

## Frequently Asked Questions

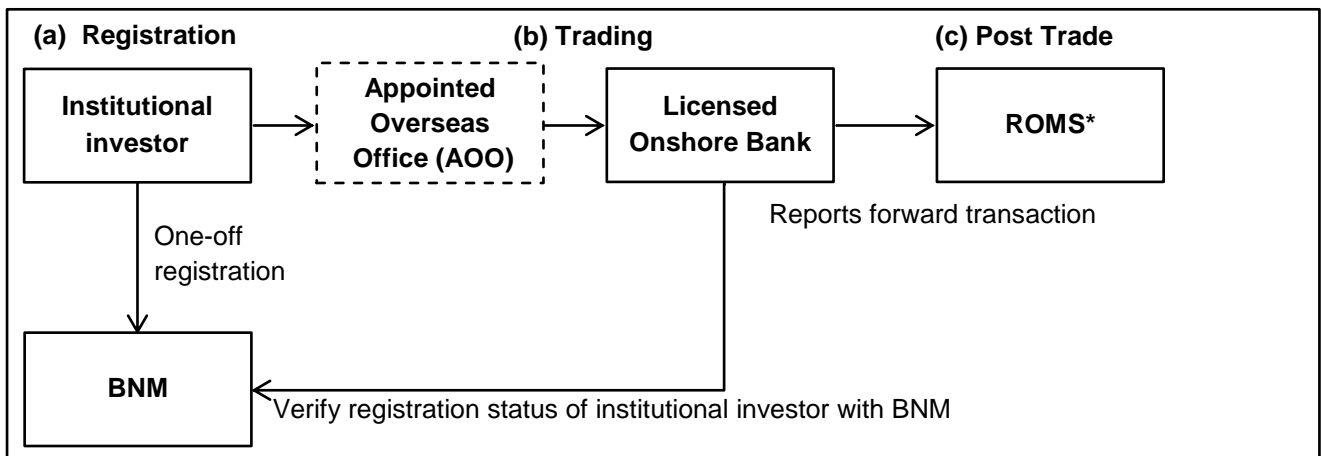
Questions	Answer
<b><i>Dynamic hedging flexibilities for institutional investors</i></b>	
1. Who is eligible for dynamic hedging?	<ul style="list-style-type: none"> <li>• Resident and non-resident institutional investors registered with BNM, excluding –               <ul style="list-style-type: none">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

Questions	Answer
	<ul style="list-style-type: none"> <li>ii. investment in foreign currency-denominated equity securities; or</li> <li>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</li> </ul>
<p>7. Do investors need to sign standard agreement to enter into onshore forward transaction?</p>	<ul style="list-style-type: none"> <li>• No. However, investors are encouraged to sign a standard agreement to safeguard their interests.</li> </ul>
<p>8. What is the allowable threshold for dynamic hedging?</p>	<ul style="list-style-type: none"> <li>• A non-resident institutional investor registered with the Bank is allowed to: <ul style="list-style-type: none"> <li>i. enter into forward contracts to sell ringgit up to 100% of invested underlying ringgit asset;</li> <li>ii. enter into forward contracts to buy additional ringgit up to 25% of invested underlying ringgit denominated asset; or</li> <li>iii. unwind the forward contracts described in (i) and (ii) above.</li> </ul> </li> <li>• A resident institutional investor registered with the Bank is allowed to: <ul style="list-style-type: none"> <li>i. enter into forward contracts to buy ringgit up to 100% of its invested underlying foreign currency denominated asset; or</li> <li>ii. unwind the forward contracts as described in (i) above</li> </ul> </li> </ul>
<p>9. Can investors hedge based on market value of the underlying asset?</p>	<ul style="list-style-type: none"> <li>• Yes, investors can hedge based on either the nominal value or the market value of the underlying assets.</li> </ul>
<p>10. What will happen in the event that an investor breaches the prudential threshold?</p>	<ul style="list-style-type: none"> <li>• The Bank will assess the reason for the breach and may on a case-by-case basis require the investor to unwind the forward position to the permitted limit.</li> <li>• If the investor is required to unwind the forward position, this can be done typically within 7 business days.</li> <li>• However, if the investor fails to unwind the forward position when required, the investor's eligibility for the programme may be reviewed.</li> </ul>

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

## 17. 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.

Questions	Answer
-----------	--------

**(b) Trading:**

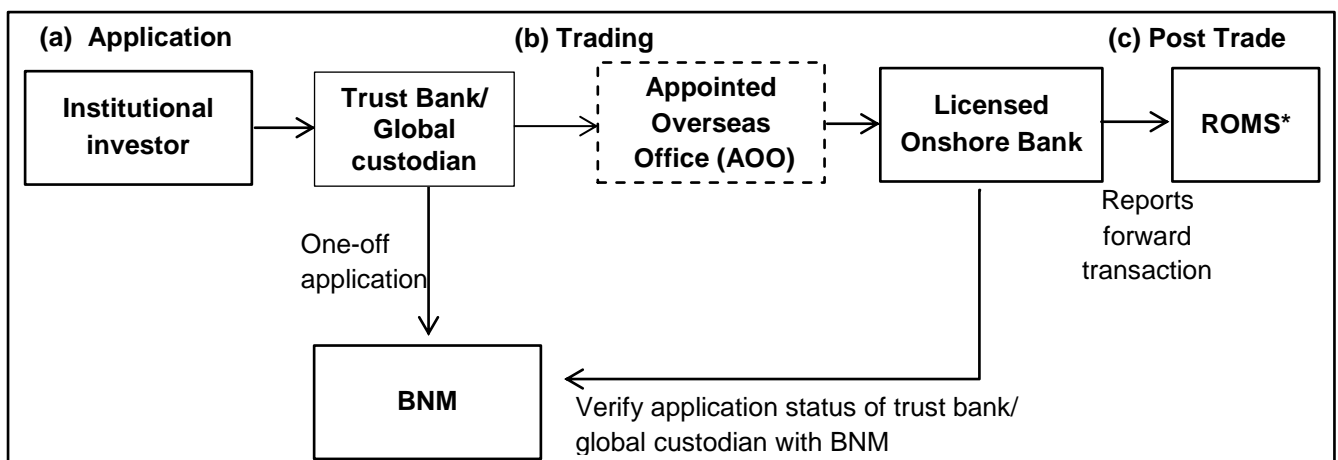
- Registered institutional investor may engage with any licensed onshore bank or Appointed Overseas Office (AOO) to undertake the forward transaction.
- Licensed onshore bank is required to perform a one-off verification of an institutional investor's registration status with BNM prior to entering into such transaction.

**(c) Post Trade:**

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

18. 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.

Questions		Answer				
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	

### Responsibilities of Parties Involved in Dynamic Hedging

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

30 August 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 Identifier<sup>1</sup>(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 <sup>3</sup> :	Bond and Sukuk	– RM or USD _____
	Equity	– RM or USD _____
	Deposit	– RM or USD _____

Custodian Bank<sup>1</sup>:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

Counterparty Bank<sup>1,2</sup>:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

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

1. confirm all information provided in this form is correct and complete;
2. undertake to inform Bank Negara Malaysia (BNM) via email to [investorregister@bnm.gov.my](mailto:investorregister@bnm.gov.my) should there be any changes to the information other than Assets Under Management and Holdings of Assets;
3. agree that the information provided will be processed and kept by BNM on a confidential basis;
4. acknowledge that BNM may disclose such information in its compliance with any legal or regulatory requirements, including any order of court;
5. consent to BNM to contact the Custodian Bank(s) and Counterparty Bank(s) listed above for all queries;
6. 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:**
1. Attach if more.
  2. Apply to both licensed onshore bank and appointed overseas office.
  3. 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 Bank<sup>1</sup>:

1. \_\_\_\_\_  
 2. \_\_\_\_\_  
 3. \_\_\_\_\_

Counterparty Bank<sup>1,2</sup>

1. \_\_\_\_\_  
 2. \_\_\_\_\_  
 3. \_\_\_\_\_

Client Details<sup>1</sup>:

Investor Name

1. \_\_\_\_\_  
 2. \_\_\_\_\_  
 3. \_\_\_\_\_

Breakdown of Assets<sup>3</sup>

	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](mailto: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:
- Attach if more.
  - Applies to both licensed onshore bank and appointed overseas office.
  - Refers to ringgit exposure for non-resident clients.