MDD Guide for Notice 2

(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 2 – Borrowing, Lending and Guarantee which is available in the website (www.bnm.gov.my/fep).

Specific Due Diligence Processes

Borrowing[3]

A. LOB as a lender

Lending in ringgit to non-resident

6. A LOB, in providing ringgit financing to a non-resident, shall ensure that the borrowing –

(a) Complies with the permitted purposes -

(i) For borrowing to finance activities in real sector in Malaysia, the LOB shall obtain a declaration from the client on the purpose of utilisation if the LOB is unable to verify the activities or the loan disbursement is made directly to the client (e.g. personal loan); and

(ii) For borrowing in the form of repurchase agreement or sale buyback agreement (REPO), the LOB shall obtain a declaration from the client that its total borrowing from REPO is within the permissible limit.

(b) is not used for speculation on ringgit. Upon conducting due diligence, if the LOB has reason to believe or suspect that the ringgit proceeds will be used for such speculation, the LOB must insist on documentary proof on the utilisation of the ringgit proceeds prior to disbursement and

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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 the purpose of computation of outstanding borrowings, please refer to Appendix A on the illustration of parent-subsidiary relationship.

the LOB may choose NOT to provide the financing to the non-resident as long as the LOB remains unsatisfied;

(c) that is extended to a non-resident financial institution (NRFI) is only for permitted purposes; and

(d) in the form of ringgit overdraft facility to non-residents to avoid failure in settlement of shares or ringgit instrument traded on Bursa Malaysia or through RENTAS due to inadvertent delay of payment by the non-resident satisfies the following requirements –

(i) The LOB shall obtain documentary proof of pre-advised funds from the non-resident before extending the overdrafts in the event of inadvertent delay; and

(ii) The LOB shall take steps to ascertain if requests for such overdrafts by the non-resident are unusually frequent. In such event, the LOB shall cease the offering of such facility to the non-resident if the LOB has reasons to believe that the facility is being abused.

Lending in foreign currency to residents

7. A LOB, in providing foreign currency financing to a resident individual, sole proprietor or general partnership, shall obtain a declaration from the client that its total outstanding borrowing from any LOB or a non-resident is within the permissible limit.

8. A LOB is required to check internally on existing foreign currency financing granted to the client to ensure that the additional foreign currency financing does not exceed the permissible limit.

9. A LOB, in providing foreign currency financing to a resident entity to finance investment in foreign currency assets, shall obtain a declaration from the client on purpose of the borrowing to determine the applicability of threshold of such activities as follows:

(a) Borrowing in foreign currency for direct investment abroad is freely allowed. However, in the event the LOB becomes aware of a client undertaking direct investment abroad with the ultimate purpose of reinvestment[4] that does not fall under direct investment abroad, the LOB must obtain and sight BNM's approval for such investment as per MDD Guide for Notice 3 (MDD3); and

(b) Borrowing in foreign currency for other types of investment in foreign currency assets shall be subject to the requirements under MDD3.

[4] Such reinvestment includes placement of deposit, investment in real estate, portfolio investment and other investments not deemed to be direct investment abroad.

B. LOB as a facilitating agent for a lending

Facilitating lending in ringgit to a non-resident (excluding NRFI)

Paying Bank

10. A LOB, in facilitating lending in ringgit by its resident client to a non-resident borrower (excluding NRFI), shall obtain a declaration[5] from its client that the loan granted complies with FEP Notice 2 and the proceeds will be used for permitted purposes only in accordance with FEP Notice 2.

Receiving Bank

11. A LOB in facilitating a receipt of ringgit borrowing (exceeding RM10,000 per transaction) by its non-resident client (excluding NRFI) via an External Account, the LOB shall conduct due diligence to determine that the receipt of ringgit borrowing is obtained in accordance with FEP Notice 2. The Receiving Bank shall –

    (a) verify the purpose of the incoming funds and ascertain that the loan proceeds shall be utilised for the permitted purposes in accordance with the requirements of an External Account by either obtaining documentary evidence or declaration from its non-resident client;

    (b) determine sender's residency status using available information (e.g. RENTAS, public searches, internal checks if it is a regular client, declaration from the client); and

    (c) verify the relationship between the sender and the client if the loan is extended by an immediate family member or employer in Malaysia. The LOB may request for supporting documents (e.g. birth certificate, marriage certificate, employment contract, etc.) **or** rely on any available information (e.g. RENTAS, public searches, internal checks if it is a common client, declaration from the client, etc.).

    The Receiving Bank may perform such due diligence process either pre- or post-transaction and on a transactional or on sampling basis, guided by the KYC principle and Direction to Financial Institution. Post-transaction due diligence is only applicable for a straight-through-processing (STP) transaction[6].

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[5] The declaration may include information such as the residency status of the beneficiary / recipient and relationship between LOB's client and beneficiary / recipient to enable the LOB to advise the client accordingly.

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

Lending in foreign currency by a resident to a non-resident

12. A LOB, in facilitating lending in foreign currency by a non-bank resident to a non-resident, shall ensure requirements under FEP Notice 2, FEP Notice 3 and MDD3 as well as Direction to Financial Institution are observed.

C. LOB as a facilitating agent of a borrowing

Facilitating borrowing in ringgit by a resident from a non-resident

13. A LOB, in facilitating borrowing in ringgit (exceeding RM10,000 per transaction) by a resident individual from a non-resident lender, shall –

Paying Bank

(a) obtain a declaration from its non-resident client (lender) to establish the relationship between the client and the resident borrower where such borrowing is allowed if –
   (i) The client and resident borrower are immediate family members;
   (ii) The client is the resident borrower's employer in Malaysia and the borrowing is obtained in accordance with the terms and conditions of the employment contract/service and the proceeds will be used in Malaysia; or
   (iii) The lender is not an NRFI.

(b) obtain documentary evidence (e.g. loan agreement) or sight BNM's approval letter, if applicable, to validate that the lending by its non-resident client is in accordance with FEP Notice 2[7].

Receiving bank

(c) obtain a declaration from its resident client to assess the receipt of the fund to ensure that –
   (i) The total outstanding borrowing by the client from non-resident in aggregate does not exceed the permissible limit and the proceeds will be used for permitted purposes only in accordance with FEP Notice 2; and
   (ii) the lender is not an NRFI.

[7] If the total amount of borrowing based on contract or agreement exceeded the permissible limit, the resident borrower requires BNM's prior approval.

14. A LOB, in facilitating borrowing in ringgit (exceeding RM10,000 per transaction) by a resident entity from a non-resident lender, shall –

Paying Bank

(a) obtain a declaration from its non-resident client (lender) to ensure that –
   (i) the lender is not an NRFI[8],
   (ii) the lender is not a non-resident Special Purpose Vehicle (SPV) which is used to obtain borrowing from any person outside the resident entity's Group; and
   (iii) the borrowing will be utilised for permitted purposes only;

(b) obtain documentary evidence (e.g. loan agreement) or sight BNM's approval letter, if applicable, to validate that the lending by its non-resident client is in accordance with FEP Notice 2[7].

Receiving Bank

(c) Obtain a declaration from its resident client to assess the receipt of the fund to ensure that –
   (i) The outstanding ringgit borrowing of the client from non-resident in aggregate does not exceed the permissible limit and the proceeds will be used for permitted purposes only in accordance with FEP Notice 2; and
   (ii) The lender is not an NRFI[8].

Borrowing in foreign currency by a resident from a non-resident

Receiving Bank

15. A LOB, in facilitating borrowing in foreign currency by a non-bank resident from a non-resident lender, the Receiving Bank shall –

(a) obtain a declaration from the resident client (borrower) on –
   (i) the relationship between the client and the non-resident lender; and
   (ii) the outstanding borrowing in foreign currency of the client from any non-resident other than from its group of entities which is not an NRFI or a SPV. The outstanding borrowing is computed based on group of entities with parent-subsidiary relationship (including borrowing by the group's SPV guaranteed or counter-

[8] For the avoidance of doubt, this declaration is not required when the ringgit borrowing is via tradable ringgit bond or sukuk issued in line with the Securities Commission of Malaysia's guideline, or when the lender is a Multilateral Development Bank (MDB) or Qualified Development Finance Institution (QDFI). Kindly refer to the Preamble & Definition document for the definition of MDB and QDFI.

guaranteed by the resident). Refer to the **Appendix A** for illustrations on parent-subsidiary relationship; and

(b) obtain documentary evidence (e.g. loan agreement) or sight BNM's approval letter, if applicable, to validate that the borrowing by its resident client is in accordance with FEP Notice 2[6].

Borrowing in foreign currency by a non-bank resident entity from another non-bank resident within the same group of entities or its resident direct shareholder

16. A LOB, in facilitating borrowing in foreign currency by a non-bank resident entity from another non-bank resident (within the same group of entities or its resident direct shareholder) into the resident clients' own FCA shall undertake the following –

Paying Bank

(a) obtain either a declaration from the resident client or supporting document to ascertain the relationship between the lender (remitter) and borrower (beneficiary); and

(b) indicate the following information in Field 72[9] or any visible field of the SWIFT message for the purpose of identifying the purpose of transfer and the source of fund of the lender –

(i) Loan-TFCA (indicating lending from resident lender's Trade FCA);
(ii) Loan-IFCA (indicating lending from resident lender's Investment FCA);
(iii) Loan-RM (indication lending from resident lender's ringgit account converted into foreign currency).

Receiving Bank

(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 reserve 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) verify the relationship between the lender (remitter) and the borrower (beneficiary);

(c) if the borrowing proceeds are to be credited into an Investment FCA, 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 to ensure that the

[9] Or its equivalent as per ISO 20022 upon migration.

resident clients (borrower) comply with rules on investment in foreign currency assets pursuant to FEP Notice 3;

(d) where applicable, to sight BNM's approval before crediting the funds into the resident client's Investment FCA; or

(e) reject the transaction if Receiving Bank has reasonable doubt of resident client's compliance with FEP rules.

17. For loan repayment to be credited into an Investment FCA, the Receiving Bank shall –

(a) obtain confirmation from the resident client that the original borrowing was sourced from an Investment FCA; or

(b) reject the transaction if Receiving Bank is unable to ascertain the source of funds[10] of the original borrowing, including if the source of funds was not from an Investment FCA.

Guarantees

18. For the issuances of financial guarantees, a LOB is expected to advise the non-bank resident guarantors to seek BNM's approval if –

(a) the non-resident borrower falls under the status of a SPV as per the FEP Notices; or

(b) where implicit support arrangements (such as financial guarantee) are assessed as a repayment factor in the credit decision process, evidencing insufficient earning capacity on the part of the non-resident borrower to repay its own borrowings; or

(c) The underlying borrowing will be repaid by non-bank resident guarantor(s), other than when financial guarantee is being called upon.

19. Any payment arising from financial guarantees shall be guided by MDD Guide for Notice 4 (MDD4).

Due Diligence Processes for Clients with Special Dispensations or Approvals

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

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

[10] Refer to Appendix B for the Illustration of permitted source and receipt of fund for a resident entity borrowing in foreign currency from a resident entity within the same group or its resident direct shareholder

(b) where applicable, obtain the approval ID and verification code issued with the BNM's approval letter from the client to conduct validation of BNM's approval via the FEP Portal [11]; or

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

Situation Where Clients are Uncooperative in Meeting the Due Diligence Processes

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

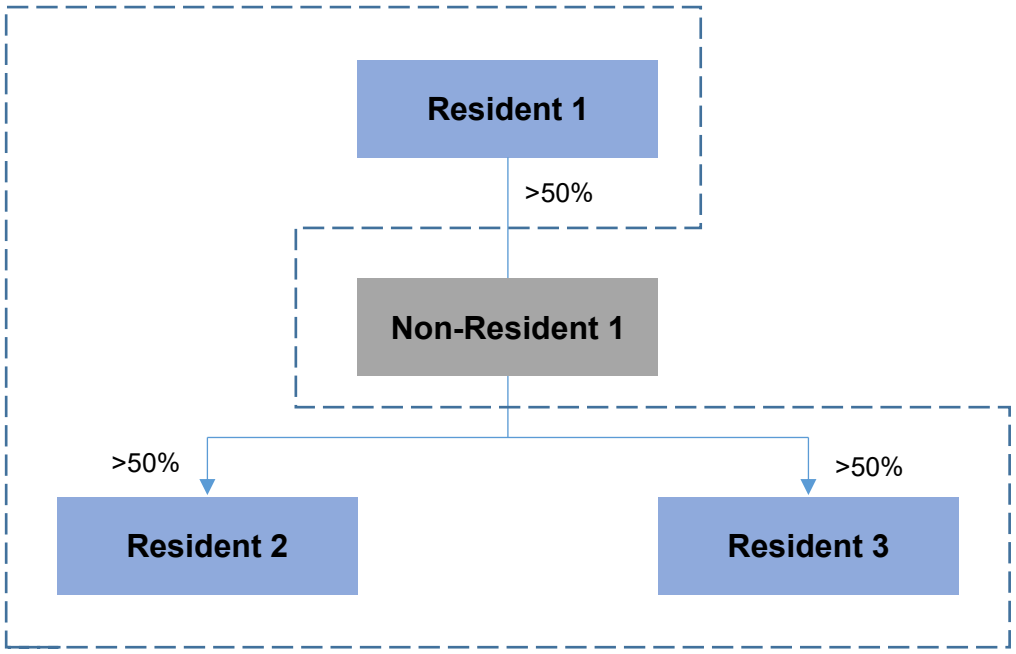
[11] Only applicable to approvals granted after FEP Portal was implemented in November 2022.

Appendix A

Illustration of Parent-Subsidiary Relationship

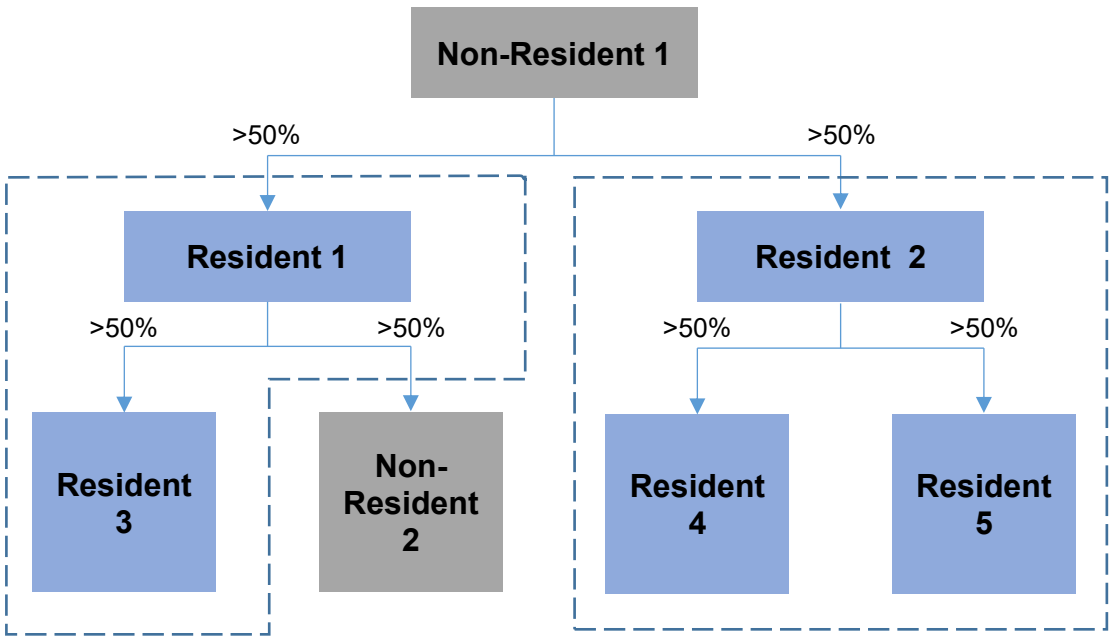
For borrowings that are subjected to threshold, it is computed based on the outstanding borrowing of all resident entities within the same group of entities with parent-subsidiary relationship.

Scenario 1 – If ultimate parent is resident



Group 1

Scenario 2 – If ultimate parent is non-resident where resident entities are sister companies with common shareholder



Group 1

Group 2

Appendix B

Source and receipt of funds for a resident entity borrowing in foreign currency from another resident entity within the same group or its resident direct shareholder

1) **Source and receipt for the foreign currency borrowing may be undertaken as follows –**

Source (lender's account)	**Receipt (borrower's account)**	**Limit**
Investment FCA	Trade FCA	No limit
	Ringgit Account	
	Investment FCA	
Trade FCA or ringgit account	Trade FCA	
	Ringgit Account	
	Investment FCA	Up to the borrower's investment in foreign currency asset limit

2) **Source and receipt for repayment of the foreign currency borrowing may be undertaken as follows:**

Source (borrower's account)	**Receipt (lender's account)**	**Limit**
Investment FCA Trade FCA or Ringgit Account	Trade FCA	No limit
	Ringgit Account	
	Investment FCA	Allowed, subject to documentary proof that the original borrowing was sourced from Investment FCA