Exchange Control Policies

Overall, the exchange control regulations are prudential in nature and ensure availability of adequate information on the settlement of payments and receipts as part of the monitoring mechanism on capital flows. Approval requirements for large inflows and outflows are mainly for prudential reasons to ensure financial stability. Such regulations are implemented in a transparent and pragmatic manner. All regulations are applied uniformly to transactions with all countries, except Israel, Serbia and Montenegro for which special restrictions apply. Exchange control regulations are also applied where appropriate to prevent recourse to the Malaysian banking system for terrorist financing.

In line with the policy of gradual and progressive liberalisation of the financial sector, Malaysia continued to further liberalise the exchange control regulations. In this regard, further changes were effected in 2002 and early 2003 to enhance efficiency for businesses operating in Malaysia. Measures included –

(i) Increasing the aggregate amount of domestic credit facilities that can be extended by residents to non-resident controlled companies (NRCC) to RM50 million from RM10 million and abolishing the requirement that at least 50% of the credit facilities from banking institutions must be extended by Malaysian-owned banking institutions.

(ii) Allowing a non-resident to obtain –

(a) Ringgit credit facilities up to RM5 million to finance projects undertaken in Malaysia;

(b) Overdraft facilities up to RM500,000 in aggregate as long as the credit facilities are secured by fixed deposits placed by the non-resident with the lending bank; and

(c) Ringgit loans to refinance property loans taken to finance the purchase of properties in Malaysia.

(iii) Liberalising payments for ringgit assets between residents and non-residents as well as between non-residents to be made either in ringgit or foreign currency. Prior to the liberalisation, such payments were allowed only in ringgit.

(iv) Increasing the maximum overnight limit on foreign currency accounts for export proceeds maintained by resident exporters from USD10 million to USD70 million.

(v) Allowing residents to enter into foreign exchange forward contracts with an authorised dealer to sell foreign currency receivables for ringgit for any purpose. Prior to 1 April 2003, only export proceeds and services receivables (excluding interest receivables).

(vi) Removing the limit of RM10,000 equivalent in foreign currency for investment abroad by residents under the Employee Share Option/Purchase Scheme.

(vii) Abolishing the requirement to complete Form KPW X for exports exceeding RM100,000 f.o.b.

(viii) Increasing the threshold to complete Form P for payments to RM50,001 from RM10,001.

With these latest measures, the following are the major exchange control regulations:

I Current Account Transactions

(a) Payments for Import of Goods and Services

- There is no restriction on payments to non-residents for imports of goods and services. Such payments must be made in foreign currencies except currencies of Israel, Serbia and Montenegro.

- Residents may enter into a forward exchange contract to buy foreign currency against ringgit to make payment for imports from a non-resident, provided the maturity of the forward contract is not later than 12 months after the intended date of import.

(b) 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 in any case 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 permissible foreign currency accounts with Designated Banks (commercial banks and Islamic banks). The aggregate overnight limits range between USD1 million and USD70 million. Higher limits may be allowed on a case-by-case basis.

- Residents may enter into a forward foreign exchange contract with an authorised dealer to sell foreign currency for ringgit arising from export proceeds provided the maturity of the forward contract is not later than six months after the intended date of export.

- For exports in excess of RM100,000 f.o.b., resident exporters are required to submit a quarterly report detailing such exports. In addition, the resident exporters are required to submit yearly summary reports no later than 30 days after the close of the financial year of the company.

(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 of Foreign Exchange (the Controller) and declare in the Traveller's Declaration Form (TDF) when they carry currency notes and/or traveller's cheques as listed below –

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

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

Approval is given within one day of application.

- Non-residents are free to bring in any amount of foreign currency and/or traveller's cheques. Declaration in the Disembarkation Card issued by the Immigration Department is only required for amounts in excess of the equivalent of USD2,500.

- Non-residents would need to seek approval 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 and declare ringgit exceeding RM1,000 being brought into or out of Malaysia.

II Capital Account Transactions

(a) Foreign Direct Investment

- Foreign direct investors may repatriate their investments, including capital, profits, dividends and interest.

(b) Investment Abroad by Residents

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

- 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. This is provided that such investments are registered with the Controller at least 7 days prior to the remittance of funds overseas.

- Commercial banks and approved merchant banks may invest abroad as long as they comply with the Banking and Financial Institutions Act 1989 and their approved net open position limit. Remittance for investments abroad must be made in foreign currency.

(c) Foreign Currency Credit Facilities

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

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

(d) Ringgit Credit Facilities from Non-Residents

- Residents are not allowed to obtain credit facilities in ringgit from non-residents without the prior approval of the Controller.

(e) Extension of Credit Facilities to Non-Residents

Foreign Currency Credit Facilities

- Commercial banks may extend credit facilities in foreign currency to non-residents for any purpose. However, credit facilities extended for the acquisition or development of immovable property in Malaysia would be subject to similar requirements as in 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 the Kuala Lumpur Stock Exchange (KLSE), provided they comply with all the relevant regulations imposed by the KLSE.

- Commercial banks and Islamic banks are allowed to extend ringgit overdraft facilities in aggregate not exceeding RM200 million on intra-day basis and not exceeding RM10 million on overnight basis to non-resident stockbroking companies and non-resident custodian banks. The facilities are strictly for financing funding gaps due to unforeseen or inadvertent/technical administration errors or time zone delays in relation to settlement of trades on the KLSE.

- Resident insurance companies may extend policy loans in ringgit to its non-resident policy holders not exceeding the attained cash surrender value of the policies at all times for a duration not exceeding the duration of the policy.

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

- Resident companies may extend credit facilities to their non-resident employees subject to terms and conditions of service to finance the purchase or construction of property (excluding the purchase of land only) in Malaysia. The credit facility will be included as one of the three permissible property loans to be extended by financial institutions.

- Banking institutions may extend credit facilities in ringgit up to the aggregate of RM200,000 to a non-resident for any purpose other than to finance the acquisition or development of immovable property in Malaysia.

  The above is in addition to credit facilities extended for the purchase of one vehicle for own use and credit facilities extended for the acquisition or development of three immovable properties in Malaysia. Prior approval of the Controller is required for the extension of credit facilities exceeding the limit.

- Banking institutions may also extend credit facilities in ringgit up to the aggregate of RM5 million to a non-resident to finance project undertaken in Malaysia. The project may be undertaken by the non-resident individually or jointly with residents and/or non-residents. The total amount of credit facilities should not exceed the contract value of the project undertaken by the non-resident.

- In addition to the above, banking institutions may also extend to a non-resident ringgit overdraft facilities not exceeding RM500,000 in aggregate provided they are secured by fixed deposits placed by the non-resident customer with the banking institutions.

Ringgit Swap/Forward

- Authorised dealers 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 the KLSE; 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.

- Authorised dealers are allowed to enter into forward foreign exchange contracts with residents to purchase foreign currency receivables against ringgit for any purpose (other than export proceeds) provided the transaction is supported by firm underlying commitment to receive such currency and the tenure of the contract does not exceed 12 months. For forward sale of export proceeds, the maturity date of the forward contract should not be later than six months after the intended date of export.

(f) Portfolio Investments

- Non-resident portfolio investors are freely allowed to repatriate their principal sum and profits out of the country at any time. (The exit levy system was abolished on 2 May 2001).

III Ringgit Credit Facilities to Non-Resident Controlled Companies

- Residents are freely allowed 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. The NRCC is required to obtain prior approval from the Controller for domestic borrowing exceeding RM50 million in aggregate. However, the NRCC has to comply with the 3:1 gearing ratio requirement between its domestic debt and eligible capital funds, only for amounts above RM50 million.

- In computing the 3:1 gearing ratio requirement, NRCCs are provided with the option to compute their domestic debt and eligible capital funds either on per corporate group basis or on single entity basis.

- There is no restriction on the amount of credit facilities to be extended by foreign-owned banking institutions in Malaysia to a NRCC provided the aggregate amount of credit facilities obtained by the NRCC from all residents does not exceed RM50 million.

IV Issuance of Ringgit Private Debt Securities

- Residents are generally permitted to 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 is subject to the 3:1 gearing ratio.

V Foreign Currency Accounts of Residents

- Resident exporters are permitted to open foreign currency accounts with Designated Banks to retain foreign currency export proceeds of between USD1 million and USD50 million, depending on their export receipts.

- In addition, upon attaining the maximum limit of permitted overnight limit of the export foreign currency accounts (export FCA), resident exporters may retain 10% of subsequent export proceeds repatriated to Malaysia in the export FCA, provided the aggregate overnight limit does not exceed the overnight limit of the next higher threshold. For resident exporters who are eligible to retain export proceeds up to the general permissible USD50 million limit, the maximum additional amount they are able to retain is USD20 million. The balance 90% must be sold to authorised dealers for ringgit.

- Effective from 1 April 2003, the permissible aggregate overnight limits are as follows –

Aggregate Overnight Limit (USD million)	Limit including 10% accumulation (USD million)	Average Monthly Export Receipts
50	70	Exceeding RM100 million
30	50	Exceeding RM50 million up to RM100 million
10	30	Exceeding RM20 million up to RM50 million
5	10	Exceeding RM10 million up to RM20 million
3	5	Exceeding RM5 million up to RM10 million
1	3	Not exceeding RM5 million or new exporters

- Resident companies with domestic credit facilities are permitted to open foreign currency accounts to retain foreign currency receivables, other than export proceeds, up to an aggregate overnight limit of –

  (i) USD0.5 million with Designated Banks in Malaysia; and
  (ii) USD0.5 million with Licensed Offshore Banks in Labuan.

- Resident companies with no domestic credit facilities are permitted to open foreign currency accounts with Designated Banks in Malaysia to retain foreign currency receivables other than export proceeds with no overnight limit specified by Bank Negara Malaysia.

- Resident individuals are also allowed to open foreign currency accounts solely to facilitate education and employment overseas up to an aggregate overnight limit of –

  (i) USD100,000 with Designated Banks in Malaysia;
  (ii) USD100,000 with Licensed Offshore Banks in Labuan; and
  (iii) USD50,000 with overseas banks.

VI Foreign Currency Accounts of Non-Residents

- Commercial banks and merchant banks are freely allowed to open foreign currency accounts for non-residents.

- There are no restrictions on the inflow and outflow of funds through the foreign currency accounts of non-residents.

VII External Accounts of Non-Residents

- Financial institutions are allowed to open accounts in ringgit known as External Accounts for non-residents.

- Non-residents are allowed to use their 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;

  - 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 that were extended in accordance with ECM Notice, ECM 6 (Credit Facilities to Non-Residents) or the terms and conditions of employment;

- Ringgit cash withdrawals of any amount; and

- Payments to resident beneficiary for any purpose other than for 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 these External Accounts may be from –

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

- Sale of ringgit assets;

- All income derived from Malaysia including salaries, wages, royalties, commissions, fees, rental, interest, profits or dividends;

- Proceeds from credit facilities permitted under ECM Notice, ECM 6 (Credit Facilities to Non-Residents) or in accordance with the terms and conditions of employment;

- Proceeds from repayment of ringgit credit facilities extended in accordance with ECM Notice, ECM 6 (Credit Facilities to Non-Residents) or in accordance with the terms and conditions of employment;

- Transfers from -

  ▶ another External Account of the same account holder of any amount; and/or

  ▶ another External Account and/or Resident Account of different account holders by way of –

    o Automatic Teller Machine transfer up to RM5,000 per person/ company, per day, per bank for any purpose; and/or

    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 any purpose.

• 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 established in Labuan International Offshore Financial Centre (IOFC) are declared as non-residents for exchange control purposes after they are incorporated or registered under the Offshore Companies Act 1990.

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

- Licensed Offshore Banks in Labuan are permitted to receive payments in ringgit from residents arising from fees, commissions, dividends or interest from deposit of funds.

- Licensed Offshore Banks in Labuan are permitted to 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.

- Offshore Insurance Entities in Labuan are permitted to maintain External Accounts with resident banks in Malaysia. They can use their External Accounts for purposes of defraying their statutory and administrative expenses in Malaysia, including the receipt of insurance premiums and for payment of claims arising from insurance and reinsurance of domestic insurance business.

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

(b) Multimedia Super Corridor Companies

- Companies operating in Multimedia Super Corridor (MSCs) which are incorporated as separate legal entities, are given exemption from exchange control 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 its own account. However, prior approval 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) are allowed to –

  (i) Open foreign currency accounts with Designated Banks in Malaysia to retain export proceeds in foreign currency up to an aggregate overnight balance equivalent to USD70 million, regardless of the amount of export receipts.

  (ii) Open foreign currency accounts with Designated Banks in Malaysia, 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 commercial banks and merchant banks in Malaysia, and from any non-residents, provided the OHQ does not on-lend to, or raise the funds on behalf of, any resident. Such credit facilities can be extended to their related companies overseas or invested abroad if their aggregate domestic credit facilities in ringgit does not exceed RM50 million.

(d) Approved International Procurement Centres

- Approved International Procurement Centres (IPCs) are allowed to –

  (i) Retain any amount of export proceeds in foreign currency accounts maintained with Designated Banks for the approved IPC activities only.

  (ii) Enter into forward exchange contracts with authorised dealers to hedge exchange risk based on projected volume of trade.