Foreign Exchange Policy (FEP)

The FEP Notices are a set of rules administered by Bank Negara Malaysia (BNM) under the Financial Services Act 2013 and Islamic Financial Services Act 2013 to maintain monetary and financial stability. The information here is for educational purposes only and does not include the complete set of the FEP Notices. Please read the full FEP Notices on BNM's website. Capitalized terms not defined in this document have the same meaning in the BNM Foreign Exchange Policy.

Key Definition:

*"**Resident**" means (a) a citizen of Malaysia, excluding a citizen who has obtained permanent resident status in a country or a territory outside Malaysia and is residing outside Malaysia; (b) a non-citizen of Malaysia who has obtained permanent resident status in Malaysia and is ordinarily residing in Malaysia; (c) a body corporate incorporated or established, or registered with or approved by any authority, in Malaysia; (d) an unincorporated body registered with or approved by any authority in Malaysia; or (e) the Government or any State Government.*

*"**Non-Resident**" refers to (a) any person other than a resident; (b) an overseas branch, a subsidiary, regional office, sales office or representative office of a resident company; (c) Embassies, Consulates, High Commissions, supranational or international organizations; or (d) a Malaysian citizen who has obtained permanent resident status of a country or territory outside Malaysia and is residing outside Malaysia. For the avoidance of doubt, this includes Malaysian Embassies, Consulates and High Commissions.*

*"**Domestic Ringgit Borrowing**" means (a) any Borrowing in Ringgit obtained by a Resident from another Resident; or (b) any obligation considered or deemed as Domestic Ringgit Borrowing under any of the Foreign Exchange Notices. For purposes of determining the Domestic Ringgit Borrowing status of a Resident Entity - a Resident Entity is deemed to have a Domestic Ringgit Borrowing when another Resident Entity with Parent-Subsidiary Relationship has a Domestic Ringgit Borrowing; for the avoidance of doubt, the following shall not be considered as Domestic Ringgit Borrowing— (i) a Borrowing obtained by the Resident Entity from another Resident Entity with Parent-Subsidiary Relationship; (ii) a Borrowing obtained from the Resident Entity's Direct Shareholder; or (iii) any facility including credit facility or financing facility obtained by the Resident Entity which is used for Sundry Expenses or Employees' Expenses.*

*"**Borrowing"** means (a) any utilized or unutilized credit facility or financing facility, (b) any utilized or unutilized trade financing facility, including but not limited to, trade guarantee or guarantee for payment of goods, (c) redeemable preference share or Islamic redeemable preference share, or (d) Corporate Bond or Sukuk. Notwithstanding the above, the following are excluded from the definition of Borrowing – (i) a trade credit term extended by a supplier for any goods or services; (ii) a credit limit that a LOB apportions for its client to undertake a Forward Basis transaction, excluding a transaction that involves— (A) exchanging or swapping of Ringgit or Foreign Currency debt for another Foreign Currency debt; or (B) exchanging of Foreign Currency debt for a Ringgit debt; (iii) a Financial Guarantee or Non-Financial Guarantee; (iv) an operational leasing facility; (v) a factoring*

facility without recourse; (vi) a credit card or charge card facility obtained by an Individual from a Resident and used for payment for retail goods or services only; or (vii) a credit facility or financing facility obtained by a Resident Individual from a Resident to purchase one (1) residential property and one (1) vehicle. Note: For clarity purposes, the transactions in (ii)(A) and (ii)(B) shall be considered as Borrowing.

Foreign Exchange Policy (FEP) and Applicable Rules

FEP Notice 2 – Borrowing, Lending and Guarantee

Borrowing by a Resident Entity

	Related[1] Non-Resident	Non-Resident Subscribers via issuance of Debt Securities	Other Non-Resident	Licensed Onshore Bank
Ringgit	Any amount to finance Real Sector Activity[2] in Malaysia	Any amount for – (a)RPS or Islamic RPS in RM for use in Malaysia (b)RM sovereign bond or sukuk (c)Tradeable RM corporate bond or sukuk	Up to RM1 million in aggregate[3] for use in Malaysia *(excludes borrowing from NRFI[4])*	*Not within FEP scope*
Foreign Currency	Any amount (*including from related[1] resident*)	Subject to rules on borrowing from non-residents *(any amount for issuance to another resident)*	Up to RM100 million equivalent in aggregate[3]	Any amount

[1] Entities within the resident's group of entities or direct shareholder, excluding NRFI or non-resident SPV used to obtain borrowing from any person outside the resident entity's group

[2] Means an activity relating to construction or purchase of property (excluding purchase of land only) and production or consumption of goods and services (excluding financial sector activities)

[3] On Parent-Subsidiary Relationship group basis

[4] Excluding borrowing from Multilateral Development Banks (MDBs) and Qualified Non-Resident Development Financial Institutions (DFIs) for purpose of supporting real sector activities in Malaysia sourced either via issuance of ringgit bond/sukuk or conversion of own foreign currency

Foreign Exchange Policy (FEP)

FEP Notice 3 - Investment in Foreign Currency (FC) Assets

Domestic Ringgit Borrowing Status	Source of Foreign Currency funds	Threshold for investment in Foreign Currency Assets (including offshore and onshore)
Without Domestic Ringgit Borrowing	• From abroad, other than export proceeds • From a non-resident, other than Foreign Currency(FC) borrowing • Transferred from another Investment Foreign Currency Account • FC borrowing from Licensed Onshore Bank (LOB) for Direct Investment Abroad (DIA) purpose	Any Amount
With Domestic Ringgit Borrowing	• Conversion of RM • Trade FCA • FC borrowing from LOB for purpose other than DIA • Swapping of financial assets onshore with offshore (including Labuan)	RM50 million equivalent in aggregate* per calendar year

*Computed in aggregate based on the Resident Entity and other Resident Entity with Parent-Subsidiary Relationship's investment in Foreign Currency Asset.

Foreign Exchange Policy (FEP)

FEP Notice 4 - Payment and Receipt

Payment in Foreign Currency

Between Residents	Between Resident and Non-resident
• Any purpose between immediate family members[1] • education, employment or migration outside Malaysia; • transaction with onshore banks, licensed international takaful operators (ITO) and international currency business unit (ICBU) of licensed takaful operators in carrying out their FC business • Foreign Currency-denominated derivative, excluding exchange rate derivatives, transacted on a Specified Exchange under CMSA between the Resident and a Resident futures broker • commodity murabahah transaction between Residents undertaken through a Resident commodity or a Non-Resident trading service provider • domestic trade in goods or services between a Resident exporter and a RE involved in the Global Supply Chain[2] operations in Malaysia, provided that payment: ▪ is sourced from Trade FCA or proceeds from FC trade financing facility; ▪ Not from conversion of Ringgit into FCY; and ▪ is credited into Trade FCA of the Resident payee.	Settlement of any purpose[3], EXCEPT for the following transactions: • FC-denominated derivative offered by a resident[3] • Derivative which is referenced to ringgit[3] • Exchange Rate Derivative offered by a non-resident[4]

[1] A legal spouse, parent, legitimate child (including legally adopted) or legitimate sibling of an Individual.

[2] Including domestic trade transactions between the resident importer and the resident exporter undertaken through resident intermediate entity(s)

[3] Unless allowed in Notice 5 or approved in writing by BNM.

[4] Unless allowed in Notice 1 or approved in writing by BNM.

NOTE: This is a non-exhaustive list. Please be guided by relevant FEP Notices.

Foreign Exchange Policy (FEP)

FEP Notice 4 - Payment and Receipt

Foreign Currency Accounts (FCA) - Guidance sources and uses of funds of Trade FCA and Investment FCA

	Trade FCA	Investment FCA

Permissible Source	• Proceeds of the export of goods.
	• Settlement of domestic trade from another resident within the global supply chain* as permitted under FE Notice 4 ,
	• Any amount for same-party transfers from Trade or Investment FCA.
	• Other foreign currency funds arising from transaction permitted under the FE Notices.
		• Any foreign currency funds other than:
		  ○ Proceeds of the export of goods; and
		  ○ Settlement of domestic trade from another resident within the global supply chain as permitted under Notice 4.
		• Transfers from Trade FCA up to the permitted aggregated investment limit in FE Notice 3.
		• Any amount for same-party transfers from Investment FCA.

Permissible Uses	• Settlement of domestic trade from another Resident within the global supply chain* as permitted under FE Notice 4, provided that –
	  ○ the payment is sourced from Trade FCA or proceeds from a Foreign Currency trade financing facility obtained by the Resident payor in accordance with Part B of Notice 2;
	  ○ shall not be sourced from conversion of Ringgit into Foreign Currency; and
	  ○ is credited into Trade FCA of the Resident payee; and
	  ○ resident exporter and/or resident intermediary provides a declaration on involvement in the global supply chain (to provide a list of resident payees).
	• All permissible purposes in the FE Notices including investment in Foreign Currency Asset (incl. transfers to Investment FCA) up to the permitted aggregated investment limit in FE Notice 3.
	• Any amount for same-party transfers into Trade FCA.
		• Any amount for same-party transfers into Trade or Investment FCA.
		• All permissible purposes.

NOTE: This is a non-exhaustive list. Please be guided by relevant FEP Notices

Foreign Exchange Policy (FEP)

FEP Notice 7 - Export of Goods

<u>Definition of "Export of Goods"</u>

- any **movement or transfer of goods** by land, sea or air from Malaysia to any territory outside Malaysia
- **transfer of ownership** in goods from Malaysia by a resident to a non-resident abroad or a Labuan entity (declared by BNM as a non-resident

<u>Repatriation of Export Proceeds shall be in full value and within 6 months from the shipment date</u>

- Receipt of export proceeds must be in full value[1] in ringgit or foreign currency
- Repatriation within 6 months from shipment date For any amount of export proceeds
- Repatriation within 24 months from shipment date For export proceeds under specified circumstances only[2]
- Credited directly into exporter's account either ringgit account or Trade FCA

[1] May be offset or written-off against permitted transactions or reasons with non-residents under Appendix B of Notice 7

[2] Subject to permitted circumstances under Appendix C of Notice 7

<u>Notification to BNM on Extension of Export Proceeds Repatriation:</u>

Extension of period to receive export proceeds later than 24 months from the date of shipment.

***Note:** Notification to BNM must be submitted by the exporter within 21 days after the end of each calendar year via <u>FEP Portal</u>.*