Frequently Asked Questions

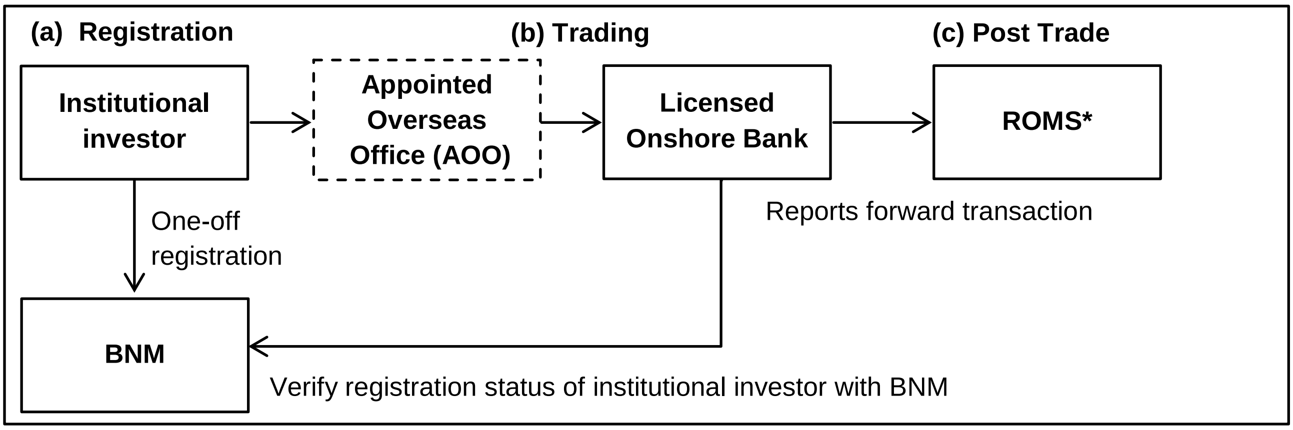
Questions	Answer
Hedging flexibilities for institutional investors	
1. Who is eligible for dynamic hedging?	• Resident and non-resident institutional investors upon registration with BNM, excluding – (a) non-resident banks; and (b) non-resident securities companies. • The registration for dynamic hedging is to be undertaken at firm level.
2. If an investor is registered at the firm level, is it permitted to "carve out" specific funds for passive hedging?	• Yes. During the registration, the 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.
3. What hedging instruments are permissible under foreign exchange risk management?	• The hedging instrument allowed is buying or selling of FX/MYR forward.
4. What are the underlying assets eligible for dynamic hedging?	• For non-resident institutional investors, eligible asset are: i. investment in ringgit-denominated debt securities on Real-time Electronic Transfer of Funds and Securities System (RENTAS); ii. investment in ringgit-denominated equity securities on Bursa Malaysia Berhad; or iii. temporary placement in ringgit deposits or deposit-like securities offered by licensed onshore banks using ringgit proceeds arising from the selling of existing ringgit-denominated securities as defined in subparagraphs (i) and (ii) above pending reinvestment of such ringgit proceeds. • For resident institutional investors, eligible asset are: i. investment in foreign currency-denominated debt securities; ii. investment in foreign currency-denominated equity securities; or iii. temporary placement in foreign currency

Questions	Answer
	deposits or deposit-like securities offered by licensed onshore banks using foreign currency proceeds arising from the selling of existing foreign currency-denominated securities as defined in subparagraphs (i) and (ii) above pending reinvestment of such foreign currency proceeds.
5. Do investors need to sign standard agreement to enter into onshore forward transaction?	• No. However, investors are encouraged to sign a standard agreement to safeguard their interests.
6. What is the allowable threshold for dynamic hedging?	• A non-resident institutional investor registered with the Bank is allowed to – i. enter into forward contracts to sell ringgit up to 100% of its invested underlying ringgit-denominated asset; or ii. enter into forward contracts to buy ringgit up to 25% of its invested underlying ringgit-denominated asset. • Meanwhile, resident institutional investor registered with the Bank is allowed to enter into forward contracts to buy ringgit up to 100% of its invested underlying foreign currency-denominated asset.
7. What will happen in the event that an investor breaches the prudential threshold?	• The investor shall 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 investor's eligibility.
8. Are investors allowed to net settled the forward transaction in USD?	• Yes, settlement of forward transactions can be on gross or net basis.
9. Who can non-resident investors approach to enter into dynamic hedging?	• Non-resident investors can approach licensed onshore banks, appointed overseas office[1], or approved appointed non-resident financial institutions[2] for dynamic hedging. [1] Appointed overseas office (AOO) refers to appointed overseas parent company, subsidiary company, sister company, head office or branch of a licensed onshore bank's banking group, excluding a licensed International Islamic bank. [2] Appointed NRFI refers to non-resident financial institution outside onshore bank's banking group which has been approved by BNM to participate in the AOO Framework.

Questions	Answer
10. Can an investor use their existing Legal Entity Identifier (LEI)?	• Yes. BNM will provide an ID to investors without LEI. More information on LEI is available at https://www.leiroc.org/.
11. Is it requirement to have segregated cash accounts for settlement of onshore forward transactions?	• No.

12. Illustration of Hedging Flexibility for Institutional Investors

Process Flow



* Ringgit Operations Monitoring System

(a) Registration:

- Institutional investor is required to do a one-off registration by submitting the Forward Market Participation Form to BNM. The form is available at BNM's website, www.bnm.gov.my.
- BNM shall notify the institutional investor in writing upon acceptance of the registration.

(b) Trading:

- Registered institutional investor may engage with any licensed onshore bank or appointed overseas office to undertake the forward transaction.
- Licensed onshore bank is required to perform a one-off verification of an institutional investor's registration status with BNM prior to entering into such transaction.

(c) Post Trade:

- Licensed onshore bank shall report to BNM all forward transactions via ROMS.

Illustration

- A non-resident investor holds RM100 million worth of MGS. The investor is allowed to undertake forward transaction to sell ringgit up to a prudential threshold of RM100 million or undertake forward transaction to buy ringgit up to a prudential threshold of RM25 million.

Position\Day	T+1	T+2	T+3	T+4	T+5
New Forward	-20	+10	-15	+25	+30
Net forward position	-20	-10	-25	0	+30

Questions	Answer
Responsibilities of Parties Involved in Dynamic Hedging	

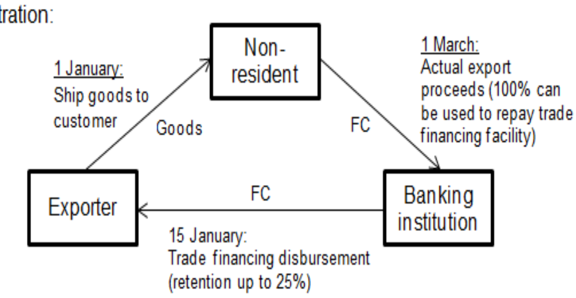
Party	**Responsibilities**
Institutional Investors	• To perform a one-off registration with BNM before participating in dynamic hedging • To inform the Licensed Onshore Bank or Appointed Overseas Office on their LEI/ID provided by BNM for the purposes of reporting on ROMS • To ensure net forward position is within the prudential threshold
Licensed Onshore Bank	• To perform a one-off verification with BNM on whether the institutional investor is registered before conducting forward transactions under dynamic hedging • To report forward transactions via ROMS with the institutional investor's LEI/ID provided by BNM
Custodian Banks	• To provide information on holdings requested by BNM on a case-by-case basis
Appointed Overseas Office (If applicable)	• To perform a one-off verification with BNM on whether the institutional investor is registered before conducting forward transactions under dynamic hedging • To inform the Licensed Onshore Bank on forward transactions under dynamic hedging on behalf of institutional investors for the purpose of reporting on ROMS

Hedging without documentary evidence	
13. Can a resident undertake hedging for an amount exceeding RM6 million?	• Yes. However, the flexibility to hedge without documentary evidence is only applicable for hedging up to RM6 million. For hedging exceeding RM6 million, the normal due diligence process by the onshore bank applies.
14. How is the RM6 million limit for the flexibility to hedge foreign exchange transactions computed?	• The computation of the RM6 million limit is based on total outstanding of net ringgit position (notional) at any one time, per client, per licensed onshore bank. Example: i. A resident may buy RM6 million ringgit forward *[NOP = RM6 million]* and subsequently sells RM8 million ringgit forward *[NOP = RM2 million]*. (Allowed) ii. A resident buys RM8 million ringgit

Questions	Answer
	forward *[NOP = RM8 million] and* subsequently sells RM2 million ringgit forward *[NOP = RM6 million].* (Subject to the onshore banks' normal due diligence process including to provide documentary evidence)
15. What is the pre-requisite for residents to enjoy the flexibility?	• Residents only need to provide a one-off declaration that the FX transactions are for hedging purposes. • With this flexibility, residents can also cancel and unwind the forward contract entered.
16. Is a resident institutional investor eligible to the flexibility to hedge up to net open position limit of RM6 million per bank?	• Yes. In addition to the dynamic hedging, the resident institutional investor can also hedge up to RM6 million, subject to one-off declaration on the hedging purpose.
17. Can a resident cancel forward foreign exchange contracts without sighting documents?	• Yes, provided the cancellation is undertaken with the same bank and the outstanding net ringgit position for contracts entered under this flexibility does not exceed RM6 million at any one time.
18. What is the difference between the current due diligence process where a bank is allowed to facilitate FX transaction and the new flexibility?	• Under the new flexibility, the onshore bank may facilitate FX transactions based on a one-off declaration so long as the transaction is undertaken within the specified parameters. • For transactions outside the specified parameters, a bank can continue to facilitate such transactions based on KYC, which includes periodic sighting/checking of documentary evidence.
19. Are residents allowed to hedge import or foreign currency loan obligations under this flexibility?	• Yes, up to RM6 million net ringgit position and shall not exceed the value of 6 months of the import and foreign currency loan obligations.
Hedging with documentary evidence	
20. Whether a resident is allowed to enter into forward contracts to sell foreign currency into ringgit for tenure more than 6 months?	• Yes, the resident is allowed to enter into forward contracts for sale of foreign currency for any tenure for financial account transaction or current account transaction based on firm commitment or

Questions	Answer
	anticipatory basis.
21. Whether a resident is allowed to enter into forward contracts to buy foreign currency for tenure more than 6 months?	• For import or foreign currency loan obligation: tenure shall not exceed 6 months • For investment purposes: any tenure subject to prudential limit
22. Whether a resident is allowed to roll-over forward contracts for import or foreign currency loan obligation exceeding 6 months?	• Yes, only arising from delay of import payment or foreign currency loan repayment.
23. Whether over-hedged forward position is required to be cancelled?	• Yes.
24. Can an ultimate holding company hedge foreign exchange exposure on behalf of its subsidiary?	• Prior approval from the Bank is required for companies to hedge foreign exchange exposure on behalf of a subsidiary.
Appointed overseas office	
25. Can a resident buy ringgit through appointed overseas offices?	• This flexibility is open to non-residents or resident individuals physically located outside Malaysia to facilitate their access to onshore banks.
26. Can non-residents obtain ringgit trade financing from appointed overseas offices?	• Yes, a non-resident can obtain ringgit trade financing from appointed overseas offices to settle trade obligations with the resident.
27. Are appointed overseas office allowed to display ringgit exchange rates and impose a margin?	• Appointed overseas offices are allowed to display ringgit exchange rates and impose a margin which is agreed by the onshore bank.
Export proceeds and foreign currency accounts	
28. Can exporters retain foreign currency funds with overseas banks?	• Under the prevailing FEA rules, resident exporters are required to receive and retain the full value of export proceeds with onshore banks[1].
29. How is the 25% retention of export proceeds computed?	• The 25% is computed based on each receipt of export proceeds.

[1] Onshore banks refer to licensed banks and licensed investment banks under the Financial Services Act 2013 or licensed Islamic banks under the Islamic Financial Services Act 2013.

Questions	Answer
30. Is export trade financing facility subject to the 25% retention limit?	• For export trade financing facility, the 25% retention is computed upon drawdown of the facility. • Actual export proceeds to be used for repayment of export trade financing. Illustration:  • Notwithstanding the above, for open account trade financing facilities where the loan facility is not provided by the same bank who will be receiving the export proceeds, the exporter is allowed to retain 100% of the trade financing facility in trade foreign currency account and apply the 25% retention limit at the point of receiving the export proceeds.
31. Does this requirement include proceeds from services? 32. Does this requirement include proceeds from toll manufacturing performed by resident for non-resident[2]? 33. Does this requirement include proceeds from merchanting trade[3]?	• The requirement is only applicable to proceeds from the export of goods. ✓ Export of goods is defined as: (a) movement or transfer of goods by land, sea or air from Malaysia to any territory outside of Malaysia; or (b) transfer of ownership in goods from Malaysia by a resident to a non-resident abroad or a Labuan entity which was declared by the Bank as a non-resident under section 214(6)(a) of the Financial Services Act 2013 (FSA) or under section 225(6)(a) of the Islamic Financial Services Act 2013 (IFSA). • The requirement is applicable on proceeds derived from toll manufacturing performed by resident for non-resident.

[2] Toll manufacturing performed by resident for non-resident refers to an arrangement where the resident receives semifinished goods from non-resident for further processing and onward selling to the non-resident.

[3] Merchanting trade refers to the selling of goods to a non-resident where the goods are shipped from an overseas location to another overseas location without entering or leaving the territory of Malaysia.

<table>
<tr><th>Questions</th><th>Answer</th></tr>
<tr><td></td><td>The requirement is not applicable on proceeds derived from export of services including merchanting trade.</td></tr>
<tr><td>34. Does the conversion of the remaining 75% export proceeds have to be undertaken on spot basis?</td><td>The remaining 75% export proceeds can be converted on spot or forward basis.</td></tr>
<tr><td>35. Are export proceeds received earlier than maturity of a forward contract entered to convert foreign currency export proceeds into ringgit subject to the 25% retention limit?</td><td>The exporter is allowed to retain export proceeds in foreign currency in Trade FCA prior to delivery of the forward contract.</td></tr>
<tr><td>36. Are exporters allowed to convert ringgit into foreign currency to meet foreign currency obligations if the retained foreign currency is insufficient?</td><td>Yes. In addition to utilising the retained foreign currency for import and loan obligations, residents (including exporters) are allowed to convert ringgit into foreign currency up to the value of 6 months import and foreign currency loan obligations.</td></tr>
<tr><td>37. Can exporters request to use the same conversion rate to reconvert export proceeds converted into ringgit into foreign currency?</td><td>Yes. Exporters may request to simultaneously reconvert export proceeds into foreign currency at the same rate for the following:
(a) up to the value of 6 months import and foreign currency loan obligations; and
(b) current international transactions.</td></tr>
<tr><td>38. Is there a time limit on the retention of the foreign currency proceeds?</td><td>There is no time limit on the retention of the foreign currency proceeds.</td></tr>
<tr><td>39. What can the retained foreign currency funds be used for?</td><td>The retained foreign currency can be used for payments of imports, foreign currency loan obligations and other current international transactions (i.e. dividend payments or remittance for family living expenses)</td></tr>
<tr><td>40. Can resident companies continue to borrow foreign currency from resident entities within its group of entities or its resident direct shareholder?
41. Can residents enter into cash sweeping arrangement with other resident companies within the group of entities?</td><td>Yes. Source and receipt for the borrowing may be undertaken as follows:
<table>
<tr><th>Source (Lender's account)</th><th>Receipt (Borrower's account)</th><th>Limit</th></tr>
<tr><td rowspan="3">Investment FCA</td><td>Trade FCA</td><td rowspan="3">No limit</td></tr>
<tr><td>Ringgit account</td></tr>
<tr><td>Investment</td></tr>
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<table>
<tr><th>Questions</th><th>Answer</th></tr>
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<tr><td></td><td>FCA</td><td rowspan="3"></td></tr>
<tr><td rowspan="3">Trade FCA</td><td>Trade FCA</td></tr>
<tr><td>Ringgit Account</td></tr>
<tr><td>Investment FCA</td><td>Up to the borrower’s investment limit</td></tr>
</table>
Source and receipt for repayment of the borrowing may be undertaken as follows:
<table>
<tr><td>Source (Borrower’s account)</td><td>Receipt (Lender’s account)</td><td>Limit</td></tr>
<tr><td rowspan="3">Investment FCA, Trade FCA or ringgit account up to repayment amount</td><td>Trade FCA</td><td rowspan="2">No limit</td></tr>
<tr><td>Ringgit account</td></tr>
<tr><td>Investment FCA</td><td>Subject to documentary proof that the original borrowing was sourced from the same investment FCA</td></tr>
</table>
</td></tr>
<tr><td>42. Can corporations without export proceeds convert ringgit into foreign currency to pay import and loan obligations?</td><td>Yes. The corporation can convert up to the value 6 months of import and loan obligations.</td></tr>
<tr><td>43. Does the export retention limit apply to resident individual, sole proprietor or general partnership?</td><td>Yes.</td></tr>
<tr><td>44. Are resident exporters allowed to transfer foreign currency funds from Trade FCA to Investment FCA or vice versa?</td><td>Transfer from Trade FCA to Investment FCA is subject to the investment limit.
Transfer from Investment FCA to Trade FCA is allowed.
In addition, there is no restriction for transfer of funds between the same type of FCA (i.e. Trade FCA to Trade FCA, or Investment FCA to Investment FCA) of the same beneficiary.</td></tr>
<tr><td>45. Can resident exporters choose to convert with banks that offer the best</td><td>Yes, resident exporters may enter into foreign exchange contracts, spot or forward</td></tr>
</table>

Questions		Answer
	rate?	basis with any onshore banks.
Special deposit facility for resident exporters		
46.	Who is eligible for this Special Deposit Facility (SDF)?	• The SDF is offered to resident exporters, which receive ringgit arising from the conversion of foreign currency export proceeds.
47.	Which banks offer this SDF?	• All licensed onshore banks shall offer the SDF to resident exporters when the conversion to ringgit is made by the bank. • Exporters can approach banks with existing relationship or approach new banks to inquire on this SDF.
48.	How to activate this SDF?	• Upon receipt of the foreign currency export proceeds, the bank shall offer this SDF when converting into ringgit proceeds. • Resident exporters can decide to place the ringgit proceeds into SDF or to use for other purposes.
49.	What does this SDF provide?	• The SDF will pay a daily rate of 3.25% p.a. on end-of-day balances.
50.	Is the rate similar from all banks?	• All banks will offer the same rate of 3.25% p.a. for the SDF.
51.	How much of the converted proceeds can be placed into this SDF?	• Resident exporters can make full or partial placement of the proceeds arising from the export conversion.
52.	Can funds be withdrawn from the SDF?	• Resident exporters are free to withdraw funds from the SDF for other purposes, except using the funds to place into other banks' SDF.
53.	Can any other source of funds be placed into this SDF?	• No. Placement of funds into SDF is restricted to export conversion proceeds. • Upon withdrawal, only remaining balance will be paid at the daily rate of 3.25% p.a. • Exporters will not be able to make future placement into the SDF using previously withdrawn fund from the SDF.
54.	Can exporters convert the remaining 25% foreign currency export proceeds into ringgit and place into the SDF?	• Yes. The ringgit proceeds are source from exports and thus eligible to be placed into the SDF.

Questions	Answer
55. Can exporters choose to convert 100% of incoming foreign currency export proceeds and place into SDF?	
56. For exports that are settled and received in ringgit, can exporters placed such proceeds into the SDF?	• Yes. Bank will need to ensure proper documentation that the ringgit is from export proceeds
57. Can an exporter request the export conversion proceeds (which was converted by Bank A) be placed into another bank's SDF? 58. Can exporter transfer funds from other accounts into SDF e.g. current account in Bank A into SDF Bank A or into SDF Bank B?	• No. The SDF of Bank A can only receive export proceeds that have been converted by Bank A only. Bank A and Bank B shall ensure that other type of funds (i.e. not export related) are not allowed into the SDF.
59. How long is SDF offered?	• The offer shall last up to 1 year, until 31 Dec 2017.
Withdrawal of Special Deposit Facility (Effective 1 January 18 to 31 March 18)	
60. What is the status of SDF after 31 Dec 2017?	• The SDF will be withdrawn after 31 December 2017. • However, to facilitate SDF withdrawal in an orderly manner and smooth operational transition, any outstanding balances as at 31 December can continue to earn a rate of return of 3.10% p.a. up to 31 March 2018.
61. What are the reasons for the SDF withdrawal?	• Based on BNM's assessment, the SDF has served its purpose to facilitate export proceed conversion and resident exporters can now benefit from more competitive rates offered by licensed banks for foreign exchange and money market products. • Given the above positive outcomes, it is timely for the SDF to be withdrawn.
62. Can new export proceeds be placed into the SDF after 31December 2017?	• No, new export proceeds converted into or settled and received in ringgit are not eligible for placement into the SDF after 31 December 2017.
Payment in foreign currency between residents	
63. Can an exporter pay another resident in foreign currency?	• Any settlement for goods and services between residents shall only be made in

Questions		Answer
		ringgit, including where payment is made by another party on behalf of the resident.
64.	Can a resident invoice another resident in foreign currency?	• There is no restriction for a resident to invoice another resident in foreign currency except the currency of Israel. However, all settlements for goods and services between residents shall only be made in ringgit.
Investment in foreign currency assets		
65.	Are resident investors required to seek Bank Negara Malaysia's approval to invest in foreign currency assets if the current outstanding foreign currency investment has exceeded the RM50 million limit?	• Yes, for applications to make further investments in foreign currency asset from 5 December 2016.
66.	Are short term placements of foreign currency deposits considered as investments in foreign currency assets?	• Yes.
67.	Is a resident without domestic ringgit borrowing subject to the investment limit?	• No. A resident without domestic ringgit borrowing continues to be free to invest in foreign currency assets onshore and offshore.
68.	How does a resident with domestic ringgit borrowing computes total investment limit?	• The investment limit is to be computed based on the aggregate amount of investments in foreign currency assets onshore and offshore.
69.	Where can residents place the proceeds from the investment income?	• Investment income, including divestment proceeds derived from foreign currency assets can be credited into Investment FCA. • Funds from Investment FCA can be transferred to Trade FCA to meet any shortfalls in foreign currency requirements.
70.	Can residents use income from investment abroad for other investment abroad activities?	• Residents may use the investment income received from abroad for any purpose.
71.	Is there any restriction on payment of dividend to non-resident shareholders?	• No restriction.
72.	Can a resident entity convert ringgit	• A resident entity can convert ringgit for

Questions	Answer
directly for investment in foreign currency assets?	placement into investment FCA up to the relevant investment limit for subsequent investment in foreign currency assets.

21 December 2017