Liberalisation of the Foreign Exchange Administration Rules

The foreign exchange administration rules are aimed at providing an appropriate framework that will influence capital flows and facilitate currency risk management to promote financial and economic stability of the country. The rules complement the overall macroeconomic policies and are reviewed regularly in line with the changing environment.

On 1 April 2004, in conjunction with the release of the Bank's Annual Report 2003, several major foreign exchange administration policies were liberalised to promote the efficiency of business operations in Malaysia and better risk management of investments.

With effect from 1 April 2005, the Bank announced further relaxations to the foreign exchange administration rules as part of its ongoing initiatives towards reducing cost of doing business, improving regulatory delivery system and encouraging better risk management activities by residents and non-residents as well as promoting the development of domestic foreign exchange market to promote stability in the financial system and economy of the country. The liberalisations are in the following areas:

(i) Forward Foreign Exchange Contracts by Residents and Non-residents

To allow businesses and individuals to effectively manage their risks, residents and non-residents may enter into forward foreign exchange contracts with licensed onshore commercial and Islamic banks (licensed onshore banks) and approved merchant banks without prior permission of the Controller of Foreign Exchange (the Controller) to buy or sell foreign currency against ringgit or another foreign currency as follows:

- **Residents** are now allowed to enter into forward foreign exchange contracts to hedge the following:
  - (a) Foreign currency exposures of permitted overseas investments;
  - (b) Payment for permitted overseas investments;
  - (c) Repayment of principal and payment of interest for foreign currency credit facilities (onshore or offshore) which are payable within 24 months; and
  - (d) Anticipatory receipts from exports and anticipatory payments for import of goods and services, based on the value of export receipts and import payments of the preceding 12 months.

  With the above flexibility, residents may now effectively hedge all committed and anticipatory inflows and outflows of their current account transactions (i.e. payments for export and import of goods, services and income) and committed inflows and outflows for capital account transactions (e.g. payments for overseas investments and extension of credit facilities to non-residents or repayments of credit facility from non-residents) as well as safeguarding the value of their overseas investments.

- In addition, **non-residents** are now allowed to enter into forward foreign exchange contracts for the following committed flows of funds:
  - (a) Repatriation of investment proceeds from Malaysia; and
  - (b) Purchase of ringgit assets in Malaysia.

(ii) Maintenance of Foreign Currency Accounts (FCA) by Residents and Conversion of Ringgit into Foreign Currency for Credit into FCA

The rules on the maintenance of FCA by residents are also liberalised further to facilitate effective cash flow management and to promote business efficiency.

- Residents are now free to open FCA with licensed offshore banks in Labuan and overseas banks for any purpose, except for the retention of export receipts. With this flexibility, residents may retain their foreign currency receipts (other than export proceeds) in FCA maintained with licensed onshore banks, licensed offshore banks in Labuan and overseas banks with no overnight limits imposed on these accounts.

- Resident companies maintaining FCA with licensed offshore banks in Labuan and overseas banks are required to submit monthly statement, Statement OA, to the Controller.

- Residents may also convert ringgit into foreign currency for credit into these FCA maintained with licensed onshore banks, licensed offshore banks in Labuan and overseas banks as follows:
  (a) Any amount for residents (companies and individuals) without any domestic credit facilities;
  (b) Up to RM10 million per calendar year on a corporate group basis by resident companies with domestic credit facilities; and
  (c) Up to RM100,000 per calendar year by resident individuals with domestic credit facilities.

- Residents are now free to retain any amount of export receipts in FCA maintained with licensed onshore banks. The limits imposed on export FCAs are, accordingly, uplifted.

With the removal of the limits, effectively all FCA maintained with licensed onshore banks (except for FCA for overseas education and employment purposes by residents with domestic credit facilities) are free from any overnight limits.

- The aggregate overnight limits on FCA for overseas education and employment purposes maintained by residents with domestic credit facilities remain as follows:
  (a) US$150,000 for FCA maintained with licensed onshore banks or licensed offshore banks in Labuan respectively; and
  (b) US$50,000 for FCA maintained with overseas banks.

(iii) Domestic Credit Facilities to Non-resident Controlled Companies (NRCCs)

The RM50 million limit on extension of credit facilities to a NRCC by residents as well as the 3:1 gearing ratio requirement imposed on NRCC for its domestic borrowing exceeding RM50 million are abolished. With the abolishment, residents are now free to extend any amount of ringgit credit facilities to NRCCs.

(iv) Investment Abroad

As part of efforts to further enhance management of funds and provide diversification of business opportunities, the rules on investment abroad by residents have also been liberalised.

- Residents with no domestic credit facilities are now free to invest any amount abroad. The investment may be made through the conversion of ringgit or from foreign currency funds retained onshore or offshore. Overseas investment funded by foreign currency borrowing will be limited to only RM10 million equivalent at any one time.

- Residents with domestic credit facilities are also free to invest abroad their foreign currency funds maintained onshore or offshore. In addition, they are allowed to convert ringgit into foreign currency up to the following limits for overseas investments:
  (a) Up to RM10 million per calendar year by companies on a per corporate group basis; and
  (b) Up to RM100,000 per calendar year by individuals.

For companies converting ringgit for overseas investments, they must have a minimum shareholders' funds of RM100,000 and must be operating for at least one year.

In addition, they may finance overseas investment with foreign currency borrowing up to RM10 million equivalent at any one time.

- The limit that can be invested abroad by unit trust management companies is also increased to 30% from 10% of the Net Asset Value (NAV) attributed to residents. Fund/asset managers may now invest abroad any amount of investment of resident clients without any domestic credit facilities and up to 30% of investments by resident clients with domestic credit facilities. The funds may be pooled for investment abroad. Such investments must be in line with the Securities Commission's prudential guidelines.

- Resident insurance companies and takaful operators may also invest abroad up to 30%, increased from 10%, of the NAV of the investment-linked funds that they market. These investments are subject to compliance with prudential insurance and takaful regulations issued by Bank Negara Malaysia.

- The above flexibilities are subject to prior registration of any overseas investments exceeding the equivalent of RM50,000 with the Controller.

(v) Foreign Currency Credit Facilities

To enhance expediency in managing business in Malaysia, the limit for residents to obtain foreign currency credit facilities from non-residents, licensed onshore banks and licensed merchant banks in Malaysia is increased from the current limit of RM5 million equivalent.

- Resident companies on a corporate group basis may now obtain foreign currency credit facility up to an equivalent of RM50 million in aggregate.

- Resident individuals are allowed to obtain foreign currency credit facility up to an equivalent of RM10 million in aggregate.

- The above flexibilities are subject to prior registration of any foreign currency credit facility exceeding RM1 million equivalent with the Controller.

- Residents may prepay their foreign currency credit facilities subject to the registration of such prepayments with the Controller prior to effecting the payments.

- Residents may also utilise up to an aggregate of RM10 million equivalent of their foreign currency credit facilities to finance overseas investment activities.

(vi) Activities by Approved Operational Headquarters (OHQs)

In line with the relaxation on residents for retention of export proceeds and overseas investments as well as freedom to obtain domestic credit facilities by NRCC, OHQs may now:

- Retain any amount of export receipts in their FCA maintained with licensed onshore banks;

- Obtain any amount of ringgit credit facilities from domestic sources; and

- Finance their overseas investment activities, including extension of credit facilities to non-residents, by converting up to RM10 million into foreign currency per calendar year if they have domestic credit facilities.