

Frequently Asked Questions

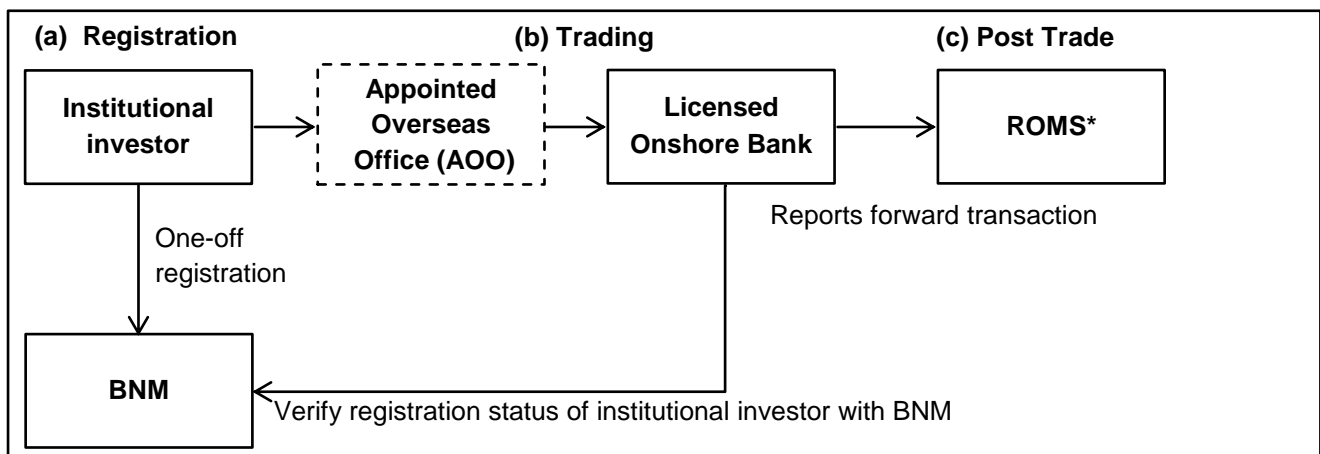
| Questions | Answer |
|--|---|
| <i>Dynamic hedging flexibilities for institutional investors</i> | |
| 1. Who is eligible for dynamic hedging? | <ul style="list-style-type: none"> • Resident and non-resident institutional investors registered with BNM, excluding – <ul style="list-style-type: none"> (a) non-resident banks; and (b) non-resident securities companies. • The registration for dynamic hedging is to be undertaken at firm level • Trust banks and custodian banks on behalf of institutional clients. |
| 2. How do institutional investors register for the dynamic hedging programme? | <ul style="list-style-type: none"> • If the investor is currently not registered, a one-off registration with BNM is required. • The form is available on Appendix 1. |
| 3. How do trust banks or global custodians apply for the dynamic hedging programme? | <ul style="list-style-type: none"> • Trust banks and global custodians may also submit the application to undertake dynamic hedging on behalf of clients. • The application form is appended as Appendix 2. |
| 4. Can an investor “carve out” specific funds for passive hedging during registration? | <ul style="list-style-type: none"> • Yes. During the registration, the investor has to make a one-off declaration of funds to be used in dynamic hedging. Funds to be “carved out” for passive hedging are not eligible for dynamic hedging. |
| 5. What hedging instruments are permissible under foreign exchange risk management? | <ul style="list-style-type: none"> • The hedging instrument allowed is buying or selling of FX/MYR forward. |
| 6. What are the underlying ringgit assets eligible for dynamic hedging? | <ul style="list-style-type: none"> • For non-resident institutional investors, eligible assets are: <ul style="list-style-type: none"> i. investment in ringgit-denominated debt securities on Real-time Electronic Transfer of Funds and Securities System (RENTAS); ii. investment in ringgit-denominated equity securities on Bursa Malaysia; or iii. 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 subparagraphs (i) and (ii) above pending reinvestment of such ringgit proceeds • For resident institutional investors, eligible assets are: |

| Questions | Answer |
|---|--|
| | <ul style="list-style-type: none"> i. investment in foreign currency-denominated debt securities; ii. investment in foreign currency-denominated equity securities; or iii. temporary placement in foreign currency deposits or deposit-like securities offered by licensed onshore banks using foreign currency proceeds arising from the selling of existing foreign currency-denominated securities as defined in subparagraphs (i) and (ii) above pending reinvestment of such foreign currency proceeds |
| <p>7. Do investors need to sign standard agreement to enter into onshore forward transaction?</p> | <ul style="list-style-type: none"> • No. However, investors are encouraged to sign a standard agreement to safeguard their interests. |
| <p>8. What is the allowable threshold for dynamic hedging?</p> | <ul style="list-style-type: none"> • A non-resident institutional investor registered with the Bank is allowed to: <ul style="list-style-type: none"> i. enter into forward contracts to sell ringgit up to 100% of invested underlying ringgit asset; ii. enter into forward contracts to buy additional ringgit up to 25% of invested underlying ringgit denominated asset; or iii. unwind the forward contracts described in (i) and (ii) above. • A resident institutional investor registered with the Bank is allowed to: <ul style="list-style-type: none"> 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 as described in (i) above |
| <p>9. What will happen in the event that an investor breaches the prudential threshold?</p> | <ul style="list-style-type: none"> • The investor shall unwind the forward position to the permitted limit. BNM will advise on the permitted timeline to unwind on a case-by-case basis (within 7 business days). Failure to do so may result in BNM reviewing the investor's eligibility. |
| <p>10. Can an institutional investor apply for additional flexibility beyond the current threshold?</p> | <ul style="list-style-type: none"> • Registered institutional investors who wish to enter into forward contracts to buy ringgit beyond the existing 25% threshold may submit an application to BNM via email to |

| Questions | Answer |
|--|--|
| | investorregister@bnm.gov.my justifying their need for additional position. |
| 11. Are investors allowed to net settle the forward transaction in USD? | <ul style="list-style-type: none"> Yes, the settlement of forward transaction can be on either gross or net basis. |
| 12. Who can non-resident investors approach to enter into dynamic hedging? | <ul style="list-style-type: none"> Non-resident investors can approach licensed onshore banks or an Appointed Overseas Office (AOO) for dynamic hedging. |
| 13. Can an investor use their existing LEI? | <ul style="list-style-type: none"> Yes, investors should use their existing LEI to register for dynamic hedging. More information on LEI is available at https://www.lei.org/. |
| 14. How should trades be undertaken by trust banks or global custodians on behalf of their clients? | <ul style="list-style-type: none"> All trades must be conducted on a gross basis on behalf of clients with an Appointed Overseas Office (AOO) or a licensed onshore bank. |
| 15. Is it a requirement to have segregated cash accounts for settlement of onshore forward transactions? | <ul style="list-style-type: none"> No. |

16. Illustration of Hedging Flexibility for Institutional Investors

Process Flow



* Ringgit Operations Monitoring System

(a) Registration:

- Institutional investor is required to do a one-off registration by submitting the Forward Market Participation Form to BNM. The form is available at Appendix 1.
- BNM shall notify the institutional investor in writing upon acceptance of the registration.

(b) Trading:

- Registered institutional investor may engage with any licensed onshore bank or Appointed Overseas Office (AOO) to undertake the forward transaction.

| Questions | Answer |
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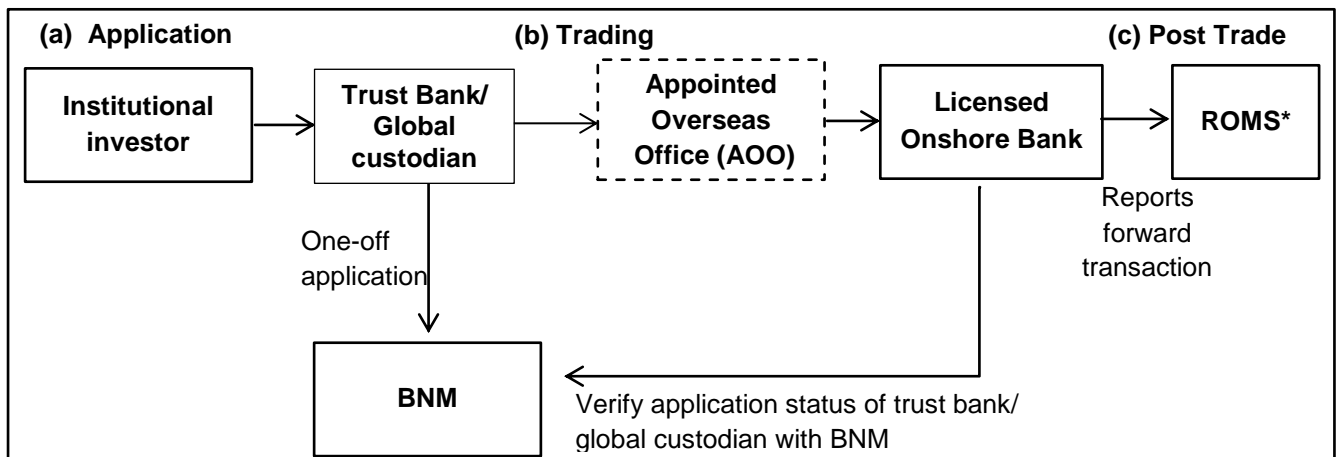
- Licensed onshore bank is required to perform a one-off verification of an institutional investor's registration status with BNM prior to entering into such transaction.

(c) Post Trade:

- Licensed onshore bank shall report to BNM all forward transactions via ROMS.

17. Illustration of Hedging Flexibility for Institutional Investors via Trust Banks or Global Custodians

Process Flow



* Ringgit Operations Monitoring System

(a) Application:

- Trust banks and global custodians are required to undertake a one-off application by submitting the Forward Market Participation form to BNM. The form is available in Appendix 2.
- BNM shall notify the trust bank or global custodian in writing upon approval of the application.

(b) Trading:

- Approved trust bank or custodian bank may engage with any licensed onshore bank or Appointed Overseas Office (AOO) to undertake the forward transaction.
- Similar to the current process with institutional investors, the licensed onshore bank is required to perform a one-off verification of the trust bank or global custodian's application status with BNM prior to entering into such transaction.

(c) Post Trade:

- All forward transactions are to be reported in ROMS via licensed onshore bank.

Illustration

- A non-resident investor holds RM100 million worth of MGS. At a point in time, the investor is allowed to undertake forward transaction to sell ringgit up to a maximum threshold of RM100 million or undertake forward transaction to buy ringgit up to a maximum threshold of RM25 million.

| Position\Day | T+1 | T+2 | T+3 | T+4 | T+5 |
|----------------------|-----|-----|-----|-----|-----|
| New Forward | -20 | +10 | -15 | +25 | +30 |
| Net forward position | -20 | -10 | -25 | 0 | +30 |

| Questions | Answer |
|--|---|
| Responsibilities of Parties Involved in Dynamic Hedging | |
| Party | Responsibilities |
| Institutional Investors | <ul style="list-style-type: none"> • To perform a one-off registration with BNM before participating in dynamic hedging • To inform the Licensed Onshore Bank or Appointed Overseas Office on their LEI for the purposes of reporting on ROMS • To ensure net forward position is within the prudential threshold |
| Licensed Onshore Bank | <ul style="list-style-type: none"> • To perform a one-off verification with BNM on whether the institutional investor is registered before conducting forward transactions under dynamic hedging • To perform a one-off verification with BNM on whether the trust bank or global custodian is approved before conducting forward transactions under dynamic hedging • To report forward transactions with the institutional investor/approved trust bank or global custodian's LEI via ROMS |
| Custodian Banks | <ul style="list-style-type: none"> • To provide information on ringgit assets held by investors upon request by BNM. |
| Approved trust bank/global custodians under the programme | <ul style="list-style-type: none"> • To report forward transactions on a gross basis on behalf of their clients to the counterparty onshore bank |
| Appointed Overseas Office (If applicable) | <ul style="list-style-type: none"> • To perform a one-off verification with BNM on whether the institutional investor is registered before conducting forward transactions under dynamic hedging • To perform a one-off verification with BNM on whether the trust bank or global custodian is approved before conducting forward transactions under dynamic hedging • To inform the Licensed Onshore Bank on forward transactions under dynamic hedging on behalf of institutional investors for the purpose of reporting on ROMS |

16 May 2019

(Please use institution's letter head)

Forward Market Participation Form – Institutional Investors

To: Director
 Investment Operations & Financial Markets
 Bank Negara Malaysia
 Jalan Dato' Onn, 50480 Kuala Lumpur

Legal Name: _____

Legal Entity Identifier¹(if any): _____

Date of Incorporation: _____

Parent Company (if any): _____

Registered Address: _____

| | |
|----------------------------|----------------------------|
| Contact Person: Name _____ | Contact Person: Name _____ |
| Designation _____ | Designation _____ |
| Tel _____ | Tel _____ |
| Email _____ | Email _____ |

Residency: Resident Non-Resident

Institutional Investor Category:

- Asset Manager Central Bank Government
Insurance Company Pension Fund Takaful Operator Others: _____

Assets Under Management: USD _____

| | | |
|-----------------------------------|----------------|-------------------|
| Holdings of Assets ³ : | Bond and Sukuk | – RM or USD _____ |
| | Equity | – RM or USD _____ |
| | Deposit | – RM or USD _____ |

Custodian Bank¹:

1. _____
 2. _____
 3. _____

Counterparty Bank^{1,2}:

1. _____
 2. _____
 3. _____

On behalf of [insert institution's legal name], I hereby -

- confirm all information provided in this form is correct and complete;
- undertake to inform Bank Negara Malaysia (BNM) via email to investorregister@bnm.gov.my should there be any changes to the information other than Assets Under Management and Holdings of Assets;
- agree that the information provided will be processed and kept by BNM on a confidential basis;
- acknowledge that BNM may disclose such information in its compliance with any legal or regulatory requirements, including any order of court;
- consent to BNM to contact the Custodian Bank(s) and Counterparty Bank(s) listed above for all queries;
- consent to the disclosure of the Legal Name and Legal Entity Identifier by BNM to the licensed onshore banks identified above or its appointed overseas office.

Authorised Signatory:

Name:

Designation & Department:

Date:

Company Stamp:

- Remarks:
- Attach if more.
 - Apply to both licensed onshore bank and appointed overseas office.
 - Refers to ringgit exposure for non-residents, and foreign currency exposure for residents.

(Please use institution's letter head)

Forward Market Participation Form – Trust Banks and Global Custodians

To: Director
 Investment Operations & Financial Markets
 Bank Negara Malaysia
 Jalan Dato' Onn, 50480 Kuala Lumpur

Legal Name: _____

Legal Entity Identifier: _____

Date of Incorporation: _____

Parent Company (if any): _____

Registered Address: _____

| | |
|----------------------------|----------------------------|
| Contact Person: Name _____ | Contact Person: Name _____ |
| Designation _____ | Designation _____ |
| Tel _____ | Tel _____ |
| Email _____ | Email _____ |

Participant Category: Trust Bank Custodian Bank

Assets under Custody: USD _____

Local Custodian Bank¹:

1. _____
 2. _____
 3. _____

Counterparty Bank^{1,2}

1. _____
 2. _____
 3. _____

Client Details¹:

Investor Name

1. _____
 2. _____
 3. _____

Breakdown of Assets³

| | Bonds | Equity | Deposit |
|--------|-------|--------|---------|
| RM/USD | _____ | _____ | _____ |
| RM/USD | _____ | _____ | _____ |
| RM/USD | _____ | _____ | _____ |
| Total | _____ | _____ | _____ |

On behalf of [insert institution's legal name], I hereby -

- confirm all information provided in this form is correct and complete;
- undertake to inform Bank Negara Malaysia (BNM) via email to investorregister@bnm.gov.my should there be any changes to the information other than Assets Under Custody and Breakdown of Assets;
- agree that the information provided will be processed and kept by BNM on a confidential basis;
- acknowledge that BNM may disclose such information in its compliance with any legal or regulatory requirements, including any order of court;
- consent to BNM to contact the Custodian Bank(s) and Counterparty Bank(s) listed above for all queries;
- consent to the disclosure of the Legal Name and Legal Entity Identifier by BNM to the licensed onshore banks identified above or its appointed overseas office;
- agree that all trades under this programme are strictly on behalf of clients listed above for the management of their foreign exchange exposures and will be conducted on a gross basis;
- undertake not to conduct or transact in any offshore MYR foreign exchange derivative contracts or any instruments of similar substance.

Authorised Signatory:

Name:

Designation & Department:

Date:

Company Stamp:

Remarks: 1. Attach if more.
 2. Applies to both licensed onshore bank and appointed overseas office.
 3. Refers to ringgit exposure for non-resident clients.