
MDD Guide for Notice 3 - Public

General Due Diligence Processes

1. In facilitating investment in foreign currency assets by resident clients, an LOB shall obtain the purpose of the transaction from the clients in line with External Sector Statistics System (ESS) reporting guideline. Verification on the purpose of transactions based on declaration from the resident clients shall be supported by internal checks on the status of the client (e.g. FE Rules compliance track record) as guided by know your customer (KYC) principle and the LOB's own compliance framework.
2. Prior to facilitating a transaction for the purpose of investment in foreign currency assets, an LOB shall undertake the following –
 - (a) determine the domestic ringgit borrowing status of a resident client; and
 - (b) determine the amount of investment in foreign currency assets undertaken by the resident client during the calendar year (in ringgit equivalent), if the resident client has domestic ringgit borrowing.
3. An LOB is to set its own guidance on the determination of domestic ringgit borrowing status and existing investment in foreign currency asset undertaken by a resident client during the calendar year as guided by KYC principle.
4. An LOB is to set its own guidance on the requirement for documentary evidence, where such document(s) may be obtained either pre- or post-transaction and on transactional or selective basis, as guided by KYC principle and the LOB's own compliance framework.
5. In determining the permissible outstanding amount of investment for the calendar year for a resident client with domestic ringgit borrowing, the computation of limit is from conversion of ringgit, swapping of financial assets onshore with offshore and foreign currency funds from the following sources –
 - (a) transfer from Trade FCA;
 - (b) proceeds from foreign currency borrowing from an LOB for purposes other than direct investment abroad (for resident entity only); and
 - (c) permitted foreign currency borrowing under FE Notice 2.
6. A resident entity client with domestic ringgit borrowing undertaking lending to a non-resident entity within its group or a non-resident direct shareholder using proceeds from foreign currency borrowing from an LOB, whereby the subsequent

use of such lending is for purposes other than direct investment abroad¹, is subject to the prudential limit on investment in foreign currency asset.

7. For a joint investment in foreign currency asset by resident individual clients, where one of them has domestic ringgit borrowing, the prudential limit on investment in foreign currency asset shall apply² to all resident individual clients participating in such joint investment.

Specific Due Diligence Processes

Investment in Foreign Currency Assets Onshore

8. Onshore foreign currency product that references ringgit will only be considered as part of investment limit upon conversion into foreign currency³.

Investment in Foreign Currency Assets Offshore on Behalf of Clients

9. In facilitating investment in foreign currency assets offshore by a resident intermediary⁴ on behalf of its clients, an LOB shall obtain a declaration from the resident intermediary that—
 - (a) it is licensed by the Securities Commission of Malaysia or BNM, as the case may be; and
 - (b) the investment is made within the prudential limit of the resident intermediary (for discretionary funds) or the resident end-clients (for non-discretionary funds), as the case may be.

Due Diligence Processes for Clients with Special Dispensations or Approvals

10. A resident client with an approval/exemption from BNM has to satisfy the LOB's due diligence process in ensuring the transaction to be facilitated is in line with the approval/exemption.
11. A resident entity client with approvals/exemptions from BNM is expected to provide the approval letter to the facilitating LOB.

¹ Examples of purposes other than direct investment abroad are investment in real estate and portfolio investment.

² Illustration: A resident individual without domestic ringgit borrowing ("Resident A") has a joint-account with another resident individual who has domestic ringgit borrowing ("Resident B"). For purposes of foreign currency investment for the joint-account, Resident A will also be subject to prudential limit of RM1 million (being the limit for a resident with ringgit borrowing). As such, the prudential limit for the joint-account will be the combined limit for Resident A and Resident B, i.e. RM2 million.

³ For example: dual-currency investment product.

⁴ Example of these entities: fund managers, insurance companies, takaful operators.