

Financial Markets Committee 3/2016
Thursday, 1 Dec 2016,
Sasana Kijang, BNM

Summary of Discussion

The Committee discussed the following initiatives to develop the onshore financial market which was announced on 2 December 2017: (1) Liberalisation of the onshore ringgit hedging market, (2) Enhanced accessibility of non-residents to the onshore financial market, and (3) Incentives and treatment of export proceeds.

1. Liberalization of the onshore ringgit hedging market

- Greater flexibility to manage foreign exchange (FX) risks for residents including resident fund managers where they may actively hedge their USD and CNH exposures without the need to show documentary evidence to their banks, up to a limit of RM6 million per client per bank. Only a one-time declaration of non-participation in speculative activity is required.
- FMC members suggested for a standardised declaration form to ensure consistency among market participants. Industry association will assist with the standardised declaration form, which will be endorsed by BNM before onward circulation to relevant market participants.
- The FMC also discussed on allowance for resident and non-resident fund managers to actively manage their FX exposure up to 25% of their invested assets upon registration with BNM.

2. Enhanced accessibility of non-residents to the onshore financial market

- The FMC members deliberated on the broadening of foreign investors' and corporates' access to the onshore FX market via the Appointed Overseas Office framework which will be accorded additional flexibilities on ringgit transactions. These flexibilities include FX hedging for current and financial account based on commitment, opening of ringgit account and extension of ringgit trade financing.

3. Incentives and treatment of export proceeds

- On export proceeds conversion, the meeting further deliberated on allowance for exporters to retain more than 25% of export proceeds in foreign currency.
- BNM shared that corporates may place the converted export proceeds in MYR into a special account, which pays daily interest of OPR + 25 bps (i.e. 3.25%) per annum. For clarity, this is applicable to new inflows effective 5th December 2016.
- Consequent to the implementation of the above strategies, the operations of Foreign Currency Account 1 (FCA1) and Foreign Currency Account 2 (FCA 2) will be reviewed.

4. Others

- BNM in collaboration with selected principal dealers is reviewing mechanisms to improve liquidity in the secondary bond market.