MDD Guide for Notice 4

(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 the 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 the 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 the clients' awareness and compliance with FEP rules, including obtaining documentary evidence for the initial transactions 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 behaviour 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) should be read together with FEP Notice 4 - Payment and Receipt which is available in the website (www.bnm.gov.my/fep).

Specific Due Diligence Processes

Determining residency status of clients

6. A LOB is required to ascertain the residency status of clients during the on-boarding process[3] –

(a) the LOB shall use reasonable means such as obtaining a declaration and documentary evidence[4], guided by KYC principle and internal policy and procedures to accurately establish the residency status of its clients. Definitions of "resident" and "non-resident" should be made available for quick and easy reference by staff and clients.

the residency status of a client who is an individual shall be based on –

(i) nationality of the individual; and

(ii) for an individual with a Permanent Residency status, the determination shall be guided by existing tax ruling[5] in Malaysia.

the LOB is also advised to clearly communicate to clients the need to update the LOB if there is any material change to the client's residency status.

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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] For exempted non-residents where the exemption status is time-bound (e.g. employment permit), LOBs are expected to keep track of such limitations and keep their records up to-date.

[4] Documentary evidence may include national registration identification, business registration identification, passport, permanent residency documents, work permits.

[5] Kindly refer to Inland Revenue Board of Malaysia's website at http://www.hasil.gov.my for latest updates.

(b) the LOB shall clearly classify a ringgit account of a non-resident as an External Account.

(c) when facilitating the opening of a special purpose account such as an escrow account or omnibus account by a resident entity or individual maintaining an account on behalf of a resident or non-resident entity or individual, the LOB shall use reasonable means such as obtaining a declaration and/or documentary evidence, guided by KYC principle and internal policy and procedure to undertake the following:

(i) To determine the residency status of the account based on the beneficiary of the funds in the account;

(ii) To determine the purpose of such account especially on the ultimate usage of the funds in the account to ensure compliance with prevailing FEP rules;

(iii) To ensure segregation of funds belonging to resident and non-resident entities or individuals, where applicable;

(iv) To conduct periodic checks on sampling basis on the transaction involving the special purpose account, especially on the purpose of the funds; and

(v) In the event the LOB is not acting as the escrow agent, LOB must ensure that the intermediary acting as the escrow agent or trustee ensures the usage of the account shall comply with paragraph 6(c)(i) – (iii) and the prevailing FEP rules.

Facilitating ringgit payments involving External Account

Receiving Bank

7. A LOB, in facilitating any receipt of payment in ringgit from a resident to its non-resident client's External Account shall ensure that the receipt falls within the permitted purposes under FEP Notice 4. The verification process shall be based on the LOB's internal policy and procedures guided by KYC principle.

Remitting Bank

8. A LOB, in facilitating any payment in ringgit from its non-resident client's External Account shall ensure that the payment falls within the permitted purposes under FEP Notice 4. The verification process shall be based on the LOB's internal policy and procedures guided by the KYC principle.

Straight-through processing channel

9. A LOB, in facilitating payment or transfer of ringgit between resident and non-resident clients where transactions are processed under straight-through processing (STP) or via online channel[6], the LOB shall ensure the following:

   (a) Determine a threshold for facilitating low-value transactions based on each LOB's risk assessment and appetite;

   (b) Where applicable, to ensure that the system that is used to facilitate the transaction enables the client to declare the purpose of transaction and the residency status of the party involved in the transaction;

   (c) Where applicable, the system must be able to cross-validate the residency status and be able to flag any transaction that might breach FEP rules; and

   (d) Conduct periodic post-transaction sampling checks.

10. Notwithstanding paragraphs 7, 8 and 9, the verification process is exempted for –

    (a) payments, receipt or transfers up to RM10,000 per transaction as guided by the Direction to Financial Institution;

    (b) transfer between External Accounts of the same beneficiary account holder;

    (c) transaction to/from an exempted External Account holder[7]; and

    (d) any amount of cash withdrawal over the counter.

11. If LOB detects or assesses an attempt to circumvent the permitted sources and uses of funds in the External Account, the LOB shall notify the counterparty bank and report the case to BNM as guided by paragraph 4.

Facilitating settlement of exports in ringgit

12. Where the settlement for export is to be made by a non-resident financial institution (NRFI) on behalf of its non-resident clients in ringgit to a resident, any sale of foreign currency against ringgit shall only be taken on a straight-pass-through basis matched with a back-to-back arrangement with a LOB.

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[6] This would include but not limited to online platforms such as Internet banking channel, any cross-border Personal-to-Personal (P2P) transfer such PayNow-DuitNow platform, eWallet transfer, eRemittance transfer and others.

[7] A consulate, high commission or embassy, an individual who participates in the Malaysia My Second Home Programme and an individual who is working or studying in Malaysia including the individual's spouse, child or parent who is staying in Malaysia.

Facilitating foreign currency payments between Residents

13. For a resident client with foreign currency proceeds from export of goods or foreign currency receipt from a resident exporter and/or resident intermediary[8] within the Global Supply Chain (GSC)[9], the LOB shall ensure that the resident client has a Trade foreign currency account (FCA) to credit such foreign currency proceeds. Guidance on the permitted sources and uses of funds for Trade FCA and Investment FCA are as stipulated in Appendix C.

14. In facilitating transactions involving payment in foreign currency between residents, the LOB shall –
    (a) ensure that the payment falls within the permitted purposes under FEP Notice 4; and
    (b) ensure that the Receiving Bank can obtain the necessary information to ensure compliance with FEP rules and requirement in facilitating the transaction, such as the residency status of the remitter, source of funds (e.g. conversion of ringgit, Trade FCA, Investment FCA) and purpose of payment to the Receiving Bank.

15. For payment in foreign currency from resident exporter and / or resident intermediary to another resident within the GSC, the following have to be observed:

    Paying Bank

    (a) To obtain a one-off declaration[10] by the resident exporter and/or resident intermediary listing the residents within the GSC. The declaration is to be refreshed at such frequency in accordance with the operational risk framework of the Paying Bank;
    (b) To specify the code “GSC” in Field 72 or any visible field in the SWIFT message to the Receiving Bank;
    (c) Ensure that the payor and the payee are both Residents before specifying “GSC” in the SWIFT message;
    (d) Payment shall be made only from the available foreign currency funds in the resident exporter’s Trade FCA[11] or approved foreign currency trade facility. No conversion of ringgit into foreign currency is allowed for this payment, including payment sourced from a ringgit account;

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[8] Resident importers and resident vendors that have domestic transactions with the ultimate resident exporter within the Global Supply Chain.

[9] Global Supply Chain is defined as a business activity where resident importers purchase goods or services from overseas to support production and distribution of goods or services by a resident exporter for its export activities. This includes domestic trade transactions between the resident importer and the resident exporter undertaken through resident intermediate entity.

[10] In lieu of a declaration, a LOB may substantiate the global supply chain relationship via other supporting documents as guided by KYC principle and internal policy and procedures.

[11] Where the Resident payor does not currently maintain a Trade FCA, the Paying Bank shall ensure that the said exporter opens a Trade FCA for GSC transactions. Payment from Investment FCA shall require BNM’s approval.

(e) Where payment is sourced from foreign currency trade financing facility and upon detection of any inability to repay the maturing trade bill / facility using available foreign currency funds[12], the following actions are required:

(i) Immediately stop any further payment in foreign currency to other residents under the GSC flexibility;

(ii) Allow a one-off conversion[13] of ringgit into foreign currency to repay the maturing GSC-related trade bill / facility to avoid an event of default; and

(iii) Resume the GSC flexibility only upon being satisfied that circumvention or a repeat of the incident will not recur, subject to a specific cooling-off period guided by the LOB's internal due diligence policy and risk appetite;

(f) For payments within the same LOB, the GSC code shall be captured in a standardised field / manner to be determined by the LOB.

Receiving Bank

(a) Upon receiving SWIFT message from Paying Bank bearing the code GSC in the message whether in Field 72 or any visible field in the SWIFT message, Receiving Bank shall credit the foreign currency payment into the resident's Trade FCA[14].

(b) In the event the code GSC is not specified in SWIFT message whether in Field 72 or any visible field, the Receiving Bank reserves the right to do the following:

(i) To send an enquiry to the Paying Bank via SWIFT message (MT199) and proceed to process payment if the Paying Bank confirms the payment with the code "GSC" within five (5) working days or reject payment if the Paying Bank fails to respond within same period;

(ii) To convert the incoming funds into ringgit upon agreement by the payee customer; or

(iii) To process the payment if the Paying Bank[15] or Receiving Bank is able to verify the eligibility of the transaction premised

[12] Conversion of ringgit into foreign currency to repay maturing GSC-related trade bill / facility is strictly prohibited, irrespective of the availability of investment limit.

[13] At the discretion of the LOB, however only the **first instance** can be permitted. For subsequent transactions, the client and LOB must exercise due care to ensure compliance at all times and such incident should not recur.

[14] Where the Resident payee does not currently maintain a Trade FCA, the Receiving Bank shall ensure that the said payee opens a Trade FCA for GSC transactions. Payment of GSC transactions into Investment FCA shall require BNM's approval.

[15] Communication via any other means is acceptable and shall be mutually agreed by both the Paying Bank and Receiving Bank. Evidence must be clearly recorded / documented.

on sufficient evidence or information provided by its customer or any other independent reliable source.

(c) To undertake due diligence via periodic testing and sampling, to ascertain the resident payee is using the foreign currency to pay its foreign currency obligations under the GSC.

16. For facilitating payment or transfer of foreign currency between residents where transactions are processed under STP or via online channel[16], LOB shall ensure the following:

(a) To determine a threshold for facilitating low-value transactions based on each LOB's risk assessment and appetite;

(b) Where applicable, to ensure that the system that is used to facilitate the transaction is able to provide option for the customers to declare the purpose of payment and the residency of the party involved in the transaction;

(c) Where applicable, the system must be able to cross-validate the residency status and be able to flag any transaction that might breach FEP rules; and

(d) To conduct periodic sampling checks post transactions.

17. A LOB, in facilitating the transfer of foreign currency to own account, shall undertake the following –

Paying Bank

(a) obtain declaration from the resident clients and check its internal record to determine the DRB status of the resident clients and their investment limit for the current year;

(b) indicate the following information in Field 72 or any visible field of the SWIFT message for the purpose of identifying the DRB status and source of fund:

(i) DRB-TFCA (indicating client with DRB and funds are from Trade FCA);

(ii) DRB-FCB/F (indicating client with DRB and proceeds from foreign currency borrowing / financing from LOB for purposes other than DIA); and

(iii) NDRB (indicating client does not have DRB).

Receiving Bank

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[16] This would include but not limited to online platform such as Internet banking channel, any cross-border Personal-to-Personal (P2P) transfer such PayNow-DuitNow platform, eWallet transfer, eRemittance transfer and others.

(a) identify the information in Field 72 or any visible field of the SWIFT message from the Paying Bank. In the event the code is not specified, the Receiving Bank reserves the right to send enquiry via SWIFT message (MT199) to the Paying Bank for the confirmation within five (5) working days, or may reject the transfer if the Paying Bank fails to respond within same period.

(b) obtain declaration from the resident clients and check its internal record to determine the DRB status of the resident clients and their investment limit for the current year.

Facilitating transactions involving Specified Persons

18. A LOB shall establish sufficient controls to –

(a) detect direct payments to or from a Specified Person[17] or in the Restricted Currency. This would include sufficient controls to detect direct payments made via payment cards such as credit card or debit card, and online channel. Nevertheless, considering that certain dealings with Specified Person may not be direct, LOB may institute controls on best-effort basis for such dealings, including transactions made through a third-party channel or platform;

(b) ensure that payments cannot be made for purchase of assets including shares or stocks of an entity which is a Specified Person that is listed on international stock exchanges on a best-effort basis; and

(c) ensure that necessary approval is secured prior to facilitating such transactions.

19. Where payment to, or receipt from a Specified Person is arising from international trade in goods or services and has been approved by the Director General of Customs and Excise via Ministry of International Trade and Industry (MITI) or any other relevant regulatory authority exercising statutory power in Malaysia, the LOB shall facilitate such payment without the need to sight additional BNM's approval.

[17] For clarity on the facilitating role of financial institutions, transactions facilitated via a financial institution which is a Specified Person and domiciled in the restricted country, i.e. Israel, remains prohibited. However, transactions facilitated via a financial institution related to a Specified Person which is not domiciled in the restricted country (e.g. a financial institution owned by an Israeli incorporated entity but domiciled in the USA) may be permitted on the basis of honouring international trade obligations. LOBs shall continue to remain vigilant on any transactions made to or from a Specified Person (including a direct subsidiary or branch of an Israeli incorporated entity) electronically, via online portals or via any payment card, system or infrastructure as this continues to be prohibited.

20. Upon detecting any non-compliance with section 216 of the FSA or section 272 of the IFSA by any person LOB shall refer to paragraph 4 on the reporting of non-compliance.

Facilitating payments in foreign currency involving derivatives

21. A LOB is to be guided by Appendix B when facilitating payments in foreign currency involving derivatives.
22. LOBs shall continue to remain vigilant on their clients making cross-border payments for speculation in FX instruments including FX derivatives.

Payment under guarantee

23. Remitting LOB shall ensure that payment under a financial guarantee called-upon by the foreign lender is only made pursuant to an event of default under the legal agreement or as required under the relevant laws. Any voluntary liquidation of financial guarantee for repayment or early settlement of loan prior to the lender exercising its legal rights shall be subjected to the prevailing limits on investment in foreign currency assets and/or BNM's approval where applicable.
24. Whilst the denomination of financial guarantees may be quoted based on the currency of the underlying borrowing, payments or consequential debt repayments arising from financial guarantees to –
    (a) a non-resident lender or guarantor shall only be made in foreign currency unless the underlying borrowing in ringgit is permitted;
    (b) a non-bank resident guarantor from another resident shall only be made in ringgit except where the non-bank resident guarantor is an immediate family member or an entity within the borrower's Group or the borrower's Direct Shareholder; and
    (c) a lender or guarantor which is a LOB may be made in foreign currency or in ringgit.
25. Payments arising from non-financial guarantees involving non-residents shall only be made in foreign currency except for ringgit non-financial guarantees for use in Malaysia.

Due diligence processes for clients with special dispensations or approvals

21. For clients with special dispensations or approvals, a LOB is recommended to first sight the approval letter from the applicable authorities (e.g. BNM, MITI, Customs). In the event where the clients are not willing to provide the approval letter, LOBs may –

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

(b) refer to BNM for verification (as a last resort). LOB may also verify approval via the FEP Portal using the specific approval ID and verification code that can be obtained from the client.

Situation where clients are uncooperative in meeting the due diligence processes

22. A LOB may reject any transaction by a client if there is reasonable doubt of its compliance with FEP rules.

Appendix A

Types of documentary evidence required

The table below serves as a non-exhaustive guide on the type of documentary evidence that can be obtained. A LOB can determine the type of documentary evidence based on its internal KYC standards and risk appetite that is sufficient to ensure compliance with FEP rules.

No	Purpose	Examples of documents to support transaction (non-exhaustive)
1.	Between immediate family (parents, spouse, children and siblings only)	Marriage certificate, birth certificate, identity cards, passports
2.	Education overseas	**For sponsoring entity**: Letter of award / scholarship / sponsorship, letter of offer by overseas school / college / university for sponsored student, invoice for tuition / accommodation / other fees **For individuals**: Letter of offer by overseas school / college / university for student, valid student card / pass / ID, invoice for tuition / accommodation / other fees, letter indicating estimated fees and / or living expenses for an academic year
3.	Employment overseas	Letter of offer from employer, letter from employer confirming employee identity and status of employment, work permit, payslip
4.	Loan repayment	Letter of offer or loan agreement, loan repayment schedule, promissory note
5.	Goods and services	Invoice, bill of lading, purchase order, delivery order, supply contract, service / tenancy / rental agreement, payment advice

No	Purpose	Examples of documents to support transaction (non-exhaustive)
6.	Ringgit asset, including any income and profit due	Sale and purchase agreement, receipt for purchase or sale, tenancy / rental agreement, dividend payment notice
7.	Payment of any security or financial instrument (conventional and Islamic), payment of commodity murabahah transaction through resident commodity trading service provider, payment of derivative with a resident futures broker	Letter of account opening, contract notes with due dates, resident broker invoices to the buyer / customer
8.	Payment under a financial guarantee	Borrowing contract of which financial guarantee is pledge against, letter or documentation to show that the lender is exercising called upon in the event of default (called-upon notification letter)
9	Cash Pooling Payments/ Cash Surplus/ Cash Advance	Board Resolution / Minutes, Cash pooling Agreement / Inter-company Loan Agreement, Cash Surplus transfer instruction letter signed by authorized signatory.

Appendix B

Payment in foreign currency for derivatives

No.	Type of derivatives payment (Scenario)	Payment parties	
		Between R and R	**Between R and NR**
Exchange Rate (FX) Derivative			
1.	Exchange Rate Derivative involving Ringgit offered by Resident	✗ (unless approved by BNM under Part B of FEP Notice 5 or otherwise approved in writing by BNM)	✗ (unless approved by BNM under Part B of FEP Notice 5 or otherwise approved in writing by BNM)
2.	Exchange Rate Derivative offered by a Non Resident	N/A	✗ (unless approved by BNM under FEP Notice 1 or otherwise approved in writing by BNM)
Foreign Currency-denominated Derivative (Other than Exchange Rate Derivatives)			
1.	Foreign Currency-denominated derivative (**excluding** Exchange Rate Derivatives) transacted on a Specified Exchange under the CMSA	✓ between a Resident and a Resident futures broker	✓ between a Non-resident and a Resident futures broker
2.	Foreign Currency-denominated derivative (**excluding** Exchange Rate Derivatives) offered by a Non-Resident and or transacted via Non Resident brokers (e.g. commodity derivatives)	N/A	✓ (**With firm commitment**: up to underlying; **Without firm commitment**: up to investment limit in FEP Notice 3)
3.	Foreign Currency-denominated derivative (**excluding** Exchange Rate Derivatives) offered by a Resident	✗ (unless approved by BNM under Part B of FEP Notice 5 or otherwise approved in writing by BNM)	✗ (unless approved by BNM under Part B of FEP Notice 5 or otherwise approved in writing by BNM)

No.	Type of derivatives payment (Scenario)	Payment parties	
		Between R and R	Between R and NR
Others			
1.	Derivative which is referenced to Ringgit but payment is in Foreign Currency (e.g. synthetic products referenced to Ringgit such as Ringgit Non-Deliverable Forward)	N/A	✕ (unless approved by BNM under Part B of FEP Notice 5 or otherwise approved in writing by BNM)

Appendix C

Guidance on sources and uses of funds of Trade FCA and Investment FCA for Residents

<table>
<tr><th></th><th>Trade FCA</th><th>Investment FCA</th></tr>
<tr><td>Permissible Sources</td><td>1. Proceeds of the export of goods.
2. Settlement of domestic trade from another Resident within the global supply chain as permitted under FEP Notice 4.
3. Any amount for same-party transfers from Trade or Investment FCA.
4. Other Foreign Currency funds arising from transaction permitted under the FEP Notices.</td><td>1. 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 FEP Notice 4.
2. Transfers from Trade FCA up to the approved aggregated investment limit in FEP Notice 3.
3. Any amount for same-party transfers from Investment FCA.
4. Proceeds from export of services and merchanting trade.</td></tr>
<tr><td>Permissible Uses</td><td>1. Settlement of domestic trade from another Resident within the global supply chain as permitted under FEP Notice 4.
2. All permissible purposes in the FEP Notice including investment in Foreign Currency Asset and transfers to Investment FCA up to the approved aggregated investment limit in FEP Notice 3.
3. Any amount for same-party transfers into Trade FCA.</td><td>1. Any amount for same-party transfers into Trade or Investment FCA.
2. All permissible purposes.</td></tr>
</table>

Disclaimer –
The above guidance summary is non-exhaustive. Please be guided by the relevant FEP Notices.