Foreign Exchange Administration Policies

Foreign exchange administration rules were further liberalised and simplified in April 2004 (refer to the White Box: "Liberalisation and Simplification of Foreign Exchange Administration Rules" in Chapter 3). All regulations continue to be applied uniformly to transactions with all countries, except Israel, Serbia and Montenegro for which special restrictions apply. Foreign exchange administration regulations are also applied where appropriate to prevent recourse to the Malaysian banking system for money laundering and terrorist financing. With the latest changes, the following are the rules affecting foreign exchange transactions:

I Current Account Transactions

(a) Payments for Import of Goods and Services

- There is no restriction on payments to non-residents for import of goods and services. Such payments must be made in foreign currency except currencies of Israel, Serbia and Montenegro.
- There is no restriction for residents to enter into a forward foreign exchange contract with onshore licensed banks or approved merchant banks to buy foreign currency against ringgit to make payment for import from a non-resident.

(b) Proceeds Arising from Export of Goods (Export Proceeds)

- All export proceeds are required to be repatriated back to Malaysia in accordance with the payment schedule as specified in the sales contract, which should not exceed six months from the date of export.
- Export proceeds must be received in foreign currency and must be sold for ringgit or retained in export foreign currency account (FCA) with onshore licensed banks. The aggregate overnight limits range between USD30 million and USD100 million, depending on the average monthly export receipts. Higher limits may be allowed on a case-by-case basis.
- Residents may enter into a forward foreign exchange contract with an onshore licensed bank to sell foreign currency export proceeds for ringgit or another foreign currency, provided the maturity of the forward contract is not later than six months after the intended date of export.
- Only resident exporters with annual gross exports exceeding RM50 million equivalent are required to submit quarterly reports to the Controller of Foreign Exchange (the Controller).

(c) Import and Export of Currency by Travellers

- Import and export of ringgit up to RM1,000, including demonetised RM1,000 and RM500 notes, and export of foreign currency up to an equivalent of RM10,000 by residents are allowed. Resident travellers are required to obtain permission from the Controller and declare in the Traveller's Declaration Form (TDF) when they –

  - Carry into or out of Malaysia, ringgit notes exceeding RM1,000.

  - Carry out foreign currency notes including traveller's cheques, exceeding the equivalent of RM10,000.

  Permission is given within one day of application.
- There is no restriction for non-residents to bring in any amount of foreign currency and/or traveller's cheques. Declaration in the Arrival/Departure Card (IMM.26) issued by the Immigration Department is only required for amounts in excess of the equivalent of USD2,500.

- Non-residents would need to seek permission from the Controller if the amount of foreign currency to be carried abroad exceeds the amount brought into Malaysia, provided the amount to be taken out is more than the equivalent of USD2,500.

- Non-residents must obtain permission from the Controller and declare ringgit exceeding RM1,000 being brought into or out of Malaysia.

II Capital Account Transactions

(a) Foreign Direct Investment

- There is no restriction on repatriation of capital, profits, dividends, interest and rental income by foreign direct investors.

(b) Investment Abroad by Residents

- Onshore licensed banks and approved merchant banks may invest abroad as long as they comply with the Banking and Financial Institution Act 1989 or Islamic Banking Act 1983 and their approved foreign currency net open position limit. Remittances for investment abroad must be made in foreign currency.

- Residents, other than onshore licensed banks and approved merchant banks, are required to seek prior permission from the Controller to remit funds in excess of RM10,000 equivalent in foreign currency for overseas investment purposes. Permission is based on a set of transparent criteria.

- However, resident individuals may invest any amount in foreign currency in securities under the Employee Share Option/Purchase Scheme offered by their employers' overseas parent or related companies.

- Resident individuals employed or staying abroad with own foreign currency funds sourced from abroad may invest in any foreign currency assets, including those offered by onshore licensed banks and licensed offshore banks in Labuan.

- Resident unit trust management companies may invest abroad up to the full amount of the 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 funds of different companies may be pooled to benefit from economies of scale when investing abroad. Such investments are required to be in line with the Securities Commission's prudential guidelines.

- Resident insurance companies and takaful operators may invest abroad up to 5% of their margin of solvency (MOS) and up to 5% of their total assets respectively.

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

- Resident 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 by different companies may be pooled to benefit from economies of scale when investing abroad. Such investments should be based on the mandate of their clients and in compliance with the Securities Commission's prudential guidelines.

(c) Foreign Currency Credit Facilities Obtained by Residents

- Residents may obtain credit facilities in foreign currency up to the equivalent of RM5 million in aggregate from onshore licensed banks, licensed merchant banks and non-residents. Any amount exceeding the permitted limit would require the prior permission of the Controller. Where the aggregate amount exceeds the equivalent of RM1 million, the resident is required to provide the Controller with information on the credit facilities.

- Residents may also obtain trade financing of any amount in foreign currency from onshore licensed banks and licensed merchant banks provided the tenure of the credit does not exceed 12 months.

- There is no restriction for repayment of credit facilities obtained as long as such credit facilities have been obtained in accordance with the relevant foreign exchange administration rules.

(d) Extension of Credit Facilities to Non-Residents Foreign Currency Credit Facilities

- Onshore licensed banks may extend credit facilities in foreign currency to non-residents for any purpose. However, credit facilities extended for the purchase or construction of immovable property in Malaysia would be subject to similar requirements as for ringgit credit facilities outlined below.

Ringgit Credit Facilities

- Non-bank residents may extend credit facilities in ringgit to a non-resident not exceeding an aggregate of RM10,000.

- Resident stockbroking companies may extend margin financing facilities to non-resident clients for the purchase of shares listed on Malaysia Securities Exchange Berhad (MSEB), provided they comply with all the relevant regulations imposed by MSEB.

- Onshore licensed banks may extend ringgit overnight overdraft facilities in aggregate not exceeding RM200 million to a non-resident stockbroking company or a non-resident custodian bank. The facilities are strictly for financing funding timing gaps due to unforeseen or inadvertent/technical administration errors or time zone delays in relation to settlement of trades on MSEB.

- Residents, bank or non-bank, may extend up to a maximum of three property loans in ringgit to a non-resident to finance/refinance the purchase or construction of any immovable property in Malaysia, excluding for the purchase of land only, subject to their own internal credit assessment guideline. All purchases of immovable properties are subject to the guidelines issued by the Foreign Investment Committee (FIC). Details of the guidelines can be found at http://www.epu.jpm.my/.

- In addition, banking institutions may extend credit facilities in ringgit up to the aggregate limit of RM10 million to a non-resident (excluding a non-resident stockbroking company, custodian bank and correspondent bank) for any purpose for use in Malaysia, other than to finance the purchase or construction of immovable property.

  Prior permission of the Controller is required for the extension of credit facilities exceeding the aggregate limit.

Swap/Forward

- Onshore licensed banks are allowed to enter into –

  (i) Short-term currency swap arrangements with non-resident stockbrokers and non-resident custodian banks to cover payment for their share purchases on MSEB; and

  (ii) Outright ringgit forward sales contract with non-residents for the same purpose.

  The permission is subject to the condition that such contracts are based on firm commitment and not on anticipated purchases, and for maturity period of up to three working days with no rollover option.

- Onshore licensed banks and approved merchant banks may enter into forward foreign exchange contracts with residents to purchase any foreign currency receivables against ringgit from the residents up to the tenure of the underlying transaction, provided the transaction is supported by firm underlying commitment to receive such currency.

- Onshore licensed banks and approved merchant banks may also enter into forward foreign exchange contracts with residents to purchase any foreign currency yet to be received by the resident for another currency up to the tenure of the underlying transaction, provided the transaction is supported by firm underlying commitment.

- For forward purchase of export proceeds, the maturity date of the forward foreign exchange contract should not be later than six months after the intended date of export.

- For forward foreign exchange contract involving two foreign currencies, the use or retention of the foreign currency being purchased must comply with the current foreign exchange administration rules.

- Onshore licensed banks, approved merchant banks and licensed offshore banks in Labuan may enter into interest rate swaps with residents, provided the transaction is supported by firm underlying commitment.

- A resident company which has sold forward foreign currency receivables for ringgit, may temporarily retain up to the amount of foreign currency receipts received earlier than the maturity date of the forward foreign exchange contract in its FCA with onshore licensed banks, pending maturity of the forward foreign exchange contract.

- Multilateral Development Banks (MDBs), where Malaysia is a member, and foreign multinational corporations (MNCs) wishing to enter into forward foreign exchange contracts with onshore licensed banks to hedge the currency risks of the MDB and MNC issuers arising from the issuance of ringgit-denominated bonds would be considered based on the merits of each case.

- Onshore licensed banks may enter into forward foreign exchange contracts with non-residents who invest in ringgit-denominated bonds issued by MDBs and MNCs to hedge their currency risk arising from the investment in the ringgit-denominated bonds.

(e) Portfolio Investments

- There is no restriction for non-resident portfolio investors to repatriate their principal sum and profits out of the country at any time.

III Ringgit Credit Facilities to Non-Resident Controlled Companies

- There is no restriction for residents, including foreign-owned banking institutions in Malaysia, to extend credit facilities in ringgit to a Non-Resident Controlled Company (NRCC) operating in Malaysia up to an aggregate limit of RM50 million per corporate group or on single entity basis and any amount of short-term trade financing where the tenure does not exceed 12 months. Residents are required to obtain prior permission from the Controller to extend ringgit credit facilities exceeding RM50 million in aggregate to a NRCC. The NRCC has to comply with the 3:1 gearing ratio requirement between its domestic debt and eligible capital funds only for amounts that exceed RM50 million. Higher gearing will be allowed on a case-by-case basis.

IV Issuance of Ringgit Private Debt Securities

- Residents may raise domestic credit facility through the issuance of ringgit Private Debt Securities regardless of amount, provided the proceeds are not used for financing of investment abroad and/or for refinancing of offshore borrowing. The issuance of Private Debt Securities must also be in accordance with the Exchange Control Guideline on Private Debt Securities. The amount issued by the NRCC would be included as part of the NRCC's total domestic credit facilities and the rule on the 3:1 gearing ratio would apply.

- Applications for issuance of ringgit bonds in Malaysia by MDBs, where Malaysia is a member, and MNCs would be considered based on the merits of each case.

V Foreign Currency Accounts of Residents

- Resident exporters may open foreign currency accounts (FCA) with onshore licensed banks to retain between USD30 million and USD100 million foreign currency export proceeds depending on their average monthly export receipts.

- The permissible aggregate overnight limits are as follows –

Average Monthly Export Receipts	Aggregate Overnight Limit (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 or without domestic credit facilities may open FCA with onshore licensed banks to retain foreign currency receivables, other than export proceeds, with no overnight limit.

- Resident companies with or without domestic credit facilities may open FCA to retain foreign currency receivables, other than export proceeds, up to an aggregate overnight limit of USD500,000 with licensed offshore banks in Labuan.

- Resident companies may also temporarily retain in their onshore FCA, proceeds that have been sold forward for ringgit and received earlier than maturity date of the said forward contract.

- Resident individuals may open FCA solely to facilitate education and employment overseas up to an aggregate overnight limit of –

  (i) USD150,000 with onshore licensed banks;
  (ii) USD150,000 with licensed offshore banks in Labuan; and
  (iii) USD50,000 with overseas banks.

- Resident individuals with foreign currency funds overseas may maintain FCA, onshore or offshore, without limit imposed on the overnight balance of the accounts.

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

VI Foreign Currency Accounts of Non-Residents

- Onshore licensed banks and licensed merchant banks may open FCA for non-residents.

- There are no limits on the FCA of non-residents and no restrictions on the inflow and outflow of funds through the FCA of non-residents.

VII External Accounts of Non-Residents

- Financial institutions may open accounts in ringgit known as External Accounts for non-residents. There is no overnight limit on External Accounts. A non-resident may make ringgit cash withdrawal of any amount from the External Account.

- Non-residents may use ringgit funds in the External Account for the following purposes –

  - Purchase of foreign currency excluding the currencies of Israel, Serbia and Montenegro;

  - Purchase of ringgit assets in Malaysia;

- Payment for goods and services for own use in Malaysia;
- Payment of administrative and statutory expenses incurred in Malaysia;
- Payment under a non-financial guarantee (where the External Account holder is making payment upon the guarantee being called upon);
- Extension of ringgit credit facilities to staff in Malaysia in accordance with the terms and conditions of employment;
- Repayment of ringgit credit facilities permitted by the Controller or in accordance with terms and conditions of employment; and
- Payments to resident beneficiary for any purpose other than the following –
  - ▶ Payment for the import of goods and services;
  - ▶ Extension of ringgit credit facilities to residents other than as permitted by the Controller;
  - ▶ Settlement under financial guarantees; and
  - ▶ Payment on behalf of a third party.

• The sources of funds in the ringgit External Accounts may be from –

- Sale of foreign currency excluding the currencies of Israel, Serbia and Montenegro;
- Sale of ringgit assets;
- All income derived in Malaysia including salaries, wages, royalties, commissions, fees, rental, interest, profits or dividends;
- Proceeds from ringgit credit facilities permitted by the Controller or in accordance with the terms and conditions of employment;
- Proceeds from repayment of ringgit credit facilities permitted by the Controller or in accordance with the terms and conditions of employment;
- Transfers from -
  - ▶ another External Account of the same account holder of any amount;
  - ▶ another External Account and/or Resident Account of different account holders by way of –
    - o Automated Teller Machine transfer up to RM5,000 per person/company, per day, per bank for any purpose;
    - o Internet-bank transfers up to RM5,000 per person/company, per day, per bank for any purpose.
- Deposit of ringgit notes of an aggregate not exceeding RM10,000 per day; and
- Deposit of cheques up to RM5,000 per cheque for any purpose.

• Ringgit funds in the External Accounts may be converted into foreign currency and repatriated or used in Malaysia for permitted purposes.

• There is no restriction on the operation of the External Accounts of non-residents working or studying in Malaysia (including their spouse, children and/or parents who are currently residing in Malaysia), Central Banks, Embassies, Consulates, High Commissions, Supranational or International organisations recognised by the Malaysian Government. Such persons or organisations can use funds in the External Accounts for all purposes, including the permissible purposes referred above.

VIII Special Status Granted to Selected Companies

(a) Offshore Entities in the Labuan International Offshore Financial Centre

- Entities incorporated or registered under the Offshore Companies Act 1990 in the Labuan International Offshore Financial Centre are declared as non-residents for foreign exchange administration purposes.

- Offshore entities in Labuan may deal in foreign currency other than the currencies of Israel, Serbia and Montenegro with non-residents.

- All offshore entities may maintain External Accounts with resident banks to facilitate the defrayment of statutory and administrative expenses in Malaysia.

  Offshore insurance entities in Labuan may also use their External Accounts to facilitate the receipt of insurance premiums and for payment of claims arising from insurance and reinsurance of domestic insurance business.

- Licensed offshore banks in Labuan may receive payments in ringgit from residents arising from fees, commissions, dividends or interest from deposit of funds.

- Licensed offshore banks in Labuan may invest in assets/instruments in Malaysia for their own account provided investments are transacted directly with resident banking institutions or resident brokers. The investments must not be financed by ringgit borrowings.

(b) Multimedia Super Corridor Companies

- Companies operating in Multimedia Super Corridor (MSC) which are incorporated as separate legal entities, are given exemption from foreign exchange administration regulations upon the companies being awarded the MSC status by the Multimedia Development Corporation. The exemption granted to the MSC companies is solely for transactions undertaken on their own account. However, prior permission should be obtained to deal with Specified Persons and in Restricted Currencies of Israel, Serbia and Montenegro. In addition, the MSC companies are also required to submit the necessary statistical forms/reports/statements for monitoring purposes.

(c) Approved Operational Headquarters

- Approved Operational Headquarters (OHQs) may –

  (i) Open FCA with onshore licensed banks to retain export proceeds in foreign currency up to an aggregate overnight balance equivalent to USD100 million, regardless of the amount of export receipts.

  (ii) Open FCA with onshore licensed banks, licensed offshore banks in Labuan or overseas banks for crediting foreign currency receivables, other than export proceeds, with no limit on the overnight balances.

  (iii) Obtain domestic credit facilities in ringgit not exceeding RM50 million, provided the ringgit funds are used in Malaysia.

  (iv) Obtain any amount of foreign currency credit facilities from onshore licensed banks and licensed merchant banks in Malaysia, and from any non-resident, provided the OHQ does not on-lend to, or raise the funds on behalf of, any resident. Proceeds from such foreign currency credit facilities can be extended to their related companies overseas or invested abroad provided their aggregate domestic credit facilities in ringgit does not exceed RM50 million.

(d) Approved International Procurement Centres

- Approved International Procurement Centres (IPCs) may –

  (i) Retain any amount of export proceeds in FCA maintained with onshore licensed banks for approved IPC activities only.

  (ii) Enter into forward foreign exchange contracts with onshore licensed banks to hedge exchange risk based on projected volume of export.

(e) Approved Regional Distribution Centres

- Approved Regional Distribution Centres (RDCs) may –

  (i) Retain any amount of export proceeds in FCA maintained with onshore licensed banks for approved RDC activities only.

  (ii) Enter into forward foreign exchange contracts with onshore licensed banks to hedge exchange risk based on projected volume of import and export.