BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Dynamic Hedging Programme for Institutional Investors

The dynamic hedging programme was first introduced in December 2016 as part of the Bank's initiative to provide market access for institutional investors to actively manage their FX exposures of their invested assets. As at end of Q1 2019, total assets under this programme amounts to USD30.8 billion under the management of 71 non-residents and 17 resident investors. The vibrant onshore FX market now records a robust daily average volume of USD12.2 billion, of which the FX forward and swap market account for almost half the volume. Since the introduction of the programme, the FX forward market has also recorded a two-fold increase in volume.

What is dynamic hedging programme?

- The flexibility to actively manage FX risk exposure via forward hedging activities with onshore banks or Appointed Overseas Office (AOO) without the need to show documentation.
- A non-resident institutional investor registered with the Bank is allowed to:
  - i. Enter into forward contracts to sell ringgit up to 100% of invested underlying ringgit asset;
  - ii. Enter into forward contracts to buy additional ringgit up to 25% of invested underlying ringgit asset; or
  - iii. Unwind the forward contracts described in (i) and (ii) above.
- A resident institutional investor registered with the Bank is allowed to:
  - i. Enter into forward contracts to buy ringgit up to 100% of its invested underlying foreign currency asset; or
  - ii. Unwind the forward contracts as described in (i) above

How is it different from passive hedge?

- Without the participation in the programme, investors can only undertake passive hedging whereby documentation is required.
- Under passive hedging, investors can buy FX forward up to 100% of underlying but is unable to freely unwind its position if underlying still exists.

FX Forward	Passive hedge	Dynamic hedge
Buy USD/Sell MYR forward	Up to 100% of underlying asset	Up to 100% of underlying asset
Sell USD/Buy MYR forward		Up to 25% of underlying asset
Unwinding of hedge	Not allowed if underlying still exists	Allowed
Documentation of underlying asset	Required	Not required

** Resident investors can only sell USD/Buy MYR forward up to 100% of underlying asset*

Can investors settle the forward contracts on a net basis in USD?

- Yes. Settlement of forward transactions can be on either gross or net basis

What hedging instruments are permissible?

- Buying or selling of FX/MYR forward

What underlying assets are eligible?

- For non-resident institutional investors:
  - i. Investment in ringgit-denominated debt securities on Real-time Electronic Transfer of Funds and Securities System (RENTAS);
  - ii. Investment in ringgit-denominated equity securities on Bursa Malaysia; or
  - iii. Temporary placement in ringgit deposits or deposit-like securities offered by licensed onshore banks using ringgit proceeds arising from the selling of existing ringgit-denominated securities as defined subparagraphs (i) and (ii) above pending reinvestment of such ringgit proceeds
- For resident institutional investors:
  - i. Investment in foreign currency-denominated debt securities;
  - ii. Investment in foreign currency-denominated equity securities; or
  - iii. Temporary placement in foreign currency deposits or deposit-like securities offered by licensed onshore banks using foreign currency proceeds arising from the selling of existing foreign currency-denominated securities as defined in subparagraphs (i) and (ii) above pending reinvestment of such foreign currency proceeds

How to register?

- Institutional investors* can register under the dynamic hedging programme with Bank Negara Malaysia.
- The registration for dynamic hedging is to be undertaken at firm level or fund level.
- BNM shall notify the institutional investor in writing within 2 – 3 working days upon acceptance of the registration and receipt of complete documentation.
- The forward market participation form can be found at the following link:
  Institutional investors forward market participation form

**excludes banks and securities companies*

Can investors apply for additional flexibility?

- Registered institutional investors may apply to Bank Negara Malaysia to undertake dynamic hedging beyond the existing 25% threshold, justifying their need for additional position.
- Applications may be submitted via email to investorregister@bnm.gov.my

Can trust banks or global custodians participate?

- Trust banks and global custodians may also submit their application to undertake dynamic hedging on behalf of clients to Bank Negara Malaysia.
- Upon approval, all trades must be conducted on a gross basis on behalf of clients with a licensed onshore bank or an appointed overseas office.
- Trust banks and custodian banks can find the application form at the following link: *Trust banks and custodian banks forward market participation form*

Who can investors approach to enter into dynamic hedging?

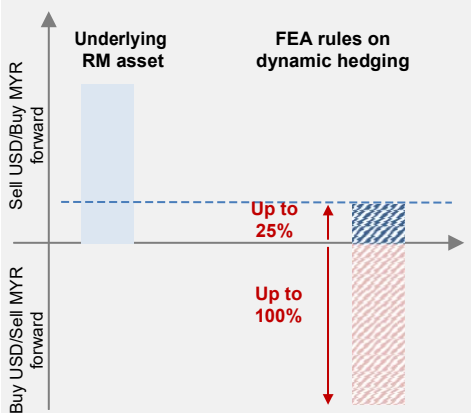
- Institutional investors can approach licensed onshore banks or an appointed overseas office*.
- The list of appointed overseas offices can be found at the following link:
  Financial institutions under the Appointed Overseas Office framework

** For non-resident investors only*

For further information

- Further details on Foreign Exchange Administration (FEA) rules can be found at the following link:
  https://www.bnm.gov.my/fep
- You may also contact us at sou@bnm.gov.my

Illustration of dynamic hedging programme for NR investors



Note: Resident investors can only sell USD/Buy MYR forward up to 100% of underlying asset

Updated as at 16 May 2019