

## **Information Note on Issuance of Ringgit-denominated Bonds In Malaysia by Multilateral Development Banks or Multilateral Financial Institutions**

As part of Malaysia's on-going efforts to enhance the development of the Malaysian capital market, in particular the domestic bond market, effective 1 April 2004, Bank Negara Malaysia liberalised its foreign exchange administration rules to facilitate Multilateral Development Banks (MDBs) or Multilateral Financial Institutions (MFIs) to raise ringgit-denominated bonds in the Malaysian capital market. Similarly, the Securities Commission has on 28 July 2004 released Practice Note 2 setting out various relaxations with regard to the application of the Guidelines on the Offering of Private Debt Securities (PDS Guidelines) for the issuance of ringgit-denominated bonds in Malaysia by MDBs or MFIs.

**This information note serves as a guide on the requirements that are applicable for the issuance of ringgit-denominated bonds in Malaysia by MDBs or MFIs and shall be read together with the Securities Commission's PDS Guidelines and Practice Note 2 issued in July 2004.**

### **1. Submission of Application**

All applications that relate to the issuance of ringgit-denominated bonds by MDBs or MFIs should be submitted concurrently to the Ministry of Finance, Bank Negara Malaysia and the Securities Commission.

The submission can be made via advisers such as merchant banks, commercial banks, universal brokers or discount houses or directly by the MDBs or MFIs. The application should include, among others, the information outlined in Appendix A.

Securities Commission would deem the application as approved on the date of receipt of a complete submission pursuant to the relevant requirements in the PDS Guidelines and Practice Note 2.

### **2. Registration of issue**

All ringgit-denominated bonds issued by MDBs or MFIs must be scripless and be registered with the Bonds Information Dissemination System (BIDS) currently operated by Bank Negara Malaysia.

### **3. Settlement and Custodianship of Bonds**

The settlement of the ringgit-denominated bonds will be effected through the Real-time Electronic Transfer of Funds and Securities System (RENTAS).

Bank Negara Malaysia is the central depository of these ringgit-denominated bonds while Authorised Depository Institutions, namely the licensed onshore financial institutions and universal brokers in Malaysia are sub-depositories.

The ringgit-denominated bond issuers are required to appoint an adviser or lead arranger who is a RENTAS member to facilitate the process of depositing the bonds in RENTAS, including the execution of the Depository and Paying Agency Agreement (DPAA).

#### **4. Issuance specifications**

##### **(a) Size of issue**

The size of the bond to be issued by the MDBs or MFIs should be large enough to contribute to the development of the domestic bond market.

##### **(b) Tenure**

To help promote the issuance of longer dated ringgit-denominated bonds, the minimum tenure of the bonds should be 3 years. Where applicable, call or put options embedded with bonds that have maturities longer than 3 years should only be exercisable after the third year.

#### **5. Credit Rating**

International credit ratings are acceptable for the bond issue.

#### **6. Use of Proceeds Raised**

The ringgit funds raised from the issuance of ringgit-denominated bonds may be used either in Malaysia or overseas. The remittance of such funds overseas must be in foreign currency.

#### **7. Maintenance of Funds**

##### **(a) Foreign Currency Accounts**

There is no restriction for MDB or MFI issuers and non-resident investors of ringgit-denominated bonds to maintain foreign currency accounts with onshore licensed banks in Malaysia for any purpose, including:

- (i) Meeting any payment obligation arising from the issuance of bonds; or
- (ii) Investments in Malaysia.

##### **(b) Ringgit Accounts**

There is no restriction for MDB or MFI issuers and non-resident investors of the ringgit-denominated bonds to maintain ringgit accounts as External Accounts with onshore licensed banks in Malaysia.

#### **8. Hedging**

##### **(a) Forward foreign exchange transactions or swap arrangements**

###### **(i) Issuer**

MDB or MFI issuers may enter into forward foreign exchange contracts or swap arrangements with licensed onshore banks to convert the ringgit funds raised into any foreign currency, except the currency of Israel.

**(ii) Investor**

A non-resident investor in the ringgit-denominated bonds issued by a MDB or MFI may also enter into forward foreign exchange transactions or swap arrangements with licensed onshore banks to hedge its ringgit exposure into any foreign currency, except the currency of Israel.

**(b) Interest Rate Swap Arrangement**

MDB or MFI issuers are allowed to enter into interest rate swap arrangements with licensed onshore banks in Malaysia.

**9. Liquidity Treatment under New Liquidity Framework for Banking Institutions**

The ringgit-denominated bonds issued by MDBs or MFIs will be classified as Liquefiable Assets under the new liquidity framework for resident banking institutions.

**10. Risk Weighting under the Risk Weighted Capital Ratio Framework**

The risk weight accorded to ringgit-denominated bonds issued by the MDBs or MFIs is 0%.

**11. Deduction from Eligible Liabilities for statutory reserve**

The holdings of ringgit-denominated bonds issued by MDBs or MFIs held by resident banking institutions are deductible from their eligible liabilities for computation of statutory reserve requirements.

**12. Low risk assets by resident insurers**

The ringgit-denominated bonds issued by MDBs or MFIs would qualify as low risk assets that resident insurers may hold to support their margin of solvency.

**13. Acceptance as collateral under the Real-time Electronic Transfer of Funds and Securities System (RENTAS)**

The ringgit-denominated bonds issued by MDBs or MFIs are acceptable as collateral under RENTAS.

**14. Acceptance as eligible securities to be transacted under re-purchase operations**

The ringgit-denominated bonds issued by MDBs or MFIs are acceptable as eligible securities to be transacted under re-purchase operations with Bank Negara Malaysia.

**15. Single Customer Limit**

The holdings of ringgit-denominated bonds issued by MDBs or MFIs that are held by banking institutions will be subject to the banking institutions' respective single customer limits.

**16. Withholding Tax on Non-Resident Bond Investors**

Interest paid to any individual or company not resident in Malaysia in respect of ringgit-denominated bonds, other than convertible loan stock, approved by the Securities Commission is exempted from income tax (withholding tax).

Bank Negara Malaysia & Securities Commission  
31 March 2005

**Application for Issuance of ringgit-denominated Bonds in Malaysia  
by Multilateral Development Banks and Multilateral Financial Institutions**

**Information to be disclosed under Approval Process**

- a. Name of issuer and brief description of issuer's business
- b. Credit rating of issuer and name of credit rating agency
- c. Size of issuance
- d. Interest rate benchmark (e.g. Fixed, Floating (Benchmark))
- e. Interest payment frequency
- f. Tenure
- g. Type of bonds
- h. Lead manager/Lead arranger
- i. Other manager (if any)
- j. Underwriter (if any)
- k. Purpose of issuance
  - For use in Malaysia
  - For use abroad
- l. Proposed hedging counter-party (if any)
- m. Method of issuance (e.g. open tender, book-building, private placement)
- n. Listing status
- o. Name of contact person:
  - In Malaysia
  - Abroad
- p. Embedded option contracts (e.g. buy-back option)
- q. Proposed paying/fiscal agent in Malaysia

If proceeds of issuance are to be on-lent wholly or partly to another resident party, please provide the following information-

- i. Name of borrower
- ii. Relationship of issuer with borrower (if any)
- iii. Country of borrower
- iv. Purpose of loan utilisation
- v. Terms of loan
  - Amount
  - Interest rate
  - Tenure
  - Bearer of withholding tax (if any)
  - Repayment period
  - Prepayment/callable option