



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
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