

TO WHOM IT MAY CONCERN

Tuan,

**Supplementary Notice on Foreign Exchange Administration Rules  
- Measures to Promote The Development of Malaysian Financial Market**

In efforts to accelerate the development of Malaysian financial market and to promote financial stability, Bank Negara Malaysia (Bank) is pleased to announce a set of measures in respect of foreign exchange administration (FEA) rules to –

- (a) further facilitate foreign exchange risk management;
- (b) promote settlement of trade and investment in ringgit; and
- (c) enhance depth and liquidity of onshore financial market.

**Part A – Further Facilitate Foreign Exchange Risk Management**

2. A non-resident institutional investor registered with the Bank, is allowed to –
- (a) cancel forward contracts entered with underlying ringgit-denominated asset<sup>1</sup>; and
  - (b) overlay hedge by entering into forward sell or buy of ringgit for underlying ringgit-denominated asset,

up to 25% of its invested ringgit-denominated assets 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**.

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<sup>1</sup> Refers to a non-resident institutional investor's investment in ringgit-denominated debt securities on Real-time Electronic Transfer of Funds and Securities System (RENTAS), equity securities on Bursa Malaysia Berhad and ringgit deposits or deposit-like securities offered by licensed onshore banks.

3. A resident institutional investor registered with the Bank, is allowed to –
- (a) cancel forward contracts entered with underlying foreign currency-denominated asset<sup>2</sup>; and
  - (b) overlay hedge by entering into forward sell or buy of ringgit for underlying foreign currency-denominated asset,

up to 25% of its invested foreign currency-denominated assets 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**.

4. A resident is allowed to –
- (a) hedge its foreign currency exposure; and
  - (b) cancel its hedging position,

for USD/MYR and CNH/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 2**.

5. For purposes of this **Part A** and **Appendix 1**, “institutional investor” means federal or state government, central bank, asset manager, hedge fund, pension fund, insurance company and takaful operator.

### **Part B – Promote Settlement of Trade and Investment in Ringgit**

6. A non-resident financial institution appointed by a licensed onshore bank and approved by the Bank is allowed to undertake the following transactions:
- (a) buying and selling of ringgit on forward basis with a non-resident based on firm commitment for financial account transactions;
  - (b) opening of ringgit account for book-keeping purposes for a non-resident; or
  - (c) providing ringgit trade financing to a non-resident for settlement of international trade in goods and services with a resident.

The details are set out in **Appendix 3**.

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<sup>2</sup> Refers to a resident institutional investor’s investment in foreign currency-denominated debt securities, equity securities and foreign currency deposit or deposit-like securities.

7. All settlement of domestic trade in goods or services between residents shall be made only in ringgit.

### **Part C – Enhance Depth and Liquidity of Onshore Financial Market**

8. A resident exporter is allowed to retain up to 25% of foreign currency proceeds from its exports of goods. The balance of foreign currency proceeds from the exports of goods shall be converted into ringgit with a licensed onshore bank. Illustration is set out in **Appendix 4**.

9. The existing foreign currency accounts, namely “Foreign Currency Account I” and “Foreign Currency Account II”, shall be replaced with “Trade Foreign Currency Account” and “Investment Foreign Currency Account”, respectively. The list of approved sources and approved uses of funds for both accounts are set out in **Appendix 5**.

10. A resident without domestic ringgit borrowing is allowed to undertake any amount of investment in foreign currency asset onshore for its own account or on behalf of clients.

11. A resident entity with domestic ringgit borrowing is allowed to undertake investment abroad and investment in foreign currency asset onshore in aggregate via its Investment Foreign Currency Account as set out in **Appendix 5**.

12. A resident individual, sole proprietor or general partnership with domestic ringgit borrowing is allowed to undertake investment abroad and investment in foreign currency asset onshore in aggregate as set out in **Appendix 5**.

### **Part D – Miscellaneous**

13. This Supplementary Notice including the Appendixes is issued by the Bank in exercise of the powers conferred by sections 214(2) and (5), section 261 and read together with Schedule 14 of the Financial Services Act 2013 (FSA) and sections 225(2) and (5), section 272 read together with Schedule 14 of the Islamic Financial Services Act 2013 in relation to transactions set out in Schedule 14 of the FSA and IFSA.

14. The following parts and paragraphs in the Notices on Foreign Exchange Administration Rules issued on 28 June 2013 (2013 Notices) are amended:

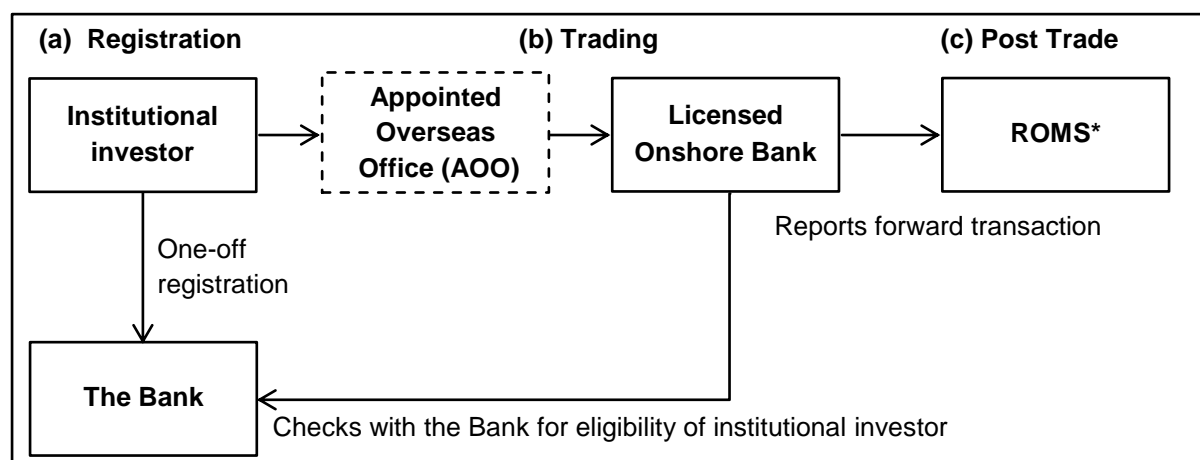
- (a) Parts A and B of Notice 1;
- (b) paragraphs 1, 3(b), 4(1)(b), 4(3) and 5 of Notice 3; and

(c) paragraph 4(1)(c) and Part F of Notice 4.

15. This Supplementary Notice including the Appendixes shall take effect on **5 December 2016** and be read together with the 2013 Notices. If there is any inconsistency between this Supplementary Notice and the 2013 Notices, this Supplementary Notice shall prevail only to the extent of the inconsistency.

## Part A – Further Facilitate Foreign Exchange Risk Management (Paragraphs 2 and 3)

### 1. 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 the Bank. The form is available at the Bank's website, [www.bnm.gov.my](http://www.bnm.gov.my).
- The Bank 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 to undertake the forward transaction.
- Licensed onshore bank is required to verify registration status of an institutional investor with the Bank prior to entering into such transaction.

#### (c) Post Trade:

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

### 2. Illustration

- A fund manager holds RM100 mil worth of Malaysian Government Securities (MGS). The fund manager is allowed to undertake forward transaction i.e. forward sell or buy ringgit up to RM25 million.

Position\Day	T+1	T+2	T+3	T+4	T+5	T+6
Forward	-20	+10	-15	+25	-20	+35
Net forward position	-20	-10	-25	0	-20	+15

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

- A resident client (client) shall make one-off declaration in writing to 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 both USD/MYR and CNH/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;"><b>Example 1</b> (transaction allowed without documentary evidence)</p>	<p style="text-align: center;"><b>Example 2</b> (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"> <li>• 8.00 am: Client enters into RM6 million buy ringgit forward contract NOP = buy RM6 million</li> <li>• 10.00 am: Client enters into RM8 million sell ringgit forward contract NOP= sell RM2 million</li> </ul>	<ul style="list-style-type: none"> <li>• 8.00 am: Client enters into RM10 million buy ringgit forward contract</li> <li>• 10.00 am: Client enters into RM9 million sell ringgit forward contract</li> </ul>

**Part B – Promote Settlement of Trade and Investment in Ringgit (Paragraph 6)****Process**

- A licensed onshore bank shall seek written approval from the Bank for consideration to appoint a non-resident financial institution to undertake the following with non-residents:

	<b>Outside the licensed onshore bank's banking group</b>	<b>Within the licensed onshore bank's banking group</b>
Buying and selling of ringgit on forward basis based on firm commitment for financial account transactions	✓	-
Opening of ringgit account for book-keeping purposes	✓	✓
Providing of ringgit trade financing for settlement of trade of goods and services with a resident	✓	✓

\*Tick symbol: requires prior approval from the Bank

## Part C – Enhance Depth and Liquidity of Onshore Financial Market (Paragraph 8)

### 1. Process

- Licensed onshore bank is required to facilitate a resident to retain up to 25% of the resident's export proceeds of goods in foreign currency in the Trade Foreign Currency Account (FCA). The balance of such export proceeds shall be converted into ringgit.

### 2. Illustration

- A resident entity, Company XYZ has an incoming export proceeds of goods on 1 January 2017 amounting to USD100 million. Company XYZ maintains a Trade FCA and a ringgit account with a licensed onshore bank, Bank A.

#### 1 January 2017

Upon receipt of export proceeds of USD100 million, Company XYZ retains the maximum amount of 25% of its export proceeds in foreign currency. Bank A shall immediately –

	Trade FCA (USD mil)	Ringgit account (RM mil equivalent)
(a) Retain export proceeds in foreign currency	25	
(b) Convert export proceeds into ringgit		300 <sup>3</sup>

<sup>3</sup> Based on assumption USD/MYR = 4.



**Part C - Enhance Depth and Liquidity of Onshore Financial Market (Paragraphs 9, 11 and 12)**

**Sources and Uses of Funds into/from Trade Foreign Currency Account (FCA) and Investment FCA**

**1. Resident entity**

	<b>Trade FCA</b>	<b>Investment FCA</b>
<b>Source of funds</b>	<ul style="list-style-type: none"> <li>• Up to 25% of receipt of export of goods upon receipt of the proceeds</li> <li>• Conversion of ringgit up to six months foreign currency obligations</li> <li>• Other foreign currency funds</li> </ul>	<ul style="list-style-type: none"> <li>• Any amount using foreign currency funds –               <ul style="list-style-type: none"> <li>✓ From abroad, other than proceeds from export of goods</li> <li>✓ From a non-resident, other than foreign currency borrowing</li> <li>✓ Foreign currency borrowing from a licensed onshore bank for direct investment abroad (DIA)</li> </ul> </li> <li>• Up the amount of –               <ul style="list-style-type: none"> <li>✓ Approved foreign currency borrowing from non-resident</li> <li>✓ Foreign currency sourced from Initial Public Offering on the Main Market of Bursa Malaysia</li> </ul> </li> <li>• Up to RM50 million equivalent<sup>4</sup> in aggregate per calendar year on a corporate group basis from –               <ul style="list-style-type: none"> <li>✓ Conversion of ringgit</li> <li>✓ Foreign currency borrowing from a licensed onshore bank for purposes other than DIA</li> <li>✓ Swapping of financial assets</li> <li>✓ Transfer from Trade FCA</li> </ul> </li> </ul>
<b>Uses of funds</b>	<ul style="list-style-type: none"> <li>• Foreign currency obligations               <ul style="list-style-type: none"> <li>✓ Import payment</li> <li>✓ Foreign currency loan repayment</li> </ul> </li> <li>• Transfer into Investment FCA subject to investment limit</li> <li>• Other current international transactions</li> </ul>	<ul style="list-style-type: none"> <li>• Any purpose</li> </ul>

<sup>4</sup> This is applicable to resident entities with domestic ringgit borrowing only.

## 2. Resident individual, sole proprietor or general partnership

	Trade FCA	Investment FCA
<b>Source of funds</b>	<ul style="list-style-type: none"> <li>• Up to 25% of receipt of export of goods upon receipt of the proceeds</li> <li>• Conversion of ringgit up to six months foreign currency obligations</li> <li>• Other foreign currency funds</li> </ul>	<ul style="list-style-type: none"> <li>• Any amount using foreign currency funds – <ul style="list-style-type: none"> <li>✓ From abroad, other than proceeds from export of goods</li> <li>✓ From a non-resident, other than foreign currency borrowing</li> </ul> </li> <li>• Up to RM10 million equivalent of foreign currency borrowing from a licensed onshore bank or a non-resident</li> <li>• Up to RM1 million equivalent<sup>5</sup> in aggregate per calendar year using funds from – <ul style="list-style-type: none"> <li>✓ Conversion of ringgit</li> <li>✓ Swapping of financial assets</li> <li>✓ Transfer from Trade FCA</li> </ul> </li> </ul>
<b>Uses of funds</b>	<ul style="list-style-type: none"> <li>• Foreign currency obligations <ul style="list-style-type: none"> <li>✓ Import payment</li> <li>✓ Foreign currency loan repayment</li> </ul> </li> <li>• Transfer into Investment FCA subject to investment limit</li> <li>• Other current international transactions</li> </ul>	<ul style="list-style-type: none"> <li>• Any purpose</li> </ul>

<sup>5</sup> This is applicable to resident individual, sole proprietor or general partnership with domestic ringgit borrowing only.