Frequently Asked Questions (FAQ)

Buying and Selling of Foreign Exchange (FX) by Resident (Notice 1)	
Questions	**Answers**
Hedging of foreign currency obligations or assets	
1. Is there any tenure limit for a resident to hedge their foreign currency (FC) obligations?	• No. A resident is free to hedge up to the underlying tenure of its FC obligations.
2. Can a resident freely hedge their export receipt up to the underlying tenure and amount?	• Yes, a resident is free to buy ringgit against FC to hedge incoming funds, including export proceeds, up to the underlying tenure and amount.
3. If a resident's borrowing repayment is due in 24 months, can the resident hedge up to 12 months and roll-over the forward contract later?	• Yes.
4. Can a resident hedge its investment in FC assets?	• Yes, provided that the investment complies with permissible limit as per Notice 3.
5. My company entered into a forward contract with a licensed onshore bank based on anticipatory investment in FC assets. Can my company maintain the forward contract if the projected investment fails to materialise?	• No, your company must cancel the forward contract should the projected investment fail to materialise.
6. Can a resident entity with multi-national business operations undertake balance sheet hedging to manage FX translation risk? (new)	• Yes. The FX hedging amount shall be subject to net assets or liabilities exposed to FX risk.
7. Can a resident individual buy or sell FC from or to any non-resident?	• No. A resident may only buy or sell FC with licensed onshore banks and licensed money changers.
8. Is a resident required to cancel an over-hedged forward position?	• Yes.
9. Can a resident use domestic contract (e.g. invoices) denominated in foreign currency as underlying for hedging? *(new)*	• No. A Resident is not allowed to hedge a foreign-currency denominated contract issued to or received from a Resident.

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Questions	**Answer**
Hedging on behalf of entities within the same group	
9. Is a financial institution eligible to undertake hedging on behalf of its related entities?	• No, a financial institution is not eligible for this flexibility.
10. What are the types of underlying FX exposures that can be managed?	• Any FX exposure arising from permitted underlying commitments belonging to the entities within the same group.
11. Are associate companies considered part of entities within the same group?	• Yes, a resident entity may undertake FX transactions on behalf of its entities within the same group including its associate company.
12. Is a resident company undertaking FX transactions on behalf of entities within the same group allowed to make or receive payment on behalf of such entities within the same group?	• Yes.
Cancellation or unwinding of hedged FX positions for any underlying commitment except portfolio investment	
13. Can a resident freely cancel or unwind a forward contract even if the underlying transaction, such as FC 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.
14. Is there a limit on the forward contract or threshold that a resident can cancel or unwind?	• No, but a resident shall not utilise such flexibility to speculate on the ringgit.
15. Can a resident unwind an existing forward contract by entering into a forward contract without underlying?	• Yes, provided that the licensed onshore bank is satisfied that the forward contract is entered to cancel any existing forward contract with underlying.
16. Can a resident unwind its forward position with a different licensed onshore bank?	• Yes, provided that the licensed onshore bank is satisfied that the forward contract is entered to cancel any existing forward contract with underlying commitment.
17. Can a resident institutional investor cancel or unwind forward contracts entered to manage FX risks arising from portfolio investment?	• Yes, a resident institutional investor can do so upon registering with BNM under the Dynamic Hedging Framework.

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Questions	**Answer**
Dynamic Hedging Framework for Institutional Investors	
18. Who is eligible for dynamic hedging framework?	• Any resident institutional investor can register with BNM at firm level.
19. If a resident institutional investor is registered at the firm level, is it permitted to "carve out" specific funds for passive hedging?	• Yes. During the registration, the resident institutional investor has to 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 FX risk management?	• 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 resident institutional investor?	• For a resident institutional investor, eligible asset are: (a) investment in FC-denominated debt securities; (b) investment in FC-denominated equity securities; or (c) temporary placement in FC deposits or deposit-like securities using FC proceeds arising from the selling of existing FC-denominated securities as per above up to 3 months pending reinvestment of such FC proceeds.
22. What is the permitted threshold for dynamic hedging?	• A resident institutional investor registered with BNM is free to enter into forward contracts to buy ringgit against FC up to 100% of its invested underlying FC-denominated assets.
23. What will happen in the event that a resident institutional investor breaches the permitted threshold?	• The resident institutional investor must 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 resident institutional investor's eligibility.
24. Can a resident institutional investor use its existing Legal Entity Identifier (LEI)?	• Yes, a resident institutional investor should use their existing LEI to register for dynamic hedging. BNM will provide an ID to a resident institutional investor without LEI. More information on LEI is available at https://www.leiroc.org/.

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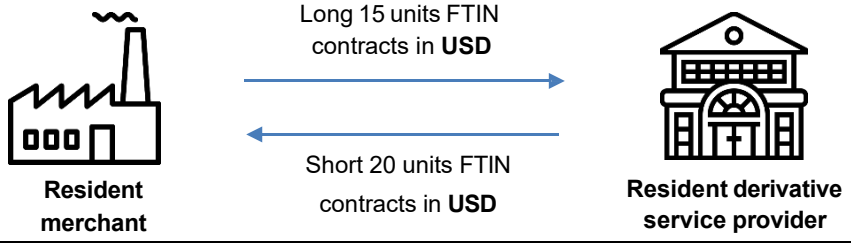
FX hedging of commodity derivative contracts offered by a resident provider	
25. What are the permitted derivatives under this flexibility?	• Where a resident has FX exposure arising from contracting FC-denominated commodity derivatives, the resident is allowed to hedge up to the net open position (NOP) of the FC exposure arising from the derivatives contract. • This includes any derivative, other than exchange rate derivatives, denominated in FC traded on Bursa Malaysia (e.g. USD Crude Palm Oil Futures) or offered over-the-counter (OTC) by approved resident providers.
26. Does a 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-hedge position is required at the earliest possible time.
27. 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.
28. 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 resident A Resident merchant enters into USD-denominated Tin Futures (FTIN) with a Resident derivative service provider to hedge the price of tin. The Resident merchant is allowed to hedge its currency exposure by undertaking forward basis transaction up to the **NOP of the USD exposure** (i.e. net short 5 units based on example below). Note that the NOP of the USD exposure and the FTIN is the same.  	

Bank Negara Malaysia
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