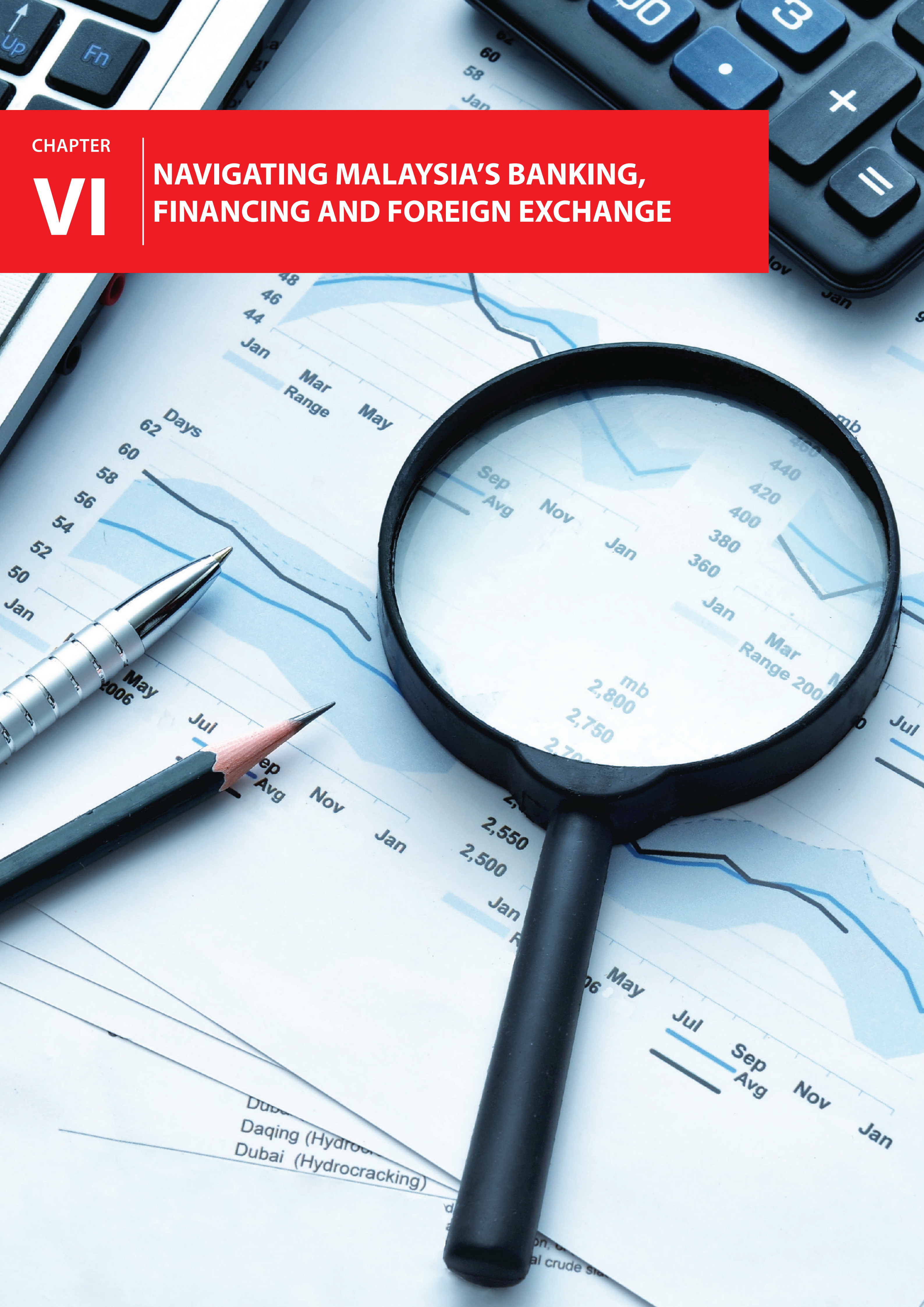
CHAPTER

VI

NAVIGATING MALAYSIA'S BANKING, FINANCING AND FOREIGN EXCHANGE



NAVIGATING MALAYSIA'S BANKING, FINANCING AND FOREIGN EXCHANGE

Malaysia has a holistic and well-developed financial infrastructure, comprising both conventional and Islamic financial institutions, the capital markets, offshore banking, and the foreign exchange markets, amongst others. From multinational corporations to micro-enterprises, investors need look no further to obtain financing for their capital and operational expenditures in Malaysia.

1. THE FINANCIAL SYSTEM IN MALAYSIA

Investors may rest assured that their financing needs can be amply met by Malaysia's mature and integrated financial system, which comprises a diversified range of institutions to serve the increasingly varied and complex needs of the domestic economy. The financial system includes both the conventional financial system as well as the Islamic financial system, both of which operate in parallel.

1.1 The Central Bank

The principal objective of Bank Negara Malaysia (BNM), or the Central Bank of Malaysia, is to promote monetary 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 BNM;
- ❖ 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 an 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 BNM as at end of December 2022:

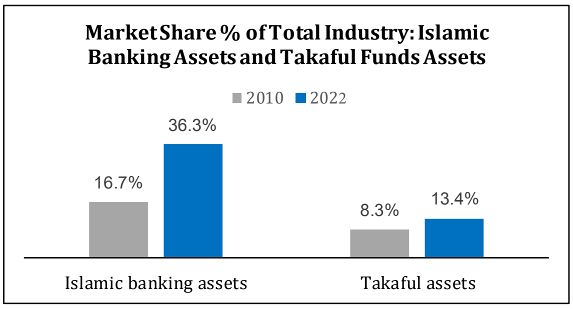
	Total	Malaysian-Controlled Institutions	Foreign-Controlled Institutions
Commercial Banks	26	8	18
Islamic Banks	16	11	5
International Islamic Banks	2	0	2
Investment Banks	11	11	0
Insurers	36	10	26
Takaful Operators (Islamic Insurers)	15	11	4
Reinsurers	7	2	5
Retakaful Operators (Islamic Reinsurers)	3	0	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 that supports economic activities in Malaysia. Banking institutions operate through a network of more than 2,201 branches and 3,839 agent banks across the country. There are also 18 foreign banks in Malaysia. A total of eight (8) Malaysian banking groups have established their presence in 19 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 892 offices and 214,236 registered agents nationwide, provide solutions for risk management and financial planning for both businesses and individuals.

1.2.1 The 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. The industry aims to contribute to the overall financial system in Malaysia by realising a vision of economic growth that is balanced, progressive, sustainable and inclusive by advancing value-based finance that is anchored on Shariah principles.



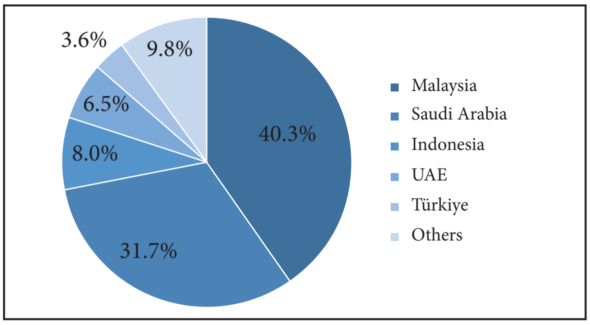
Source: Bank Negara Malaysia

The Islamic banking industry accounts for 36.3%[1] (RM1316.1 billion) of total banking assets as at end of 2022. A wide range of competitive and innovative products are offered by over 40 financial institutions (these include Islamic banks, Islamic windows of conventional and investment banks, international Islamic banks, and development financial institutions), all aiming to deliver a positive and sustainable impact on the community, economy and environment.

As for the takaful sector, total takaful funds' assets constitute a market share of 13.4% (RM49.9 billion) of the total insurance and takaful sector as at end of 2022. The penetration rate for the family takaful market is 20.1%, signifying a growing public acceptance of the benefits provided by takaful schemes.

To support the further development of 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 provide additional avenues for businesses to access financing. Presently, seven Islamic banks are offering investment accounts.

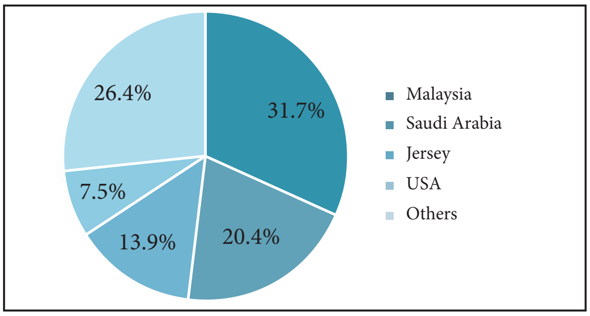
Sukuk Outstanding by Domicile (2022)



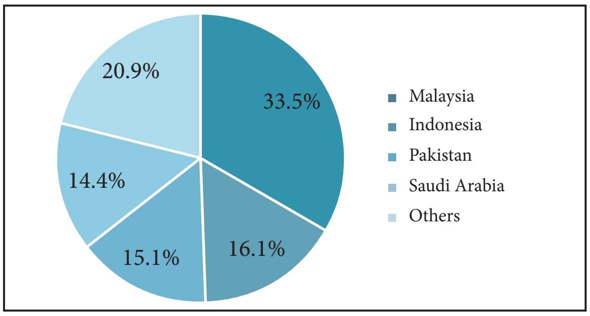
Source: MIFC estimates

On the global front, Malaysia remains as a leading global hub for Islamic finance. It is home to the world's largest sukuk market, with a 40.3% share of global sukuk outstanding, amounting to USD302.9 billion as at end of 2022. Malaysia also contributed 69.6% of the total global corporate sukuk issuance in 2022.

Islamic Funds Asset under Management (AUM) by Domicile (as at end of 2022)



Number of Islamic Funds by Domicile (as at end of 2022)



Source: MIFC estimates

In terms of Islamic wealth management, Malaysia accounts for 31.7% of the global market share, with assets under management (AUM) of USD29.2 billion as at end of 2022. Malaysia ranked first globally in terms of the number of funds, accounting for 33.5% of the global share with a total of 378 funds registered. Currently, there are 24 Islamic fund management companies and 33 fund management companies with Islamic windows in Malaysia.

[1] *Includes Development Financial Institutions (DFIs)*

1.2.2 Development Financial Institutions

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 agriculture, 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 (DFIA) was enacted to promote the financial and operational soundness of the DFIs through sustainable practises 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 the DFIA, BNM was appointed as the central regulatory and supervisory body for DFIs.

There are six DFIs prescribed under the DFIA:

- ❖ Small Medium Enterprise Development Bank Malaysia Berhad or SME Bank, which provides financing and advisory services to SMEs involved in the 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 both members and non-members;
- ❖ Export-Import Bank of Malaysia Berhad or EXIM Bank, which provides credit facilities to support the export and import of goods and overseas projects, as well as to provide export credit insurance and guarantee services;
- ❖ Bank Simpanan Nasional, which focuses on retail banking and personal finance, especially for small savers, and supports the financial inclusion agenda by providing microfinancing and agent banking services;
- ❖ Bank Pertanian Malaysia Berhad or Agrobank, which accepts savings deposits, provides financing and advisory services to support the development of the agricultural sector and communities.

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

2. EXPORT CREDIT REFINANCING-i

Export Credit Refinancing (ECR) provides Shariah-compliant and conventional short-term pre-shipment and post-shipment financing to direct or indirect exporters either in RM or US dollars. It is made available to a manufacturer or a trading company incorporated in Malaysia and involved in exports and international trade, directly or indirectly. Companies with ECR credit lines duly established with participating financial institutions (ECR Banks) are eligible for the following types of facilities:-

- ❖ Pre-shipment ECR

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

- ❖ Post-shipment ECR

The Post-shipment ECR facility is a financing advance for exporters to finance their exports or trade after shipment.

2.1 Methods of Financing

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

a. Order-based method:-

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

b. Certificate of Performance (CP) method:-

For both direct and indirect exporters, the Pre-shipment is made against a CP issued by EXIM Bank. The limit of financing is based on the CP limit for a validity period of 1 year.

Under the Post-shipment ECR facility, the method of financing used is via purchasing the export bill at a discount, where financing is extended upon presentation of export documents to the ECR 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 the Pre-shipment Order-based method, the eligible amount of financing for direct exporters is up to 95% of the value of the export order, or 95% of the ECR DLC, ECR DPO, or LPO for indirect exporters.

For the Pre-shipment CP-based method, the CP limit would be the amount eligible for financing. The CP limit is segregated into three (3) periods, with each period comprising 4 months. The eligible amount of financing for direct exporters involved in manufacturing and trading is 100% of the export value of the preceding 12 months. The eligible amount of financing for indirect exporters involved in manufacturing and trading is 80% of the export value of the preceding 12 months.

For Post-shipment, the amount of financing is 100% of the export invoice value.

2.3 Payment

For direct exporters, the source of payment for Pre-shipment financing shall be from export proceeds received from overseas buyers/ post-shipment proceeds received from the ECR banks. For indirect exporters, the source of payment for Pre-shipment financing should be made from local sales proceeds received from the ECR users, Free Trade Zone (FTZ)/Licensed Manufacturing 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.

For more information on ECR, 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. It is a self-funded statutory body that has both investigative and enforcement powers.

The SC's aim is to promote and maintain fair, efficient, secure, and transparent securities and derivatives markets, as well as facilitate the orderly development of an innovative and competitive capital market. It is committed to building a relevant, efficient and diversified capital market in line with the future direction set out by the SC in its Capital Market Masterplan (CMP3). The CMP3 provides guidance on strategic initiatives over a span of five (5) years. The strategic thrusts focus on catalysing competitive growth, empowering investors for a better future and shaping a stakeholder economy, while embedding shared accountability, prioritising efficiency and outcomes, as well as embracing technology.

Developing the Malaysian Capital Market

Malaysia has become a well-diversified capital market that includes over 1,000 listed companies in the equity market, the third largest bond market in Asia after Japan and South Korea, a continued innovative Islamic capital market that is well-recognised globally, a derivatives market with the leading price discovery centre for crude palm oil (CPO), and one of the largest domestic unit trust industries in the region.

In 2022, Malaysia's capital market stood at RM3.6 trillion, equivalent to two times the size of the domestic economy. Malaysia also stands as a global leader in the Islamic capital market, with its size amounting to RM2.3 trillion. This comprises a total market capitalisation of Shariah-compliant securities of RM1.1 trillion and total sukuk outstanding amounting to RM1.2 trillion, signalling the country's status as having the world's largest sukuk market. The total fund management industry's AUM grew to RM906.5 billion in 2022, with 22.7% or RM205.9 billion, constituting total Islamic AUM.

Building on the prominent Islamic capital market, the SC has led efforts towards the development of a facilitative and vibrant sustainable and responsible investment (SRI) ecosystem in Malaysia. Following the launch of the SC's NaviGate: Capital Market Green Financing Series in 2021, the SC frequently drives thought leadership initiatives through speaking engagements organised by relevant stakeholders to promote and elevate Malaysia's profile as a regional SRI hub.

As at end of 2022, 58 qualified SRI funds were available to investors, with a total net asset value of RM7.1 billion. Moving forward, a key priority is to advance the environmental, social, and governance (ESG) agenda and shape a comprehensive set of *Maqasid al-Shariah* guiding principles that facilitate sustainable as well as socially responsible outcomes.

Supporting the Real Economy

The Malaysian capital market has provided various financing initiatives to enable the growth and resilience of the economy. 2022 has seen total funds raised through bonds, sukuk, and equity issuances hit a high record of RM179.4 billion. Additionally, since its inception, alternative fundraising channels for micro, small, and medium enterprises, such as equity crowdfunding and peer-to-peer financing have raised at RM560.34 million through 330 campaigns and RM3.87 billion via 54,791 campaigns, respectively.

The SC is focused on building an enabling ecosystem that provides accessibility, while ensuring investor protection and intermediation efficiency. Its core mandates, i.e., to regulate and ensure market growth, are carried out with the objective of protecting investors. Not to be overlooked, it includes initiatives to raise financial and investment literacy for the most. Towards this end, the SC has introduced its flagship investor outreach programme InvestSmart® with the aim of creating more informed investors, empowering them to make informed investment decisions. Moving forward, continued efforts to enhance regulatory frameworks, promote innovation and strengthen corporate governance will be essential in sustaining this growth trajectory.

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

3.2 Bursa Malaysia

Established in 1976, Bursa Malaysia has flourished to become one of ASEAN's most prominent stock exchanges, with almost 1,000 companies listed, and raising capital spanning across 50 economic activities. Today, Bursa Malaysia is proud to be the host of regional companies and some of the largest players in the natural resource-based sectors.

Bursa Malaysia provides seamless access to an array of investment products and services, effectively linking both domestic and international market participants to multifarious opportunities for achieving their fundraising and investment objectives. Bursa Malaysia's diverse portfolio encompasses securities, derivatives, offshore and Islamic assets, as well as a selection of other investment products, including Structured Warrants, Exchange Traded Bonds and Sukuks (ETBS), Exchange Traded Funds (ETFs), and Real Estate Investment Trusts (REITs). Additionally, it provides exchange-related services like listing, trading, clearing, settlement, and depository.

As one of ASEAN's preferred fundraising destinations, Bursa Malaysia efficiently caters to issuers' capital raising needs. Companies are listed on the Main Market for large cap established companies or on the ACE Market for emerging companies of various sizes. In 2017, Bursa Malaysia launched the LEAP Market, an adviser-driven market intended to furnish emerging companies, including SMEs, with better access to funding and visibility via the capital market. As the first of its kind in ASEAN, LEAP places Malaysia at the forefront of capital market innovation in the region.

Despite the heightened volatility and global equity market challenges, the Malaysian equity market has remained on a growth trajectory. Over the past decade (2013 – 2022), the total market capitalisation of all Public Listed Companies (PLCs) on Bursa Malaysia has grown by 18%. Simultaneously, the average daily trading value (ADV) has witnessed a growth of 32% for the same period. The Malaysian market continues to sustain the interest of foreign investors, with the percentage of foreign ownership consistently exceeding 20%.

Since its transformation into a publicly listed company on 18th March 2005, Bursa Malaysia has marked an array of significant milestones. Today, it stands globally recognised for its unparalleled diversity and innovation in Shariah compliant trading and investment services. This distinction is attributed to its pioneering efforts, such as the launch of Bursa Malaysia-i, the world's first comprehensive Shariah securities investing platform, and *Bursa Suq Al-Sila'* - the world's inaugural end-to-end Shariah-compliant commodity *Murabahah* trading platform.

Not only does Bursa Malaysia excel in the Islamic capital market sector, but it also holds the distinction of being the world's hub for palm oil futures trading. The exchange's Crude Palm Oil Futures (FCPO) contract has long been recognised and referenced as the global price benchmark in the palm oil industry.

In a stride towards expanding its range of Shariah-compliant and ESG solutions, Bursa Malaysia launched the world's first Shariah-compliant Bursa Carbon Exchange (BCX) in December 2022. This innovative move further solidifies Bursa Malaysia's commitment to diversifying its product offering in a manner that aligns with global trends and the growing importance of sustainable and responsible investing.

Bursa Malaysia's Role in Championing ESG And Net-Zero Aspirations in Malaysia

Bursa Malaysia has long been at the forefront of promoting sustainability in the capital market to encourage sustainable practises among its PLCs. This was done through ongoing guidance, advocacy, and engagements within the marketplace, alongside its role as a frontline regulator and market operator. In recent years, Bursa Malaysia has increased efforts to help PLCs improve their ESG practices.

Among the key initiatives are: -

- Joined the United Nations Sustainable Stock Exchanges (SSE) Initiative in 2012 to further strengthen its commitment in promoting sustainable strategies among issuers and the marketplace.

- Introduced the FTSE4Good Bursa Malaysia Index (F4GBM) in 2014 to measure the performance of PLCs demonstrating good ESG practices. The Shariah-version of the F4GBM Index, FTSE4Good Bursa Malaysia Shariah Index (F4GBMS), was later introduced in 2021 to complement the index series.

- Launched BursaSUSTAIN in 2018, a comprehensive online portal designed as a one-stop knowledge and information hub on corporate governance (CG) and sustainability. It aims to provide a platform for its stakeholders to have easy access to the latest information on CG and sustainability.

- Launched two new ESG themed indices on 28th August 2022 under the FTSE Bursa Malaysia Index Series – (i) FTSE Bursa Malaysia Top 100 ESG Low Carbon Select Index (FBM100LC); and (ii) the FTSE Bursa Malaysia Top 100 ESG Low Carbon Select Shariah Index (FBM100LS). These additions expand the Exchange's benchmarking offerings in the ESG, low carbon and climate risk index space to cater to evolving investors' demand.

❖ Introduced enhancements to the Sustainability Reporting Framework in the Main Market and the ACE Market Listing Requirements in September 2022 to elevate the sustainability practises and disclosures of listed issuers.

❖ Launched the Bursa Carbon Exchange on 9th December 2022, to support Malaysia's ambition to achieve its target of net-zero greenhouse gas (GHG) emissions by as early as 2050, while accelerating Corporate Malaysia's pivot towards a green economy and meeting global demands for a sustainable supply chain.

❖ Announced the Centralised Sustainability Intelligence (CSI) Platform on 22nd March 2023, an effort to develop a central repository on ESG disclosure, for use by interested PLCs and their supply chains.

Bursa Malaysia remains steadfast in its commitment to advancing ESG practises among PLCs and within the marketplace through a variety of strategic approaches.

Market Participants

a. Stockbroking Companies

As at 31st May 2023, there were 30 stock broking companies including eight (8) Investment Banks, offering securities dealing services. The Investment Banks hold a merchant banking licence issued by Bank Negara Malaysia under the Financial Services Act 2013 (FSA) and the Islamic Financial Services Act 2013 (IFSA), and Capital Markets Services licence issued by the Securities Commission of Malaysia. The licences enable them to offer integrated capital market and financial services including corporate finance, debt securities trading and dealing in securities.

b. Trading Participants

Trading Participants are companies that deal in derivatives and are licenced by the Securities Commission under the Capital Markets & Services Act 2007. As at 31st May 2023, 16 Trading Participants are licensed to conduct derivatives trading under the IFSA and a Capital Markets Services licence.

Investor Education and Protection

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

As part of its continuous effort to educate and help investors make informed decisions on investments, Bursa Malaysia launched "Bursa Academy" in June 2020, an e-learning platform targeting primarily retail investors across the Securities, Derivatives, and Islamic Capital Market. Bursa Academy is part of Bursa Malaysia's multi-faceted investor education initiative and outreach to foster financial education for investors and the nation. It aims to provide investors with a holistic learning journey that caters to their differing needs, expertise, and skill levels. The platform strengthens the education initiatives of the Exchange, and complements other digital tools available to investors – such as the Bursa Marketplace app which has market data and trading ideas, and the Bursa Anywhere app which simplifies Central Depository System (CDS) account management transactions.

To safeguard investor protection, Bursa Malaysia has put in place clear, comprehensive, and accessible rules that 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, at the same time, do not result in burdensome compliance costs or 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 issuers and intermediaries. It continues to elevate the standards of disclosure as well as corporate governance and sustainability practises through, amongst others, its supervisory approach and outreach education programmes. In addition, vigilant monitoring and proactive measures undertaken by Bursa Malaysia's regulations ensures 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 practises by market participants continue to strengthen, and the markets remain fair and orderly.

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

❖ In the corporate governance space, Malaysia achieved 5th place in CG Watch 2020, a regional corporate governance ranking maintained by the Asian Corporate Governance Association.

❖ There is a continued uptrend in the 2021 Malaysia-ASEAN Corporate Governance Scorecard published by the Minority Shareholders Watch Group (MSWG), which signals the continuous commitment towards improvement in CG practises by our Top 100 PLCs. The average CG Score for the Top 100 Malaysian PLCs is 104.6 points.

- 54 Malaysian PLCs have been recognised as recipients of the ASEAN Asset Class Award under the 2021 ASEAN Corporate Governance Scorecard (ACGS) Awards. This is an encouraging improvement from the 37 Malaysian PLCs recognised in 2019.

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

4. LABUAN FINANCIAL SERVICES

4.1 Labuan Financial Services Authority (Labuan FSA)

Labuan Financial Services Authority (Labuan FSA) is a statutory body under MOF, that is responsible for the development and administration of the Labuan International Business and Financial Centre (Labuan IBFC).

The key role of Labuan FSA is to licence and regulate licenced entities operating within Labuan IBFC, and to ensure all such entities remain in compliance with internal and international best standards as adopted by the jurisdiction. This is to safeguard investors' interests as well as maintain the soundness of the regulatory environment in Labuan IBFC.

As the regulatory authority for Labuan IBFC, Labuan FSA is committed to maintaining the position of Labuan IBFC as a well-regulated and reputable international financial centre, while the promotion of the centre is undertaken by Labuan IBFC Incorporated Sdn. Bhd. (Labuan IBFC Inc.), a wholly- owned subsidiary of Labuan FSA.

Labuan IBFC Inc. has a dedicated marketing team that collaborates closely with the regulator, market players, and industry experts in facilitating both global businesses looking to penetrate Asia and Asian entities aiming to expand internationally. Its ultimate objective is to ensure the centre's sustainability by ensuring that Labuan IBFC's main value propositions are understood and valued.

4.2 Doing Business in the Labuan IBFC

Labuan IBFC is strategically located in the centre of Asia Pacific and is the gateway for investments into and out of the region. Labuan IBFC being a mid-shore jurisdiction, offers global investors and businesses the benefits of being in a well-regulated and supervised jurisdiction, that adheres to international standards and best practices. The centre also provides fiscal neutrality and certainty in a currency-neutral operating environment.

Well supported by a robust, internationally-recognised yet business-conducive legal framework, Labuan IBFC offers a wide range of structures and solutions for cross-border transactions and international businesses in conventional, Shariah-compliant, and digital forms.

Labuan IBFC's role as a wholesale financial intermediation centre continues to attract investors with its pragmatic mid-shore proposition – offering the ease of doing business combined with the high international standards of regulation and supervision found onshore. Coupled with the cost-efficiency of the jurisdiction, it makes the centre an ideal base for global business trailblazers seeking innovative growth in Asia.

Entities incorporated/registered in Labuan IBFC enjoy many advantages, from cost-efficient substance creation to facilitative tax incentives and access to extensive double tax treaty agreements through the Malaysian double tax treaty network.

Under the Labuan IBFC's taxation framework, a Labuan entity carrying on Labuan trading activity pays tax each year at the rate of 3% of its audited net profits, subject to compliance with the economic substance requirements. Labuan entities carrying out non-trading activities are not subject to tax. The Government has also granted various tax exemptions to further entice investors to establish their presence in Labuan IBFC, such as exemptions for withholding tax and stamp duty.

Labuan entities could also make an irrevocable election to be taxed under the Malaysia Income Tax Act 1967. This would give them more flexibility to structure their business transactions effectively, and create a more favourable tax condition for the investors.

4.3 Business Activities of Labuan IBFC

Labuan IBFC offers a wide range of business structures and investment solutions catering to cross-border transactions and international business dealings, including digital-related solutions. The Centre provides services and solutions in niche areas such as risk management, commodity trading, wealth management, international business companies, Islamic financial services, and digital financial services.

Labuan IBFC is the only jurisdiction in Asia that offers private foundations as a wealth management solution, and is among the few jurisdictions in the world to offer protected cell company for captives, a self-insurance solution.

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

5. FOREIGN EXCHANGE POLICY

Malaysia maintains a liberal foreign exchange policy (FEP) regime that forms a part of BNM's broad prudential toolkit to ensure monetary and financial stability. The FEP safeguards the balance of payment position and value of the Ringgit Malaysia (RM) while supporting the competitiveness of its economy through the facilitation of a more conducive environment for cross-border real economic activities. Further details of the FEP are available at https://www.bnm.gov.my/fep.

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. Under the prevailing FEP rules, non-residents are free to:

- Invest in any type of RM or foreign currency assets in the form of direct investment or portfolio investment; and
- Repatriate divestment proceeds, profits, dividends, or any income arising from investments in Malaysia in foreign currency.

5.1.2 Accessibility to Domestic Financing

a. Borrowing in foreign currency

- Non-residents are free to borrow any amount of foreign currency from licenced onshore banks (LOBs). Proceeds of the borrowing can be utilised offshore or onshore; and
- Non-residents are free to issue foreign-currency denominated sukuk/bonds in Malaysia for use onshore or abroad.

b. Borrowing in Ringgit Malaysia (RM)

- Non-residents (excluding financial institutions) are free to borrow any amount in RM from LOBs (excluding licenced international Islamic banks) and other residents to finance or refinance real sector activities in Malaysia.
- Non-residents are free to borrow in RM from an LOB:
  - in any amount of trade financing for settlement of trade in goods or services with a Resident;
  - up to the amount of an overdraft facility (not exceeding two (2) business days and with no rollover option)[2]; and
  - up to RM10 million in aggregate via a repurchase agreement or sale buy back agreement.

5.1.3 Payment and Receipt

Non-residents may undertake settlement in RM or foreign currency for international trade in goods or services, as well as any income earned or expense incurred in Malaysia with residents, through LOBs or their Appointed Overseas Office (AOOs).

5.1.4 Foreign Exchange (FX) Hedging

Non-residents are free to hedge FX exposures arising from current and financial account transactions on their own account, or on behalf of their related entities, with LOBs (excluding licenced international Islamic banks) or their AOOs. There is also no restriction on unwinding or cancelling the forward transaction for any underlying investment except for portfolio investments[3].

5.1.5 Ringgit and Foreign Currency Accounts

Non-residents are free to open RM or foreign currency accounts with any LOB to facilitate business operations and investments in Malaysia. They can also remit the funds in these accounts freely abroad.

5.2 Rules applicable to Residents

5.2.1 Investment in Foreign Currency Assets

a. Residents without domestic ringgit borrowing (DRB)[4] are free to undertake any amount of investment in foreign currency assets onshore or abroad.

b. Resident entities with DRB are free to undertake any amount of investment in foreign currency assets onshore or abroad using foreign currency funds sourced from:

- Outside Malaysia except proceeds of export of goods;
- Approved borrowing in foreign currency in accordance with Part B of Notice 2 of the FEP; or
- A borrowing in foreign currency from an LOB for direct investment abroad.

c. Resident entities with DRB are free to undertake investment in foreign currency assets 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:

- Conversion of RM into foreign currency;
- Trade Foreign Currency Account (FCA);
- Foreign currency borrowing obtained from an LOB for purposes other than direct investment abroad; or
- Swapping of a financial asset in Malaysia for a financial asset outside Malaysia.

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[2] *Only eligible for a Non-Resident custodian bank, stockbroking corporation, trust bank or international central securities depository acting on behalf of Non-Resident investor.*

[3] *This is allowed for registered investors under BNM's dynamic hedging framework.*

[4] *Domestic RM borrowing means borrowing in RM obtained by a resident from another resident, or any obligation considered or deemed as domestic RM borrowing under any of the FEP Notices. (Refer to the Preamble & Interpretation of FEP Notices).*

5.2.2 Borrowing Onshore and Offshore

a. Borrowing in foreign currency

- Resident entities are free to borrow any amount of foreign currency from:
    - LOBs;
    - Resident and non-resident companies within their corporate group of entities;
    - Resident and non-resident direct shareholders; and
    - Other residents via the issuance of foreign-currency-denominated debt securities.
- Resident entities are free to borrow foreign currencies from non-resident financial institutions and non-resident entities outside their corporate group up to a prudential limit of RM100 million equivalent in aggregate on a corporate group basis.

b. Borrowing in Ringgit Malaysia (RM)

- Resident entities are free to obtain RM borrowing of any amount from:
    - Non-resident entities within their corporate group and non-resident direct shareholders to finance activities in the real sector in Malaysia; or
    - Any non-residents via the issuance of redeemable preference shares for use in Malaysia or corporate debt securities[5] (excluding non-tradable corporate debt securities issued to non-related non-resident entities or non-resident financial institutions); or
    - Up to RM1 million in aggregate from any non-residents (excluding financial institutions) for use in Malaysia.

5.2.3 Payment and Receipt

a. Residents may undertake settlement in RM or foreign currency for international trade in goods or services, as well as any income earned or expense incurred in Malaysia with non-residents.

b. Resident exporters may settle domestic trade in goods or services in foreign currency with other residents operating in the global supply chain[6], directly or through resident intermediate entities. Such payments must be undertaken between the resident payer and the payee's Trade FCAs.

5.2.4 Export of Goods

Resident exporters shall repatriate all export of goods proceeds in full value back to Malaysia within six (6) months from the date of shipment. Resident exporters are accorded flexibility to:

- Repatriate export of goods proceeds beyond six (6) months and up to 24 months for permitted reasons beyond the resident exporters' control; and
- Net-off or write-off export of goods proceeds against permitted transactions or reasons.

5.2.5 FX Hedging

Residents are free to hedge FX exposures arising from current and financial account transactions on their own account, or on behalf of their related entities, with LOBs (excluding licenced international Islamic banks). There is also no restriction on unwinding or cancelling the forward transaction for any underlying investment except portfolio investments[7].

5.2.6 Foreign Currency Accounts

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

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[5] In accordance with relevant guidelines issued by the Securities Commission Malaysia.
[6] Defined as a business activity where a resident importer purchases goods or services from overseas to support production and distribution of goods or services by a resident exporter for its export activities.
[7] This is allowed for registered investors under BNM's dynamic hedging framework.