

FX Market Sub-Committee 2/2016
Monday, 18 Jul 2016
Bank Negara Malaysia

Summary of Discussion

Attendees' views were sought on three areas: (1) Industry-standard documentation requirement for compliance with Foreign Exchange Administration (FEA) rules, (2) Electronic foreign exchange (FX) trading platform and (3) Attracting Investors to hedge onshore.

1. Industry-standard documentation requirement for compliance with FEA rules

- The working group shared that the scope for consistent approach by banks to comply with FEA rules shall not only be limited to the type of supporting documentations but also the timing and frequency to sight the documentary evidence according to the purpose of transactions.
- A few attendees highlighted the need to address the issues of inconsistent interpretation of FEA rules among the market participants. It is suggested that the banks conduct a series of training programmes to branches, compliance officers and clients to ensure consistent interpretation and application of industry-standard documentation requirement among market participants.
- It was emphasized that this would be an industry initiative to standardise the interpretation and practice within the industry. The existing FEA framework remains principle based where individual banks shall be guided by Know Your Customer principle and establish their own internal controls to ensure compliance.

2. Electronic foreign exchange (FX) trading platform

- The meeting discussed electronic FX trading platform and ways to promote active use on trading platforms. The electronic trading platform is viewed as a positive avenue to promote efficient pricing and enhance market transparency.
- In promoting electronic trading platform in Malaysia FX market, a few attendees suggested to focus on interbank trading platform and to discuss further on the FX market structure moving forward.

3. Attracting Investors to hedge onshore

- The meeting discussed challenges, such as FEA documentation requirements, ISDA documentation with counterparties and credit limit with the onshore banks, which hinder efficient hedging by investors.
- To overcome these challenges, a pilot program can be formulated to provide a more facilitative regulatory framework to investors which shall cover corporates, foreign investors, SMEs and asset management companies. The pilot program will be industry specific and drafting of the framework will be led by BNM.
- It is also suggested that SC to discuss with asset managers and trustees related to ISDA documentation and collateral management arising from derivatives position.