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LHAG update

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Foreign Exchange Administration Rules on Export Proceeds and Interest Rate Derivative

| by Cindy Sim Xin Yee |

Last month (17 August 2018), Bank Negara Malaysia announced a Supplementary Notice (No 4) on the Foreign Exchange Administration Rules as part of a strategy to facilitate operational efficiencies and risk management by businesses and financial institutions. The Supplementary Notice took effect from 17 August 2018.

The Supplementary Notice is targeted at the following parties:

(a) Resident exporter — in relation to export proceeds.

(b) Licensed onshore bank and non-resident — in relation to interest rate derivative.

Export proceeds

Previously, a resident exporter was required to convert 75% of the export to ringgit prior to re-converting it to foreign currency of up to the value of six months' import and loan obligations to meet foreign currency obligations at the same conversion rate.

Pursuant to the Supplemental Notice, a resident exporter can now automatically retain its foreign currency proceeds from its export of goods in its Trade Foreign Currency Account with a licensed onshore bank, up to:

(a) 25% of the export proceeds; or

(b) its six months' foreign currency obligations that exist on the date of receipt of the export proceeds[1] (subject to documentary proof),

whichever is higher. The balance of the foreign currency proceeds shall then be converted into ringgit with a licensed onshore bank.

The implementation of the Supplemental Notice will reduce the cost of doing business by removing the conversion and reconversion process.

Interest rate derivative

A licensed onshore bank can now issue or offer ringgit-denominated interest rate derivative to:

(a) a non-resident individual and non-resident corporation through the license onshore bank's appointed overseas office;[2] or

(b) a non-resident banking institution which has a firm commitment, through the licensed onshore bank's appointed overseas office.

All interest rate derivatives embedded with buying and selling of ringgit against foreign currency (i.e. cross-currency interest rate swap) shall be subjected to firm commitment.

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[1] This is only applicable if the aggregate amount of the existing balance in the resident exporter's Trade Foreign Currency Account is insufficient to meet its six months' obligations.

[2] The list of appointed overseas office can be found at: <http://www.bnm.gov.my/index.php?ch=en_announcement&pg=en_announcement&ac=509&lang=en>