

Translation of Central Bank Malaysia's (BNM) letter dated 14 September 2006
Reference No. JPIT/20/2006/IB/NMZ

Chief Executive Officer
Commercial Banks
Investment Banks

Sir

GUIDELINES ON THE ESTABLISHMENT OF INTERNATIONAL ISLAMIC BANK, INTERNATIONAL TAKAFUL OPERATOR AND INTERNATIONAL CURRENCY BUSINESS UNIT

1. Enclose herewith are the Guidelines on the Establishment of International Islamic Bank (IIB) under the Islamic Banking Act 1983 (ABI), the Establishment of International Takaful Operator (ITO) under the Takaful Act 1984 and the Establishment of International Currency Business Unit (ICBU) under ABI.

2. Financial institutions incorporated in Malaysia are permitted to operate Islamic financial activities in international currency and may choose to operate the respective business through:-

- i. Establishment of a subsidiary or a branch for IIB
- ii. Establishment of a subsidiary or a branch for ITO or
- iii. Establishment of a licensed Islamic subsidiary (IS) under ABI

3. The above guidelines will take effect from 15 September 2006. Should you have any queries, please contact our officers at 03-26988044:-

Dr. Zainal Hasfi Hashim, extension 7248
Email: zainalhas@bnm.gov.my

Puan Normalina Mahmud Zuhodi, extension 8544
Email: normalina@bnm.gov.my

Thank you.

Yours faithfully

Bakarudin Ishak
Director
Islamic Banking and Takaful Department



Bilangan Kami : JPIT/20/2006/IB/NMZ

BNM/ABM Circular

14 September 2006

Received on

For Action / Information

1.	Country Head of Consumer Banking	✓
2.	Chief Financial Officer, M'sia	✓
3.	Head Client Relationships	✓
4.	Head Global Markets	✓
5.	Head Human Resources	✓
6.	Head Corporate Affairs	✓
7.	Head Legal & Compliance	✓
8.	Head Shared Service Centre	✓
9.	Head Islamic Staff	✓
10.		

Ketua Pegawai Eksekutif
Bank-bank Perdagangan
Bank-bank Pelaburan

Tuan/Puan,

Please forward a copy of reply to CEO by	✓
Original to CEO	✓

**Garis Panduan Penubuhan Bank Islam Antarabangsa,
Pengendali Takaful Antarabangsa dan Unit Perniagaan
Mata Wang Antarabangsa**

Bersama-sama ini dilampirkan Garis Panduan Penubuhan Bank Islam Antarabangsa (IIB) di bawah Akta Bank Islam 1983 (ABI), Penubuhan Pengendali Takaful Antarabangsa (ITO) di bawah Akta Takaful 1984 dan Penubuhan Unit Perniagaan Mata Wang Antarabangsa (ICBU) di bawah ABI.

2. Institusi kewangan yang diperbadankan di Malaysia dibenarkan menjalankan aktiviti kewangan Islam dalam mata wang antarabangsa dan boleh memilih untuk menjalankan perniagaan berkenaan melalui:

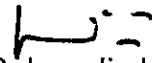
- (i) IIB menerusi penubuhan subsidiari atau sebuah cawangan;
- (ii) ITO menerusi penubuhan subsidiari atau sebuah cawangan;
atau
- (iii) ICBU menerusi penubuhan subsidiari Islam (IS) yang dilesenkan di bawah ABI.

3. Garis Panduan di atas berkuat kuasa pada 15 September 2006. Untuk sebarang pertanyaan, sila hubungi pegawai-pegawai berikut di talian 03-26988044:

- (i) Dr. Zainal Hasfi Hashim, sambungan 7248
e-mel: zainalhas@bnm.gov.my
- (ii) Puan Normalina Mahmud Zuhodi, sambungan 8544
e-mel: normalina@bnm.gov.my

Sekian.

Yang benar,



(Bakarudin Ishak)

Pengarah

Jabatan Perbankan Islam dan Takaful

10/50/19



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

**GUIDELINES ON
THE ESTABLISHMENT OF
INTERNATIONAL ISLAMIC BANK**

SEPTEMBER 2006

GUIDELINES ON THE ESTABLISHMENT OF INTERNATIONAL ISLAMIC BANK (IIB)

1. INTRODUCTION

An International Islamic Bank (IIB) is allowed to conduct a wide range of Islamic banking business in Malaysia under the Islamic Banking Act 1983 (IBA) with non-residents in international currencies¹ other than Malaysian ringgit. The IIB is a resident for the purpose of foreign exchange administration policies. The IIB is eligible for full tax exemption accorded under the Income Tax Act 1967 for ten years from the year of assessment 2007. These Guidelines will be effective from 15 September 2006.

2. ELIGIBILITY

An applicant is required to meet the following eligibility criteria:

- It is a well capitalised and reputable licensed financial institution;
- Adopts the international banking practices set by the Bank for International Settlements or any other international standard-setting body;
- Regulated and supervised by a competent home regulatory authority; and
- Possesses a sound track record.

3. SCOPE OF BUSINESS

The range of Islamic banking business in international currencies includes:

- commercial banking business;
- investment banking business; and

¹ International currencies as appeared in this set of Guidelines refer to all foreign currencies excluding the currency of Israel.

- other banking businesses in Malaysia, as may be specified by Bank Negara Malaysia (BNM).

The aforesaid businesses include dealing in international currencies, taking deposit, providing financing facility, providing investment banking services, investing in securities and properties.

Notwithstanding that, the IIB is also allowed to carry out the following additional businesses:

- In transacting with a resident, the IIB is allowed to:
 - maintain a foreign currency account for the resident to retain any foreign currency receipts other than export proceeds; and
 - extend foreign currency credit facility to the resident other than trade financing facility involving export.
- In transacting in Malaysian ringgit, the IIB is allowed to:
 - hold Malaysian ringgit instruments for investment purposes;
 - maintain a Malaysian ringgit account with any onshore Islamic bank licensed under the IBA; and
 - maintain an external account to facilitate Malaysian ringgit investments by its non-resident customer.

The current foreign exchange administration policies are applicable to:

- residents opening and maintaining foreign currency account with IIB;
- residents obtaining foreign currency credit facility from IIB ; and
- IIB opening and maintaining external account on behalf of its non-resident customer.

4. GOVERNING LEGISLATION, CAPITAL REQUIREMENT & LICENCE FEES

For the purpose of conducting Islamic banking business in international currencies, the IIB is required to be licensed under the IBA either as an incorporated entity or as a branch.

Incorporated entity:

- meet the minimum paid-up capital of RM10 million; and
- pay an annual licence fee of RM50,000.

Branch:

- meet the minimum net working fund of RM10 million; and
- pay an annual licence fee of RM50,000.

5. SUBMISSION REQUIREMENTS

The applicant is required to submit an application to BNM in the prescribed Form IIB. The submission should include the following:

- Audited financial statements for the last two years;
- A business plan that outlines, among others:
 - objectives and types of banking business;
 - target markets and business operations; and
 - risk management plan and the reporting control;
- A memorandum of association and articles of association or other instrument under which the applicant is incorporated, duly verified by a statutory declaration by a senior officer of the applicant;
- Letter of awareness from the home regulatory authority which supervises the applicant;
- Letter of undertaking from the parent company;

- Letter of application for approval by the Controller of Foreign Exchange to deal in international currencies; and
- Any other information which is required by BNM.

6. OPERATION REQUIREMENTS

Upon issuance of the licence, the IIB is required to comply with such guidelines, circulars or directives on prudential, regulatory, reporting or other requirements as issued by BNM from time to time.

7. CORRESPONDENCE

All correspondence should be addressed to:

Director
Islamic Banking and Takaful Department
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur
MALAYSIA

Tel : 60 3 2698 8044

Fax: 60 3 2693 3826



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

**GUIDELINES ON
THE ESTABLISHMENT OF
INTERNATIONAL TAKAFUL OPERATOR**

SEPTEMBER 2006

GUIDELINES ON THE ESTABLISHMENT OF INTERNATIONAL TAKAFUL OPERATOR (ITO)

1. INTRODUCTION

An International Takaful Operator (ITO) is allowed to carry out non-ringgit composite (general and family) takaful business and re-takaful (Islamic reinsurance) business in Malaysia under the Takaful Act 1984 (TA) with non-residents in international currencies¹ other than Malaysian ringgit. The ITO is a resident for the purpose of foreign exchange administration policies. The ITO is eligible for full tax exemption accorded under the Income Tax Act 1967 for ten years from the year of assessment 2007. These Guidelines will be effective from 15 September 2006.

2. ELIGIBILITY

An applicant is required to meet the following eligibility criteria:

- It is a well established and reputable licensed financial institution;
- Adopts the international insurance practices set by the International Association of Insurance Supervisors or any other international standard-setting body, or adopts any other international best practices in the financial services related industry;
- Regulated and supervised by a competent home regulatory authority;
and
- Possesses a sound track record.

¹ International currencies as appeared in this set of Guidelines refer to all foreign currencies excluding the currency of Israel.

3. SCOPE OF BUSINESS

The non-ringgit composite (general and family) takaful and re-takaful (Islamic reinsurance) business in international currencies does not involve the following:

- Property which at the time of the making of such contract is situated in Malaysia or is in transit to or from Malaysia;
- A ship or an aircraft registered in Malaysia and all liabilities arising from the operation of such ship or aircraft;
- The life or any contingency related to any person who, at the time of the making of such contract, is a resident; or
- A risk of any nature in respect of any person who, at the time of the making of such contract is a resident.

While the ITO is freely allowed to deal with non-residents, the ITO is also allowed to carry out non-ringgit composite takaful and re-takaful business with any resident who has been permitted under the current foreign exchange administration policies to transact in such non-ringgit transactions.

4. GOVERNING LEGISLATION, CAPITAL REQUIREMENT & REGISTRATION FEES

For the purpose of conducting the takaful and re-takaful business in international currencies, the ITO is required to be registered under the TA either as an incorporated entity or as a branch.

Incorporated entity:

- meet the minimum paid-up capital of RM10 million; and
- pay an annual registration fee of RM5,000.

Branch:

- meet the minimum net working fund of RM10 million; and
- pay an annual registration fee of RM5,000.

5. SUBMISSION REQUIREMENTS

The applicant is required to submit an application to BNM in the prescribed Form ITO. The submission should include the following:

- Audited financial statements for the last two years;
- A business plan that outlines, among others:
 - objectives and types of takaful business;
 - target markets and business operations; and
 - risk management plan and the reporting control;
- A memorandum of association and articles of association or other instrument under which the applicant is incorporated, duly certified by a statutory declaration by a director of the applicant;
- Letter of awareness from the home regulatory authority which supervises the applicant;
- Letter of undertaking from the parent company to be furnished to BNM; and
- Any other information which is required by BNM.

6. OPERATION REQUIREMENTS

Upon issuance of the registration, the ITO is required to comply with such guidelines, circulars or directives on prudential, regulatory, reporting or other requirements as issued by BNM from time to time.

7. CORRESPONDENCE

All correspondence should be addressed to:

Director
Islamic Banking and Takaful Department
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur
MALAYSIA

Tel : 60 3 2698 8044

Fax: 60 3 2693 3826



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

**GUIDELINES ON
THE ESTABLISHMENT OF
INTERNATIONAL CURRENCY BUSINESS UNIT
(ISLAMIC BANK)**

SEPTEMBER 2006

GUIDELINES ON THE ESTABLISHMENT OF INTERNATIONAL CURRENCY BUSINESS UNIT (ISLAMIC BANK)

1. INTRODUCTION

An International Currency Business Unit (ICBU) of an Islamic bank is allowed to conduct a wide range of Islamic banking business under the Islamic Banking Act 1983 (IBA) with non-residents in international currencies¹ other than Malaysian ringgit. The income arising from the transactions of the ICBU is eligible for full tax exemption accorded under the Income Tax Act 1967 for ten years from the year of assessment 2007. These Guidelines will be effective from 15 September 2006.

2. ELIGIBILITY

An Islamic bank which is licensed under the IBA is eligible to apply for approval to establish an ICBU.

3. SCOPE OF BUSINESS

The range of Islamic banking business in international currencies includes:

- commercial banking business;
- investment banking business; and
- other banking businesses in Malaysia, as may be specified by Bank Negara Malaysia (BNM).

The aforesaid businesses include dealing in international currencies, taking deposit, providing financing facility, providing investment banking services, investing in securities and properties.

¹ International currencies as appeared in this set of Guidelines refer to all foreign currencies excluding the currency of Israel.

Notwithstanding that, the ICBU is also allowed to carry out businesses in accordance with the BNM's foreign exchange administration policies.

4. STRUCTURE

The ICBU is required to meet the following structure framework:

- A dedicated division to carry out Islamic banking business in international currencies of the ICBU;
- The division should be headed by a senior management officer of the Islamic bank; and
- The division should maintain separate accounts from the Malaysian ringgit transactions of the entity.

5. SUBMISSION REQUIREMENTS

The applicant is required to submit an application letter to BNM together with a business plan that outlines, among others:

- Objectives and types of banking business;
- Target markets and business operations; and
- Risk management plan and the reporting control.

6. OPERATION REQUIREMENTS

Upon approval, the ICBU is required to comply with such guidelines, circulars or directives on prudential, regulatory, reporting or other requirements as issued by BNM from time to time.

7. CORRESPONDENCE

All correspondence should be addressed to:

Director
Islamic Banking and Takaful Department
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur

Tel : 60 3 2698 8044

Fax: 60 3 2693 3826