CHAPTER 6

BANKING, FINANCE AND EXCHANGE ADMINISTRATION

BANKING, FINANCE AND EXCHANGE ADMINISTRATION

1. THE FINANCIAL SYSTEM IN MALAYSIA

The Malaysian financial system comprises of a diversified range of institutions to serve the increasingly more varied and complex needs of the domestic economy. The financial system consists of the conventional financial system and the Islamic financial system which co-exists and operates in parallel.

1.1 The Central Bank

The principal objective of Bank Negara Malaysia (the Bank), the Central Bank of Malaysia, is to promote monetary stability and financial stability conducive to the sustainable growth of the Malaysian economy. Its primary functions as set out in the Central Bank of Malaysia Act 2009 are to:

- formulate and conduct monetary policy in Malaysia;
- issue currency in Malaysia;
- regulate and supervise financial institutions which are subject to the laws enforced by the Bank;
- provide oversight over money and foreign exchange markets;
- exercise oversight over payment systems;
- promote a sound, progressive and inclusive financial system;
- hold and manage the foreign reserves of Malaysia;
- manage the country's foreign exchange administration regime; and
- act as adviser, to the Government, particularly on macroeconomic policies.

1.2 Financial Institutions

The following table provides an overview of the number of financial institutions under the purview of Bank Negara Malaysia as at end December 2018:

	Total	Malaysian-Controlled Institution	Foreign-Controlled Institution
Commercial Banks	26	8	8
Islamic Banks	16	10	6
International Islamic Banks	2	0	2
Investment Banks	11	11	0
Insurers	33	13	20
Takaful Operators (Islamic Insurers)	15	8	3
Reinsurers	7	2	5
Retakaful Operators (Islamic Reinsurers)	4	1	3
Development Financial Institutions	6	6	0

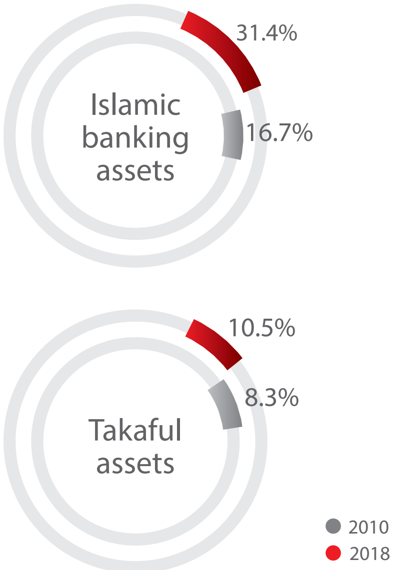
The banking system, comprising commercial banks, investment banks, and Islamic banks, is the primary mobiliser of funds and the main source of financing which supports economic activities in Malaysia. Banking institutions operate through a network of more than 2,400 branches and 7,190 agent banks across the country. There are also 17 representative offices of foreign banks in Malaysia which do not conduct banking business but undertake research, liaison services and exchange of information. Six Malaysian banking groups have presence in 23 countries through branches, representative offices, subsidiaries, equity participation and joint ventures worldwide, including in all ASEAN countries.

The non-bank financial institutions, namely development financial institutions, insurance companies and takaful operators, complement the banking institutions in mobilising savings and meeting the financial needs of the economy. The insurance companies and takaful operators which operate through a network of more than 690 offices and 170,000 registered agents nationwide provide avenues for risk management and financial planning solutions for businesses and individuals.

1.2.1 Islamic Financial Industry

Islamic finance in Malaysia continues to demonstrate robust growth, supported by comprehensive regulatory, legal and Shariah governance frameworks, diverse industry players and professional ancillary service providers as well as high quality talent.

Market Share % of Total Industry: Islamic Banking Asset and Takaful Asset



Source: Bank Negara Malaysia

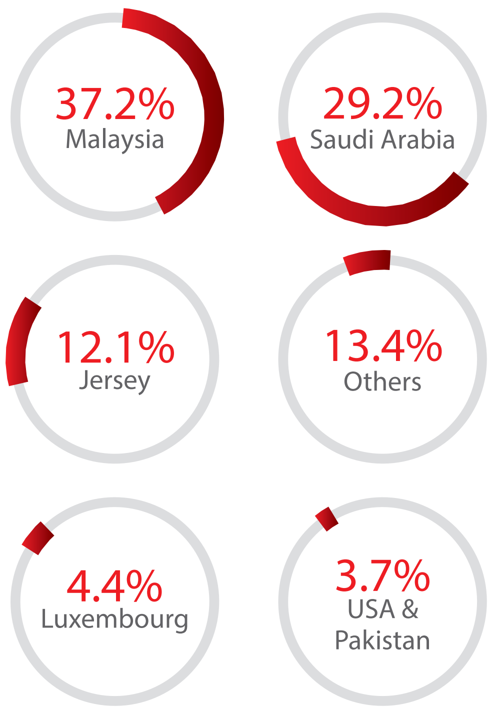
The Islamic banking industry accounts for 31.4% (RM916.7 billion) of the total banking asset as at end-2018, further expanding its role as a major component of the overall financial system in Malaysia since the implementation of the Financial Sector Blueprint 2011-2020. A wide range of competitive and innovative products offered by over 40 financial institutions (these include Islamic banks, Islamic window of conventional and investment banks, international Islamic banks and Development Financial Institutions) with aim to deliver a positive and sustainable impact on the community, economy and environment.

As for the takaful sector, the total takaful assets constitute 10.5% (RM31.4 billion) of market share of total insurance and takaful sector as at end-2018. The penetration rate for the family takaful market is recorded at 15.2%, signifying a growing public acceptance of the benefits provided by takaful scheme.

To support further development of the Islamic finance in Malaysia, investment accounts were introduced pursuant to the Islamic Financial Services Act 2013 (IFSA) to provide customers the opportunity to invest and share profit from Shariah-compliant investment activities. Investment accounts also provides additional avenue for businesses to access financing. Presently, 9 Islamic banks are offering investment accounts.

At the global front, Malaysia remains as a leading global hub for Islamic finance marketplace. It is home to the world's largest sukuk market with a 50.4% share of global sukuk outstanding, amounting to USD215.2 billion as at end-2018.

Islamic Funds Asset under Management (AuM) by Domiciled (as at end-2018)



Source: MIFC Estimates, Thomson Reuters

In terms of Islamic wealth management, Malaysia is the top domicile for Islamic funds, accounting for 37.2% of global market share with assets under management (AuM) of USD27.3 billion as at end-2018. Malaysia also ranked first globally in terms of number of funds, accounted for 28.2% of global share with a total of 409 funds registered. Currently, there are 53 fund management companies managing Islamic funds in Malaysia.

1.2.2 Development Financial Institutions

The Development Financial Institutions (DFIs) in Malaysia are specialised financial institutions established by the Government with a specific mandate to develop and promote key sectors that are considered of strategic importance to the overall socio-economic development objectives of the country. These strategic sectors include the agricultural, SMEs, infrastructure, maritime and export-oriented sectors, as well as capital-intensive and high-technology industries.

As specialised institutions, DFIs provide a range of specialised financial products and services to suit the specific needs of the targeted strategic sectors. Ancillary services in the form of consultation and advisory services are also provided by DFIs to nurture and develop the identified sectors. DFIs therefore complement the banking institutions and act as a strategic conduit to bridge the gaps in the supply of financial products and services to the identified strategic areas for the purpose of long-term economic development.

In 2002, the Development Financial Institutions Act 2002 (the DFIA) was enacted to promote the financial and operational soundness of the DFIs through sustainable practices and the requisite regulatory and supervisory framework, allowing the institutions to perform their mandated roles in a prudent, efficient and effective manner. With the enactment of DFIA, the Bank was appointed as the central regulatory and supervisory body for DFIs.

Six DFIs are prescribed under the DFIA as follows:

- Small Medium Enterprise Development Bank Malaysia Berhad or SME Bank, which provides financing and advisory services to small and medium sized enterprises involved in manufacturing, services and construction sectors:

- Bank Pembangunan Malaysia Berhad, which provides medium-and long-term financing for infrastructure projects, maritime, capital-intensive and high-technology industries and other sectors in line with the national development policy;

- Bank Kerjasama Rakyat Malaysia Berhad, a cooperative bank that encourages savings and provides financial services to members and non-members;

- Export-Import Bank of Malaysia Berhad or EXIM Bank, which provides credit facilities to support the exports and imports of goods and overseas projects as well as to provide export credit insurance and guarantee services;

- Bank Simpanan Nasional focuses on retail banking and personal finance especially for small savers, and supports the financial inclusion agenda by providing microfinance and agent banking services; and

- Bank Pertanian Malaysia Berhad or Agrobank, which accepts savings deposits and provides financing and advisory services to support the development of the agricultural sector and communities.

In continuing efforts to further strengthen the DFIs, the DFIA was amended to further enhance the institutions' intermediary role in supporting the strategic economic sectors amid challenging operating environment. The amendments focused on further strengthening the corporate governance practices and to increase the operational efficiency as well as the capacity and capability of DFIs to perform mandated roles more effectively. Amendments to the DFIA were passed in Parliament in July 2015 and took effect on 31 January 2016.

2. EXPORT CREDIT REFINANCING-i

The Export Credit Refinancing-i (ECR-i) provides short-term Pre and Post-shipment financing to Direct or Indirect exporters. It is made available to a Manufacturer or a Trading Company that are incorporated in Malaysia who are directly or indirectly involved in export activity and international trade. Companies with ECR-i credit line duly established with participating financial institution (ECR-i Bank) are eligible for the following types of facilities:-

(i) Pre-shipment ECR-i; and

(ii) Post-shipment ECR-i.

The Pre-shipment ECR-i facility is a financing advance by EXIM Bank to facilitate the export of Malaysian products and trade prior to shipment and to encourage the backward linkages between the exporters and local suppliers in export oriented industries.

The Post-shipment ECR-i facility is a financing advance to exporters to finance the export or trade after shipment.

2.1 Method of Financing

Under Pre-shipment ECR-i facility, there are two (2) methods of financing extended to direct/ indirect exporter:-

i. Order-based method:-

For a direct exporter, the Pre-shipment ECR-i financing is an advance against evidence of an export order whilst for indirect exporter, is an advance against an ECR-i Domestic Letter of Credit (DLC), ECR-i Domestic Purchase Order (DPO) or Local Purchase Order (LPO) issued in exporter's favour.

ii. Certificate of Performance (CP) method:-

For direct/ indirect exporter, the Pre-shipment is made against CP issued by EXIM Bank. The limit of financing is based on CP limit for a validity period of one year.

Under Post-shipment ECR-i facility, method of financing used is via purchasing the export bill at discount, whereby financing is extended against presentation of export documents to ECR-i Bank.

2.2 Period and Margin of Financing

The maximum period of financing under Pre-shipment and Post-Shipment is 4 months (120 days) and 6 months (183 days) respectively.

For Pre-shipment Order-based method, the eligible amount of financing for Direct Exporter is up to ninety five (95) percent of the value of the export order or ninety five (95) percent of ECR-i DLC, ECR-i DPO or LPO for Indirect Exporter.

For Pre-shipment CP-based method, the CP limit would be the amount eligible for financing. The CP limit is segregated into three periods where each period comprises of 4 months. The eligible amount of financing for Direct Exporter involved in manufacturing and trading is one hundred percent (100%) of Export Value of preceding 12 months. Whereas, the eligible amount of financing for Indirect Exporter involved in manufacturing and trading is eighty percent (80%) of Export Value of preceding 12 months.

Under Post-shipment, the amount of financing is one hundred percent (100%) of the export invoice value.

2.3 Payment

For direct exporter, source of payment for Pre-shipment financing shall be from export proceeds received from the overseas buyers/ post-shipment proceeds received from the ECR-i banks. For indirect exporter, source of payment for Pre-shipment financing should be made from local sales proceeds received from the ECR-i users, Free Trade Zone (FTZ)/ License Manufacturer Warehouse (LMW) companies.

For the Post-shipment financing, payment due shall be liquidated upon receipt of export proceeds or on maturity of the Post-shipment bill whichever is earlier.

The facility is available in Islamic financing based on Shariah contract/concept of Murabahah or Tawarruq (Pre-shipment) and Tawarruq (Post-shipment) either in Malaysia Ringgit (MYR) or United States Dollar (USD).

For more information on Export Credit Refinancing-i (ECR-i), please visit www.exim.com.my

3. THE CAPITAL MARKET IN MALAYSIA

3.1 Securities Commission Malaysia

The Securities Commission Malaysia (SC) is responsible for the regulation and development of the Malaysian capital market. As a self-funding regulatory agency, it has investigative and enforcement powers.

Tasked to advance an innovative, competitive and vibrant capital market, the SC continues to pursue inclusive and sustainable growth. It is committed to develop a capital market and regulatory institution that are accessible, agile and accountable.

Developing the Malaysian Capital Market

In 2018, Malaysia's capital market stood at RM3.1 trillion, equivalent to 2.2 times the size of the domestic economy. Malaysia is a global leader in the Islamic capital market with RM1.9 trillion in Shariah-compliant equity and sukuk outstanding, and continues to be the world's largest sukuk market.

Building on our strength in the Islamic capital market, the SC has led efforts to establish Malaysia as a regional centre for sustainable finance. Following the internationally recognised issuance of the world's first green sukuk in 2017, the SC has established a RM6 million Green SRI Sukuk Grant Scheme in 2018 to incentivise issuances of green sustainable and responsible investment (SRI) Sukuk. As at end 2018, a total of five green SRI sukuk have been issued, supporting RM2.4 billion in funds raised.

Supporting the Real Economy

The Malaysian capital market provides financing for the real economy. In 2018, total funds raised through bond, sukuk and equity issuances amounted to RM114.6 billion. Alternative fundraising channels for micro, small and medium enterprises such as equity crowdfunding and peer-to-peer financing stood at RM261.5 million raised by 693 issuers.

The SC is focused on building an enabling ecosystem which provides accessibility, while ensuring investor protection and intermediation efficiency. Its core mandates to regulate and ensure market growth is carried out with the objective of protecting investors, including initiatives to raise financial and investment literacies.

For more information, visit www.sc.com.my.

3.2 Bursa Malaysia

Bursa Malaysia is an exchange holding company established in 1973 and listed in 2005. Today, it is one of the largest bourses in ASEAN, hosting more than 900 companies across 60 economic activities. Companies are listed either on the Main Market for large-cap established companies, or on the ACE Market for emerging companies of all sizes. In 2017, a new market called LEAP was introduced to provide the small and medium sized enterprises an avenue to raise funds in the capital market. LEAP is the first of its kind in ASEAN, putting Malaysia ahead of the curve in the region in terms of capital market innovation.

As a fully integrated exchange, Bursa Malaysia offers a comprehensive range of products which includes equities, derivatives, futures and options, offshore and Islamic assets, as well as exchange-related services such as listing, trading, clearing, settlement and depository. In addition, Bursa Malaysia offers other investment choices which include collective investment schemes such as Exchange Traded Funds (ETFs), Real Estate Investment Trusts (REITs), Exchange Traded Bonds and Sukuks (ETBS) and Business Trusts.

Bursa Malaysia adopts the FTSE Bursa Malaysia KLCI as its main index. For the past 10 years (2009-2018), the benchmark index FBMKLCI has increased by 93% while the total market capitalisation of all listed companies on Bursa Malaysia has grown by 156%. The Malaysian equity market has continued to record growth despite the increased volatility in the global equity markets. The Average Daily Value of shares traded had also charted an increase of 112% over the same period. Interest of foreign investors in the Malaysian market remained stable with the percentage of foreign ownership consistently recorded above 22%. Sustainable growth was also seen in the Islamic assets where the value of sukuk listed on Bursa Malaysia has recorded an increase of 204% since 2009.

Bursa Malaysia is also the world's biggest palm oil futures trading hub, and the Crude Palm Oil Futures (FCPO) contract, launched 35 years ago, has long been recognised and referenced as the global price benchmark for the palm oil industry.

Bursa Malaysia's key focus in Islamic capital market has allowed the Exchange to be a key differentiator in offering products that stands above the rest. A leading exchange in the Islamic capital market space, Bursa Malaysia has pioneered several innovations including Bursa Malaysia-i – the world's first end-to-end Shariah investing platform, and Bursa Suq-Al-Sila'– the world's first end-to-end Shariah-compliant commodity trading platform.

In the space of corporate governance and sustainability, Bursa Malaysia is making a name for itself at the forefront of the region as a responsible exchange, strong advocate of corporate governance and champion of the sustainability agenda. In 2014, it introduced the FTSE4Good Bursa Malaysia Index to measure the performance of companies demonstrating good environmental, social and governance (ESG) practices, and further strengthened its commitment to promote sustainable strategies among issuers and the marketplace in May 2015 when it joined the United Nations Sustainable Stock Exchanges (SSE) initiative.

As Bursa Malaysia advances towards fulfilling its vision to be ASEAN's leading, responsible and globally-connected marketplace, it will continue to remain focused on initiatives to widen its reach and offerings, and foster a conducive capital market ecosystem that creates ample opportunities for market participants to grow and achieve the value they seek.

For more information on Bursa Malaysia, visit www.bursamalaysia.com

i. Market Participants

a) Stockbroking Companies

As at 31 December 2018, there are 30 stock broking companies, of which 10 are categorised as Investment Banks. These banks offer services in the dealing of securities listed on Bursa Malaysia Securities. Investment banks hold a merchant banking licence issued by Bank Negara Malaysia under the Banking and Financial Institutions Act 1989 (BAFIA) as well as a Capital Markets Services licence issued by the Securities Commission under the Capital Markets & Services Act 2007. As such, investment banks are able to offer a full scope of integrated capital market and financial services which include corporate finance, debt securities trading and dealing in securities. One stock broking company still holds the universal broker status. A universal broker is able to offer integrated capital market services.

b) Trading Participants

A Trading Participant is a company which owns at least one Preference Share of Bursa Malaysia Derivatives. They conduct business as a futures broker licensed by the Securities Commission under the Capital Markets & Services Act 2007. As at 31 December 2018, there are 18 Trading Participants licensed to conduct derivatives trading.

ii. Investor Protection

Bursa Malaysia places utmost importance on investor protection and market integrity to ensure a well-functioning and sustainable capital market. It achieves this by maintaining a comprehensive and robust regulatory framework to govern the market and its participants in a fair, orderly and efficient manner.

To this end, Bursa Malaysia has in place clear, comprehensive and accessible rules which are reviewed from time to time to ensure that they remain relevant, effective and benchmarked against international standards of market regulation. This is aimed at ensuring the rules provide adequate levels of investor protection, but do not result in burdensome compliance costs nor impede ease of doing business and growth.

In undertaking its regulatory functions, Bursa Malaysia also places significant focus on ensuring adequate transparency in the marketplace as well as improving the governance and conduct of listed companies and intermediaries. It continues to elevate the standards of disclosures as well as corporate governance and sustainability practices through, amongst others, its supervisory approach and outreach education programme. In addition, vigilant monitoring and pro-active measures ensure timely detection and management of irregular or unwarranted corporate and trading activities.

These have contributed to a well-regulated market underpinned by adequate levels of investor protection where the culture of self-regulation and quality of practices by market participants continue to strengthen, and the market continues to operate in a fair and orderly manner.

The strength of market regulation has gained international recognition and some of the notable achievements include the following:

- In the corporate governance space, Malaysia rose strongly from 7th to 4th place in the CG Watch 2018, a regional corporate governance ranking maintained by the Asian Corporate Governance Association.

- Malaysia was ranked 2nd among 190 countries for Protecting Minority Investors based on the World Bank Ranking & Ease of Doing Business Score as at May 2018.

iii. Risk Management

Bursa Malaysia has established a centralised risk management function integrated with a compliance function to provide a holistic and enterprise-wide view of the risk and compliance management within the Group.

Bursa Malaysia adopts the Guidelines on Financial Market Infrastructures issued by the Securities Commission of Malaysia; best practices such as ISO 31000:2009 Risk Management - Principles and Guidelines; and Principles for Financial Market Infrastructures (PFMI) frameworks issued by the International Organisation of Securities Commissions (IOSCO) to manage the risks of its business and operations.

One of the key features of Bursa Malaysia's enterprise risk management framework is the implementation of the three lines of defence comprising established and clear functional responsibilities and accountabilities for the management of risk. This is to ensure there is clear delineation of the risk management and compliance responsibilities under each line of defence to ensure there are adequate levels of checks and balances as well as greater independence.

Bursa Malaysia's risk management framework is embedded in the Enterprise Risk Management and Principles & Framework (ERMPF) document which is applicable to all the business entities within Bursa Malaysia. With the establishment of the risk management framework, the accountability, authority and responsibilities of the relevant parties in Bursa Malaysia for managing risk, including implementing and maintaining the risk management process as well as ensuring the adequacy, effectiveness and efficiency of any controls have been clearly outlined. Within the framework, there is an established and structured process for the identification, assessment, communication, monitoring as well as continual review of risks and effectiveness of risk mitigation strategies and controls at the divisional and enterprise levels. The analysis and evaluation of Bursa Malaysia's risks are guided by the approved risk parameters.

4. LABUAN FINANCIAL SERVICES

4.1 Labuan Financial Services Authority (Labuan FSA)

Labuan Financial Services Authority (Labuan FSA) is the statutory body responsible for the development and administration of the Labuan International Business and Financial Centre (Labuan IBFC). The key role of Labuan FSA is to license and regulate the licensed entities operating within Labuan IBFC and to ensure all such entities remain in compliance with internal and international best standards adopted by the jurisdiction. This is to safeguard investors' interests as well as to maintain the soundness of the regulatory environment in Labuan IBFC.

As the regulatory authority for the Labuan IBFC, Labuan FSA is committed to maintain the position of Labuan IBFC as a well regulated and reputable international financial centre in Asia Pacific while the promotion of the IBFC is undertaken by the marketing arm of Labuan FSA, the Labuan IBFC Incorporated Sdn. Bhd. (Labuan IBFC Inc). Labuan IBFC Inc. has a team of resources and specialists to assist investors regarding the jurisdiction and its vast range of financial services solutions, both conventional and Islamic.

4.2 Doing Business in the Labuan IBFC

Labuan IBFC is strategically located in the centre of Asia Pacific and positioned as the gateway for investments into and out of the region, presents investors an ideal balance of fiscal neutrality and certainly in a mid-shore jurisdiction. Well supported by a robust and comprehensive legal framework, Labuan IBFC provides clear legal provisions and complemented by a wide range of business and investment structures for cross border transactions, business dealings and wealth management needs.

The various Labuan company structures as well as comprehensive conventional and Islamic products and services catering to the diverse needs of investors contributed in making Labuan an attractive international business centre and a platform for residents and non-residents to invest abroad. The efficient delivery system as well as its customer oriented client charter further facilitates business needs of the investors.

Entities incorporated/registered in Labuan IBFC enjoy many advantages, from low operational costs to facilitative tax incentives and access to extensive double tax treaty agreements through the Malaysian double tax treaty network. Under the Labuan taxation system, a Labuan entity carrying on Labuan trading activity:

i. pay tax each year at the rate of 3% of its audited net profits. There is currently no tax imposed on a Labuan entity conducting non-trading activities;

ii. could also make an irrevocable election to pay tax under the Income Tax Act 1967. This would give Labuan entity more flexibility to structure their business transactions effectively, and create a more favourable tax conditions for the investors operating in or through the Labuan IBFC; and

iii. A Labuan entity could also pay Business Zakat in lieu of tax. The Government has also granted various tax exemptions to further entice investors and professional services to establish their presence in Labuan IBFC.

4.3 Business Activities of Labuan IBFC

Labuan IBFC offers a comprehensive financial solution in both conventional and Shariah-based principles-covering banking, insurance and insurance-related products, trust company business and capital market activities.

In addition, the IBFC has continued to offer other niche products including wealth management (foundations), reinsurance/retakaful, leasing and commodity trading. A wide range of cost-effective business structures such as the Labuan Holding Company, Labuan Protected Cell Companies, Labuan Limited Liability Partnership and Special Trust are also available.

The Labuan International Commodity Trading Company (LITC) introduced in 2011 under the Global Incentive for Trading Programme provides incentives to international trading companies to set up LITC in Labuan IBFC and to trade on petroleum/petroleum related products, including liquefied natural gas (LNG).

The Labuan International Financial Exchange (LFX) complements the traditional banking facilities through its offer of full-fledge capital raising services with unlimited access to international markets through the activities of listing, trading and settlement of financial instruments or facilities.

For more information on Labuan IBFC, please visit www.labuanibfc.com.

5. FOREIGN EXCHANGE ADMINISTRATION RULES

Malaysia continues to maintain a progressive foreign exchange administration (FEA) regime. FEA rules are part of the broader prudential toolkit used by Bank Negara Malaysia (BNM) to ensure financial stability, specifically to safeguard the balance of payment position and the value of the Malaysian ringgit. At the same time, FEA rules also aim to facilitate cross-border activities by entities in Malaysia in order to strengthen Malaysia's competitiveness given the high degree of openness of the economy in terms of trade, investment and financial flows.

5.1 Rules applicable to Non-Residents

5.1.1 Investments into Malaysia

The Malaysian markets are easily accessible by global investors, with free mobility of inflows and outflows of capital for investments in Malaysia.

- Non-residents are free to invest in any form of ringgit assets either as direct or portfolio investments;

- The investments can be funded through conversion of foreign currency into ringgit with licensed onshore banks[1] (excluding licensed international Islamic banks) or appointed overseas[2] offices of the licensed onshore banks; and

---

[1] Licensed onshore bank means a licensed bank and a licensed investment bank under the Financial Services Act 2013 and under the Islamic Financial Services Act 2013

[2] List of appointed overseas office can be found at http://www.bnm.gov.my/documents/aoo/list_of_aoo_country_20190419.pdf

- Non-residents are free to repatriate divestment proceeds, profits, dividends or any income arising from investments in Malaysia provided that the funds are repatriated in foreign currency.

5.1.2 Accessibility to domestic financing

i. Borrowing in foreign currency

(a) Non-resident are free to borrow any amount of foreign currency from licensed onshore banks. Proceeds of the borrowing can be utilised offshore or onshore; and

(b) Non-residents are also free to issue foreign-currency denominated sukuk/bonds in Malaysia for use onshore or abroad.

ii. Borrowing in ringgit

a) Non-financial institution non-residents are free to borrow any amount in ringgit from licensed onshore banks (excluding licensed international Islamic bank), resident companies and resident individuals to finance activities in the real sector in Malaysia;

b) Non-financial institution non-residents are free to borrow in ringgit for margin financing from resident entities with a stockbroking license issued under the Capital Market and Services Act 2007 to finance purchases of securities and financial instruments traded on Bursa Malaysia; and

c) Upon approval from BNM, non-residents may raise ringgit financing in Malaysia through the issuance of ringgit-denominated sukuk/bonds[3]. The proceeds may be used onshore or offshore, subject to consideration on case-to-case basis.

5.1.3 Settlement for trade in goods and services

Non-residents may undertake settlements for international trade in goods and services with residents in foreign currency or ringgit via licensed onshore banks or appointed overseas office.

5.1.4 Hedging

Non-residents are free to hedge their ringgit exposures for current and financial account transactions with licensed onshore banks (excluding licensed international Islamic banks) and appointed overseas offices.

5.1.5 Ringgit and foreign currency accounts

There are no restrictions for non-residents to open –

i. foreign currency accounts with any licensed onshore banks to facilitate investments and business operations in Malaysia. Funds in these accounts are free to be remitted abroad; and

ii. ringgit accounts with any financial institution. The accounts can be funded with ringgit from the sale of foreign currency on spot[4] basis or any income earned from their investments in Malaysia including interest, rental, profits, dividend or proceeds from divestments of their ringgit assets. Funds in these accounts can be remitted abroad once converted into foreign currency with the licensed onshore banks.

5.2 Rules applicable to Residents

5.2.1 Investment in foreign currency assets

i. Residents without domestic ringgit borrowing[5] are free to undertake investment in foreign currency asset onshore or abroad of any amount.

ii. Resident entities with domestic ringgit borrowing are free to undertake investment in foreign currency asset onshore or abroad up to a prudential limit of RM50 million equivalent in aggregate per calendar year on a corporate group basis using foreign currency funds sourced from the conversion of ringgit. Trade Foreign Currency Account, foreign currency borrowing obtained from a licensed onshore bank for purposes other than direct investment abroad or through the swapping of financial assets.

---

[3] Further information on issuances of ringgit and foreign currency-denominated sukuk/bonds can be found at http://www.bnm.gov.my/microsite/fxadmin/notices/Jointinfonote.pdf

[4] Spot means the buying and selling of any currency for delivery within two business days

[5] Domestic ringgit borrowing means borrowing in ringgit obtained by a resident from another resident, excluding borrowing from related resident entities but includes credit card facility obtained from licensed onshore banks

5.2.2 Borrowing onshore and offshore

i. Borrowing in foreign currency

a) Resident entities are free to borrow any amount of foreign currency borrowing from:

- Licensed onshore banks;
- Resident and non-resident companies within its corporate group of entities;
- Resident and non-resident direct shareholders; and
- Another resident through the issuance of foreign currency-denominated debt securities.

b) Foreign currency borrowing by resident entities from non-resident financial institutions and non-resident entities, which are not part of their corporate group of entities, is subject to a prudential limit of RM100 million equivalent in aggregate on a corporate group basis.

ii. Borrowing in ringgit

Resident entities are free to obtain ringgit borrowing of:

a) Any amount from non-resident companies within its corporate group of entities and non-resident direct shareholders to finance activities in the real sector in Malaysia; or

b) Up to RM1 million in aggregate from any non-resident other than non-resident financial institutions for use in Malaysia.

5.2.3 Import and export of goods and services

All proceeds from the export of goods must be received and repatriated directly and immediately to Malaysia in full as per the export sales contract which must not exceed six months from the date of export shipment. Settlement with the non-residents can be undertaken in ringgit or foreign currency.

5.2.4 Hedging

Residents are allowed to sell ringgit against foreign currency on forward basis with licensed onshore banks (excluding licensed International Islamic banks) to hedge their foreign currency exposures up to twelve (12) months of their foreign currency obligations[6].

5.2.5 Foreign currency accounts

Residents are free to open foreign currency accounts with licensed onshore banks and non-resident financial institutions.

For further details on the foreign exchange administration rules of Malaysia, please visit http://www.bnm.gov.my/fxadmin.

[6] Foreign currency obligation refers to foreign currency import payment, foreign currency loan repayment and other current account transactions in foreign currency with a non-resident