



Regulatory framework and approach

- The central bank, Bank Negara Malaysia (“BNM”), is the primary regulator of the financial sector (<http://www.bnm.gov.my>). BNM, through the Office of the Controller of Foreign Exchange, also sets and manages FX policy.
- The Securities Commission (“SC”) regulates issuance and offering of securities (<http://www.sc.com.my>).
- In May 2016, BNM established the Financial Markets Committee to broaden industry engagement.
- Effective from 18 July 2016, BNM adopted a new methodology to calculate the USD/MYR spot fixing based on market transaction data known as the Kuala Lumpur USD/MYR Reference Rate. It is published daily at 3:30 p.m. and computed based on weighted average volume of the interbank USD/MYR FX spot rate transacted by the domestic financial institutions between 8:00 a.m. to 3:00 p.m. This replaced a quotation-based submission by selected banks. An expanded official closing hour for the onshore ringgit market from 5pm to 6pm also came into effect.
http://www.bnm.gov.my/index.php?ch=en_press&pg=en_press&ac=4196&lang=en
- Malaysia’s Foreign Exchange Administration (FEA) Notices governing the buying and selling of ringgit by residents and non-residents can be reviewed here:
http://www.bnm.gov.my/index.php?lang=en&ch=fea&pg=en_fea_circulars&ac=258&lang=en
- In November 2016, BNM released a circular “Prohibition of Facilitation of NDF Related Transactions” which reiterated the non-internationalization of the MYR and the non-recognition of any offshore trading in the currency http://www.bnm.gov.my/index.php?ch=en_press&pg=en_press&ac=4295&lang=en
- In December 2016, in the “Supplementary Notice on Foreign Exchange Administration Rules,” BNM announced a number of initiatives to develop the onshore financial market, including liberalization and deregulation of the onshore ringgit hedging market, streamlining treatment for investment in foreign currency assets, and incentives and new treatment for export proceeds. These can be found here:
http://www.bnm.gov.my/index.php?ch=en_press&pg=en_press&ac=4316&lang=en/.
- Residents were allowed to freely and actively hedge their USD and CNH exposures up to a NOP limit of RM 6 million per client per bank. A one-time declaration of non-participation in speculative activity would suffice. Resident and non-resident fund managers were allowed to actively manage up to 25% of their invested assets under a dynamic hedging framework. To qualify for this arrangement, registration with BNM would suffice. To broaden accessibility of foreign investors and corporates to the onshore FX market, offshore non-resident financial institutions may participate in the Appointed Overseas Office framework:
http://www.bnm.gov.my/index.php?ch=en_press&pg=en_press&ac=4318
- Beginning December 2016, exporters may only retain 25% of their export proceeds in foreign currency and all payments by resident exporters for settlement of domestic trade in goods and services are to be made fully in ringgit. Previously, only receipt of export proceeds was required onshore, with no retention limit on foreign currency holdings, and exporters could make trade-related payment in foreign currency. Exporters are however able to hedge and un-hedge up to 6 months of their foreign currency obligations.
- Further liberalization of FEA rules was announced in May 2017 in Supplementary Notice (No. 2): http://www.bnm.gov.my/index.php?ch=en_announcement&pg=en_announcement&ac=533&lang=en. This introduced additional hedging flexibilities in the dynamic hedging framework of institutional investments and a hedging framework for corporate entities. A non-resident institutional investor registered with BNM was now allowed to dynamically hedge up to 100% of invested underlying MYR denominated assets (RHS USD buying) and enter into a further 25% of MYR forwards (LHS US selling), with these positions able to be freely unwound. Corporates with MYR assets, borrowings or current account transactions could freely unwind up to 100% of their exposures via forwards. GBP, EUR and JPY were added to currencies which residents could hedge without documentary evidence up to RM6mn per bank.
- Supplementary Notice 3, released in September 2017, allowed registered non-bank non-residents to enter into forward contracts up to the NOP of MYR denominated crude-palm oil futures or options on the Bursa Malaysia: <http://www.bnm.gov.my/documents/2017/Supplementary%20Notice%20No.3.pdf>
- In April 2017, Malaysia allowed the regulated short-selling for Malaysia Government Securities (MGS) <https://fast.bnm.gov.my/fastweb/public/files/Policy%20Document%20on%20Regulated%20Short-Selling%20of%20Securities%20in%20the%20Wholesale%20Money%20Market%20-%20April%202017.pdf>