Liberalisation and Simplification of Foreign Exchange Administration Rules

Malaysia maintains a liberal foreign exchange administration system. Within this liberal system, approval requirements for inflows and outflows are mainly prudential in nature to ensure financial stability. Regulations are implemented in a transparent and pragmatic manner. Foreign exchange administration regulations are also applied where appropriate to prevent any recourse to the Malaysian banking system for money laundering and terrorism financing.

In line with the policy of gradual and progressive liberalisation of the financial sector, liberalisation and further simplification of several major foreign exchange administration policies aimed at enhancing the business environment as well as efficiency and competitiveness of business operations in Malaysia were made effective from 1 April 2004. These changes form part of Bank Negara Malaysia's (the Bank) on-going initiatives towards contributing to the deepening of the capital market and enhancing efficiency of the regulatory delivery system.

(i) Rules Affecting Reporting of Foreign Exchange Transactions

While maintaining the requirement for exporters to repatriate receipts arising from export of goods (export receipts) when contractually due, which must not exceed six months from the date of export, the rules on reporting of such transactions are being abolished or simplified to reduce the administration cost to businesses.

- completion of Forms P (for payments abroad) and R (for receipts from abroad) by residents was discontinued since 1 January 2004. Information as contained in Forms P and R is being provided by the remitting or receiving banks to the Bank through an on-line system.

- In simplifying business operations, the reporting requirement to the Bank is further relaxed effective 1 April 2004. The requirement for submission of annual reports for export of goods by all exporters is abolished. Only exporters with annual gross exports exceeding RM50 million need to submit quarterly reports. The process for submission of such reports is being simplified further. The reporting mechanism will be designed taking into account business operations of companies.

(ii) Foreign Currency Accounts of Residents

Rules on maintenance of foreign currency accounts (FCA) are liberalised further following the relaxation implemented in April 2003. The liberalisation of limits for companies is aimed at enhancing the cash flow management for supporting value chain expansion in Malaysia. Rules on FCA of individuals are also relaxed to provide flexibility in the management of income and saving.

- Effective 1 April 2004, the overnight export FCA limit for Approved Operational Headquarters is increased further to USD100 million from USD70 million.

- The overnight limits for export FCA of other resident exporters are also raised. The revised limits, based on the average monthly export receipts are as follows -

Average monthly export receipts	Overnight limits (USD million)
Exceeding RM100 million	100
Exceeding RM50 million up to RM100 million	60
Up to RM50 million or for new exporters	30

- In addition, resident exporters are given the option to merge their export and non-export FCA in accordance with overnight limits imposed on export FCA.

- Resident companies with domestic borrowings may also open FCA for non-export receivables (receivables other than from export of goods) to retain such receipts with onshore licensed banks with no overnight limit. For resident companies that do not have domestic borrowings, they may also maintain non-export FCA with licensed offshore banks in Labuan, but up to an aggregate overnight limit of USD500,000.

- In the case of resident individuals, FCA remains permitted to facilitate education and employment overseas. However, effective 1 April 2004, the limits for these FCA are increased from USD100,000 to up to an aggregate overnight limit of USD150,000 each with onshore licensed banks and licensed offshore banks in Labuan.

- Resident individuals with funds abroad (no conversion from ringgit) may maintain non-export FCA, onshore or offshore, including licensed offshore banks in Labuan, without any limit.

- Resident individuals in Malaysia who have foreign currency funds are free to invest in any foreign currency products offered by onshore licensed banks.

(iii) Ringgit Credit Facilities to Non-Residents

Rules on lending in ringgit to non-residents are liberalised effective 1 April 2004 to facilitate non-resident businesses in Malaysia. This liberalisation does not impact current rules on non-internationalisation of ringgit:

- To enhance access to ringgit funds for business requirement in Malaysia, all permitted ringgit lending limits for various purposes, by banking institutions to a non-resident (excluding stockbroking company, custodian bank and correspondent bank) are consolidated into one aggregate limit and raised to RM10 million.

  The non-resident may use the ringgit credit facilities for any purpose in Malaysia, excluding for financing or refinancing the purchase or construction of immovable properties.

- Effective 1 April 2004, residents (banks and non-banks) may extend ringgit credit facilities in aggregate up to three property loans to a non-resident to finance or refinance the purchase or construction of immovable properties in Malaysia, excluding the purchase of land only.

  Prior to 1 April 2004, only financial institutions and employers may extend property loans to a non-resident.

- In the case of non-resident stockbrokers or custodian banks, onshore licensed banks are now allowed to extend up to an aggregate overnight overdraft facility of RM200 million (RM10 million previously) to facilitate settlement for purchase of shares listed on Malaysia Securities Exchange Berhad.

(iv) Investment Abroad by Resident Individuals

- Effective 1 April 2004, to provide flexibility for better management of funds, resident individuals employed or staying abroad with own foreign currency funds may invest in any foreign currency assets, including those offered by onshore licensed banks and licensed offshore banks in Labuan.

(v) Investment Abroad by Domestic Institutions

- For greater geographical diversification and in simplifying approval process, unit trust management companies may, effective 1 April 2004, invest abroad up to the full amount of

Net Asset Value (NAV) subscribed by non-residents and up to 10% of the NAV per fund subscribed by residents. Different funds of a unit trust management company or of different companies may also be pooled to benefit from economies of scale when investing abroad. Such investments abroad are required to be in compliance with the Securities Commission's prudential guidelines.

- Insurance companies and takaful operators may also invest abroad up to 5% of their Margin of Solvency (MOS) and up to 5% of their total assets respectively. In addition, insurance companies and takaful operators may also invest abroad up to 10% of the NAV of investment-linked funds that they market. These investments are required to be in compliance with prudential insurance and takaful regulations issued by the Bank Negara Malaysia.

- Fund/asset managers may invest abroad up to the full amount of investments by their non-resident clients and up to 10% of investments by resident clients. These funds may be pooled to benefit from economies of scale when investing abroad. Such investments are required to be based on the mandate of their clients and in compliance with the Securities Commission's prudential guidelines.

(vi) Issuance of Bonds Denominated in Ringgit by Multilateral Development Banks and Foreign Multinational Corporations

To deepen the development of the domestic bond market, Multilateral Development Banks (MDB), where Malaysia is a member, and foreign multinational corporations (MNC) may, based on the merits of each case, issue ringgit-denominated bonds in Malaysia.

(vii) Forward Foreign Exchange Contracts

Effective 1 April 2004, rules on hedging are liberalised to facilitate overall economic management of currency risks as follows:

- MDB and MNC issuers of ringgit-denominated bonds, will be allowed to enter into forward foreign exchange contracts with onshore licensed banks to hedge their currency risks.

- Similarly, non-resident investors subscribing to these ringgit-denominated bonds issued by MDB and MNC can also enter into forward foreign exchange contracts with onshore licensed banks to hedge their currency risks arising from the investment in these ringgit-denominated bonds.

- Forward sales by residents of any foreign currency receivables for ringgit with onshore licensed banks or approved merchant banks can now be undertaken up to the tenure of the underlying transaction as long as the transaction is supported by firm underlying commitment to receive such currency (previously foreign currency receivables, other than export receipts, could be sold forward up to 12 months only).

- Residents may also enter into forward foreign exchange contracts to sell foreign currency yet to be received for another foreign currency with onshore licensed banks and approved merchant banks up to the tenure of the underlying transactions.

- Resident companies may temporarily retain up to the amount of foreign currency receipts received earlier than the maturity date of the forward foreign exchange contract in their onshore FCA, pending maturity of the forward foreign exchange contract.

- Residents may enter into interest rate swaps with onshore licensed banks, approved merchant banks and licensed offshore banks in Labuan.