

2 May 2017

TO WHOM IT MAY CONCERN

Tuan/Puan,

**Supplementary Notice (No. 2) on Foreign Exchange Administration Rules and
Amendment to the Definitions of the Notices on Foreign Exchange Administration
Rules
- Measures to Promote Development of Malaysian Financial Market**

Following Bank Negara Malaysia's (Bank) –

- (a) Notices on Foreign Exchange Administration Rules issued on 28 June 2013 (2013 Notices); and
- (b) Supplementary Notice on Foreign Exchange Administration Rules - Measures to Promote Development of Malaysian Financial Market dated 2 December 2016 (Supplementary Notice),

the Bank issues this Supplementary Notice No. 2.

Part A – Further Facilitate Foreign Exchange Risk Management

2. Dynamic Hedging Framework for Institutional Investors

- (a) A non-resident institutional investor registered with the Bank is allowed to–
 - (i) enter into forward contracts to sell ringgit up to 100% of its invested underlying ringgit-denominated asset;
 - (ii) enter into forward contracts to buy ringgit up to 25% of its invested underlying ringgit-denominated asset; or

- (iii) unwind the forward contracts described in paragraphs 2(a)(i) and 2(a)(ii) above,

without documentary evidence with a licensed onshore bank or an appointed overseas office, for the purpose of managing its ringgit exposure. The details are set out in **Appendix 1**.

- (b) A resident institutional investor registered with the Bank, is allowed to –

- (i) enter into forward contracts to buy ringgit up to 100% of its invested underlying foreign currency-denominated asset; or

- (ii) unwind the forward contracts described in paragraph 2(b)(i) above,

without documentary evidence with a licensed onshore bank, for the purpose of managing its foreign currency exposure. The details are set out in **Appendix 1**.

- (c) For purposes of this **Paragraph 2** and **Appendix 1** –

- (i) “**institutional investor**” means federal or state government, central bank, asset manager, pension fund, insurance company and takaful operator;

- (ii) “**ringgit-denominated asset**” means a non-resident institutional investor’s –

- (A) investment in ringgit-denominated debt securities on Real-time Electronic Transfer of Funds and Securities System (RENTAS);

- (B) investment in ringgit-denominated equity securities on Bursa Malaysia Berhad; or

- (C) temporary placement in ringgit deposits or deposit-like securities offered by licensed onshore banks using ringgit proceeds arising from the selling of existing ringgit-denominated securities as defined in subparagraphs (A) and (B) above pending reinvestment of such ringgit proceeds;

- (iii) “**foreign currency-denominated asset**” means a resident institutional investor’s –
 - (A) investment in foreign currency-denominated debt securities;
 - (B) investment in foreign currency-denominated equity securities; or
 - (C) temporary placement in foreign currency deposit or deposit-like securities using foreign currency proceeds arising from the selling of existing foreign currency-denominated securities as defined in subparagraphs (A) and (B) above pending reinvestment of such foreign currency proceeds;
- (iv) a non-resident institutional investor is allowed to unwind its initial forward contract with the same or a different counterparty licensed onshore bank or appointed overseas office it has entered the initial forward contract with; and
- (v) a resident institutional investor shall unwind its initial forward contract with the same counterparty licensed onshore bank it has entered the initial forward contract with.

3. Hedging Framework for Corporate Entities

- (a) A non-resident entity registered with the Bank is allowed to unwind up to 100% of its forward contracts entered with a licensed onshore bank or an appointed overseas office for underlying –
 - (i) ringgit-denominated asset;
 - (ii) ringgit-denominated borrowing; or
 - (iii) current account transactions in ringgit with a resident,for the purpose of managing its ringgit exposure. The details are set out in **Appendix 2**.
- (b) A resident entity registered with the Bank is allowed to unwind up to 100% of its forward contracts entered with a licensed onshore bank for underlying –

- (i) foreign currency-denominated asset;
- (ii) foreign currency-denominated borrowing; or
- (iii) current account transactions in foreign currency with a non-resident,

for the purpose of managing its foreign currency exposure. The details are set out in **Appendix 2**.

(c) For purposes of this **Paragraph 3** and **Appendix 2** –

- (i) “**entity**” means a non-bank entity which is involved in activities in the real sector and shall be subject to the criteria as stated in **Appendix 2**;
- (ii) “**ringgit-denominated asset**” means a non-resident entity’s investment in –
 - (A) ringgit-denominated debt securities on Real-time Electronic Transfer of Funds and Securities System (RENTAS);
 - (B) ringgit-denominated equity securities on Bursa Malaysia Berhad; or
 - (C) other portfolio or direct investments in Malaysia including property, dividend or income earned from the investment;
- (iii) “**ringgit-denominated borrowing**” means a non-resident entity’s ringgit-denominated borrowing including its interest or profit payment which is approved by the Bank under Notice 2 of the 2013 Notices or specifically approved by the Bank;
- (iv) “**foreign currency-denominated asset**” means a resident entity’s investment in –
 - (A) foreign currency-denominated debt securities;
 - (B) foreign currency-denominated equity securities;
 - (C) direct investment abroad; or
 - (D) residential or commercial property abroad;

- (v) “**foreign currency-denominated borrowing**” means a resident entity’s foreign currency-denominated borrowing including its interest or profit payment which is approved by the Bank under Notice 2 of the 2013 Notices or specifically approved by the Bank;
- (vi) a resident entity unwinding its forward contracts to buy ringgit for the purposes of managing its ringgit exposure from export of goods pursuant to paragraph 3(b)(iii) shall ensure compliance with paragraph 8 of the Supplementary Notice;
- (vii) a non-resident entity shall unwind its initial forward contract with the same counterparty licensed onshore bank or appointed overseas office it has entered the initial forward contract with; and
- (viii) a resident entity shall unwind its initial forward contract with the same counterparty licensed onshore bank it has entered the initial forward contract with.

4. Hedging without documentary evidence

A resident is allowed to –

- (a) hedge its foreign currency exposure; and
- (b) cancel its hedging position,

for USD/MYR, CNH/MYR, GBP/MYR, EUR/MYR and JPY/MYR currency pairs with a licensed onshore bank without documentary evidence up to an aggregate net open position limit of RM6 million per licensed onshore bank. The details are set out in **Appendix 3**.

5. A resident is only allowed to sell ringgit on spot or forward basis with a licensed onshore bank up to its six (6) months foreign currency obligations. “**Foreign currency obligation**” refers to foreign currency import payment, foreign currency loan repayment and other current account transactions in foreign currency with a non-resident.

Part B – Amendment to the Definitions of the Notices on Foreign Exchange Administration Rules

6. The definition of “export of goods” in the Definition of the 2013 Notices is replaced with the following:

“**export of goods**” means –

- (a) movement or transfer of goods by land, sea or air from Malaysia to any territory outside of Malaysia; or
- (b) transfer of ownership in goods from Malaysia by a resident to a non-resident abroad or a Labuan entity which was declared by the Bank as a non-resident under section 214(6)(a) of the Financial Services Act 2013 (FSA) or under section 225(6)(a) of the Islamic Financial Services Act 2013 (IFSA).

Part C – Miscellaneous

7. This Supplementary Notice No. 2 including the Appendices is issued by the Bank in exercise of the powers conferred by sections 214(2), 214(5) and 261 read together with Schedule 14 of the FSA and sections 225(2), 225(5) and 272 read together with Schedule 14 of the IFSA in relation to transactions set out in Schedule 14 of the FSA and IFSA.

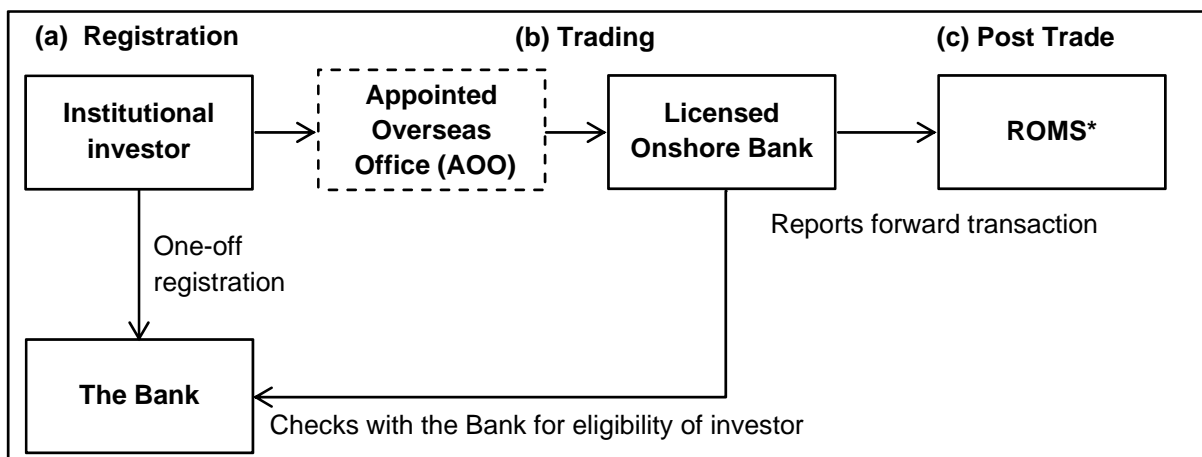
8. Following the issuance of this Supplementary Notice No. 2 –

- (a) Parts A and B of Notice 1 of the 2013 Notices are amended accordingly; and
- (b) Part A and Appendices 1 and 2 of the Supplementary Notice are deleted.

9. This Supplementary Notice No. 2 including the Appendices shall take effect **immediately** and be read together with the 2013 Notices and the Supplementary Notice. If there is any inconsistency between this Supplementary Notice No. 2 and the 2013 Notices or the Supplementary Notice, this Supplementary Notice No.2 shall prevail only to the extent of the inconsistency.

Part A – Dynamic Hedging Framework for Institutional Investors (Paragraph 2)

1. Process Flow



* Ringgit Operations Monitoring System

(a) Registration:

- An institutional investor is required to do a one-off registration by submitting the “Forward Market Participation Form – Institutional Investors” to the Bank. The form is available at the Bank’s website, www.bnm.gov.my.
- The Bank shall notify the institutional investor in writing upon acceptance of its registration.

(b) Trading:

- A registered institutional investor may engage with any licensed onshore bank or appointed overseas office to undertake an approved forward transaction.
- A licensed onshore bank is required to verify registration status of an institutional investor with the Bank prior to entering into any forward transaction.

(c) Post Trade:

- A licensed onshore bank shall report to the Bank all forward transactions via ROMS regardless of the amount.

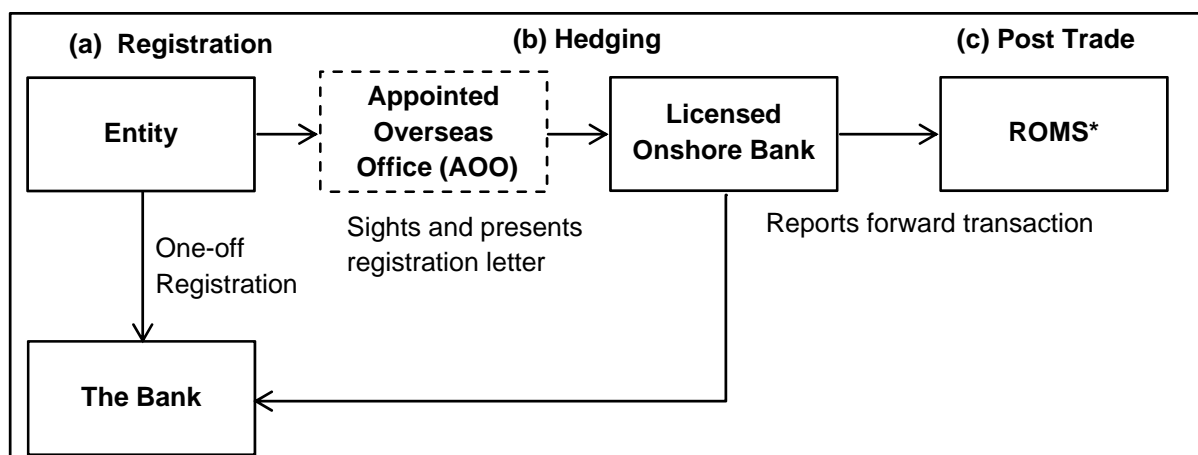
2. Illustration

- A non-resident fund manager holds RM100 million worth of Malaysian Government Securities (MGS). The fund manager is allowed to fully unwind its hedge or enter into net forward buy of ringgit up to RM25 million.

Position/Day	T+1	T+2	T+3	T+4	T+5	T+6
Forward	-100	+50	+30	+20	-100	+125
Net forward position	-100	-50	-20	0	-100	+25

Part A – Hedging Framework for Corporate Entities (Paragraph 3)

Process Flow



* Ringgit Operations Monitoring System

(a) Registration:

- An entity is required to do a one-off registration by submitting the “Forward Market Participation Form – Corporate Entities” to the Bank. The form is available at the Bank’s website, www.bnm.gov.my.
- An entity shall satisfy all the following conditions before it can be registered with the Bank –
 - (i) listed on the Main Board of Bursa Malaysia or a multinational company with asset size or total sales turnover of an average of at least RM500 million equivalent in the previous three financial years or with parent companies listed on main board of exchanges overseas ;
 - (ii) has good corporate governance and compliance with the law. In considering the registration, the Bank would take into account the applicant’s corporate governance record, including any previous actions taken against the applicant for any breach of relevant laws, guidelines or rules issued by the Bank or any other Malaysian or foreign authorities; and
 - (iii) has robust internal risk management with good track record. The entity may be required to provide summary of the corporate’s risk management policy and procedures.
- If the Bank is satisfied that the applicant entity has fulfilled all conditions for registration, the Bank shall notify the entity in writing upon acceptance of its registration.

(b) Hedging:

- To unwind a forward transaction:
 - (i) registered non-resident entity may engage with –
 - (A) any licensed onshore bank based on firm commitment or anticipatory basis; or
 - (B) appointed overseas office on firm commitment basis only,

- (ii) a registered resident entity may engage with any licensed onshore bank based on firm commitment or anticipatory basis.
- A licensed onshore bank is required to sight registration letter from the registered entity and undertake the necessary customer due diligence prior to entering into such transaction.

(c) Post Trade:

- A licensed onshore bank shall report to the Bank all forward transactions via ROMS regardless of the amount.

Part A – Further Facilitate Foreign Exchange Risk Management (Paragraph 4)**1. Process**

- A resident client (Client) shall make a one-off declaration in writing to a licensed onshore bank prior to entering into any forward contract to confirm that the Client has financial or current account transaction based on firm commitment.

2. Computation of net open position

- The net open position (NOP) limit shall be computed on an aggregate basis for all USD/MYR, CNH/MYR, GBP/MYR, EUR/MYR and JPY/MYR contracts based on total outstanding net ringgit position (notional) at any one time, per Client, per licensed onshore bank.

3. Illustration

- On the assumption that the Client's original NOP is zero:

<p style="text-align: center;">Example 1 (transaction allowed without documentary evidence)</p>	<p style="text-align: center;">Example 2 (transaction not allowed under this flexibility but can be undertaken supported with normal due diligence process by onshore banks)</p>
<ul style="list-style-type: none"> • 8.00 am: Client enters into RM6 million buy ringgit forward contract NOP = buy RM6 million • 10.00 am: Client enters into RM8 million sell ringgit forward contract NOP = sell RM2 million 	<ul style="list-style-type: none"> • 8.00 am: Client enters into RM10 million buy ringgit forward contract • 10.00 am: Client enters into RM9 million sell ringgit forward contract