Local Currency Settlement Framework with Thailand and Indonesia

As part of efforts to enhance financial and economic integration in the ASEAN region, the Ringgit-Baht (MYR-THB) Local Currency Settlement Framework (LCSF) was established in March 2016 in collaboration with Bank of Thailand (BOT) to encourage local currency usage for trade settlement between Malaysia and Thailand. In Dec 2017, the MYR-THB LCSF was further expanded to include direct investment and income transfer, and Ringgit-Rupiah (MYR-IDR) LCSF was introduced in collaboration with Bank Indonesia (BI) to facilitate bilateral trade settlement.

### Key objectives
- Enhance regional financial integration among ASEAN countries
- Encourage use of local currency for trade settlement and direct investment
- Reduce currency risks arising from volatility of major currencies
- Spur development and innovation of regional financial products

### Main features
- Foreign Exchange Administration (FEA) flexibilities
- Appointment of financial institutions as cross-currency dealers (ACCD)
- Monitoring and surveillance mechanism
- Bilateral local currency swap arrangement as backstop liquidity facility

### Benefits to market players
- Provides greater efficiency for Malaysian businesses to access Thai baht and Indonesian rupiah in Malaysia, and hence, reduces foreign exchange (FX) costs.
- Malaysian businesses can obtain financial services in Thai baht and Indonesian rupiah such as FX, financing and deposit accounts directly from Malaysian ACCDs
- Trade settlement in ringgit by Malaysian exporters and importers reduces FX risk

### Differences between MYR-THB LCSF with Thailand and MYR-IDR LCSF with Indonesia

#### MYR-THB LCSF
- Trade of goods and services
- Direct investment
- Income transfer
- Flexible FX risk management for MYR/THB
- THB financing and deposit account
- Direct MYR/THB quotes on Reuters
- Investors
- Exporters and importers of goods and services with Thailand
- Businesses with Thai workers
- Maybank
  - CIMB Bank
  - RHB Bank
  - Public Bank
  - Bangkok Bank
  - MUFG Bank
  - UOB Bank

#### MYR-IDR LCSF
- Trade of goods and services only
- Flexible FX risk management for MYR/IDR
- IDR financing and deposit account
- Direct MYR/IDR quotes on Reuters
- Investors
- Exporters and importers of goods and services with Indonesia
- Maybank
  - CIMB Bank
  - RHB Bank
  - Public Bank
  - Hong Leong Bank

### Illustration

**Current arrangement:**
- Malaysian importer
  - Convert RM into USD
  - Transfer USD
- Thai/Indonesian exporter
  - Convert USD into THB/IDR

**Impact:** Double conversion, ↑ FX costs

**Framework arrangement:**
- Malaysian importer
  - Convert RM into THB/IDR
  - Receives THB/IDR
- Thai/Indonesian exporter
  - Receives RM

**Impact:** Single conversion (by Malaysian importer) and no conversion (by Thai/Indonesian exporter), ↓ FX cost

For any enquiry on LCSF, you may contact the following BNM officers from Foreign Exchange Administration (FEA) Department at 03-2698 8044 (Haziq ext. 8283 and Zulazwer ext. 8059)