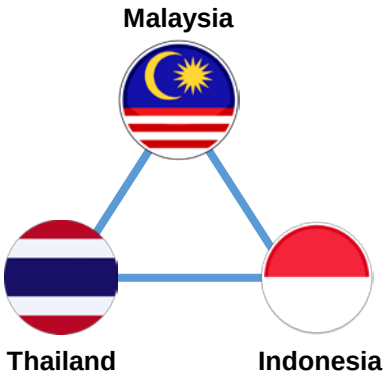
Local Currency Settlement Framework with Thailand and Indonesia



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

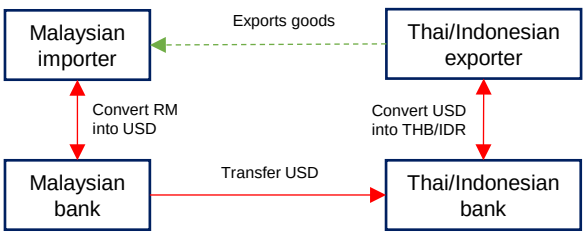
- Provides greater efficiency for Malaysian businesses to access Thai baht and Indonesian rupiah in Malaysia, and hence, reduces foreign exchange (FX) costs.
- Malaysian businesses can obtain financial services in Thai baht and Indonesian rupiah such as FX, financing and deposit accounts directly from 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	MYR-IDR LCSF
Eligible transactions	• Trade of goods and services • Direct investment • Income transfer	• Trade of goods and services only
FEA flexibilities	• Flexible FX risk management for MYR/THB • THB financing and deposit account • Direct MYR/THB quotes on Reuters	• Flexible FX risk management for MYR/IDR • IDR financing and deposit account • Direct MYR/IDR quotes on Reuters
Eligible participants	• Investors • Exporters and importers of goods and services with Thailand • Businesses with Thai workers	• Exporters and importers of goods and services with Indonesia
Malaysian ACCDs	• Maybank • CIMB Bank • RHB Bank • Public Bank • Bangkok Bank • MUFG Bank • UOB Bank	• Maybank • CIMB Bank • RHB Bank • Public Bank • Hong Leong Bank

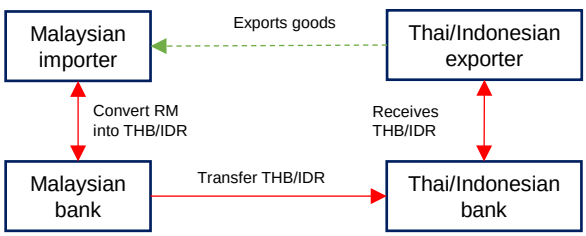
Illustration

Current arrangement:



Impact: *Double conversion, ↑ FX costs*

Framework arrangement:



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)