Frequently Asked Questions (FAQ)

Buying and Selling of Foreign Exchange (FX) by Non-Resident (Notice 1)	
Question	**Answer**
1. Who can a non-resident buy or sell ringgit against foreign currency (FC) to hedge its ringgit exposure?	• The non-resident can buy or sell ringgit against FC with any licensed onshore bank or an appointed overseas office (AOO) on: (i) spot basis; or (ii) forward basis for – ➢ current account transactions on firm commitment or anticipatory basis; or ➢ financial account transactions on firm commitment basis. ***Note:*** *"AOO" refers to overseas outfit of the licensed onshore bank's banking group that has appointed by the licensed onshore bank to facilitate ringgit transactions.*
2. What proof of underlying can be used to support FX hedging on anticipatory basis via AOO by a non-resident?	• The proof of underlying shall be guided by the respective AOO and licensed onshore bank's customer due diligence (CDD) process. • Such CDD process includes ascertaining the non-resident's projected transaction using its previous track record. Further information is detailed in the Minimum Due Diligence for FX Transactions issued by the banking industry.
3. Can a non-resident unwind a forward contract initially entered on anticipatory basis, if its value is in excess of the firm underlying amount?	• Yes. Alternatively, the non-resident may roll over the contract for its other underlying commitments.
4. How should FX trades involving ringgit be undertaken by a trust bank or global custodian on behalf of its clients?	• All FX trades involving ringgit must be conducted on a gross basis on behalf of the clients with a licensed onshore bank or an AOO.
Cancellation or unwinding of hedged positions involving ringgit for any underlying commitment except portfolio investment	
5. Can a non-resident freely cancel or unwind a forward contract even if the underlying transaction, such as ringgit borrowing still exists (not fully repaid)?	• Yes. There is no restriction to cancel or unwind any forward contract involving ringgit where the underlying commitment still exists, provided that the underlying is not in the form of portfolio investment.
6. Is there a limit or threshold on the forward contract that a non-resident can cancel or unwind?	• No, but a non-resident should utilise such flexibility to manage their FX risk in a prudent manner.

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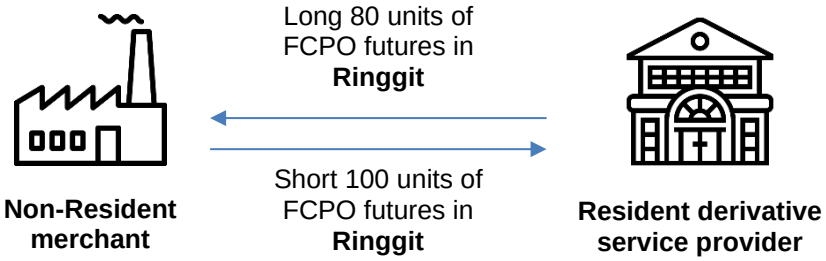
7. Can a non-resident unwind an existing forward contract by entering into an opposite forward contract without underlying?	• Yes, provided that the licensed onshore bank or AOO is satisfied that the forward contract is entered to cancel any existing forward contract with underlying commitment.
8. Can a non-resident unwind its forward position with a different licensed onshore bank or AOO?	• Yes, provided that the licensed onshore bank or AOO is satisfied that the forward contract is entered to cancel any existing forward contract with underlying.
9. Can a non-resident institutional investor cancel or unwind forward contracts entered to manage FX risks arising from portfolio investment?	• Yes, upon the non-resident institutional investor registering with BNM under the Dynamic Hedging Framework.
FX hedging of commodity derivative contracts offered by a resident provider	
10. What are the permitted derivatives under this flexibility?	• Where a non-resident has FX exposure arising from contracting ringgit-denominated commodity derivatives which involves physical settlement upon maturity, the non-resident is allowed to hedge up to the net open position (NOP) of the FX exposure arising from the derivatives contract. • This includes any derivative, other than exchange rate derivatives, denominated in ringgit traded on Bursa Malaysia (e.g. Crude Palm Oil Futures (FCPO) and Options on Crude Palm Oil Futures (OCPO)) or offered over-the-counter (OTC) by approved resident providers.
11. Does a non-resident need to observe the NOP requirement on an intra-day basis?	• No, the NOP requirement is applicable at the end of the business day in line with international standard. • If the FX market has closed, unwinding of over-hedged position is required at the earliest possible time.
12. Is documentation required given my commodity derivative service provider or broker is unable to provide a statement of my derivative contracts position in a timely manner prior to undertaking the FX transaction?	• No, documentation may be produced post-transaction subject to the licensed onshore bank's KYC procedures.
13. Is the NOP computed based on aggregate underlying derivative contracts entered with a resident?	• No, the NOP is computed based on the respective types of derivative contracts.

Illustration of FX hedging of derivative contract by a non-resident

A non-resident merchant enters into ringgit-denominated crude palm oil futures (FCPO) with a resident derivative service provider to hedge the price of palm oil. The non-resident merchant is allowed to hedge its currency exposure by undertaking Forward basis transaction up to the **NOP of the ringgit exposure** (i.e. net short 20 units based on example below). Note that the NOP of the ringgit exposure and the FCPO is the same.



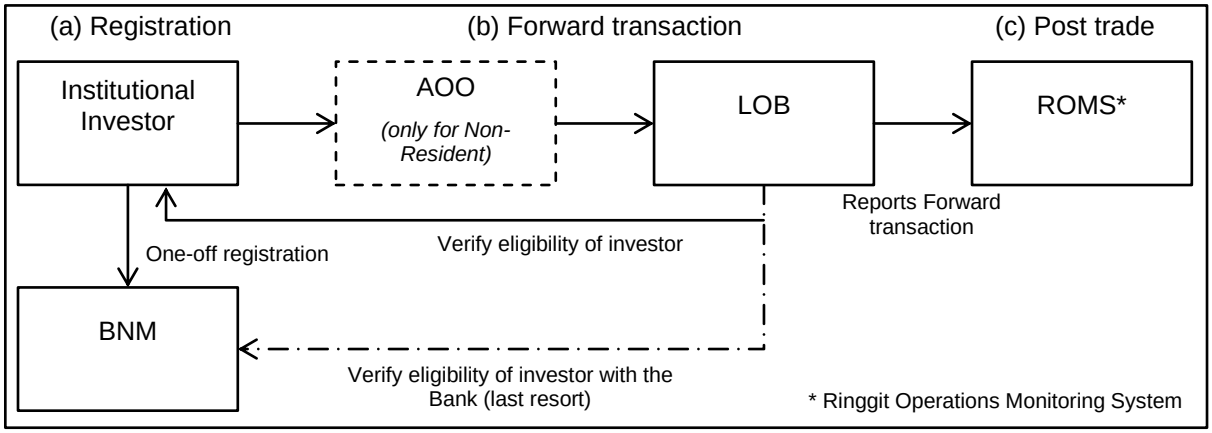
Hedging on behalf of entities within the same group	
14. Can a non-resident entity undertake FX transactions on behalf of its resident and non-resident entities within the same group?	• Yes, a non-resident entity is allowed to undertake FX transactions on behalf of its resident or non-resident entities within the same group for FX exposures with a licensed onshore bank or an AOO.
15. What are the types of underlying FX exposures that can be managed by the non-resident entity on behalf of its resident and non-resident entities within the same group?	• Any FX exposure arising from permitted underlying commitments belonging to the entities within the same group.
Dynamic Hedging Framework for Institutional Entities	
16. Who is eligible for dynamic hedging?	• A non-resident institutional investor upon registration with BNM, excluding – (a) a non-resident bank; and (b) a non-resident securities company. The registration for dynamic hedging is to be undertaken at firm level. • A non-resident trust bank or custodian bank on behalf of their non-resident institutional investor clients.
17. How does a non-resident institutional investor register for the Dynamic Hedging Framework?	• If the non-resident institutional investor is currently not registered, a one-off registration with BNM is required. • The form is available on BNM's website, http://bnm.my/fep.
18. How does a non-resident trust bank or global custodian apply for the Dynamic Hedging Framework?	• A non-resident trust bank or global custodian may also submit the application to undertake dynamic hedging on behalf of their non-resident institutional investor clients. • The form is available on BNM's website, http://bnm.my/fep.

19. Can a non-resident institutional investor "carve out" specific funds for passive hedging during registration?	• Yes. During the registration, the non-resident institutional investor shall make a one-off declaration of funds to be used in dynamic hedging. • Funds to be "carved out" for passive hedging are not eligible for dynamic hedging.
20. What hedging instruments are permissible under the Dynamic Hedging Framework?	• The hedging instrument allowed is buying or selling of plain vanilla FX/MYR forward contract.
21. What are the underlying assets eligible for dynamic hedging by a non-resident institutional investor?	• For a non-resident institutional investor, eligible ringgit-denominated assets are as follows: (a) Investment in ringgit-denominated debt securities on Real-time Electronic Transfer of Funds and Securities System (RENTAS); (b) Investment in ringgit-denominated equity securities on Bursa Malaysia; or (c) Temporary placement in ringgit deposits or deposit-like securities offered by licensed onshore banks using ringgit proceeds arising from the sale of its ringgit denominated securities in (a) and (b) above. The temporary placement shall be within 3 months.
22. What is the permitted threshold for dynamic hedging?	• A non-resident institutional investor registered with BNM is allowed to – (a) enter into forward contracts to sell ringgit against FC up to 100% of its invested underlying ringgit-denominated asset; (b) enter into forward contracts to buy ringgit against FC up to 25% of its invested underlying ringgit-denominated asset; or (c) unwind the forward contracts described in (a) and (b) above.
23. What will happen in the event that a non-resident institutional investor breaches the permitted threshold?	• The non-resident institutional investor shall unwind the forward position to the permitted limit. BNM will advise on the permitted timeline to unwind on a case-by-case basis (within 7 business days). Failure to do so may result in BNM reviewing the non-resident investor's eligibility.

24. Can a non-resident institutional investor apply for additional flexibility beyond the current threshold?	• A registered non-resident institutional investor who wishes to enter into forward contracts to buy ringgit against FC beyond the existing 25% threshold may submit an application to BNM via email to investorregister@bnm.gov.my justifying their need for additional position.
25. Is a non-resident institutional investor allowed to net settle a forward transaction in FC?	• Yes, settlement of forward transactions can be on gross or net basis.
26. Who can a non-resident institutional investor approach to enter into dynamic hedging?	• A registered non-resident institutional investor can approach a licensed onshore bank or an AOO to undertake dynamic hedging.
27. Can a non-resident institutional investor use its existing Legal Entity Identifier (LEI)?	• Yes, a non-resident institutional investor should use their existing LEI to register for dynamic hedging. More information on LEI is available at https://www.leiroc.org/.

28. Procedures for Dynamic Hedging Framework for Institutional Entities

1. Procedures



(a) Registration

- A non-resident institutional investor may undertake a one-off registration by submitting the "Forward Market Participation Form – Institutional Investors" to BNM. The form is available on BNM's website, http://bnm.my/fep.

- BNM shall notify the non-resident institutional investor in writing upon acceptance of its registration.

(b) Forward Transaction

- A registered non-resident institutional investor may enter into a plain vanilla forward contract without documentary evidence. A registered non-resident institutional investor may engage with any licensed onshore bank or AOO upon verification of eligibility by the licensed onshore bank or AOO.

(c) Post Forward Transaction

- A licensed onshore bank shall report to BNM all plain vanilla forward contract via ROMS regardless of amount.

(d) Illustration

A registered non-resident fund manager holds RM100 million worth of Malaysian Government Securities (MGS). The non-resident fund manager is free to fully unwind its hedge or enter into net forward buy of Ringgit up to RM25 million with a licensed onshore bank or an AOO.

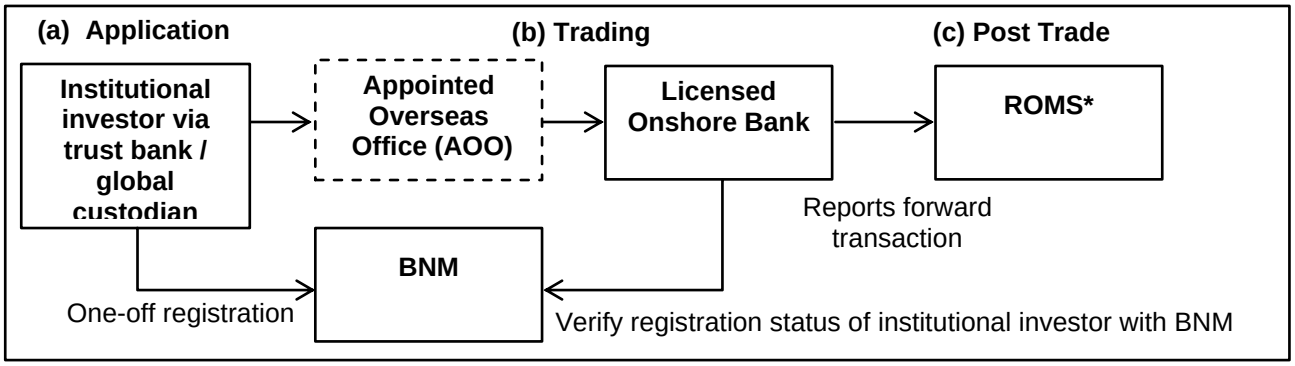
Position/Day	**T+1**	**T+2**	**T+3**	**T+4**	**T+5**	**T+6**
Forward	+100	-50	-30	-20	+100	-125
Net Forward position	+100	+50	+20	0	+100	-25

Note:

(+) denotes buying of Foreign Currency against Ringgit

(-) denotes selling of Foreign Currency against Ringgit

29. Illustration of Hedging Flexibility for Institutional Investor via Trust Bank or Global Custodian



* Ringgit Operations Monitoring System

(a) Application:

- A trust bank or global custodian is required to undertake a one-off application by submitting the Forward Market Participation form to BNM. The form is available on the Bank's website, http://bnm.my/fep.
- BNM shall notify the trust bank or global custodian in writing upon approval of the application.

(b) Trading:

- An approved trust bank or custodian bank may engage with any licensed onshore bank or AOO to undertake the forward transaction.
- Similar to the current process with non-resident institutional investors, the licensed onshore bank is required to perform a one-off verification of the trust bank or global custodian's application status with BNM prior to entering into such transaction.

(c) Post Trade:

- A licensed onshore bank shall report to BNM all forward transactions via ROMS.

Illustration

Responsibilities of Parties Involved in Dynamic Hedging

Party	Responsibilities
Institutional investor	• To perform a one-off registration with BNM before participating in dynamic hedging. • To inform the licensed onshore bank or AOO on its LEI for the purposes of reporting on ROMS. • To ensure net forward position is within the permitted threshold.
Licensed onshore bank	• To perform a one-off verification on whether the institutional investor is registered with BNM before conducting forward transactions under dynamic hedging. • To perform a one-off verification on whether the trust bank or global custodian is approved before conducting forward transactions under dynamic hedging. • To report forward transactions with the non-resident institutional investor or approved trust bank or global custodian's LEI via ROMS.

Custodian bank	• To provide information on ringgit assets held by the non-resident institutional investors upon request by BNM.
Approved trust bank or global custodian under the flexibility	• To report forward transactions on a gross basis on behalf of their clients to the counterparty licensed onshore bank.
AOO (if applicable)	• To perform a one-off verification with BNM on whether the institutional investor is registered before conducting forward transactions under dynamic hedging. • To perform a one-off verification with BNM on whether the trust bank or global custodian is approved before conducting forward transactions under dynamic hedging. • To inform the licensed onshore bank on forward transactions under dynamic hedging on behalf of institutional investors for the purpose of reporting on ROMS.

Ringgit interest rate derivatives	
30. Can a non-resident transact ringgit interest rate derivative directly with an LOB or via an AOO?	• Yes, such ringgit interest rate derivative can be undertaken with or without underlying ringgit interest rate exposure. • Effective 15 March 2021, non-resident banks can trade ringgit denominated interest rate swap without underlying commitment with any licensed onshore bank including via its AOO. • Notwithstanding the above, all ringgit interest rate derivatives embedded with buying and selling of ringgit against FC (for example, cross currency interest rate swap) must be undertaken with firm underlying commitment.
31. Can a non-resident settle ringgit interest rate derivative contract with an LOB or AOO in ringgit or FC?	• Yes, settlement with an LOB or AOO can be done in either ringgit or FC as well as on gross or net basis. • For settlement in ringgit or FC, an LOB shall only use the reference exchange rate fixed in Malaysia.

Bank Negara Malaysia
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