

Explanatory Notes on Negotiable Instruments of Deposit (NID) and Islamic Negotiable Instruments (INI)

Objectives

- 1.1 The “*Explanatory Notes on Negotiable Instruments of Deposit (NID) and Islamic Negotiable Instruments (INI)*” serve as a general guide and reference for the financial institutions on the issuance, trading and settlement of NID and INI in the Malaysian market.

Applicability

- 1.2 The financial institutions referred to in 1.1 encompasses all financial institutions licensed under the Banking and Financial Institution Act 1989 (BAFIA), Islamic banks licensed under the Islamic Banking Act 1983 (IBA) and development financial institutions prescribed under the Development Financial Institutions Act 2002 (DFIA).

Coverage and Regulatory Requirement

- 1.3 The Explanatory Notes should be read together with the following:
 - 1.3.1 “Guidelines on Introduction of New Products” issued by Bank Negara Malaysia;
 - 1.3.2 “Guidelines on Product Transparency and Disclosure” issued by Bank Negara Malaysia;
 - 1.3.3 All foreign exchange administration rules as stipulated by the Foreign Exchange Administration Department, Bank Negara Malaysia;
 - 1.3.4 Any guidelines or practice notes issued by the Securities Commission of Malaysia that are relevant to NID/INI products¹; and
 - 1.3.5 Any other relevant guidelines issued by Bank Negara Malaysia (the Bank) from time to time.
- 1.4 NID/INI products that will be subject to the launch-and-file requirement as stipulated in the “Guidelines on Introduction of New Products” are as follows:

¹ In particular the Practice Note 3 on the “Application of the Guidelines on the Offering of Private Debt Securities to the Offer, Issue, or Invitation of Negotiable Instruments of Deposit (NID) with Tenure of More than Five Years”

- 1.4.1 NID/INI products that are being offered by the financial institution in Malaysia for the first time. For greater clarity, the “Guidelines on Introduction of New Products” shall apply if the product has never been offered by the institution before in Malaysia, notwithstanding the fact that the product may already be offered by the financial institution’s group outside Malaysia; or
 - 1.4.2 Combination of or variation to existing NID/INI products that results in a material change to the risk profile of the existing product. The chief risk officer or other designated senior risk officer identified by the financial institution shall be responsible to determine whether a variation to an existing product constitutes a material change for the NID/INI products. This determination of material change shall consider the risk implications of the change both from the financial institution’s perspective (as provider) and the customer’s perspective (as purchaser). The basis for the risk officer’s determination should be documented and readily available for review by the financial institution’s oversight and internal control functions, and the Bank.
- 1.5 The financial institutions that offer NID/INI shall comply with the disclosure requirements as specified in the “Guidelines on Product Transparency and Disclosure”, which are applicable for both retail and institutional customers. The disclosure requirements are however not applicable for inter-bank transactions.

Types of NID/INI

- 1.6 NID issued and traded in the Malaysian market can be based on either fixed, zero coupon or floating rates or a combination of either the three.
- 1.7 For the INI, the issuance and trading of INI shall be subject to the Shariah contracts applied to the INI.

Issue Size

- 1.8 As stipulated in the “Guidelines on Introduction of New Products”, Ringgit NID and INI shall be issued in a nominal value of MORE THAN RM60,000 per account or per customer (for foreign currency NID and INI, the nominal value shall be more than the RM60,000 equivalent value per account or per customer).

Types of Trade

- 1.9 Trading of NID/INI in the secondary market can be undertaken through the following transactions:
- (i) Outright sale and purchase, which results in a transfer of ownership of the NID/INI from the seller to the buyer, without recourse, other than to the issuer;
 - (ii) Purchase and redemption prior to maturity date by the issuer of its own NID/INI; and
 - (iii) Repurchase Agreement (repo and reverse repo) or Sale and Buy Back Agreement (SBBA and reverse SBBA), whereby the first seller and the first buyer respectively, undertake to repurchase and sell-back the NID/INI, at an agreed price and on a specified future date.

Authorised Depository

- 1.10 The functions of an Authorised Depository shall include the following:
- (i) Facilitate and effect the receipt of NID/INI from the issuer or another Authorised Depository, and delivery of NID/INI to another Authorised Depository on the instructions of the customer;
 - (ii) Custody and safekeeping of the NID/INI deposited;
 - (iii) Collect interest/profit and maturity proceeds on behalf of customers; and
 - (iv) Maintenance of adequate and proper records of the ownership and details of the NID/INI in its custody.
- 1.11 An issuer is allowed to act as an Authorised Depository for its own NID/INI.

General Procedures

- 1.12 An issuer may accept deposit from and issue a NID to the depositor at par, at a premium or at a discount. For INI, an issuer may accept deposit from and issue an INI to the depositor at par, at a premium or at a discount subject to the permissibility of the Shariah contracts applied to the INI.

- 1.13 An issuer may issue NID/INI to non-residents, or a Malaysian resident may buy NID/INI from, or sell NID/INI to a non-resident, subject to the prevailing rules and regulations imposed by the Bank on transactions with non-residents.

Delivery and Settlement

- 1.14 The seller and the buyer can respectively, forward a notification to their Authorised Depositories on the sale and purchase of a NID/INI and the identity of the counterparty, on a timely basis, so as to allow the seller's Authorised Depository sufficient time to deliver the NID/INI to the buyer's Authorised Depository within the agreed timeframe.
- 1.15 The cut-off time and procedures for settlement of trades through RENTAS shall be in accordance to the trading principles and procedures for secondary market as stipulated in part VI of the "*Rules on the Scripless Securities under the Real Time Electronic Transfer of Funds and Securities (Rentas) System*".
- 1.16 All settlement of trades in RENTAS must adhere to the "*Rules on the Scripless Securities Under the Real Time Electronic Transfer Of Funds And Securities (RENTAS) System*".

Note:

- For the latest updates on these Explanatory Notes, kindly refer to the Fully Automated System for Issuing / Tendering (FAST) website at: <https://fast.bnm.gov.my/fastweb>.
- For any enquiries on these Explanatory Notes, kindly contact:
 - Financial Sector Development Department, Bank Negara Malaysia on NID; or
 - Islamic Banking and Takaful Department, Bank Negara Malaysia on INI.