MDD Guide for Notice 3

(updated on 1 November 2025)

General Due Diligence Processes

1. In facilitating every transaction, a licensed onshore bank (LOB) shall obtain the purpose of the transaction from the clients in line with External Sector Statistics (ESS) reporting guideline. Verification on the purpose of transactions based on declaration from the clients shall be supported by internal checks on the status of the client (e.g. foreign exchange policy (FEP) compliance track record) as guided by know your customer (KYC) principle and the LOB's own compliance framework.

2. A LOB is to set its own guidance on the requirement for documentary evidence, where such document(s) may be obtained either pre- or post-transaction and on transactional or selective basis, as guided by KYC principle and the LOB's own compliance and/or operational framework –

   (a) **For new clients/transactions:** A LOB should take a prudent stance to ensure it is satisfied with the clients' awareness and compliance with FEP rules, including obtaining documentary evidence for the initial transactions or transaction beyond the permitted scope of the relevant FEP Notices, where required.

   (b) **For existing clients:** A LOB may obtain the documentation on a selective basis instead of every transaction or on post-event basis as guided by KYC principle. Selection from the population of clients and/or transactions for documentary evidence review shall be based on the LOB's internal policy and methodology, which may take into account the clients' awareness of FEP rules, the size of the transaction, track record on the purpose of transaction, including their historical behaviour or reliability in providing documents and other criteria deemed appropriate by the LOB.

3. Checks based on selective sampling of clients and/or transactions should be conducted periodically as per the LOB's compliance and/or operational risk framework. It is recommended that the checks be done at least semi-annually for selected clients based on risk-based approach. However, a LOB may conduct more frequent checks or request for additional supporting documents (as part of the enhanced due diligence) as appropriate.

4. Upon detection of any non-compliance or breach of FEP rules by a client, the LOB shall –

   (a) assess whether there is an actual breach of FEP rules by gathering information from the client to assess the case;

(b) contact Bank Negara Malaysia (BNM) to confirm a breach in the event there is doubt on the case upon assessment by the LOB;

(c) report the breach to BNM[1] within a reasonable timeframe;

(d) institute remedial and/or preventive action to ensure non-recurrence, including to notify clients of the breach; and

(e) advise the client to submit an application with a self-declared non-compliance in its submission, where applicable[2].

5. This Minimum Due Diligence (MDD) Guide should be read together with FEP Notice 3 - Investment in Foreign Currency Asset which is available in the website (www.bnm.gov.my/fep).

Specific Due Diligence Processes

Determining Domestic Ringgit Borrowing (DRB) Status and Aggregate Annual Investment Amount

6. A LOB, prior to facilitating a transaction for the purpose of investment in foreign currency assets shall undertake the following:

   (a) Determine the DRB[3] status of a resident client; and

   (b) Determine the amount of investment in foreign currency assets undertaken by the resident client during the calendar year (in ringgit equivalent), if the resident client has DRB.

7. A LOB may adopt a risk-based approach in setting its own guidance on the determination of DRB status and amount of existing investment in foreign currency asset undertaken by a resident client during the calendar year such as obtaining a declaration from the client for every transaction or periodically as guided by KYC principle[4].

8. Where a LOB obtains declaration from client periodically, the LOB is also advised to refresh the declaration at least on yearly basis or clearly communicate to clients on the need to update declaration to LOB if there is any material change to the client's DRB status. Notwithstanding, a LOB is

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1 LOB may report the breach by submitting a non-compliance report on its own account or on behalf of the client (offender) via the FEP Portal at https://www.bnm.gov.my/submission-of-application.

2 Submission of application is applicable for cases where the client (offender) intends to continue with the transaction. The application with self-declared non-compliance can be submitted via the FEP Portal at "https://www.bnm.gov.my/submission-of-application".

3 Refer to Preamble & Interpretation of FEP Notices for definition of DRB. Refer to Appendix A for the illustration of the computation of a resident entity's aggregate borrowing.

4 Where circumstances require enhanced due diligence such as in facilitating frequent and large investments in foreign currency assets by a resident client, the LOB may request the client to submit credit report as supporting documents voluntarily.

expected to cross validate the declaration made by the client via its internal system, especially on the status of DRB where the client has obtained borrowing from the LOB group (conventional and Islamic business unit within the same banking group).

9. To provide clarity to the resident client, a LOB is required to communicate the following information clearly to all its clients undertaking investment in foreign currency assets:

   (a) Definition of DRB includes unutilised ringgit credit facility such as unutilised share margin facility, overdraft facility, revolving credit facility, as well as credit facility obtained from employer such as staff loan.

   (b) Investment in foreign currency assets includes extension of foreign currency loan / advance (lending) to a non-resident, payment for working capital expenses, and/or any form of capital contribution as defined in Preamble & Interpretation of FEP Notices.

   (c) Responsibility of the clients to update LOB on any changes to their DRB status since their last declaration.

10. A LOB, in determining the permissible outstanding amount of investment for the calendar year for a resident client with DRB shall inform the client that the computation of limit is from conversion of ringgit, swapping of financial assets onshore with offshore assets and foreign currency funds from the following sources:

   (a) Transfer from Trade foreign currency account (FCA);

   (b) Proceeds from borrowing in foreign currency from a LOB for purposes other than direct investment abroad (for resident entity only).

11. A LOB, in facilitating borrowing in foreign currency between residents, shall ensure requirements under FEP Notice 2, FEP Notice 3 and MDD2 as well as Direction to Financial Institution are observed.

12. A LOB, in facilitating the transfer of foreign currency to own account, shall ensure requirements under FEP Notice 4, FEP Notice 3 and MDD4 as well as Direction to Financial Institution are observed.

13. A LOB may facilitate investments by resident clients with DRB without going through Investment FCA provided it has the capacity to monitor and/or has a tracking system to ensure compliance.

14. Borrowing in foreign currency for direct investment abroad is freely allowed. However, in the event the LOB becomes aware of a client undertaking direct investment abroad with the ultimate purpose of reinvestment[5] that does not fall

[5] Such reinvestment includes placement of deposit, investment in real estate, portfolio investment and other investments not deemed to be direct investment abroad.

under direct investment abroad, the LOB must obtain and sight BNM's approval for such investment.

15. For a joint investment in foreign currency asset by resident individual clients via a joint bank account, where one of them has DRB, a LOB shall take a prudent stance[6] to ensure that the investment is in compliance with FEP rules. In other words, the prudential limit on investment in foreign currency asset shall apply to all resident individual clients participating in such joint investment.

Investment in Foreign Currency Assets Onshore

16. An onshore foreign currency product that references ringgit will only be considered as part of investment limit upon conversion into foreign currency[7]. Notwithstanding, in offering such product, a LOB shall be mindful of the resident's outstanding investment limit to avoid non-compliance by instituting prudential controls at the point of initial investment instead of at maturity. In the event the LOB is unable to determine the timing, value and amount of ringgit conversion, then the LOB is recommended to adopt a prudent stance to compute the total investment amount as part of investment in foreign currency assets limit at the point of inception.

Investment in Foreign Currency Assets Offshore on Behalf of Clients

17. A LOB, in facilitating investment in foreign currency assets offshore by a resident intermediary[8] on behalf of its clients shall obtain a declaration[9] from the resident intermediary that –

    (a) it is licensed by the Securities Commission of Malaysia or BNM, as the case may be; and

    (b) the investment is made within the prudential limit of the resident intermediary (for discretionary funds) or the resident end-clients (for non-discretionary funds), as the case may be.

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6 Such investment will be subject to prudential limit of resident with domestic ringgit borrowing. Please refer to Appendix B for the detailed illustration.

7 For example: Dual-currency investment product and equity-linked investment product which entails purchase of foreign shares.

8 Example of these entities: Fund managers, insurance companies, takaful operators.

9 The frequency of obtaining the declaration should be based on LOB's internal control and KYC principles.

Due Diligence Processes for Clients with Special Dispensations or Approvals

18. For clients with special dispensations or approvals, a LOB is recommended to first sight the approval letter[10]. In the event where the clients are not willing to provide the approval letter, a LOB may –

    (a) request for the relevant excerpt[11] of the approval letter, including conditions set out in the letter;

    (b) where applicable, obtain the approval ID and verification code issued with the BNM's approval letter from the client to conduct validation of BNM's approval via the FEP Portal[12]; or

    (c) refer to BNM for verification (last resort).

Situation Where Clients are Uncooperative in Meeting the Due Diligence Processes

19. A LOB may reject to facilitate transaction with a client if there is reasonable doubt of its compliance with FEP rules.

[10] This includes the Qualified Resident Investor (QRI) Programme. The internal guide on QRI Programme for LOB is in the Appendix C.

[11] Among the key information relevant to the LOB are the type of investment, beneficiary of the investment and the manner the outflow can be facilitated (gradual, hedge or from specific account).

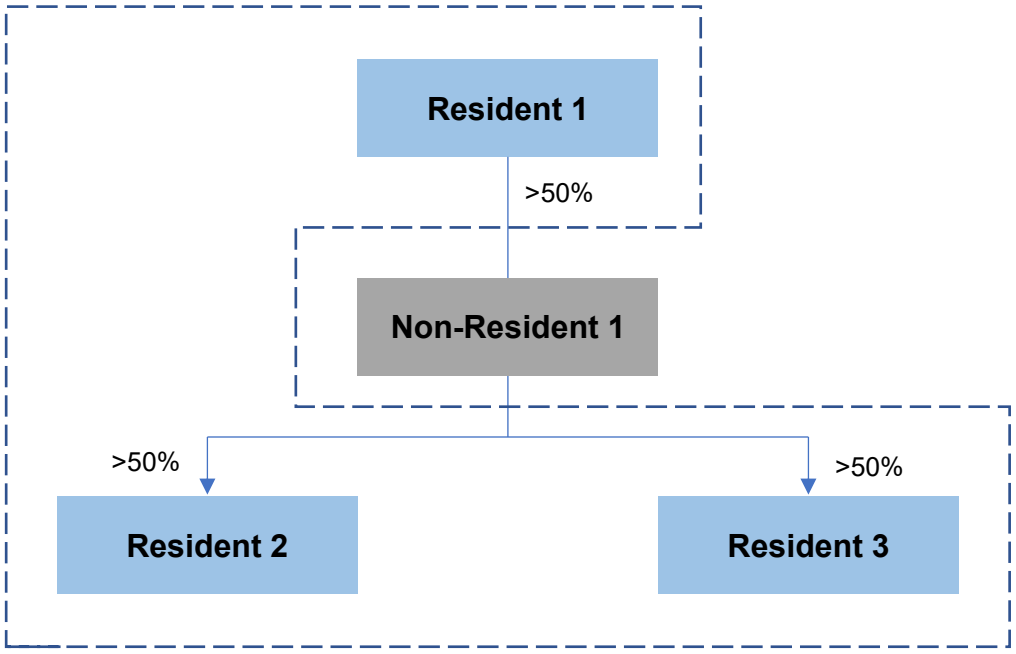
[12] Only applicable to approvals granted after FEP Portal was implemented in November 2022.

Appendix A

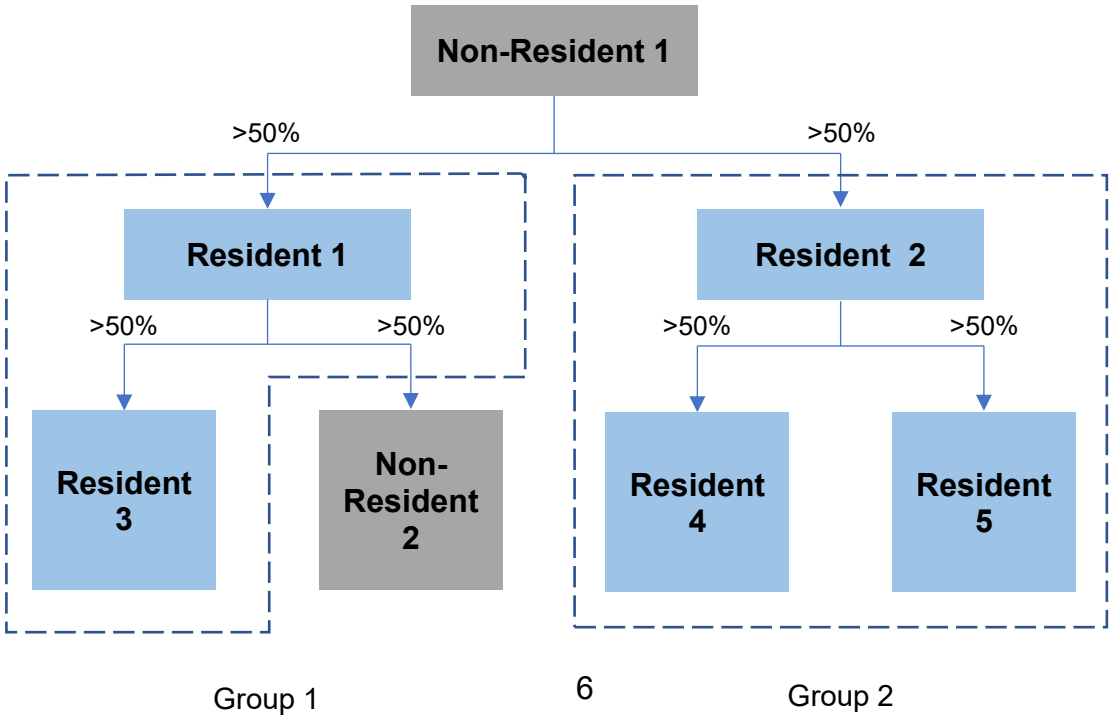
Resident's Entity Aggregated Borrowing and Total Investment on Group Basis

For the computation of a resident entity's aggregated borrowing to determine the DRB status as well as total investment on a group basis, it is computed based on the outstanding borrowing of all resident entities within the same group of entities with parent-subsidiary relationship.

Scenario 1 – If ultimate parent is resident



Scenario 2 – If ultimate parent is non-resident



Appendix B

Joint Borrowing in Foreign Currency (FC) and Joint Investment in Foreign Currency Asset (FCA)

Investor	Resident individual without DRB & non-resident individual or Resident individual without DRB & resident individual without DRB	Resident individual with DRB & Resident individual without DRB	Resident individual with DRB & non-resident individual
FEP investment limit	No limit to invest in FCA	Up to RM1 million per calendar year applicable to each account holder*	

* If the resident individual with DRB has utilised a portion of the general permissible limit, the maximum allowable amount for joint investment in FCA between the resident individual with DRB and a non-resident/resident individual without DRB, will be the sum of the unutilised portion of the permissible limit from the resident individual with DRB, and the RM1 million equivalent from the investment limit imposed on non-resident/resident individual without a DRB.

Appendix C

Internal Guide on QRI Programme for LOBs

This internal guide shall be read together with the information note and FAQ on QRI programme[13] and MDD Guide for Notice 3 under the FEP of BNM.

Conversion of Eligible Foreign Currency Proceeds into Ringgit

1. In facilitating any transaction involving the repatriation and/or conversion of foreign currency proceeds into ringgit for purposes of qualifying the funds under the QRI programme, a licensed onshore bank (LOB) shall ensure the following:

   (a) Confirm that the resident entity client has been accorded a QRI status (hereafter referred to as "QRI-status corporate"), including to sight the QRI registration letter issued by BNM[14];

   (b) Ascertain that the foreign currency proceeds to be qualified as part of the QRI programme are arising from the eligible sources of funds[15]; and

   (c) Obtain sufficient documentary evidence – via transaction documentation or other relevant means – to prove that the repatriated and/or converted foreign currency funds are sourced from eligible funds under the QRI programme.

Reconversion of Ringgit for Direct Investment Abroad

2. In facilitating the reconversion of ringgit into foreign currency for the purpose of undertaking direct investment abroad (DIA) by a QRI-status corporate, a LOB shall undertake the following:

   (a) Confirm that the QRI-status corporate client has been accorded a QRI status, including to sight the QRI registration letter issued by BNM;

   (b) Obtain a declaration from the QRI-status corporate client that the intended reconversion amount for DIA is within the limit[16] of the total eligible funds for DIA. A LOB may request the QRI-status corporate client to furnish relevant supporting documents for validation, including but not limited to the transaction slip from the initial conversion to validate the funds' eligibility under the QRI;

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[13] Available at www.bnm.gov.my/fep

[14] LOB can also verify the validity of the registration letter through the FEP portal using the Approval ID and Verification Key (as disclosed in the letter) or send an email to JDPA's designated email address for QRI programme (fepprog1@bnm.gov.my).

[15] Eligible source of funds include income and proceed from overseas investment and existing FC funds retained in an Investment FCA with LOB. FC income source from export proceeds are not allowed.

[16] Total eligible foreign currency funds that have been repatriated and converted into ringgit under the QRI programme minus the amount of ringgit funds that have been reconverted into foreign currency for DIA purpose under this flexibility. Reconversion amount should not exceed the amount of foreign currency that has been converted for this programme.

(c) Ascertain that the purpose of the reconversion and subsequent remittance is for DIA purpose only[17]. In this regard, a LOB shall request the QRI-status corporate client to produce relevant supporting documents including details of the proposed DIA; and

(d) To advise the QRI-status corporate client to notify BNM via email for any reconversion for DIA under the programme if the amount exceeds USD20 million in a single day.

Reporting on Ringgit Operations Monitoring System

3. A LOB is encouraged to annotate in the Ringgit Operations Monitoring System (ROMS) with a "QRI" remark on any conversion and reconversion of funds undertaken by the QRI-status corporate client under the QRI programme.

Note: this internal guide was issued Bank Negara Malaysia on 1 July 2025.

[17] Please refer to the definition of DIA at Foreign Exchange Notices. Placement of deposit, portfolio investment and other investments are not deemed as DIA.