

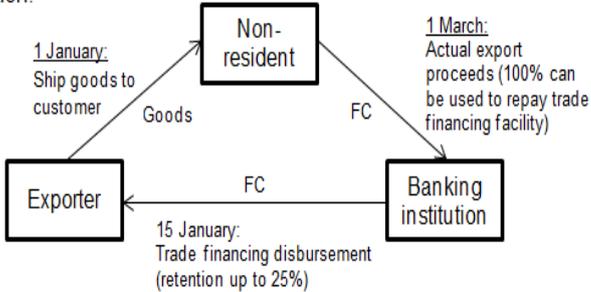
Frequently Asked Questions

Questions	Answer
<i>Hedging flexibilities for institutional investors</i>	
1. Who is eligible for dynamic hedging?	<ul style="list-style-type: none"> Resident and non-resident institutional investors registered with BNM, excluding – <ul style="list-style-type: none"> (a) banks; and (b) securities companies.
2. How can an investor be included in the list of registered investors?	<ul style="list-style-type: none"> If the investor is currently not registered, a one-off registration with BNM is required.
3. Is the list of registered investors published?	<ul style="list-style-type: none"> The list will not be published and the eligibility of an investor to enter into a forward transaction is only made known to the onshore bank upon request by such onshore bank to BNM.
4. What hedging instruments are permissible under foreign exchange risk management?	<ul style="list-style-type: none"> The hedging instrument allowed is onshore forward transaction which includes buying and selling of FX/MYR forward.
5. What are the underlying ringgit assets eligible for dynamic hedging?	<ul style="list-style-type: none"> Ringgit financial assets including deposits with onshore banks. However, for equities and deposits, investors need to disclose their equity holdings or deposit balances to BNM through custodian bank's confirmation.
6. Do investors need to sign standard agreement to enter into onshore forward transaction?	<ul style="list-style-type: none"> It is not a prerequisite to sign any standard agreement to enter into onshore forward transaction. However, investors are encouraged to sign a standard agreement or to use long form confirmation to safeguard their interests.
7. What will happen in the event that an investor breaches the 25% prudential threshold?	<ul style="list-style-type: none"> The investor will be required to unwind the forward position until the 25% threshold is observed. BNM is entitled to review the eligibility of the investor if it fails to unwind the forward position.
8. Are investors allowed to net settled the forward transaction in USD?	<ul style="list-style-type: none"> Yes, the settlement can be on gross or net basis either in FX or MYR currency.
9. Can an investor hedge more than 25%?	<ul style="list-style-type: none"> Yes, the investor is allowed to fully hedge its investment. However, the flexibility to hedge without documentation is only applicable up to 25% of its ringgit asset (for non-resident investors) or foreign currency

Questions	Answer												
	<p>asset (for resident investors) and the hedging of any amount above the threshold will be subject to Notice 1 of the Foreign Exchange Administration (FEA) rules.</p>												
<p>10. How is the 25% prudential threshold calculated?</p> <p>11. Who can non-resident investors approach to enter into dynamic hedging?</p>	<ul style="list-style-type: none"> The threshold applies to an investor's underlying assets on a nominal basis and the hedging amount is based on net position (e.g. an investor with RM100 million worth of underlying ringgit assets can undertake net long or short forward position of up to RM25 million). Please refer to the example below:: ABC Asset Management Ltd. holds RM100 million worth of MGS. The avenues for ABC Asset Management Ltd. to hedge its currency exposure are as follows: <table border="1" data-bbox="842 947 1445 1787"> <thead> <tr> <th data-bbox="842 947 1034 1249">Hedging counterparty</th> <th data-bbox="1034 947 1257 1249">Dynamic hedging (up to 25% or RM25 million) <i>No documentary evidence required</i></th> <th data-bbox="1257 947 1445 1249">More than 25% RM investment <i>Documentary evidence required</i></th> </tr> </thead> <tbody> <tr> <td data-bbox="842 1249 1034 1424">Licensed onshore bank</td> <td data-bbox="1034 1249 1257 1424">✓ Subject to one-off registration with BNM</td> <td data-bbox="1257 1249 1445 1424">✓</td> </tr> <tr> <td data-bbox="842 1424 1034 1599">Appointed overseas office¹</td> <td data-bbox="1034 1424 1257 1599">✓ Subject to one-off registration with BNM</td> <td data-bbox="1257 1424 1445 1599">✓</td> </tr> <tr> <td data-bbox="842 1599 1034 1787">Appointed non-resident financial institution² (NRFI)</td> <td colspan="2" data-bbox="1034 1599 1445 1787">Upon BNM's approval on the appointment</td> </tr> </tbody> </table> <p>¹ Appointed overseas office 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.</p> <p>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 Appointed Overseas Office Framework.</p>	Hedging counterparty	Dynamic hedging (up to 25% or RM25 million) <i>No documentary evidence required</i>	More than 25% RM investment <i>Documentary evidence required</i>	Licensed onshore bank	✓ Subject to one-off registration with BNM	✓	Appointed overseas office ¹	✓ Subject to one-off registration with BNM	✓	Appointed non-resident financial institution ² (NRFI)	Upon BNM's approval on the appointment	
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Questions	Answer
<i>Hedging without documentary evidence</i>	
12. Can a resident undertake hedging for an amount exceeding RM6 million?	<ul style="list-style-type: none"> • 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.
13. How is the RM6 million limit for the flexibility to hedge foreign exchange transactions computed?	<ul style="list-style-type: none"> • 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. <u>Example:</u> <ol style="list-style-type: none"> A resident may buy RM6 million ringgit forward [<i>NOP = RM6 million</i>] and subsequently sells RM8 million ringgit forward [<i>NOP = RM2 million</i>]. (Allowed) A resident buys RM8 million ringgit forward [<i>NOP = RM8 million</i>] and subsequently sells RM2 million ringgit forward [<i>NOP = RM6 million</i>]. (Subject to the onshore banks' normal due diligence process including to provide documentary evidence)
14. What is the pre-requisite for residents to enjoy the flexibility?	<ul style="list-style-type: none"> • 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.
15. Is a resident institutional investor eligible to the flexibility to hedge up to net open position limit of RM6 million per bank?	<ul style="list-style-type: none"> • 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.
16. Can a resident cancel forward foreign exchange contracts without sighting documents?	<ul style="list-style-type: none"> • 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.

Questions	Answer
17. What is the difference between the current due diligence process where a bank is allowed to facilitate FX transaction and the new flexibility?	<ul style="list-style-type: none"> • 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.
18. Are residents allowed to hedge import or foreign currency loan obligations under this flexibility?	<ul style="list-style-type: none"> • 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.
<i>Hedging with documentary evidence</i>	
19. Whether a resident is allowed to enter into forward contracts to sell foreign currency into ringgit for tenure more than 6 months?	<ul style="list-style-type: none"> • 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 anticipatory basis.
20. Whether a resident is allowed to enter into forward contracts to buy foreign currency for tenure more than 6 months?	<ul style="list-style-type: none"> • For import or foreign currency loan obligation: tenure shall not exceed 6 months • For investment purposes: any tenure subject to prudential limit • For other purposes: any tenure in accordance to underlying commitment
21. Whether a resident is allowed to roll-over forward contracts for import or foreign currency loan obligation exceeding 6 months?	<ul style="list-style-type: none"> • Yes, only arising from delay of import payment or foreign currency loan repayment.
22. Whether over-hedged forward position is required to be cancelled?	<ul style="list-style-type: none"> • Yes.
<i>Appointed overseas office</i>	
23. Can a resident buy ringgit through appointed overseas offices?	<ul style="list-style-type: none"> • This flexibility is only open to non-residents to facilitate their access to onshore banks. Residents can continue to directly access the onshore banks.
24. Can non-residents buy ringgit from appointed overseas offices to make	<ul style="list-style-type: none"> • Yes, including any financial account transactions based on firm commitment.

Questions	Answer
ringgit loan repayment?	
25. Can non-residents obtain ringgit trade financing from appointed overseas offices?	<ul style="list-style-type: none"> • Yes, a non-resident can obtain ringgit trade financing from appointed overseas offices to settle trade obligations with the resident.
26. Are appointed overseas office allowed to display ringgit exchange rates and impose a margin?	<ul style="list-style-type: none"> • Appointed overseas offices are allowed to display ringgit exchange rates and impose a margin which is agreed by the onshore bank.
27. How do onshore banks appoint non-resident financial institutions not within their banking group as their appointed overseas office?	<ul style="list-style-type: none"> • Onshore banks are required to write-in to Bank Negara Malaysia.
Export proceeds and foreign currency accounts	
28. Can exporters retain foreign currency funds with overseas banks?	<ul style="list-style-type: none"> • Under the prevailing FEA rules, resident exporters are required to receive and retain the full value of export proceeds with onshore banks¹.
29. What is the impact of this measure on existing export proceeds and outstanding foreign currency balances?	<ul style="list-style-type: none"> • The new measure does not apply to existing foreign currency balances. The new measure applies to export proceeds received from 5 December 2016 onwards.
30. How is the 25% retention of export proceeds computed?	<ul style="list-style-type: none"> • The 25% is computed based on each receipt of export proceeds.
31. Is export trade financing facility subject to the 25% retention limit?	<ul style="list-style-type: none"> • 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. <p>Illustration:</p>  <pre> graph TD Exporter[Exporter] -- "1 January: Ship goods to customer" -- Goods --> NonResident[Non-resident] NonResident -- "1 March: Actual export proceeds (100% can be used to repay trade financing facility)" -- FC --> Banking[Banking institution] Banking -- "15 January: Trade financing disbursement (retention up to 25%)" -- FC --> Exporter </pre>

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
<p>32. Does this requirement include proceeds from services?</p> <p>33. Does this requirement include proceeds from merchanting trade²?</p>	<ul style="list-style-type: none"> • The requirement is only applicable to proceeds from the export of goods. <ul style="list-style-type: none"> ✓ Export of goods is defined as movement or transfer of goods by land, sea or air from Malaysia to any territory outside of Malaysia. • The requirement is not applicable on proceeds derived from – <ul style="list-style-type: none"> (a) export of services including merchanting trade; or (b) goods exported under a border trade agreement entered into by the Government of Malaysia with any foreign government.
<p>34. Does the conversion of the remaining 75% export proceeds have to be undertaken on spot basis?</p>	<ul style="list-style-type: none"> • The remaining 75% export proceeds can be converted on spot or forward basis.
<p>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?</p>	<ul style="list-style-type: none"> • The exporter is allowed to retain export proceeds in foreign currency in Trade FCA prior to delivery of the forward contract.
<p>36. Are exporters allowed to convert ringgit into foreign currency to meet foreign currency obligations if the retained foreign currency is insufficient?</p>	<ul style="list-style-type: none"> • 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.
<p>37. Can exporters request to use the same conversion rate to reconvert export proceeds converted into ringgit into foreign currency?</p>	<ul style="list-style-type: none"> • Yes. Exporters may request to simultaneously reconvert export proceeds into foreign currency at the same rate for the following: <ul style="list-style-type: none"> (a) up to the value of 6 months import foreign currency loan obligations; (b) current international transactions; and (c) permitted payment in foreign currency between residents up to 31 March 2017.
<p>38. Is there a time limit on the retention of the foreign currency proceeds?</p>	<ul style="list-style-type: none"> • There is no time limit on the retention of the

² 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.

Questions	Answer
	foreign currency proceeds.
39. What can the retained foreign currency funds be used for?	<ul style="list-style-type: none"> 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)
40. Are foreign currency accounts (FCA) I and II still applicable?	<ul style="list-style-type: none"> With the policy realignment, FCA I and II are replaced with Trade and Investment FCAs respectively where funds in - <ul style="list-style-type: none"> (a) Trade FCA shall be used to meet import and loan obligations only and other current international transactions; and (b) Investment FCA can be used for investment and other purposes including payment for import and loan obligations.
41. Can resident companies continue to borrow foreign currency from resident entities within its group of entities or its resident direct shareholder? 42. Can residents enter into cash sweeping arrangement with other resident companies within the group of entities?	<ul style="list-style-type: none"> Yes. Foreign currency funds for the foreign currency borrowing/lending may be sourced from Trade FCA or Investment FCA and shall be credited (received) into Trade FCA.
43. Do resident corporations need to maintain Investment FCA to undertake investments in foreign currency assets onshore or offshore?	<ul style="list-style-type: none"> Yes.
44. Are importers required to unwind the forward foreign exchange contracts exceeding the 6 months tenure that were entered into prior to 5 December 2016?	<ul style="list-style-type: none"> No as the requirement does not apply to transactions entered prior to 5 December 2016.
45. Where do exporters transfer its existing foreign currency funds from FCA II	<ul style="list-style-type: none"> The existing foreign currency funds can be transferred to Investment FCA or FCA Trade.
46. Can corporations without export proceeds convert ringgit into foreign currency to pay import and loan	<ul style="list-style-type: none"> Yes. The corporation can convert up to the value 6 months of import and loan

Questions	Answer
obligations?	obligations.
47. Does the export retention limit apply to resident individual, sole proprietor or general partnership?	<ul style="list-style-type: none"> • Yes.
48. Can residents convert ringgit into foreign currency for education and employment abroad purposes?	<ul style="list-style-type: none"> • Yes.
49. Are resident exporters allowed to transfer foreign currency funds from Trade FCA to Investment FCA or vice versa?	<ul style="list-style-type: none"> • 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.
50. Can resident exporters choose to convert with banks that offer the best rate?	<ul style="list-style-type: none"> • Yes, resident exporters may enter into foreign exchange contracts, spot or forward basis with any onshore banks.
51. What are the incentives granted to exporters of goods following implementation of the new measures?	<ul style="list-style-type: none"> • Exporters of goods are granted with the following incentives: <ul style="list-style-type: none"> (a) All ringgit proceeds from exports conversion can earn a higher rate of return via a special deposit facility (refer to FAQs on Special deposit facility for resident exporters); and (b) Flexibility to cancel and unwind forward contracts.
<i>Special deposit facility for resident exporters</i>	
52. Who is eligible for this Special Deposit Facility (SDF)?	<ul style="list-style-type: none"> • The SDF is offered to resident exporters, which receive ringgit arising from the conversion of foreign currency export proceeds.
53. Which banks offer this SDF?	<ul style="list-style-type: none"> • 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.
54. How to activate this SDF?	<ul style="list-style-type: none"> • Upon receipt of the foreign currency export

Questions	Answer
	<p>proceeds, the bank shall offer this SDF when converting into ringgit proceeds.</p> <ul style="list-style-type: none"> Resident exporters can decide to place the ringgit proceeds into SDF or to use for other purposes.
55. What does this SDF provide?	<ul style="list-style-type: none"> The SDF will pay a daily rate of 3.25% p.a. on end-of-day balances.
56. Is the rate similar from all banks?	<ul style="list-style-type: none"> All banks will offer the same rate of 3.25% p.a. for the SDF.
57. How much of the converted proceeds can be placed into this SDF?	<ul style="list-style-type: none"> Resident exporters can make full or partial placement of the proceeds arising from the export conversion.
58. Can funds be withdrawn from the SDF?	<ul style="list-style-type: none"> Resident exporters are free to withdraw funds from the SDF for other purposes, except using the funds to place into other banks' SDF.
59. Can any other source of funds be placed into this SDF?	<ul style="list-style-type: none"> 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.
60. Can exporters convert the remaining 25% foreign currency export proceeds into ringgit and place into the SDF? 61. Can exporters choose to convert 100% of incoming foreign currency export proceeds and place into SDF?	<ul style="list-style-type: none"> Yes. The ringgit proceeds are source from exports and thus eligible to be placed into the SDF.
62. For exports that are settled and received in ringgit, can exporters placed such proceeds into the SDF?	<ul style="list-style-type: none"> Yes. Bank will need to ensure proper documentation that the ringgit is from export proceeds
63. Can an exporter request the export conversion proceeds (which was converted by Bank A) be placed into another bank's SDF? 64. Can exporter transfer funds from other accounts into SDF e.g. current account in Bank A into SDF Bank A or	<ul style="list-style-type: none"> 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.

Questions	Answer
into SDF Bank B?	
65. How long is SDF offered?	<ul style="list-style-type: none"> The offer shall last up to 1 year, until 31 Dec 2017.
<i>Payment in foreign currency between residents</i>	
66. Can an exporter pay another resident in foreign currency?	<ul style="list-style-type: none"> Any settlement for goods and services between residents shall only be made in ringgit, including where payment is made by another party on behalf of the resident. Notwithstanding the above, residents with initial contractual agreement entered prior to 5 December 2016 may continue to make or receive payment in foreign currency until 31 March 2017 provided that the payment is – <ul style="list-style-type: none"> (a) made by an exporter using export proceeds; or (b) approved by the Bank. Payments may be made from the payer's Trade FCA or Investment FCA. Payee receiving such foreign currency payment may retain full amount of the payment in foreign currency in its Trade FCA. This flexibility is granted to enable residents to re-negotiate existing contractual agreements in accordance to the new measures.
67. Can a resident invoice another resident in foreign currency?	<ul style="list-style-type: none"> 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.
<i>Investment in foreign currency assets</i>	
68. 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?	<ul style="list-style-type: none"> Yes, for applications to make further investments in foreign currency asset from 5 December 2016.

Questions	Answer
69. Are short term placements of foreign currency deposits considered as investments in foreign currency assets?	<ul style="list-style-type: none"> • Yes.
70. Is a resident without domestic ringgit borrowing subject to the investment limit?	<ul style="list-style-type: none"> • No. A resident without domestic ringgit borrowing continues to be free to invest in foreign currency assets onshore and offshore.
71. How does a resident with domestic ringgit borrowing computes total investment limit?	<ul style="list-style-type: none"> • The investment limit is to be computed based on the aggregate amount of investments in foreign currency assets onshore and offshore.
72. Where can residents place the proceeds from the investment income?	<ul style="list-style-type: none"> • 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.
73. Can residents use income from investment abroad for other investment abroad activities?	<ul style="list-style-type: none"> • Residents may use the investment income received from abroad for any purpose.
74. Is there any restriction on payment of dividend to non-resident shareholders?	<ul style="list-style-type: none"> • No restriction.
75. Can a resident entity convert ringgit directly for investment in foreign currency assets?	<ul style="list-style-type: none"> • A resident entity can convert ringgit for placement into investment FCA up to the relevant investment limit for subsequent investment in foreign currency assets.

New FAQs: Q18-22, 31, 33-35, 37, 39-42, 45, 51, 67 and 69.

15 December 2016