MDD Guide for Notice 1

(updated on 1 November 2025)

General Due Diligence Processes

1. In facilitating every transaction, a licensed onshore bank (LOB) shall obtain the purpose of the transaction from its clients in line with External Sector Statistics (ESS) reporting guideline. Verification on the purpose of transactions based on declaration from the clients shall be supported by internal checks on the status of the client (e.g. foreign exchange policy (FEP) compliance track record) as guided by know your customer (KYC) principle and the LOB's own compliance framework.

2. A 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 and/or operational risk framework –

   (a) **For new clients/transactions:** A LOB should take a prudent stance to ensure it is satisfied with its clients' awareness and compliance with FEP rules, including obtaining documentary evidence for the initial transaction or transaction beyond the permitted scope of the relevant FEP Notices, where required.

   (b) **For existing clients:** A LOB may obtain the documentation on a selective basis instead of every transaction or on post-event basis as guided by KYC principle. Selection from the population of clients and/or transactions for documentary evidence review shall be based on the LOB's internal policy and methodology, which may take into account the clients' awareness of FEP rules, the size of the transaction, track record on the purpose of transaction, including their historical behavior or reliability in providing documents and other criteria deemed appropriate by the LOB.

3. Checks based on selective sampling of clients and/or transactions should be conducted periodically as per the LOB's compliance and/or operational risk framework. It is recommended that the checks be done at least semi-annually for the selected clients based on risk-based approach. However, a LOB may conduct more frequent checks or request for additional supporting documents (as part of the enhanced due diligence) as appropriate.

4. Upon detection of any non-compliance or breach of FEP rules by a client, the LOB shall –

   (a) assess whether there is an actual breach of FEP rules by gathering information from the client to assess the case;

(b) contact Bank Negara Malaysia (BNM) to confirm a breach in the event there is doubt on the case upon assessment by the LOB;

(c) report the breach to BNM[1] within a reasonable timeframe;

(d) institute remedial and/or preventive action to ensure non-recurrence including to notify clients of the breach; and

(e) advise the client to submit an application with a self-declared non-compliance in its submission, where applicable[2].

5. This Minimum Due Diligence (MDD) Guide should be read together with FEP Notice 1 – Dealings in Currency, Gold and Other Precious Metals which is available in the website (www.bnm.gov.my/fep).

Specific Due Diligence Processes

6. In facilitating every foreign exchange (FX) transaction, a LOB or Appointed Overseas Office (AOO) shall obtain the purpose of the transaction from its clients at the onset for Ringgit Operations Monitoring System (ROMS) reporting.

7. Documentary evidence shall be requested from the client for verification as part of due diligence process to ensure compliance with FEP rules as guided by the LOB and/or AOO's own compliance framework.

8. Specifically for any spot sale of ringgit by non-resident clients, a LOB and/or AOO is to ensure that it must be supported by delivery of ringgit on a gross basis.

9. For any forward sale of ringgit[3] by resident clients, a LOB shall ensure that it is NOT for the purpose of settlement of domestic trade in goods or services where the underlying contract or invoice is denominated in foreign currency.

10. Termination of a forward transaction for portfolio investment (other than those under Dynamic Hedging framework) requires BNM's prior approval (in the event the underlying remains).

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[1] LOB may report the breach by submitting a non-compliance report on its own account or on behalf of the client (offender) via the FEP Portal at "https://www.bnm.gov.my/submission-of-application".

[2] Submission of application is applicable for cases where the client (offender) intends to continue with the transaction. The application with self-declared non-compliance can be submitted via the FEP Portal at "https://www.bnm.gov.my/submission-of-application".

[3] A general guide and permissible exceptions are outlined in Appendix A and B.

FX Transactions with Resident

Dealings with Resident Intermediary (RI)

11. An RI that is mandated to undertake investment or manage funds on behalf of its non-resident clients' ringgit assets is allowed to undertake FX transactions on behalf of its non-resident clients with a LOB, including to facilitate its non-resident clients in repatriating foreign currency funds from Malaysia using income or proceeds from divestment of ringgit assets.

FX transactions with Non-Resident

Dealings with Third-Party FX Bank

12. A third-party FX bank (i.e. any LOB or AOO that facilitates FX transactions for the non-resident, but does not maintain the non-resident's external account neither acts as the non-resident's securities custodian, trust or retrust bank) in facilitating FX transaction of a non-resident may –

    (a) obtain a declaration from the non-resident to ascertain the purpose of the transaction for ROMS reporting purposes; and

    (b) undertake a confirmation on the underlying asset of the non-resident post-transaction as guided by KYC principle.

Dealings with Non-Resident Financial Institution (NRFI)

13. An NRFI that is mandated to manage, or act as a custodian to its non-resident clients' ringgit assets[4], is allowed to undertake FX transactions on behalf of its own clients, including for FX exposures from ringgit assets that may not be under its custody[5] with any LOB and/or AOO.

14. In facilitating a transaction by an NRFI on behalf of its client via a LOB or AOO, the following purposes do not require a non-deliverable forward (NDF) attestation from the NRFI –

    (a) International trade in goods and services with a resident;

    (b) Equities or equity instruments listed in Bursa Malaysia;

    (c) Any spot transactions undertaken by an NRFI that is mandated to manage or act as a custodian to its non-resident clients' ringgit assets; or

[4] Examples of these NRFIs are custodian bank, trust bank, retrust bank.

[5] For example: Global Custodian A custodies equities and Global Custodian B custodies bonds for non-resident client. Global Custodian A is allowed to undertake FX transactions (spot and forward) for underlying equities and bonds on behalf of non-resident client.

(d) Ringgit-denominated interest rate derivatives or profit rate derivatives[6].

All other transactions by an NRFI on behalf of its non-resident clients require an NDF attestation from the NRFI.

15. In facilitating a transaction by an NRFI for its own account via a LOB or AOO, the following purposes do not require an NDF attestation from the NRFI –

    (a) International trade in goods and services with a resident;

    (b) Equities or equity instruments listed in Bursa Malaysia; or

    (c) Ringgit-denominated interest rate derivatives or profit rate derivatives[6].

    All other transactions by an NRFI for its own account require an NDF attestation from the NRFI.

16. An NRFI without any proprietary FX trading and is only facilitating its non-resident clients' trades may seek an exemption from the attestation requirement by writing formally to BNM.

17. Prior to facilitating an FX transaction, the LOB or AOO that facilitates the FX transaction may contact BNM to verify the attestation status of the NRFI.

Due Diligence Processes for Transactions on Firm Commitment versus Anticipatory Basis

18. A LOB and/or AOO should have its own internal assessment methodology in facilitating FX transaction on anticipatory basis, which may take into consideration, amongst others, the clients' past year FX volume, company sales or turnover, a financing trade in progress or any other appropriate source that provides justification to the FX transaction.

19. FX transaction entered based on anticipatory basis that has resulted in over-hedged position, upon availability of firm underlying has to be adjusted accordingly within a reasonable timeframe.

Due Diligence Processes for Clients with Special Dispensations or Approvals

20. For clients with special dispensations or approvals, a LOB and/or AOO is recommended to first sight the approval letter. In the event the client is not willing to provide the approval letter, a LOB and/or AOO may –

[6] Not inclusive of FX transactions arising from interest/profit rate derivatives contracts, including FX hedging for settlement of interest/profit rate derivatives and interest/profit rate derivatives embedded with FX element e.g. ringgit cross currency interest rate swaps.

(a) request for the relevant excerpt of the approval letter, including conditions set out in the letter; or

(b) refer to BNM for verification (last resort).

Situation Where Clients are Uncooperative in Meeting the Due Diligence Processes

21. A LOB and/or AOO may reject to trade or cancel any FX transaction with a client if there is reasonable doubt of its compliance with FEP rules.

Appendix A

Requirement for Buying and Selling of Foreign Currency Against Ringgit by Non-Resident on behalf of Clients with LOB and/or AOO

<table>
<tr><th></th><th></th><th colspan="2">With LOB</th><th colspan="2">With AOO</th></tr>
<tr><th>Non-Resident counterparty</th><th>Purpose</th><th>Spot[7]</th><th>Forward[8]</th><th>Spot[7]</th><th>Forward[8]</th></tr>
<tr><td>(A) NRFI[9]</td><td>International trade in goods and services with residents</td><td>Free</td><td>✓ (with firm commitment)</td><td>Free</td><td>✓ (with firm commitment)</td></tr>
<tr><td>(B) Non-resident intermediary (e.g. asset manager)</td><td>Ringgit asset</td><td>Free</td><td>✓ (with firm commitment)</td><td>Free</td><td>✓ (with firm commitment)</td></tr>
<tr><td rowspan="3">(C) NRFI with Ringgit Asset Custody Relationship</td><td rowspan="3">Ringgit asset</td><td>Free</td><td>✓ (with firm commitment)</td><td>Free</td><td>✓ (with firm commitment)</td></tr>
<tr><td colspan="4">For Forward: Require NDF attestation, except for equities or equity instruments listed on Bursa Malaysia</td></tr>
<tr><td colspan="2">NA</td><td colspan="2">For FX transactions via AOO: NRFI to register[10] with BNM (NRFI Custody Passive Foreign Exchange Transaction Registration)</td></tr>
</table>

7 Any spot sale of ringgit by non-residents must be supported by delivery of ringgit on gross basis.

8 For Dynamic Hedging, NRFIs (B) and non-residents (C) can submit a one-off registration to BNM for flexibility to actively manage FX risks exposure from underlying ringgit asset via FX forwards without further need to show documentation. Sighting of underlying and monitoring will be conducted by BNM under the Dynamic Hedging framework.

9 By definition, NRFI includes banking institution, custodian, trust and retrust bank.

10 Registration by NRFI (C) only, non-resident client is not required.

Appendix B

Due Diligence Processes Based on Types of Residents

Forward Transactions			
No	**Residents**	**Type of Hedging**	**Minimum Due Diligence**
A.	All types of residents [except those in (B)]	Passive hedging (firm commitment)	1. Minimum standard due diligence to be performed, including verification of approval (where required). 2. FX contracts for foreign currency assets may be undertaken on portfolio basis or backed with specific underlying. 3. Disposal or extinguishment of the underlying must be followed with cancellation of the original FX hedge[11].
		Passive hedging (anticipatory basis)	1. Minimum standard due diligence to be performed, including verification of approval (where required). 2. Review methodology based on past historical transactions, projections, etc. as appropriate to each client. 3. Disposal or extinguishment of the underlying must be followed with cancellation of the original FX hedge[11].
		Hedging on behalf of related entities	Additional requirements to the above: 1. Establish the relationship for FX transaction entered on behalf of related (non-financial institution) resident or non-resident entity. 2. Every hedging on behalf transaction shall be tagged in the description column in ROMS as follows:

[11] A LOB can inform its client in advance of this requirement to cancel the FX hedge in case of disposal of the underlying.

Forward Transactions			
No	**Residents**	**Type of Hedging**	**Minimum Due Diligence**
			(a) "**HBR**" for hedging on behalf of related resident entity; or (b) "**HBNR**" for hedging on behalf of related non-resident entity.
B.	Institutional Investors	Dynamic Hedging Framework	1. Verify the registration of a new client with BNM prior to facilitating any trades (investorregister@bnm.gov.my). 2. Tag purpose portfolio investment and sub-purpose dynamic hedging in ROMS for the trade executed[12]. 3. Legal Entity Identifier (LEI) number of end investors must be reported in ROMS for every FX trade. 4. No documentary requirement for the underlying. 5. FX contracts for ringgit assets may be undertaken on portfolio basis or backed with specific underlying.

[12] The end investor counterparty name selected in ROMS has to be correctly tagged/tied to the correct LEI number.

Due Diligence Processes Based on Types of Non-Residents

<table>
<tr><th colspan="4">Forward Transactions</th></tr>
<tr><th>No</th><th>Non-Residents</th><th>Type of hedging</th><th>Minimum due diligence</th></tr>
<tr><td>A.</td><td>All types of non-residents
[except those in (B) and (C)]</td><td>• Passive hedging
• Hedging on behalf of related entities</td><td>1. Minimum standard due diligence to be performed, including verification of approval (where required).
2. FX contracts for foreign currency assets may be undertaken on portfolio basis or backed with specific underlying.
3. Disposal or extinguishment of the underlying must be followed with cancellation of the original FX hedge[13].
4. Establish the relationship for FX transaction entered on behalf of related (non-financial institution) resident or non-resident entity.
5. Every hedging on behalf transaction shall be tagged in the description column in ROMS as follows:
(a) “HBR” for hedging on behalf of related resident entity; or
(b) “HBNR” for hedging on behalf of related non-resident entity.</td></tr>
<tr><td>B.</td><td>• Institutional Investors
• Custodian / trust / retrust banks</td><td>Passive hedging</td><td>1. Minimum standard due diligence to be performed.
2. FX contracts for foreign currency assets may be undertaken on portfolio basis or backed with specific underlying.
3. Disposal or extinguishment of the underlying –
(a) must be followed with cancellation of the original FX hedge[13]; or</td></tr>
</table>

[13] A LOB and/or AOO can inform the client in advance of this requirement to cancel the FX hedge in case of disposal of the underlying.

Forward Transactions			
No	**Non-Residents**	**Type of hedging**	**Minimum due diligence**
			(b) the forward contract can be maintained provided the LOB and/or AOO ascertains that the non-resident's total ringgit assets including ringgit funds in the external account are equal or exceeding the total amount of forward contracts of the non-resident. 4. Verify the registration status of a new custodian / trust / retrust bank client with BNM if FX transaction is undertaken via AOO (investorregister@bnm.gov.my). 5. Sighting of NDF attestation or exemption letter for custodian / trust / retrust banks.
C.	• Institutional Investors • Custodian / trust / retrust banks	Dynamic Hedging Framework	1. Verify the – (a) registration status of a new institutional investor client; or (b) approval status of a new custodian / trust / retrust bank client; with BNM prior to facilitating any trades (investorregister@bnm.gov.my). 2. Tag purpose portfolio investment and sub-purpose dynamic hedging in ROMS for the trade executed[14]. 3. LEI number of end investors must be reported in ROMS for every FX trade. 4. Reporting for custodian / trust / retrust bank who are registered on behalf of end clients, the financial institutions are required to report the entitled

[14] The end investor counterparty name selected in ROMS has to be correctly tagged/tied to the correct LEI number.

Forward Transactions			
No	**Non-Residents**	**Type of hedging**	**Minimum due diligence**
			custodian code (from investorregister@bnm.gov.my) in ROMS under description column. 5. No documentary requirement for the underlying. 6. FX contracts for ringgit assets may be undertaken on portfolio basis or backed with specific underlying.

Appendix C

Types of Documentary Evidence Required

The table below serves as a guide on the types of documentary evidence. A LOB and/or AOO can determine based on its own KYC principle on the type of documentary evidence that is sufficient to ensure compliance to FEP rules.

Current Account Transactions		
No	**Purpose**	**Examples of document or any evidence[15] to support the transaction (non-exhaustive)**
1.	Goods & services	Invoice, bill of lading, purchase order, delivery order, supply contract, service/tenancy/rental agreements, payment advice, pro-forma invoice, court order, air or sea waybill, insurance policy or certificate.
2.	Foreign worker remittance or remuneration for expatriates	Work permit, payslip or letter from company
3.	Repatriation of dividend, royalties or fees	Extract of Annual General Meeting minutes, board resolution, invoice/ agreement / payment advice
Financial Account Transactions		
No	**Purpose**	**Examples of document or any evidence[15] to support the transaction (non-exhaustive)**
1.	Purchase or sale of ringgit equities / bonds	Purchase/sale tickets, broker confirmation/statements or local custody confirmation/statements
2.	Placement of ringgit deposits with a financial institution in Malaysia only for spot transaction	Deposit brochure/term-sheet/prospectus or confirmation of the respective investment product
3.	Purchase or sale of property in Malaysia	Sales & Purchase Agreement or contract agreements
4.	Purchase, sale or margin call on ringgit futures	Purchase/sale tickets, broker confirmations/statements/ margin calls, local custody confirmation/statements

[15] In addition to BNM's approval, if applicable.

5.	Other ringgit-denominated financial instruments or Islamic financial instrument as approved by the relevant regulator	Deposit brochure/term-sheet/prospectus or confirmation of the respective investment product
6.	Lending to intercompany onshore	Documentation regarding intra-group payment or agreement, debit notes
7.	Direct investment into Malaysian entities	Sales & Purchase Agreement