful liabilities in **Appendix IV**.

14.0 Capital Charges for Shareholders' Fund Expense Liabilities

14.1 The shareholders' fund expense liabilities risk capital charges (ECC) aim to address the risk of under-estimation of expense liabilities and adverse experience of the expenses of the shareholders' fund, over and above the amount of provisions already provided for at the 75% level of confidence.

14.2 A Labuan takaful operator shall compute ECC for general takaful business as follows:

$$ECC = \sum_{all\ i} Max[0, (Ve^*{}_i - Value\ of\ provision\ for\ unexpired\ expense\ risk_i)]$$

where

- 'i' refers to the different classes of general takaful business;

- 'Ve*' refers to the adjusted best estimate value of provision for unexpired expense risk (UER) computed using stress factor specified in paragraph 2 of **Appendix IV**; and

- 'UER' refers to the value determined in accordance with the *Guidelines on Valuation Basis for Liabilities of Labuan General Takaful Business* at 75% confidence level.

14.3 Where a Labuan takaful operator holds the provision for unearned wakalah fee (UWF) as its provision for expense liabilities for its general takaful business, the Labuan takaful operator may use the following formula to recognise a lower ECC:

$$ECC = \sum_{all\ i} Max[0, (Ve^*_i - Value\ of\ expense\ liabilities_i)]$$

where

- 'i' refers to the different classes of general takaful business;

- 'Ve*' refers to the adjusted best estimate value of UER computed using stress factor specified in paragraph 2 of **Appendix IV**; and

- 'Value of expense liabilities' as determined in accordance with the *Guidelines on Valuation Basis for Liabilities of Labuan General Takaful Business*.

14.4 A Labuan takaful operator shall compute ECC for family takaful business as follows:

$$ECC = \sum_{all\ i} [Ve^*_i - Value\ of\ expense\ liabilities_i]$$

where

- 'i' refers to each family takaful certificate;

- 'Ve*' refers to the adjusted best estimate value of expense liabilities computed using parameters specified in **Appendix V**; and

- 'Value of expense liabilities' as determined in accordance with the *Guidelines on Valuation Basis for Liabilities of Labuan Family Takaful Business* at 75% confidence level.

15.0 Capital Charges for Operational Risk

15.1 The operational risk capital charges (ORCC) aim to mitigate a Labuan takaful operator's risk of losses arising from inadequate or failed internal processes, people and systems, in managing the takaful operations. The ORCC also include the risk of losses arising from non-compliance to Shariah and failure by a Labuan takaful operator in executing its fiduciary duties.

15.2 A Labuan takaful operator shall compute the ORCC which are borne by the shareholders' fund as follows:

ORCC = [2.5% of GC_1 + Max (zero, 2.5% x {(GC_1 – GC_0) – 20% x GC_0})] subject to a cap of 10% of the sum of other risk charges (i.e. FCC, GCC, ECC, MRCC, CRCC) ~~of the same fund~~ after diversification benefit

where

GC_1 refers to the gross written contribution for the 12 months preceding the valuation date; and

GC_0 refers to the gross written contribution for the 12 months preceding GC_1

Question 5

Do you consider the proposed formula and parameters for calculating the operational risk charge to be appropriate and sufficient across the various takaful operating models and takaful licensees? If not, please provide alternative methodology and the supporting justification.

Question 6

In the event that suitable Shariah-compliant investment assets are limited, how does your company manage the investment of the relevant funds? Please describe the alternative investment arrangements adopted and any safeguards implemented to ensure Shariah compliance.

Example:

Let us assume a Labuan takaful operator has the following amount in the General Takaful (GT) fund.

- $GC_{1,GT}$ = USD50 million;
- $GC_{0,GT}$ = USD20 million; and
- Other risk charges$_{GT}$ = USD5 million.

ORCC = 2.5% of $GC_{1,GT}$ + Max(0, 2.5% x [($GC_{1,GT}$ - $GC_{0,GT}$) - 20% x $GC_{0,GT}$]) would give USD 1.9million (i.e. 2.5% x USD 50million *plus* 2.5% x {USD30 million – USD4 million}). This is then capped to 10% of USD5 million (i.e. USD0.5 million).

Hence, USD0.5 million is the operational risk charge for the GT fund.

~~16.0 Surrender Value Capital Charges~~

~~16.1 For a Labuan insurer carrying on life business, the surrender value capital charges (SVCC) aim to address lapse risk in excess of the levels assumed in the calculation of its reserves and risk margins.~~

~~16.2 A Labuan insurer shall compute the SVCC as the aggregate of –~~

~~*Max [zero; aggregate surrender value of the business in force in respect of policies in the insurance fund less the aggregate policy reserves of the insurance fund]*~~

~~for each of the participating and non-participating life insurance funds. In the case of investment-linked business, the SVCC shall apply if there are guaranteed surrender values that exceed the sum of the unit fund values and non-unit reserves, in aggregate, at the valuation date.~~

PART D VALUATION OF ASSETS AND LIABILITIES

17.0 Overview

17.1 A Labuan takaful operator shall value its assets and liabilities in accordance with the -

(i) applicable approved accounting standards in accordance to the *Directive on Financial Reporting Standards for Labuan Financial Institution*, as modified by Labuan FSA under the Guidelines; or

(ii) other standards specified by Labuan FSA pursuant to section 87, read together with section 92(b) of the LIFSSA.

18.0 Valuation of Assets

18.1 A Labuan takaful operator shall value its financial assets in accordance with the requirements of the *Directive on Financial Reporting Standards for Labuan Financial Institution*.

19.0 Valuation of Liabilities

(I) Financial Liabilities

19.1 A Labuan takaful operator shall value its financial liabilities in accordance with the requirements as specified in the *Directive on Financial Reporting Standards for Labuan Financial Institution*.

(II) Liabilities of Takaful Fund and Shareholders' Fund

19.2 A Labuan takaful operator shall value the family and general takaful fund liabilities as well as the expense liabilities of shareholders' fund subject to the minimum requirements specified in paragraphs 19.5 to 19.8 in the Guidelines. This is to ensure that the Labuan takaful operator provides reserves at a specified level of adequacy with explicit prudential margins.

19.3 The valuation bases for family and general takaful fund liabilities are specified in the Guidelines in accordance with the principles which include giving due regard to the fiduciary duty of the Labuan takaful operator to treat participants fairly.

19.4 For the valuation of liabilities of general/family takaful fund and expense liabilities of shareholders' fund, ~~non-participating life insurance liabilities, participating life insurance liabilities on guaranteed benefits only, and the non-unit investment-linked liabilities,~~ the prescribed valuation bases aim to secure an overall level of sufficiency of the reserves at the 75% confidence level. To secure this level of adequacy, Labuan takaful operators are required to calculate the best estimate value of their liabilities and apply PAD.

19.5 For a Labuan takaful operator carrying on general takaful business, the risks for the general takaful fund liabilities shall relate to those associated with the uncertainty of outstanding claims and unexpired risks (with respect to unearned contributions), resulting from the risks of adverse claims experience and under-estimation of contributions.

19.6 All Labuan takaful operators carrying on general takaful business shall value their contribution liabilities, claims liabilities and expense liabilities in the manner as specified in the *Guidelines on Valuation Basis for Liabilities of Labuan General Takaful Business*.

19.7 For a Labuan takaful operator carrying on family takaful business, the risks for its family takaful fund liabilities shall relate to those associated with the uncertainty in future claims contingent events, under-estimation of contributions and adverse claims contingent events.

19.8 All Labuan takaful operators carrying on family takaful business shall value their family takaful fund liabilities and expense liabilities in the manner as specified in the *Guidelines on Valuation Basis for Liabilities of Labuan Family Takaful Business*.

PART E INVESTMENT OF TAKAFUL FUNDS

20.0 Investment and Risk Management Policy

20.1 Greater investment flexibility is accorded to Labuan takaful operators under the Guidelines to allow for better management of assets appropriate with the nature and profile of the takaful fund's liabilities.

20.2 The oversight of and accountability for the investment of takaful funds rest ultimately with the Labuan takaful operator's board of directors[10]. To ensure proper investment of takaful funds, the Labuan takaful operator shall put in place an investment and risk management policy that is in line with the risk appetite set by its board of directors. The investment and risk management policy shall be approved and reviewed regularly by the board of directors and cover overall investment strategy and proper risk management systems, including monitoring and control mechanisms.

20.3 A Labuan takaful operator's policy on overall investment strategy shall cover, at least, the following elements:

(i) the investment objectives, both at company and fund-specific levels;

(ii) the risk and liability profile of the takaful fund;

(iii) the strategic asset allocation, i.e. the long-term asset mix for the main investment categories, and their respective limits;

(iv) the extent to which the holding of certain types of assets is restricted or disallowed, e.g. illiquid or highly volatile assets; and

(v) the policy on the usage of derivatives and structured products.

20.4 A Labuan takaful operator's risk management systems shall cover the risks associated with investment activities that may affect the coverage of takaful liabilities and capital positions. The main risks include market, credit and liquidity

[10] For the purpose of the Guidelines, in relation to a Labuan takaful operator of a branch status; the Board shall refer to the parent company, regional office or head office overseeing the management of the branch Labuan takaful operator.

risks.

20.5 As part of good risk management practices and to ensure proper monitoring and control of the investments, a Labuan takaful operator shall also:

(i) establish adequate internal controls to ensure that assets are managed in accordance with approved investment policies, and in compliance with legal, accounting and relevant risk management requirements. These controls shall ensure that investment procedures are documented and subject to effective oversight. There shall be in place appropriate segregation of responsibilities for measuring, monitoring, settling and controlling asset transactions, from the front office functions;

(ii) have in place rigorous audit procedures that include full coverage of the investment activities to ensure timely identification of internal control weaknesses and operating system deficiencies. If the audit is performed internally, it shall be independent of the function being reviewed;

(iii) install effective procedures for monitoring and managing the asset-liability position to ensure that the investment activities and asset positions are appropriate in relation to the liability and risk profiles;

(iv) put in place suitable plans to mitigate the effects arising from deteriorating market conditions;

(v) undertake regular stress tests for a range of market scenarios and changing investment and operating conditions in order to assess the appropriateness of asset allocation limits; and

(vi) ensure the key staff involved in investment activities have the appropriate levels of skills, experience, expertise and integrity.

20.6 A Labuan takaful operator's senior management is responsible for setting, managing and reviewing the investment policies of the Labuan takaful operator. ~~In the case of a participating life fund, the senior management shall ensure that the investment policy is consistent with the bonus and/or dividend distribution policy of the Labuan insurer.~~ The senior management is also responsible for ensuring the

proper implementation of investment policies approved by the Labuan takaful operator's board of directors, as well as timely and regular reporting to the board of directors of the Labuan takaful operator's investment activities.

20.7 Labuan FSA may impose requirements on an individual Labuan takaful operator to invest in a specified manner, or to restrict or prohibit a Labuan takaful operator from investing in certain asset classes or individual asset to safeguard takaful funds. Such requirements, restrictions or prohibitions will form part of Labuan FSA's supervisory actions as a result of its assessment of the Labuan takaful operator's risk profile and investment risk management function.

PART F INTERNAL AND SUPERVISORY TARGET CAPITAL LEVELS

21.0 Internal Capital Target

21.1 The TCR specified under the Guidelines assumes an average industry level of risk within each business activity and that risks arising from these activities are mitigated by standard risk management practices. In practice, the actual risk profile and the quality of risk management measures adopted by each Labuan takaful operator to mitigate its risk exposure may differ significantly from that assumed under the Guidelines.

21.2 Each Labuan takaful operator is therefore, expected to set an internal target capital level that better reflects its overall risk tolerance and appetite set by the board of directors, its own risk profile and the quality of its risk management practices. Labuan FSA expects the internal target to include additional capacity to absorb unexpected losses beyond those that are covered by the Guidelines. In general, the internal target capital level should be higher for Labuan takaful operators with higher risk profiles and/or weaker risk management practices. The assessment of an appropriate internal target capital level should be performed by the Labuan takaful operator by conducting appropriate stress and scenario tests.

21.3 In setting the internal target capital level, the impact of the stress tests on the takaful fund and how this affects the financial position of a Labuan takaful operator in relation to its ability to provide qard in the future shall be determined. Where a takaful fund has its own resources to meet the takaful fund's own obligations under the stressed scenario, there should not be additional capital required to be held by the shareholders' fund in relation to that takaful fund.

21.4 It is expected that for two Labuan takaful operators of similar risk profiles and similar risk management practices, the internal target capital level will be lower for the Labuan takaful operator whose takaful funds have higher amount of surplus in relation to the takaful fund's own risks.

21.5 A Labuan takaful operator's board of directors is primarily responsible for setting the internal target in the context of Labuan FSA's broader expectations for individual takaful operator to have in place an appropriate capital management plan

that takes into account its strategic business direction and the changing business environment. Labuan FSA also expects each Labuan takaful operator to establish adequate processes to monitor and ensure the maintenance of an appropriate level of capital which commensurate with current risk profile.

22.0 Supervisory Target under the Risk-Based Supervisory Framework

22.1 Labuan FSA's supervisory approach of pre-emptive intervention means that supervisory action will be taken during the early stages of financial difficulties faced by a Labuan takaful operator. To meet this objective, Labuan FSA has set a Supervisory Target Capital Level of 120%, below which supervisory actions of increasing intensity will be taken to resolve the financial position of the Labuan takaful operator.

22.2 The Supervisory Target Capital Level should be viewed as a benchmark against which a Labuan takaful operator shall establish its own higher internal target. Labuan FSA will assess[11] whether the internal target is appropriate for the Labuan takaful operator's risk profile, and on a case-by-case basis, may require an adjustment to the level of the Labuan takaful operator's internal target and/or require the Labuan takaful operator to compute and report its internal target capital level at a more granular level. A Labuan takaful operator shall not set its internal target below the Supervisory Target Capital Level.

22.3 When a Labuan takaful operator's CAR breaches its internal target capital level set by the Labuan takaful operator but remains above the Supervisory Target Capital Level, Labuan FSA will assess the circumstances and the Labuan takaful operator's remedial plans to restore CAR above its internal target capital level, before deciding on the level of supervisory intervention required. Continued deterioration of a Labuan takaful operator's CAR below its internal target capital level will attract increasing levels of supervisory attention. A Labuan takaful operator whose CAR breaches the Supervisory Target Capital Level of 120% will

[11] Under the Risk-Based Supervisory Framework, Labuan FSA will evaluate the inherent risks associated with a Labuan takaful operator's significant activities, and the quality of risk management applied to mitigate those risks. This enables Labuan FSA to assess the Labuan takaful operator's overall net risk with respect to its current level of capital and earnings.

face stricter supervisory action as imposed by Labuan FSA.

PART G OTHER AREAS

23.0 Capital Adequacy Position and Submission Requirements

23.1 A Labuan takaful operator shall submit to Labuan FSA its CAR computations based on the financial year end positions, within 6 months after the end of each financial year end using the reporting forms specified by Labuan FSA. The financial year end CAR positions shall be certified by the Labuan takaful operator's external auditor, appointed actuary and Principal Officer (PO).

Question 7

Please provide an estimate of the costs incurred by your company in engaging external parties for TCAF regulatory reporting, including:

(i) External auditor certification

(ii) Certification by a third-party appointed actuary, where relevant.

Where possible, please also indicate the level of assurance provided (e.g. reasonable assurance, limited assurance or agreed-upon procedures). Responses may be provided in ranges and will be used on an aggregated basis for assessing potential implementation costs.

Question 8

If you are familiar with risk-based capital requirements in other international jurisdictions, please indicate whether their risk-based capital adequacy reporting is subject to review and certification by an external auditor? Where applicable, kindly:

- provide the relevant policy document issued by the regulatory authority; and
- specify the section outlining such requirements i.e. whether an external audit is required.

23.2 In addition, a Labuan takaful operator shall submit its quarterly CAR computations to Labuan FSA within 30 days after the end of reporting period. The quarterly CAR does not need to be certified by the Labuan takaful operator's external auditor and appointed actuary. However, the Labuan takaful operator's PO shall certify that the reported figures represent the actual capital adequacy position of the Labuan takaful operator.

23.3 Labuan FSA may require a Labuan takaful operator with a weak capital adequacy position to compute and report its CAR to Labuan FSA on a more frequent basis.

23.4 The capital adequacy position of a Labuan takaful operator at any particular point of time shall be the lower of its latest quarterly CAR and audited CAR in its preceding financial year.

24.0 Minimum Paid-up Capital

24.1 The minimum amount of capital funds or surplus of assets over liabilities which a Labuan takaful operator shall maintain at all times to carry on takaful business shall be as prescribed pursuant to section 78 of the LIFSSA.

25.0 Other Conditions

25.1 Labuan FSA may impose other conditions such as restrictions on payment of dividends if it reasonably believes that the CAR of Labuan takaful operator is below its internal target capital level or will fall below its internal target capital level as a result of the payments of dividend.

PART H APPENDICES

Appendix I Credit Risk Capital Charges

1.0 Overview

1.1 Credit risks relate to losses resulting from asset defaults and related loss of income due to the inability or unwillingness of a counterparty to fully meet its contractual financial obligations. The risk charges for exposures to various counterparties and/or debt obligations and asset types are set out in this appendix.

2.0 Debt Obligations

2.1 For the purpose of applying credit risk charges, exposures to debt obligations shall include positions in debt securities, debentures, commercial papers, short term notes, asset-backed securities and financings[12]. Convertible securities, i.e. debt issues or preference shares that can be converted into ordinary shares of the issuer, will be classified under this category if the instruments trade and behave like debt securities. **Table 1** provides the applicable credit risk charges for counterparties and debt obligations.

Table 1: Risk charges for counterparties and debt obligations

Counterparty or debt obligations		Risk charge
(a)	the Federal Government of Malaysia, Bank Negara Malaysia (BNM)[13], the federal government or the central bank of a G10 country[14] and recognised multilateral development banks (MDBs)[15]	0%

[12] Including ~~policy loans, automatic premium loans and~~ staff loans.
[13] Including special purpose vehicles established by Bank Negara Malaysia to facilitate the issuance of securities (such as Bank Negara Malaysia Sukuk Ijarah and BNMi-Murabahah issued through BNM Sukuk Berhad).
[14] G10 countries are Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States of America.
[15] Recognised MDBs are those which are in the World Bank Group which comprises the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), The European Investment Bank (EIB), the European Investment Fund (EIF), the Nordic Investment Bank (NIB), the Caribbean

Counterparty or debt obligations		Risk charge
(b)	Cagamas in respect of its obligations or that issued by its subsidiaries~~, Cagamas Covered Bonds~~ and Cagamas Covered Sukuk Wakalah	0.8%
(c)	State government of Malaysia and the federal government or the central bank of non-G10 countries	1.6%
(d)	Corporations and other organisations with the following rating categories (further details as applicable in **Appendix VI**):	
	(i) One	1.6%
	(ii) Two	2.8%
	(iii) Three	4%
	(iv) Four	6%
	(v) Five	12%
(e)	Debt facilities[16] with original maturity of 1 year or less and with the following rating categories (further details as applicable in **Appendix VI**):	
	(i) One	1.6%
	(ii) Two	4%
	(iii) Three	8%
	(iv) Four	12%
(f)	Individual person:	
	(i) Staff of the Labuan takaful operator[17]	4%
	(ii) Other individuals ~~(except for policy loans)~~	12%
~~(g)~~	~~Policy loans[18]~~	~~0%~~

Development Bank (CDB), the Islamic Development Bank (IDB) and the Council of Europe Development Bank (CEDB). Exposures to other MDBs are treated based on the corporation's rating outlined in this table.

[16] Ratings are facility-specific and can only be used to determine the capital charge for exposure to the specific facility.

[17] Financing given to staff under the employment service contracts.

~~[18] 'Policy loans' means a credit facility granted by an insurer underwriting life insurance business to its policyholders and the amount of the facility does not exceed the surrender value of the life policy of the policyholders on the date of granting the credit facilities.~~

2.2 A Labuan takaful operator shall use the latest rating accorded by either a recognised rating agency established in Malaysia or by an internationally recognised rating agency. The following rating principles shall apply:

(i) A Labuan takaful operator shall use the issue-specific rating where available. Where a Labuan takaful operator invests in a debt obligation which does not have an issue-specific rating, the following principles shall apply:

(a) In the event where the Labuan takaful operator's exposure is to a counterparty which does not have its own issuer rating, but has a rating on other obligations such as a debt security to which the Labuan takaful operator is not exposed, the Labuan takaful operator can use that debt security rating in determining the appropriate risk charge for its exposure to the counterparty. However, this is subject to the condition that the Labuan takaful operator's unrated exposure ranks *pari passu* or senior in all respects to the debt security which has a rating and the debt security rating has not taken into account any effects of collateral/guarantee arrangements. Otherwise, the risk charge for unrated obligations should apply to the unrated exposure; and

(b) Where a counterparty has its own issuer rating, this assessment typically applies to senior unsecured exposures to that counterparty. Thus, only senior exposures to that counterparty will be able to utilise this rating. Other exposures will be treated as unrated.

(ii) If a debt obligation is rated by more than one rating agency, the risk charge should be based on the following principles:

(a) Where two ratings are available, the lower rating is to be applied; or

(b) Where three or more ratings are available, the lower of the two highest ratings will be used.

2.3 Investments in innovative tier 1 capital instrument[19] issued by Labuan banks, BNM licensed banks, Labuan Islamic banks, BNM licensed Islamic banks,

[19] This refers to instruments which do not fulfil the characteristics of equity but qualify as tier 1 capital instruments under the capital adequacy framework for banking institutions.

Labuan investment banks, BNM licensed investment banks and Labuan Islamic investment banks are subjected to the same credit risk charge[20] that is applicable to an exposure to a similarly rated corporate debt obligation.

2.4 For debt obligations that are denominated in currency differ from the risk origins or issued outside Malaysia, Labuan takaful operators should consider the appropriateness of the rating in reflecting transferability and convertibility risks. Where such risks are not adequately reflected in the rating, Labuan takaful operators should provide for this in the internal target capital levels set.

3.0 Credit Risk Mitigation using Collateral and Guarantees

3.1 Labuan takaful operators may recognise a lower credit risk capital charge for debt obligations if the Labuan takaful operator holds certain types of credit risk mitigants (CRM), namely, eligible collateral against the debt obligations, or if the obligations are guaranteed by recognised guarantors.

3.2 No CRM can be recognised to reduce the credit risk capital charge if the rating assigned to the debt obligation to which the risk charge corresponds has already reflected the CRM.

3.3 In order to achieve capital relief for the use of CRM, the following minimum conditions shall be fulfilled:

(i) A collateral used under the CRM techniques must comply with Shariah requirements;

(ii) All documentation used in the transactions shall be binding on all parties and legally enforceable in all relevant jurisdictions;

(iii) Sufficient assurance from legal counsel has been obtained with respect to the legal enforceability of the documentation; and

(iv) Periodic reviews are undertaken to confirm the ongoing enforceability of the documentation.

[20] In addition, investments in such instruments are also subject to the market risk charge treatment, described in **Appendix II**.

Only collateral and/or guarantees that are actually employed and/or provided under a legally enforceable agreement are eligible as CRM. A commitment to provide collateral/guarantee is not recognised as a CRM until the commitment to do so is actually fulfilled.

3.4 While the use of a CRM reduces or transfers credit risk, it may add to residual risks in the form of legal, operational and/or liquidity risk. Therefore, it is imperative that Labuan takaful operators employ robust procedures and processes to control these risks. Labuan takaful operators shall be prepared and able to demonstrate to Labuan FSA that adequate risk management policies and procedures are in place to control these risks arising from the use of CRMs.

(I) Collateral

3.5 In addition to the minimum requirements specified in paragraph 3.3 of this appendix, the legal mechanism by which a collateral is pledged or transferred shall adequately provide for the right of the Labuan takaful operators to liquidate or take legal possession of the collateral in a timely manner in the event of default, insolvency or bankruptcy of the counterparty. Furthermore, Labuan takaful operators shall take all steps necessary to fulfil those requirements under the law applicable to the Labuan takaful operator's interest in the collateral for obtaining and maintaining an enforceable security interest.

3.6 For a collateral to be eligible, it shall be regularly marked-to-market and should be pledged for the life of the debt obligation exposure. In order for the collateral to provide effective cover, the credit quality of the counterparty and the value of the collateral shall not have a material positive correlation. Collateral issued by the borrower or a party related to the borrower cannot be classified as eligible collateral as both would generally exhibit a material positive correlation.

3.7 Labuan takaful operators shall have in place clear and robust procedures for the timely liquidation of collateral. This includes procedures to ensure that any legal conditions required for declaring the default of the counterparty and liquidating the collateral are duly observed.

3.8 Where collateral is held by a custodian, Labuan takaful operators shall take

reasonable steps to ensure good custody of that collateral and take reasonable steps to ensure that the custodian segregates the collateral from its own assets.

3.9 The value of the collateral backing the debt obligations shall be determined:

(i) at its market value; or

(ii) where, for any reason, it is not possible to determine its market value, the value approved by Labuan FSA on an application by the Labuan takaful operator, which should set out the value arrived at by the Labuan takaful operator and the basis for it.

3.10 The amount of debt obligation exposure to which the credit risk charge is applied may be adjusted to reflect the "eligible collateral" backing the exposure, determined as follows:

(i) the 'adjusted debt outstanding' shall be:

$$E^* = E - [C \times (1 - H_C - H_{fx})]$$

where

(a) E^* is the adjusted debt outstanding

(b) E is the value of the debt outstanding before adjustment

(c) C is the market value of the collateral

(d) H_C and H_{fx} are multiple adjustments for the collateral, expressed as a ratio of market value of the collateral

(e) E^* is subject to a minimum of 15% of E;

(ii) the multiple adjustment ('H_C') broadly reflects the riskiness of the collateral received; and

(iii) 'H_{fx}' applies if the collateral is denominated in a currency that is different from that of the debt. The currency mismatch charge is 8%.

3.11 The values of the multiple adjustment ('H_C') are set out in **Table 2** below.

Table 2: Multiple adjustments for eligible collateral

Eligible Collateral	Residual term to maturity (X)	Hc
(a) Cash (including certificate of deposits or comparable instruments) and bank deposits[21] with any Labuan bank, BNM licensed bank, BNM licensed investment bank, Labuan Islamic bank, BNM licensed Islamic bank and BNM prescribed development financial institution		0%
(b) Securities issued or fully guaranteed by the Federal Government of Malaysia, Bank Negara Malaysia[22] or the federal government or the central bank of a G10 country	X ≤ 1 year	0.5%
	1 < X ≤ 5 years	2%
	X > 5 years	4%
(c) Securities issued or guaranteed by recognised MDBs	X ≤ 1 year	1.5%
	1 < X ≤ 5 years	3.0%
	X > 5 years	5.0%
(d) Securities with ratings of category two or better[23], issued by a corporation	X ≤ 1 year	3.5%
	1 < X ≤ 5 years	5.0%
	X > 5 years	7.0%
(e) Shares listed on the Main Market of Bursa Malaysia or other main index of exchanges in a G10 country		20%
(f) Shares listed on other local exchanges		30%

Example:

Let us assume a Labuan takaful operator has an asset exposure of USD1 million in the debt capital market from company ABC with a rating category of one (i.e. credit risk charge of 1.6%). Company ABC provides CRM collateral to the Labuan takaful operator with a market value of USD0.5 million in the form of shares listed in the Singapore Exchange.

The adjusted asset exposure would be USD1 million – [USD0.5 million x (1 – 30% - 8%)] = USD0.69 million. The higher of USD0.69 million and 15% of USD1

[21] Structured deposits and Restricted Investment Account (RA) would not qualify as eligible collateral.
[22] Including special purpose vehicles established by Bank Negara Malaysia to facilitate the issuance of securities (such as Bank Negara Malaysia Sukuk Ijarah and BNMi-Murabahah issued through BNM Sukuk Berhad).
[23] Under paragraph 1 of **Appendix VI**.

million (i.e. USD0.15 million) would be the new adjusted debt exposure.

The credit risk charge for the respective USD1 million asset exposure would be USD0.69 million x 1.6% = USD11,040.

3.12 Where the collateral is a basket of assets, the multiple adjustments to be applied to such baskets is the highest multiple adjustment that would be applicable to any of the collaterals in the basket.

(II) Guarantees

3.13 The capital risk charges applicable to debt obligations may be reduced to reflect a guarantee backing the debt obligation that is provided by a recognised guarantor if:

(i) the guarantee represents a direct claim on the guarantor and is explicitly referenced to specific debt exposure or pool of exposures, so that the extent of the cover is clearly defined and cannot be disputed;

(ii) the guarantee is irrevocable except where the guaranteed party has not made the payment due to the guarantor. The guarantor shall also not have the right to unilaterally cancel the protection cover or increase the effective cost of the cover as a result of the deteriorating credit quality in the guaranteed exposure;

(iii) the guarantee is unconditional such that there is no clause in the guarantee contract that could prevent the guarantor from being obliged to pay out in a timely manner, in the event that the original counterparty fails to make the payment(s) due;

(iv) the guarantee covers all types of payments the underlying debt obligor is expected to make under the documentation governing the transaction, such as notional amount, margin payment etc.;

(v) the guarantee period covers the full term of the debt obligations; and

(vi) upon the default/non-payment of the counterparty, the Labuan takaful operator may in a timely manner pursue the guarantor for any monies

outstanding under the documentation governing the transaction. The guarantor may make one lump sum payment of all monies under such documentation to the Labuan takaful operator or, the guarantor may assume the future payment obligations of the counterparty covered by the guarantee.

3.14 In calculating the capital charges, the portion of a debt obligation which is guaranteed would be subjected to the risk charge of the guarantor[24], while the uncovered portion is subjected to the risk charge of the counterparty to the debt obligation.

3.15 The recognised guarantors are:

(i) the Federal Government of Malaysia, Bank Negara Malaysia[25], the federal government or the central bank of a G10 country or recognised MDBs;

(ii) other rated entities (including financial guarantee insurer and takaful operator) which is rated at least under category two[26]; and

(iii) Labuan banks, BNM licensed banks, Labuan investment banks, BNM licensed investment banks, Labuan Islamic banks, BNM licensed Islamic banks, Labuan Islamic investment banks and BNM prescribed development financial institutions.

In all circumstances, the guarantors shall have a counterparty rating which is at least higher than that of the debt obligation or the obligor.

4.0 Financing Secured by Immovable Properties

4.1 A Labuan takaful operator shall not accept immovable property as a security for financing facility unless it is a freehold property or leasehold property with at least 21 years of unexpired period of lease.

[24] E.g. a debt security which is fully guaranteed for its entire term by the Federal Government of Malaysia shall carry a credit counterparty risk charge of 0%.
[25] Including special purpose vehicles established by Bank Negara Malaysia to facilitate the issuance of securities (such as Bank Negara Malaysia Sukuk Ijarah and BNMi-Murabahah issued through BNM Sukuk Berhad).
[26] Under paragraph 1 of **Appendix VI**.

4.2 A Labuan takaful operator shall not grant a financing facility for the purchase of immovable property for residential purpose, in excess of 90%, or for any other purpose, in excess of 70%, of the market value of the immovable property on the date of granting of the financing facility.

4.3 A Labuan takaful operator granting a financing facility which is secured by rights and interests in an immovable property, where applicable:

(i) shall enter into an agreement in writing for the financing facility with the borrower;

(ii) shall require the borrower to execute a deed of assignment assigning all his rights and interests in the immoveable property to itself and to register the deed of assignment under the National Land Code, Land Ordinance of Sabah or Land Code of Sarawak;

(iii) shall require the borrower to execute a power of attorney in its favour, authorising it to execute a charge in its favour on the immovable property which is the subject of the sale and purchase agreement with the borrower;

(iv) shall ensure that the sale and purchase agreement does not prohibit the lodgement of a private caveat by the Labuan takaful operator or, prohibit it from being the financier for the purchase of the immovable property;

(v) shall obtain a confirmation from the developer or registered proprietor of the immovable property that there is no prior subsisting assignment of the rights and interests in the immovable property which would vitiate the deed of assignment; and

(vi) where the immovable property is subject to a restriction in interest that it cannot be transferred, assigned, charged, or otherwise dealt with, without the consent of the State Authority, shall ensure that the consent of the State Authority has been obtained for the sale or assignment to the person in whose name the immovable property is to be registered, and for the Labuan takaful operator to acquire the immovable property in the event of any default in the repayment of the financing facility.

4.4 A Labuan takaful operator shall only accept immovable property situated in Malaysia as security for a financing facility granted in Malaysia.

4.5 Financing secured by immovable properties in the manner specified in this section shall be subjected to the following risk charges:

Table 3: Risk charges for financing secured by properties

Types of properties	Risk charges
(a) residential properties	
- FTV < 80%	2.8%
- 80% ≤ FTV ≤ 90%	4%
(b) other types of properties	
- FTV < 780%	5.6%
~~- 80% ≤ LTV ≤ 90%~~	~~8%~~
(c) abandoned properties	12%

Note: FTV= Financing-to-Value ratio

4.6 A financing that does not meet the requirements under this part shall be subject to the counterparty risk charges in **Table 1** of this appendix.

5.0 Investment in Structured Products

5.1 A structured product usually refers to an investment which derives its value by reference to the price or value of an underlying reference[27]. Such products are exposed to counterparty credit risk charges, where the risk charge is determined based on the credit rating of the product offeror. The risk charge is applicable to the entire marked-to-market value of the investments.

5.2 In addition, separate market risk charges are applicable to the marked-to-market value of the structured investments, depending on whether the product is capital guaranteed or otherwise. Please refer to paragraphs 9.1 to 9.7 of **Appendix II** for the determination of the market risk capital charge.

[27] "Underlying reference" means any security, index, currency, commodity or other assets or reference, or combination of such assets or reference.

6.0 Other Assets

6.1 The credit risk charges for other assets not specified above are set out in **Table 4** below.

Table 4: Risk charges for other assets

Types of exposure	Risk charges
(a) Cash (including certificate of deposits or comparable instruments) in hand and bank deposits[28] with Labuan banks, BNM licensed banks, BNM licensed investment banks, Labuan Islamic banks, BNM licensed Islamic banks and BNM prescribed development financial institutions	0%
(b) Deposit with other banking institutions with the following ratings categories[29] (further details in **Appendix VI**):	
(i) One	1.6%
(ii) Two	2.8%
(iii) Three	4%
(iv) Four	6%
(v) Five	12%
(c) Credit exposures to Labuan (re)insurers, Labuan (re)takaful operators, BNM licensed (re)insurers and BNM licensed (re)takaful operators[30]	1.6%
(d) Credit exposures to (re)insurers and (re)takaful operators[27] other than those Labuan (re)insurers, Labuan (re)takaful operators, BNM licensed (re)insurers and BNM licensed (re)takaful operators, with the following rating categories[31] (further details in **Appendix VI**):	
(i) One	1.6%

[28] Structured deposits and Restricted Investment Account (RA) would not qualify as eligible collateral

[29] In the absence of issue-specific ratings, the issuer local rating may be used in determining the credit risk charge.

[30] Credit exposures to (re)insurer and (re)takaful operator refers to -
(i) Amount due from (re)insurer and (re)takaful operator (including amount due in respect of premiums and contributions outstanding, claims recoverable, commissions);
(ii) Reinsurance and retakaful recoveries in respect of claims incurred; and
(iii) Reinsurance and retakaful deposits in respect of reinsurance and retakaful accepted.

[31] Rating principles in paragraph 2.2 of this appendix shall apply for the purpose of determining the rating of the (re)insurers and (re)takaful operators.

Types of exposure			Risk charges
	(ii)	Two	2.8%
	(iii)	Three	4%
	(iv)	Four	6%
	(v)	Five	12%
(e)	Outstanding premiums and contributions, balances and other receivables due from:		
	(i)	Other licensees under LIFSSA, Labuan Financial Services and Securities Act 2010, BNM's Financial Services Act 2013 and BNM's Islamic Financial Services Act 2013	4%
	(ii)	Others	6%
(f)	Other assets[32]		8%

6.2 Credit exposures to (re)insurers and (re)takaful operators under items (c) and (d) in **Table 4** includes reinsurance and retakaful recoveries in respect of claims incurred (reported under claims liabilities) as well as claims paid (reported under other assets).

6.3 The ratings of the following financial institutions should be referred to in **Appendix VI** for the purpose of determining the Labuan takaful operator's exposure to the (re)insurer(s) or (re)takaful operators or other banking institutions and the corresponding credit risk charges:

(i) (re)insurers and (re)takaful operators other than those Labuan (re)insurers, BNM licensed (re)insurers, Labuan (re)takaful operators and BNM licensed (re)takaful operators; and

(ii) banking institutions other than those Labuan banks, BNM licensed banks, Labuan investment banks, BNM licensed investment banks, Labuan Islamic banks, BNM licensed Islamic banks, Labuan Islamic investment banks and BNM prescribed development financial institutions (other

[32] Including other property, plant and equipment, except for those which are not exposed to counterparty risk (e.g. self-occupied properties).

banking institutions).

The rating principles in paragraph 2.2 of this appendix shall apply as appropriate.

Appendix II Market Risk Capital Charges

1.0 Overview

1.1 The market risk capital charges (MRCC) aim to mitigate risks of financial losses arising from:

(i) the reduction in the market value of assets due to exposures to equity, profit rate, property, currency risks;

(ii) non-parallel movements between the value of liabilities and the value of assets backing the liabilities due to profit rate movements (i.e. the profit rate mismatch risk); and

(iii) concentration of exposures to particular counterparties or asset classes.

1.2 The risk charges for exposures to various asset types are provided in this appendix.

2.0 Equity Risks

2.1 Equity risks arise from exposures to equity instruments, which include ordinary shares, warrants, depository receipts, transferable subscription rights or similar instruments that exhibit market behaviour similar to equities. Convertible securities, e.g. debt securities or preference shares that can be converted into ordinary shares of the issuer, will be classified as shares if they are traded and behave like shares. Equity risks arising from exposures to derivatives[33] such as futures, swaps and options on individual shares or stock indices are also included. However, an investment in the shares of unlisted single-purpose property holding companies is excluded (see section 3 below).

2.2 Exposures to equity instruments exclude investments in innovative Tier 1 capital instruments issued by Labuan banks, BNM licensed banks, Labuan Islamic banks, BNM licensed Islamic banks, Labuan investment banks, BNM licensed

[33] A Labuan takaful operator shall ensure that the derivatives activities undertaken are in compliance with Shariah principles at all times and the derivatives structure shall be based on approved Shariah principles, e.g. 'urbun (deposit), hamish jiddiyyah (security deposit) or wa'ad (undertaking), with appropriate adaptations of the principles.

investment banks and Labuan Islamic investment banks.

2.3 The applicable risk charges for equity exposures are as provided in **Table 1**.

Table 1: Risk charges for equity exposures

Equity Instruments		Risk charges
(a)	listed on the Main Market of Bursa Malaysia or listed on the primary board of recognised stock exchanges in a G10 country	20%
(b)	listed on recognised stock exchanges other than those mentioned in (a)	30%
(c)	FTSE Bursa Malaysia (FBM) KLCI, FBM Top-100 Index, FBM Hijrah Shariah Index or the indicative index of the recognised stock exchanges in a G10 country	16%
(d)	FBM Mid-70 Index or other stock market indices	25%
(e)	unlisted or private equity (including venture capital)	35%

2.4 For the purpose of Table 1, investment in individual stocks that make up the FBM KLCI for example will attract a 20% risk charge, while investing in basket of stocks that tracks the performance of the FBM KLCI will attract a lower 16% risk charge for the entire basket of stocks.

2.5 A direct position in equity which is matched by opposite positions in equity derivatives, and which meet the qualitative requirements as set out in paragraph 2.6, may be fully offset and only the absolute net position subject to the equity risk charge. For example, a future in a given equity may be offset against a direct position in the same equity.

2.6 For the purpose of recognising offsetting hedge derivative, Labuan takaful operators are required to have suitable arrangements in place to identify, measure, monitor and control derivative risks (e.g. credit, market, liquidity, basis risk etc.) and compare positions against approved risk management policies and risk tolerance levels. The risk management framework of Labuan takaful operator shall commensurate with the level and nature of the takaful operator's derivative activities.

2.7 Equity derivatives positions that can be applied to reduce a Labuan takaful operator's equity risk exposure shall be determined based on the following:

(i) Futures and forward contracts relating to individual equities are reported at current market prices;

(ii) Futures relating to equity indices are reported either as the current index value multiplied by the monetary value of one index point set by the futures exchange or market value of the notional underlying equity portfolio;

(iii) Equity and stock index options are treated based on the delta equivalent approach described in paragraphs 6.1 to 6.5 below; and

(iv) For a short position in equity derivatives, the absolute value of the short position is to be converted into positions in the relevant underlying, to which the equity risk charge will apply.

2.8 A simplified illustration on the application of the equity risk capital charge for a Labuan takaful operator with derivatives positions is provided in **Appendix II(a)**.

3.0 Property Risks

3.1 Property risks arise from exposures to immovable properties both for investment and self-occupied purposes.

3.2 An investment in shares of unlisted single-purpose property holding companies (entity), is deemed as an investment in property and therefore subject to the property risk charge, if the investment meets the following criteria:

(i) the entity wholly owns the property, including all rights, interests and benefits related to the ownership of the property; and

(ii) the entity should not have significant liabilities other than in relation to loan facilities taken for the purchase of property.

Otherwise, the investment is deemed as an investment in shares.

3.3 The applicable risk charges for exposures to immovable properties are provided in **Table 2** below:

Table 2: Risk charges for investment in immovable property

Property investments		Risk charges
(a)	self-occupied properties	8%
(b)	other property and property-related investments	16%

4.0 Profit Rate Risks

4.1 Profit rate risks arise from exposures to assets[34] and liabilities whose values are affected by profit rate movement, including debt securities, commercial papers, debentures, notes, negotiable instruments of deposits, mortgages, financing[35], profit rate derivatives and other instruments that share similar characteristics such as non-convertible preference shares. Convertibles bonds, i.e. debt issues or preference shares that are convertible into ordinary shares of the issuer, will be treated as debt securities if the instruments are traded and behave like debt securities. Profit rate risk charges for family takaful fund, general takaful and shareholders' fund shall be computed in accordance with paragraphs 4.4 to 4.14.

4.2 Profit rate risk exposures can be reduced by profit rate derivative positions, such as futures, forwards and options. Profit rate derivatives should be converted into exposures in the relevant underlying assets and subjected to appropriate profit rate risk charge calculations. To determine the capital charge, the amount reported should be the market value of the principal amount of the underlying or of the notional underlying. In the case of options, the delta- equivalent value of the option positions is used.

4.3 This paragraph outlines the treatment of profit rate derivative exposures by product class:

(i) Futures and Forward contracts, including Forward Rate Agreements (FRAs)

(a) These instruments are treated as a combination of a long and short position in a notional zero-coupon government security. The maturity period of futures or FRAs will be the period until delivery or exercise of

[34] Including cash and deposits placement.
[35] Including ~~policy loans, automatic premium loans and~~ staff loans, as referred to in footnote 12 in **Appendix I**.

the contract, plus, where applicable, the life of the underlying instrument. For example, a long position in a June three month profit rate future (taken in April) is to be regarded as a long position in a government security with a maturity of five months and a short position in a government security with a maturity of two months.

(b) In the case of a future or forward on a corporate bond or corporate bond index, positions will be included at the market value of the notional underlying/ portfolio of securities.

(c) In the case of foreign currency forward contracts with a profit rate element, either a long or short position in the market value of each underlying currency leg would be recorded in the respective 'maturity bucket' capturing the relevant profit rate risk.

(ii) Swaps

(a) Swaps will be treated as two underlying positions in zero coupon government securities with relevant maturities. For example, a plain vanilla profit rate swap under which a Labuan takaful operator pays floating and receives fixed will be treated as a long position in a fixed rate instrument of maturity equivalent to the residual life of the swap and a short position in a floating-rate instrument of maturity equivalent to the period until the next profit fixing.

(b) Where one of the swap legs involves payment relating to some other reference price, for example a stock index, the leg should be slotted into the equity component of market risk charge calculation. Swaps are treated as two notional positions. For example, an equity swap in which the Labuan takaful operator receives an amount based on the change in value of one particular equity or stock index and pays a different index will be treated as a long position in the former and a short position in the latter.

(iii) Options

(a) For options, the delta-weighted option position will be slotted into the

respective 'maturity band' according to its underlying together with other profit rate related instruments. Paragraphs 6.1 to 6.5 below further explain the capital treatment of option positions.

(I) Computation of profit rate risk charges for:

- **family takaful funds**
- **general takaful funds with discounting of liabilities**[36]
- **shareholders' fund of a Labuan takaful operator conducting family takaful business only or general takaful business only where the liabilities are discounted**

4.4 The capital charge to account for profit rate risks are reduced to the extent that the weighted average duration of the exposures in profit rate related assets match the weighted average duration of the takaful liabilities.

4.5 For each family takaful fund, the values of all profit rate related exposures (including profit rate derivatives exposures) and the ~~guaranteed~~ takaful fund liabilities ~~(i.e. for a non-participating fund and the guaranteed benefits in a participating fund)~~ shall be computed as follows:

(i) compute the value of the takaful fund liabilities and the market value of profit rate related exposures under the base scenario (referred to as V0 and A0, respectively). V0 is the value of the takaful fund liabilities derived based on the valuation basis which includes the provision of adverse deviation as prescribed in the *Guidelines on Valuation Basis for Liabilities of Labuan Family Takaful Business*, and discounted as per the risk-free discount rate set out in section 11.0 of the same Guidelines;

(ii) recompute the value of the takaful fund liabilities and the value of profit rate related exposures under the increasing profit rate scenario (referred to as V1 and A1, respectively); and

(iii) recompute the value of the takaful fund liabilities and the value of profit rate related exposures under the decreasing profit rate scenario (referred

[36] Where the appointed actuary views that discounting is justified for the valuation of the general takaful liabilities, the profit rate risk charge for general takaful funds shall be computed in accordance to that specified in paragraphs 4.4 to 4.11 of Part I above.

to as V2 and A2, respectively).

The method is summarised below:

Scenario	Value of profit rate exposures (1)	Liability value (2)	Surplus (1)- (2)
Base	A0	V0	S0
Increasing profit rate	A1	V1	S1
Decreasing profit rate	A2	V2	S2

4.6 The amount of capital charges required is the higher of the reduction in surplus under the increasing and decreasing rate scenario. In the event that the reduction in surplus is higher under the increasing scenario in one fund, but higher under the decreasing scenario in another fund, then the dominant scenario at the company level should be selected and applied consistently to all funds. Any resulting negative capital charges for each individual fund should be zeroised.

4.7 The yield to value the profit rate related securities under the base scenario should be the risk-free yield, in the case of government securities (e.g. Government Islamic Instrument (GII)) or the implied market yield for quoted securities or securities with similar characteristics, if unquoted. Alternatively, the base yields may be obtained from a recognised bond pricing agency. In the case of financings (and mortgages), the yield as implied by a debt security with similar tenor as the financing and carries a rating of category three or better[37], shall be used as the base yield.

4.8 Where the profit rate exposures have embedded options, such as call or put provisions in the case of debt securities/financings, or prepayment/refinancing rights which give the borrowers the rights to prepay the amount of debt outstanding, Labuan takaful operators shall take into account the likelihood of these options being exercised, and the effect of the exercise of these rights on the values of such debt securities/financings, under the scenarios of changes in the profit rate level. (Please refer to footnote 40 for additional guidance)

[37] Under paragraph 1 of **Appendix VI**.

4.9 For the purpose of revaluing profit rate related exposures and takaful fund liabilities in the above scenarios, the base yield curve should be multiplied by (1 + stress_up), and (1 – stress_down), for the increasing and decreasing scenarios respectively. Values of stress_up and stress_down are based on the level of the prevailing GII spot yields, and are prescribed in **Table 3** below. The derived values of stress_up and stress_down shall be further subject to a maximum of 30%, until otherwise specified by Labuan FSA.

4.10 For profit rate related exposures and takaful fund liabilities denominated in currencies differ from the risk origins, the base yield should be based on an appropriate risk-free yield curve, as per section 11.0 of the *Guidelines on Valuation Basis for Liabilities of Labuan Family Takaful Business* or that is consistent with the currency the policy is denominated in, such as government securities of the relevant country. However, the stress levels of (1+stress_up) and (1-stress_down) should be applied as per **Table 3** below and where these stress levels may be inadequate for the underlying volatilities of foreign profit rates, Labuan FSA may require an adjustment to the level of a Labuan takaful operator's internal target capital level.

4.11 For shareholders' fund of a Labuan takaful operator conducting family takaful business only or general takaful business only where the liabilities are discounted, the profit rate risk charge shall be computed in accordance to that specified in paragraphs 4.4 to 4.11 of this appendix.

Table 3: Prescribed changes in profit rates[38]

Residual terms to maturity[39] (X)	stress_up	stress_down
X ≤ 4 years	0.15 + Max [0 ; 0.4(3.75 – GII_3)]	0.15 + Max [0 ; 0.2(GII_3 – 3.75)]
4 years < X ≤ 8 years	0.15 + Max [0 ; 0.4(3.8 – GII_5)]	0.15 + Max [0 ; 0.2(GII_5 – 3.8)]
X > 8 years	0.15 + Max [0 ; 0.4(4.25 – GII_{10})]	0.15 + Max [0 ; 0.2(GII_{10} – 4.25)]

Note : GII_n denotes the spot yield of the n-year GII at valuation date.

[38] Labuan FSA may review the stress up and stress down factors in the future to reflect the movement of GII rates.

[39] Term to maturity refers to the period remaining till the maturity of the instruments or in the case of an instrument with a floating rate coupon, the period remaining till the next repricing date of the next coupon.

(II) Computation of profit rate risk charges for:

- **general takaful funds where the takaful liabilities are not discounted**
- **shareholders' fund of Labuan takaful operator conducting general takaful business only without discounting of liabilities**

4.12 A simplified approach is adopted for undiscounted liabilities in the general takaful and shareholders' funds of a Labuan takaful operator conducting general takaful business only to address profit rate risks in view of the short-term nature of most of the takaful liabilities.

4.13 The net value of all positions in exposures to profit rate related assets are determined for each maturity band[40], to which risk charges are then applied. The overall profit rate risk capital charge is the absolute amount of the sum of the individual net capital charge positions. The risk charges vary according to the residual term to maturity of the securities as provided in **Table 4** below.

Table 4: Profit rate risk charges by residual term to maturity for related securities for general takaful funds (with undiscounted liabilities) and shareholders' funds of Labuan takaful operator conducting general takaful business only

Residual term to maturity (X)	Risk charges (%)
X ≤ 1 month	0.0
1 < X ≤ 3 months	0.2
3 < X ≤ 6 months	0.5
6 < X ≤ 12 months	0.8
1 < X ≤ 2 years	1.3
2 < X ≤ 3 years	1.9
3 < X ≤ 4 years	2.7
4 < X ≤ 5 years	3.2
5 < X ≤ 7 years	4.1
7 < X ≤ 10 years	4.6
10 < X ≤ 15 years	6.0
15 < X ≤ 20 years	7.0
X > 20 years	8.0

[40] As a general guide, the callable date shall be the legal maturity date if there is sufficient evidence to demonstrate that the debt security will be called at the said date. Where there is no legal maturity date, the longest category of residual term to maturity, (X), of more than 20 years shall apply.

4.14 All profit rate derivative positions are subjected to profit rate risk charges, according to the term to maturity above, in the same manner as cash positions. Offsetting of fully matched long and short positions in the same underlying is allowed.

4.15 A simplified illustration on the computation of profit rate risk capital charge for a Labuan takaful operator carrying on general takaful business with derivatives positions is provided in **Appendix II(a)**.

5.0 Currency Risks

5.1 A Labuan takaful operator shall calculate for each currency (other than for the functional currency) the net open position of the takaful operator in the currency which will be subjected to a currency risk charge of 8%. For avoidance of doubt, a functional currency refers to the main currency that a Labuan takaful operator use to conduct its takaful business. The currency risk capital charge is in addition to the credit and market risk charges described above.

5.2 To calculate the capital charge for currency risks, the net balance sheet positions for exposures to each of the different currencies are converted into USD at the spot exchange rates. The sum of the net short positions or the sum of the net long positions, whichever is higher, is then multiplied by the 8% risk charge to arrive at the currency capital charge.

5.3 The Labuan takaful operator's net position in each currency should be calculated by aggregating the following positions:

(i) all asset items less liabilities; and

(ii) the value of all amounts to be received less the value of all amounts to be paid under unsettled spot transactions, forward foreign exchange transactions, including currency futures, the principal on currency swap positions and profit rate transactions such as futures, swaps etc.

5.4 An example of the calculation is shown below.

Long/short position	Long currency positions		Short currency positions		
Currency	Japanese yen	Australian dollar	British pound	Singapore dollar	Ringgit Malaysia
USD-equivalent value of net currency positions	+50	+150	-20	-180	-35
Total USD-equivalent value of net currency positions	+200		-235		

Capital charge = 235[41] X 8% = USD18.8 million

5.5 Taking into account the diverse nature of Labuan (re)takaful market which involves dealings in multiple currencies, grouping of pegged currency is allowed. Example of treatment for grouping of pegged currencies: if a Labuan takaful operator has HKD assets against USD liabilities, these should be considered together for its net exposure.

6.0 Treatment of Options

6.1 For capital computation purposes, option positions should be reported as a position equal to the market value of the instrument underlying the option multiplied by the delta[42] of the option.

6.2 The capital charge for options with equities as the underlying assets are based on the delta-weighted positions which would have incorporated the measure of market risk as described in paragraph 2.3 of this appendix.

6.3 Delta weighted positions of profit rate options will be subject to profit rate risk charge calculations as set out in this appendix:

(i) paragraphs 4.4 to 4.11 for family takaful funds, general takaful funds with discounted liabilities and shareholders' fund of a Labuan takaful operator conducting family takaful business only or general takaful business only

[41] The higher of either net long currency positions or net short currency positions.
[42] Defined as the sensitivity of the option price relative to the instruments underlying the option.

with discounted liabilities; and

(ii) paragraphs 4.12 to 4.14 for general takaful funds with undiscounted liabilities and shareholders' fund of a Labuan takaful operator conducting general takaful business only with undiscounted liabilities.

Similar to other derivative transactions, a two-legged approach is used, which requires one entry at the time the underlying contract takes effect, and a second entry, at the time the derivatives contract matures. For instance, a bought call option on a June 3 month profit rate future will in April be considered, on the basis of its delta-equivalent value, a long position with a maturity of 5 months and a short position with a maturity of two months.

6.4 The capital charge for options on foreign currency is based on the delta-weighted position which will incorporate measurement of the exposure for the respective currency position as described in paragraphs 5.1 to 5.4 of this appendix.

6.5 As the delta-approach above does not capture all risks associated with option positions, such as basis, gamma and vega risks, Labuan takaful operators should therefore take into consideration these additional risk dimensions when setting their internal target capital level.

7.0 Counterparty Credit Risk Charge for Derivative Positions

7.1 Where a Labuan takaful operator enters into derivative transactions which are transacted over the counter (OTC), it is required to hold additional capital for counterparty credit risk, using the method described below:

(i) the capital charge for each OTC derivative contract is based on its 'asset equivalent value'. The asset equivalent value is the sum of the current marked-to-market exposure of the derivative contracts with positive values and an amount for potential exposure add-on;

(ii) the potential exposure add-on is determined by multiplying the notional principal amount[43] of the derivative contract (regardless of whether the

[43] Potential exposure add-on should be based on effective rather than stated notional amounts. In the event that the stated notional amount is leveraged or enhanced by the structure of the transaction, a Labuan

contract has a zero, positive or negative marked-to-market value) by the relevant credit conversion factor specified in **Table 5** below according to the nature and residual maturity of the contract;

Table 5: Add-on factor

Maturity (x)	Profit rate contracts	Equity contracts	Foreign currency contracts
X ≤ 1 year	0.5%	6%	2%
1 < X ≤ 2 years	1%	8%[44]	5%
2 < X ≤ 3 years	2%		7%
Each additional year	1%		1%

(iii) the asset equivalent value of each derivative contract should then be multiplied by the credit risk charge applicable to the counterparty to the derivative contract to determine the capital charge (based on credit risk charge for various counterparty as presented in **Table 1** in **Appendix I**);

(iv) foreign exchange contracts which have an original maturity of 14 calendar days or less may be excluded from the requirement; and

(v) netting-off is permitted where there is a legally enforceable contractual arrangement with the counterparty under which any obligation to each other to deliver a given currency on a given date is automatically amalgamated with all other obligations for the same currency and value date, legally substituting one single net amount for the previous gross obligations.

Example of CRCC for OTC Derivatives:

A profit rate swap with notional principal of RM450,000 and mark-to-market value of RM7500 maturing within a year's time. Assuming Bank A is a corporation with

takaful operator shall use the actual or effective notional amount when determining potential exposure, e.g. a stated notional amount of USD1 million with payments calculated at two times financial benchmark rate would have an effective notional amount of USD2 million.

[44] This equity add-on factor is to be used by contract maturity of up to five years. For period over five years,10% add-on is used.

rating of "one" according to **Appendix I**, **Table 1**, item no. (d).

Position & Counterparty[1]	Mark-to-market value[2]	Notional principal[3]	Add-on factor[4]	Applicable Risk Charge[5]
Profit Rate Swap with Bank A	7,500	450,000	0.5%	1.6%
Capital Charge = ([2] + [3] x [4]) x [5] = 156				

Notes: [5] Credit risk charges as prescribed in **Table 1** of **Appendix I**.

7.2 Labuan FSA reserves the right to require a Labuan takaful operator to hold additional capital against particular derivative positions where the Labuan takaful operator enters into significant derivative transactions in relation to its capital position or if Labuan FSA views the capital provided using the above approach to be inadequate in relation to the risks of the transactions involved.

8.0 Investments in Collective Investment Schemes

8.1 Collective investment schemes are defined as any arrangement made for the purpose, or having the effect, of providing facilities for persons to participate in or receive profits or income arising from the acquisition, holding, management or disposal of securities, or any other property, or sums paid out of such profits or income in such schemes.

8.2 Such investments include investments in unit trust schemes, exchange traded funds (ETF), exchange-traded real estate investment trusts (including Real Estate Investment Trusts (REITs)), private real estate funds and investments in a Labuan takaful operator's own investment-linked funds.

8.3 The risk charge for investments in collective investment schemes shall be determined based on the actual asset composition at the valuation date, and if not available, the investment mandate of the schemes[45]. The following risk charges in **Table 6** below shall be applicable for individual asset classes

[45] For example, if a scheme is invested in a fund consisting of 50% equities , 40% Malaysian debt securities, and 10% non-Malaysian debt securities, the risk charge is [(0.5 X 16%) + (0.4 X 4%) + (0.1 X (4% + 8%))] = 10.8%.

composing the collective investment schemes.

Table 6: Risk charges for assets of collective investment schemes

Type of assets		Risk charges
(a)	Government securities	0%
(b)	Money market instruments, including cash	1.6%
(c)	Shares	16%
(d)	Debt securities	4%
(e)	Properties	16%
(f)	Exposures in currencies which are different from that of the liabilities	relevant charges above plus additional 8%

8.4 If a scheme is mandated to invest more than 80% of its total assets in a particular asset class, the risk charge for such collective investment schemes may be based on the capital charge applicable for exposures to that dominant asset class.

8.5 The approach used to arrive at the weighted average capital charge shall be applied consistently.

8.6 Where the collective scheme invests in a structured product, the portion of the fund which is invested in the structured product will be subject to a risk charge treatment as described in paragraphs 9.1 to 9.7 below.

8.7 Where the collective investment scheme has features that are similar to that of a structured product, the risk charge treatment as described in section 9 below shall apply in addition to paragraph 5.1 of **Appendix I**. An example of such mechanism is one where the collective investment scheme is structured to provide principal protection upon the maturity of the fund.

9.0 Investment in Structured Products

9.1 In addition to being subject to credit risk charge as explained in paragraph 5.1 of **Appendix I**, the entire marked-to-market value of the investment in the structured product is subject to a market risk charge of 20%, if the structured product carries no embedded guarantee.

9.2 Where the structured product offers a certain minimum guaranteed amount (for example guaranteed principal or minimum percentage return), the present value of the guaranteed amount shall be subject to the profit rate risk charge calculations. The balance value of the investment will be subject to a 20% market risk charge.

9.3 The present value of the guaranteed amount shall be determined using a discount rate which reflects the credit worthiness of the product offeror and is consistent with the application of paragraph 5.1 of **Appendix I**.

9.4 The guaranteed amount is to be valued using a discounting period that is equivalent to the term to maturity of the structured product if the guarantee is provided upon the product maturity, or earlier, if the guarantee is provided up to a period prior to the maturity of the product.

9.5 Where the product is leveraged or enhanced by the structure of the investment, the effective value of the product shall be used. For example, where a product provides a return of 2x the market index performance, the Labuan takaful operator shall use 2x the notional exposure as the effective value of exposure.

9.6 Alternatively, a Labuan takaful operator may adopt a look-through approach to determine the appropriate market risk charges to be applicable to such products, subject to prior written approval from Labuan FSA.

9.7 A Labuan takaful operator should consult Labuan FSA on the capital treatment for structured products which have features that may not be directly addressed in this section.

10.0 Capital Charges to Address Concentration Risks

10.1 Aggregate investments or exposures to individual counterparties in excess of the limits specified in **Appendix III** will be subjected to 100% asset concentration risk capital charge.

Appendix II(a) Illustration on Capital Computation for Labuan Takaful Operators with Derivatives Position

1. Position in equity derivatives

Assume a Labuan takaful operator holds the following in its portfolio:

- Shares in X of USD100 mil, Y of USD100 mil, Z of USD200 mil

The Labuan takaful operator entered into the following transaction to hedge its equity risk:

- Long Z put option with equivalent market value of USD200 mil (option delta = -0.7)
- Short, say, appropriate Shariah-compliant futures/forward with market value of USD200 mil,

Assume that it can be demonstrated that the positions in X and Y are effectively hedged by appropriate Shariah-compliant futures/forward

The Labuan takaful operator will be subject to the following risk charge:

- X and Y exposures are carved out from the equity risk capital computation
- Capital exposure to Z = [200-(200 x |-0.7|)] x 20% = USD12 mil

Therefore, total equity capital charge = USD12 mil

2. Portfolios of profit rate exposures (including derivatives)

Assume a Labuan takaful operator holds the following in its portfolio:

(i) An Islamic private debt security (IPDS), with market value of USD20 mil, residual maturity 8 years;

(ii) A Government Islamic Instrument (GII), market value USD75 mil, residual maturity 2 months;

(iii) A profit rate swap, USD150 mil under which the Labuan takaful operator receives floating rate and pays fixed. The next interest fixing occurs after 9

months and residual life of the swap is 8 years; and

(iv) A long position in GII futures of USD60 mil, maturing in 6 months with underlying government security of 4 years.

Residual Term to Maturity	1<X≤3 months	3<X≤6 months	6<X≤12 months	4<X≤5 years	7<X≤10 years
Long position	75 mil GII (ii)		150 mil swap (iii)	60 mil futures (iv)	20 mil IPDS (i)
Short position		60 mil futures (iv)			150 mil swap (iii)
Risk Charges (%)	0.2	0.5	0.8	3.2	4.6
Overall Net Position	+0.15 mil	-0.30 mil	+1.20 mil	+1.92 mil	-5.98 mil

Therefore, the overall net position is -3.01 mil (=+0.15-0.30+1.20+1.92-5.98 mil), leading to a capital charge of USD3.01 mil.

Appendix III Investment and Individual Counterparty Limits

1. Investment limits on individual asset classes which are applicable for **each of the family takaful, general takaful and shareholders' funds individually**:

	Maximum limits (as a ratio of total assets of **all** takaful funds and shareholders' fund)
(a) shares not listed on the Main Market of Bursa Malaysia or the primary board of recognised stock exchanges in a G10 country	5%
(b) ~~loans other than policy loans and~~ financings which are not secured in the manner set out in sections 3 and 4 of **Appendix I**	5%
⇨ limit for an individual counterparty	1%

2. Investment limits on individual asset classes which are applicable for **general** takaful funds only:

	Maximum limits (as a ratio of total assets of all takaful funds and shareholders' fund)
(a) shares listed on the Main Market of Bursa Malaysia or the primary board of recognised stock exchanges in a G10 country	30%
(b) immovable properties	20%
	Minimum limits
(a) liquid assets[46]	10%[47]

[46] Refers to cash in hand and deposits with unconditional withdrawal placed with Labuan banks, BNM licensed banks, BNM licensed investment banks, Labuan Islamic banks, BNM licensed Islamic banks, BNM prescribed development financial institutions and any other commercial bank carries a financial strength rating of category three or better and any papers issued or guaranteed by the Federal Government or Bank Negara Malaysia and its subsidiaries or the federal government and the central bank of a G10 country. For cash and deposit placement by Labuan takaful operators at commercial banks licensed by other than Labuan FSA and BNM, Labuan takaful operators shall ensure that such assets remain accessible at all times.

[47] As a ratio to the gross average total claims incurred for the three preceding financial years. For example, for takaful operators with financial years ending 30 June, the ratio will be computed based on the average total claims incurred for financial year ending 2020, 2021 and 2022, which will be valid from 1 July 2022 until 30 June 2023.

3. Limits for exposure to individual counterparties, including guarantee given by the counterparties (except any transaction related to a contract of takaful):

		Maximum limits (as a ratio of total assets of **all** takaful funds and shareholders' fund)
(a)	Labuan banks, BNM licensed banks, Labuan investment banks, BNM licensed investment banks, Labuan Islamic banks, BNM licensed Islamic banks, Labuan Islamic investment banks, Cagamas Berhad, Khazanah Malaysia Berhad, Petroliam Nasional Berhad, Telekom Malaysia Berhad, Tenaga Nasional Berhad and any other commercial bank licensed in a foreign country	20%
(b)	a counterparty listed on the Main Market of Bursa Malaysia or the primary board of recognised stock exchanges in a G10 country	30%
(c)	amount due from holding company and related company	25%
(d)	any other counterparties	5%

4. The exposure limits are applicable on the overall exposure to individual counterparties, including that arising from investments in shares of, debt securities issued by or direct lending to a single counterparty, but excludes exposures from transactions relating to contracts of takaful.

5. The following principles shall be applied for exposures to related or interconnected counterparties:

(i) A counterparty is deemed to be related/interconnected to another if the counterparty controls more than 50% of the equities of the other party. In the case of exposures to Special Purpose Vehicles (SPVs), such exposure shall be grouped with the sponsor of the SPV if the Labuan takaful operator has ultimate recourse to the sponsor in the event of default by the SPV;

(ii) Exposures to related/interconnected counterparties should be grouped

together and be treated as an exposure to a single counterparty, subject to the single counterparty limits above;

(iii) Exposures to the related/interconnected counterparties can be disaggregated and treated as separate single counterparties where the Labuan takaful operator can establish that the counterparty(ies) are sufficiently independent from each other financially, to honour its individual obligations and liabilities by –

(a) drawing on its existing free financial resources without difficulty or encumbrances; or

(b) obtaining a credit facility premised on its own financial standing;

(iv) Clear internal parameters for identifying the related/interconnected counterparties that –

(a) would constitute a single counterparty; or

(b) are financially independent from each other

should be established, documented with supporting reason(s) and made available for review by the Labuan takaful operator's internal control and risk management functions as well as Labuan FSA at all times; and

(v) The identification for which (iv)(a) or (iv)(b) would apply should also take into consideration the materiality of any association or relationships[48] that may exist between the counterparties either directly or indirectly, that may give rise to an assumption of interconnected exposures.

6. The individual counterparty limits are not applicable to the Federal Government of Malaysia, Central Bank of Malaysia as well as the federal government and the central bank of a G10 country.

7. The exposure maximum limits are not applicable to cash and fixed deposits.

[48] For example, entities with common marketing and/or branding platform.

8. For each limit stated in paragraphs 1,2 and 3 of this appendix (excluding minimum limit for liquid assets), where the amount of assets falling within the limit is calculated to be less than USD5 million, a limit of USD5 million shall apply.

9. The limits specified in paragraphs 1, 2 and 3 of this appendix shall be applied in the sequential order (before applying the risk charges).

Appendix IV Risk Charges for Liabilities of General Takaful Business

1. The following risk charges shall be applied in the computation of general takaful liabilities risk capital charges:

Class		Risk charge applicable for -	
		Claims liabilities	URR @ 75% confidence level
1.	Fire	20%	24%
2.	Marine Hull	30%	36%
3.	Cargo	25%	30%
4.	Engineering	25%	30%
5.	Motor	25%	30%
6.	Aviation	30%	36%
7.	Liabilities	30%	36%
8.	Medical & Health	25%	30%
9.	Personal Accident	20%	24%
10.	Workmen's Compensation & Employers' Liability	25%	30%
11.	Others	20%	24%

2. For the purpose of computing the shareholders' fund expense liabilities risk capital charges for general takaful business, the best estimate expense assumptions shall be stressed by 20%.

Appendix V Stress Factors for Liabilities of Family Takaful Business

1. The following stress factors shall be applied in the computation of family takaful liabilities risk capital charges (FCC) and shareholders' fund expense liabilities risk capital charges (ECC) for family takaful business, as appropriate:

Valuation Parameters	Stress Factors
(i) Mortality (non-annuity) (ii) Mortality (annuity)	±15% of best estimate rates Rates used in valuation with 5-year setback
Total and Permanent Disability	±15% of best estimate rates
Critical Illness (a) guaranteed tabarru' (b) non-guaranteed tabarru'	 ±40% of best estimate rates ±22.5% of best estimate rates
Renewal Expense	±10% of best estimate rates
~~Persistency~~Lapse	Max(normal lapse, mass lapse) where - Normal lapse = ±~~45~~0% of best estimate rates - Mass lapse = an immediate surrender of 30% of individual takaful certificates and an immediate surrender of 50% of group takaful certificates

Note: Guaranteed here indicates guaranteed for 3 years or more

2. In computing each FCC and ECC, the appointed actuary is required to determine and declare, for each product separately, whether it is decrement-supported (e.g. lapse-supported, mortality-supported, etc.), and to use the appropriate direction of stress factors accordingly. The selected direction of stress should be the one that produces the higher liability value in each case, to prevent any instances of negative FCC and ECC. The basis of selecting the stress factors for each product and each fund should be described in the accompanying actuarial report.

3. The value of V* should be computed for each certificate by stressing all risk factors simultaneously in the direction selected for that product.

Question 9

Labuan FSA proposes to replace the surrender value capital charges with a mass lapse component, to be incorporated under lapse risk as outlined in the table above.
Do you consider the proposed formula and parameters for calculating the lapse risk charge to be appropriate and sufficient? If not, please provide an alternative methodology and the supporting justification.

Appendix VI Rating Categories and Risk Charges

1. The rating categories below apply to both issuer and issue-specific ratings.

Rating Category	S&P	Moody's	Fitch	R&I	AM Best	RAM	MARC	Risk Charge
(i) One	AAA	Aaa	AAA	AAA	AAA	AAA	AAA	1.6%
(ii) Two	AA+ to A-	Aa1 to A3	AA+ to A-	AA+ to A-	AA+ to A-	AA1 to AA3	AA+ to AA-	2.8%
(iii) Three	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-	BBB+ to BBB-	A1 to A3	A+ to A-	4%
(iv) Four	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BB+ to BB-	BB+ to BB-	BBB1 to BBB3	BBB+ to BBB-	6%
(v) Five	Lower than BB- or unrated	Lower than Ba3 or unrated	Lower than BB- or unrated	Lower than BB- or unrated	Lower than BB- or unrated	BB1 to D or unrated	BB+ to D or unrated	12%

2. Debt facilities with original maturity of 1 year or less.

Rating Category	S&P	Moody's	Fitch	R&I	AM Best	RAM	MARC	Risk Charge
(i) One	A-1	P-1	F1+, F1	a-1+, a-1	AMB-1+,AMB-1	P-1	MARC-1	1.6%
(ii) Two	A-2	P-2	F2	a-2	AMB-2	P-2	MARC-2	4%
(iii) Three	A-3	P-3	F3	a-3	AMB-3	P-3	MARC-3	8%
(iv) Four	Others	Others	B to D	b, c	AMB-4, d	NP, D	MARC-4	12%

Question 10

Labuan FSA seeks comments on the overall proposed risk-based capital requirements for both full-fledged Labuan (re)takaful operators and (re)takaful windows of Labuan (re)insurers, including any implementation issues or considerations.