

# IFLR

INTERNATIONAL FINANCIAL LAW REVIEW

## INTERNATIONAL BRIEFINGS 2015



### Malaysia

Kadir Andri &amp; Partners

## Reference rate revisions

Effective as of January 2 2015, the base lending rate (BLR) framework was replaced by the base rate (BR) as the new reference rate for retail loan facilities. This forms part of the move to make bank borrowings more transparent for consumers. The effective lending rate (ELR) would be the BR plus a spread. Each financial service provider (FSP) will determine its BR based on its benchmark cost of funds and statutory reserve requirement. The credit risk, liquidity risk, operating cost and the profit margin will be reflected in the spread.

Under the new framework, FSPs are required to maintain proper policies and clear governance arrangements for determining the BR, periodic review and changes of the BR. The process, methodology and data used for determining the BR should be documented and made available for review by the Central Bank (Bank Negara Malaysia or BNM) as and when required.

FSPs are allowed to revise the BR and must notify BNM before the revision comes into effect. Such notification should be accompanied by the reasons if the proposed revision is not due to a change in overnight policy rate. Separately, advance notice and the particulars of the revised monthly instalments must be provided to the borrowers. If the BR is adjusted, FSPs should then make a corresponding adjustment to the BLR which is still relevant to the loan concluded before the effective date.

FSPs are not allowed to revise the spread once the contract has been concluded save for a revision made to reflect changes in the credit risk profile or creditworthiness of the borrower.

Based on the indicative ELR of FSPs

published by BNM recently, the new framework will not have major impact on consumers as the majority of the FSPs are offering their ELR between 4.45% to 4.85%, on par with rates under the previous framework. Although the FSP may revise its BR, the notification to BNM acts as a safeguard to ensure that any revision is justified.

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