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Malaysia News:

Supplementary Notice No 4 – Enhancement of Foreign Exchange Administration Policies

September 2018

Supplementary Notice No 4 – Enhancement of Foreign Exchange Administration Policies

On 17 August 2018, the Bank Negara Malaysia (hereinafter referred to as the "BNM") announced changes to the Foreign Exchange Administration (hereinafter referred to as the "FEA") rules regarding the management of export proceeds, details of which can be found in the Supplementary Notice No.4[1].

The changes which are effective from 21 August 2018 are aimed at facilitating operational efficiencies and risk management for businesses and financial institutions.

The policies apply to resident exporters (either companies or persons) which/who fulfil the two following requirements:

1. They are receiving foreign currency from export transactions, and

2. They are incurring foreign currency obligations towards a third party.

   The second requirement concerns the following transactions provided they are payable within 6 months:

   - Foreign currency import obligations;
   - Loan repayment obligations;
   - Any other international transactions involving foreign currency.

(hereinafter referred to as "6 months foreign currency obligation").

Before August 2018

Before the recent amendments, the 25% retention principle was the rule for export transactions.

According to this principle, exporters were allowed to keep their foreign currency proceeds for as long as they had foreign currency obligations towards third parties in the same amount which are due within the next six months. The maximum amount of foreign currency proceeds that could be retained was capped at 25% of the amount of such proceeds.

The remaining 75% had to be converted into Ringgit and could then be reconverted into foreign currency if the foreign currency funds retained were insufficient to meet the exporter's 6 months foreign currency obligation.

For example, a resident exporter who received EUR 10,000,000 from the export of goods could retain up to 25% of such amounts in foreign currency (EUR 2,500,000). The remaining EUR 7,500,000 had to be converted into Ringgit. If necessary to meet the exporter's foreign currency obligations, it was possible to reconvert the amount into foreign currency.

After August 2018

Resident exporters are now allowed to retain an amount of their foreign currency export proceeds in their Trade FCA which is equal to the amount payable under their respective 6 months foreign currency obligation. The previous cap of 25% of the proceeds has been removed. If the amount of foreign currency proceeds exceeds the 6 months foreign currency obligation, then such amount still needs to be converted into Riggit like under the "old" retention principle.

For example, a resident exporter receives EUR 3,000,000 for a sale of goods and owes his own supplier a sum of EUR 5,000,000. If the payment to the latter has to be made within 6 months, the seller may retain 100% of the export proceeds in foreign currency, for easy management. In respect of the balance exceeding the 6 months foreign currency obligation, the 25% retention principle outlined above applies again.

Your Contact

E-Mail: malaysia@luther-services.com

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[1] http://www.bnm.gov.my/documents/2017/supplementary_notice/supplementary_notice_no4.pdf

Imprint
Luther Rechtsanwaltsgesellschaft mbH, Anna-Schneider-Steig 22, 50678 Cologne, Phone +49 221 9937 0, Fax +49 221 9937 110, contact@luther-lawfirm.com
Editor: Pascal Brinkmann, LL.M. (Stellenbosch), Managing Director, Unit 17-2, Level 17, Wisma UOA II, No. 21, Jalan Pinang, Phone: +60 (0)3-21660085, pascal.brinkmann@luther-services.com

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Delhi-Gurugram, Kuala Lumpur, Shanghai, Singapore, Yangon

Luther Corporate Services Sdn Bhd (872040W) | Unit 17-2, Level 17 | Wisma UOA II | No. 21, Jalan Pinang | 50450 Kuala Lumpur | Malaysia Phone +60 3 2166 0085 | Fax +60 3 2166 0087

Your contact:
Pascal Brinkmann, pascal.brinkmann@luther-services.com

Further contacts can be found on our website www.luther-services.com.

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