Frequently Asked Questions (FAQ)

Buying and Selling of Foreign Exchange (FX) by Resident (Notice 1)	
Questions	**Answer**
1. Can a resident company hedge its investment in foreign currency (FC) assets offered in Malaysia by a resident?	• Yes, provided that the transaction is undertaken with a licensed onshore bank.
2. My company entered into a forward contract with a licensed onshore bank based on anticipatory investment in FC assets. Can my company maintain the forward contract if the projected investment fail to materialise?	• No, your company must cancel the forward contract should the projected investment fail to materialise.
3. Can a resident individual buy or sell FC from or to any non-resident?	• No. A resident may only buy or sell – (a) FC with licensed onshore banks; or (b) FC notes with licensed money changers.
4. Is a resident required to cancel an over-hedged forward position?	• Yes.
Hedging of foreign currency obligations	
5. What does FC obligation refer to?	• FC obligation refers to – (a) import payment to a non-resident; (b) FC borrowing repayment; (c) other current account transactions in FC with a non-resident; and (d) permitted FC payment for domestic trade in goods or services between a resident exporter and a resident SME.
6. Is there any tenure limit for a resident to hedge their FC obligations?	• A resident is free to enter into – (a) spot basis transaction up to its 6 months FC obligations; or (b) forward basis transaction up to underlying tenure for FC obligations.
7. Can a resident freely hedge their investments in FC assets?	• Yes, a resident is free to hedge up to the underlying subject to permissible limit on investment in FC assets.
8. Can a resident freely hedge their export receipt up to the underlying tenure and amount?	• Yes, a resident is free to buy ringgit against FC to hedge incoming funds, including export proceeds, up to the underlying tenure and amount.

Buying and Selling of Foreign Exchange (FX) by Resident (Notice 1)		
	Questions	**Answer**
9.	If a resident's borrowing repayment is due in 24 months, can the resident hedge up to 12 months and roll-over the forward contract later?	• Yes.
10.	A resident company obtains a FC borrowing from a licensed onshore bank with a tenure of 3 years. Can the resident company enter into a forward contract up to 3-year tenure to match with the borrowing contract?	• Yes.
Hedging on behalf of related entities		
11.	What are the types of underlying FX exposures that can be managed?	• Any FX exposure arising from permitted underlying commitments belonging to the related entities.
12.	Are associate companies considered part of related entities?	• Yes, a resident entity may undertake FX transactions on behalf of its related entities including its associated company.
13.	Is a resident company undertaking FX transactions on behalf of related entities allowed to make payment on behalf of such related entities?	• Yes. • Notwithstanding the above, approval from BNM is required for underlying payment in FC for settlement of trade in goods and services between related resident entities.
Cancellation or unwinding of hedged positions involving ringgit for any underlying commitment except portfolio investment		
14.	Can a resident freely cancel or unwind a forward contract even if the underlying transaction, such as FC borrowing still exists (not fully repaid)?	• Yes. There is no restriction to cancel or unwind any forward contract involving ringgit where the underlying commitment still exists.
15.	Is there a limit on the forward contract or threshold that a resident can cancel or unwind?	• No, but a resident shall not utilise such flexibility to speculate on the ringgit.
16.	Can a resident unwind an existing forward contract by entering into a forward contract without underlying?	• Yes, provided that the licensed onshore bank is satisfied that the forward contract is entered to cancel any existing forward contract with underlying.
17.	Can a resident unwind its forward position with a different licensed onshore bank?	• Yes, provided that the licensed onshore bank is satisfied that the forward contract is entered to cancel any existing forward contract with underlying commitment.
18.	Can a resident institutional investor cancel or unwind forward contracts	• Yes, a resident institutional investor can do so upon registering with BNM under the Dynamic Hedging Framework.

<table>
<tr><th colspan="2">Buying and Selling of Foreign Exchange (FX) by Resident (Notice 1)</th></tr>
<tr><th>Questions</th><th>Answer</th></tr>
<tr><td>entered to manage FX risks arising from portfolio investment?</td><td></td></tr>
<tr><td colspan="2">Dynamic Hedging Framework for Institutional Entities</td></tr>
<tr><td>19. Who is eligible for dynamic hedging framework?</td><td>• Any resident institutional investor can register with BNM at firm level.</td></tr>
<tr><td>20. If a resident institutional investor is registered at the firm level, is it permitted to “carve out” specific funds for passive hedging?</td><td>• Yes. During the registration, the resident institutional 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.</td></tr>
<tr><td>21. What hedging instruments are permissible under FX risk management?</td><td>• The hedging instrument allowed is buying or selling of plain vanilla FX/MYR forward contract.</td></tr>
<tr><td>22. What are the underlying assets eligible for dynamic hedging?</td><td>• For a resident institutional investor, eligible asset are:
(a) investment in FC-denominated debt securities;
(b) investment in FC-denominated equity securities; or
(c) temporary placement in FC deposits or deposit-like securities using FC proceeds arising from the selling of existing FC-denominated securities as per above up to 3 months pending reinvestment of such FC proceeds.</td></tr>
<tr><td>23. Does a resident institutional investor need to sign standard agreement to enter into onshore forward transaction?</td><td>• No, but the resident institutional investor is encouraged to sign a standard agreement to safeguard its interests.</td></tr>
<tr><td>24. What is the permitted threshold for dynamic hedging?</td><td>• A resident institutional investor registered with BNM is free to enter into forward contracts to buy ringgit against FC up to 100% of its invested underlying FC-denominated assets.</td></tr>
<tr><td>25. What will happen in the event that a resident institutional investor breaches the permitted threshold?</td><td>• The resident institutional investor must 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 resident institutional investor’s eligibility.</td></tr>
</table>

Buying and Selling of Foreign Exchange (FX) by Resident (Notice 1)	
Questions	**Answer**
26. Can a resident institutional investor use its existing Legal Entity Identifier (LEI)?	• Yes. BNM will provide an ID to a resident institutional investor without LEI. More information on LEI is available at https://www.leiroc.org/.
FX hedging of non-FX derivative contracts offered by a resident provider	
27. Does a resident need to register or notify BNM to enjoy this flexibility?	• No. Registration or notification is no longer required.
28. Does a resident need to observe the Net Open Position (NOP) requirement at all times?	• No, the NOP requirement is applicable at the end of the business day in line with international standard. • If the FX market has closed, unwinding is required at the earliest possible time.
29. Is documentation required given my non-FX derivative service provider or broker is unable to provide a statement of my derivative contracts position in a timely manner prior to undertaking the FX transaction?	• No, documentation is not required subject to a licensed onshore bank's KYC procedures.
30. Is the NOP computed based on aggregate underlying derivative contracts entered with a resident?	• No, the NOP is computed based on the respective types of derivative contracts.
31. Can a resident hedge their derivative contracts offered by a resident provider that is denominated in FC?	• Yes. The underlying derivative contracts can be in either ringgit or FC.
32. What are the permitted derivatives under this flexibility?	• Any derivative, other than exchange rate derivatives, denominated in ringgit or FC traded on Bursa Malaysia or offered over-the-counter (OTC) by approved resident providers. • Example of permitted derivatives contract traded include Crude Palm Oil Futures (FCPO) and Options on Crude Palm Oil Futures (OCPO) traded on Bursa Malaysia as well as metal composite contract offered by a licensed onshore bank.

<table>
<tr><th colspan="2">Buying and Selling of Foreign Exchange (FX) by Resident (Notice 1)</th></tr>
<tr><th>Questions</th><th>Answer</th></tr>
<tr><td colspan="2">33. Illustration of FX hedging of derivative contract by a resident

A Resident merchant enters into USD-denominated Tin Futures (FTIN) with a Resident derivative service provider to hedge the price of tin. The Resident merchant is allowed to hedge its currency exposure by undertaking Forward basis transaction up to the NOP of the USD exposure. Note that the NOP of the USD exposure and the FTIN is the same.


</td></tr>
</table>

Bank Negara Malaysia
Updated: 13 July 2020