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PART A: OVERVIEW

1. INTRODUCTION

1.1 An International Currency Business Unit (ICBU) of a licensed institution, namely Islamic bank, commercial bank and investment bank, is permitted to conduct a wide range of Islamic banking business under the Islamic Banking Act 1983 (IBA) or Islamic banking business under Section 124 of the Banking and Financial Institutions Act 1989 (BAFIA) in international currencies[1] other than Malaysian ringgit. The income arising from the transactions of the ICBU is eligible for full tax exemption accorded under the Income Tax Act 1967 for ten years from the year of assessment 2007.

1.2 These Guidelines amend the Guidelines on the Establishment of International Currency Business Unit (Islamic Bank) issued by Bank Negara Malaysia (BNM) on 14 September 2006. These Guidelines come into effect immediately.

2. ELIGIBILITY

2.1 The following entities are eligible to apply for approval to establish an ICBU:

(i) An Islamic bank which is licensed under the IBA;

(ii) A bank licensed under the BAFIA (referred to in these Guidelines as "commercial bank"); and

(iii) A merchant bank licensed under the BAFIA and holds relevant licences under the securities laws[2] to carry on investment banking business (referred to in these Guidelines as "investment bank").

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1 International currencies as appeared in this set of Guidelines refer to all foreign currencies excluding the currency of Israel.

2 Laws administered by the Securities Commission.

3. SCOPE OF BUSINESS

3.1 The scope of business that an ICBU may carry on is subject to the licence that the institution holds. As such, an ICBU may carry on its business in international currencies as follows:

(i) For an ICBU established within an Islamic bank, the business includes:

(a) commercial banking business;

(b) investment banking business[3]; and

(c) other banking businesses in Malaysia, as may be specified by BNM;

(ii) For an ICBU established within a commercial bank, the business includes banking business as defined in the BAFIA[4]; and

(iii) For an ICBU established within an investment bank, the business includes:

(a) merchant banking business as defined in the BAFIA; and

(b) investment banking business as defined in the Banking and Financial Institutions (Licensed Merchant Banks) (Additional Business) Order 2007 and subject to the relevant licences issued by the Securities Commission.

3.2 An ICBU is also permitted to carry on its businesses in accordance with BNM's foreign exchange administration policies as currently in force or as may be amended from time to time.

[3] Subject to the laws administered by the Securities Commission.
[4] The ICBU of a banking and finance company ('Bafin' institution) shall encompass banking business and finance company business as permitted under the BAFIA.

PART B: POLICY REQUIREMENTS

4. STRUCTURE

4.1 The ICBU is required to meet the following structure framework:

(i) A dedicated division to carry out Islamic banking business in international currencies of the ICBU;

(ii) The division should be headed by a senior management officer of the bank; and

(iii) The division should maintain separate accounts from the Malaysian ringgit transactions of the entity.

4.2 In addition, the ICBU of a commercial bank and an investment bank may leverage on the Shariah Committee established at the entity or its group level to ensure Shariah compliance in terms of its Islamic banking operations, products and services. In the case of a commercial bank or an investment bank which has no establishment of a Shariah Committee either at the entity or its group level, the entity needs to engage the service of Shariah advisor(s) to advise the ICBU in carrying on its business.

5. SUBMISSION REQUIREMENTS

5.1 The applicant is required to submit an application letter to BNM together with a business plan that outlines, among others:

(i) Objectives and types of banking business;

(ii) Target markets and business operations; and

(iii) Risk management plan and the reporting control.

6. OPERATION REQUIREMENTS

6.1 Upon approval, the ICBU is required to comply with such guidelines, circulars or directives on prudential, regulatory, reporting or other requirements as issued by BNM from time to time.

7. CORRESPONDENCE

7.1 All correspondence should be addressed to:

Director
Islamic Banking and Takaful Department
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur.

Tel : 60 3 2698 8044
Fax: 60 3 2694 3724