

## **INNOVATIVE FINANCIAL SERVICES IN LABUAN IBFC**

### **- Frequently Asked Questions (FAQs)**

#### **I. SCOPE**

##### **1. What is regarded as Fintech from Labuan IBFC's perspective?**

Financial technology (FinTech) refers to technology-enabled innovation in financial services [hereby referred to as Innovative Financial Services (IFS)]. In many parts of the global financial markets, IFS has been observed to spur new business models, processes, mobile application etc. IFS is seen to have a transformative effect on financial markets and institutions on the provision of financial services as a whole.

##### **2. Is IFS business permitted to be undertaken in Labuan IBFC?**

Yes, Fintech or IFS is seen as the contemporary innovative thinking that can be leveraged on to modernise the Labuan businesses in the market. In this regard, Labuan FSA's strives for the regulations and rules of Labuan IBFC to remain business conducive, more future-oriented and aligned with rapid technological advancements especially on IFS that is driving structural and process changes in the financial sector.

#### **II. REGULATORY EXPECTATIONS**

##### **3. With the permissibility of IFS activities to be undertaken in Labuan IBFC, are these activities deemed to be regulated by Labuan Financial Services Authority (Labuan FSA)?**

Only IFS activities that fall within the ambit of the *Labuan Financial Services & Securities Act 2010 (LFSSA)* or the *Labuan Islamic Financial Services & Securities Act 2010 (LIFSSA)* are regulated by Labuan FSA.

##### **4. Are there any IFS activities that are not covered under the scope of LFSSA and LIFSSA?**

IFS activities which are not subsumed by LFSSA and LIFSSA may include:

- a. Provision of consultancy & management services such as project management, administrative, real estate, etc.

- b. Advisory experts as project specialist, trainer coaching or even industry specific coaching.
- c. International trading business whether as a general trader, importer/exporter, industrial and customised equipments, non-petroleum commodities or deal maker.
- d. Internet marketing which include e-commerce, web design and Search Engine Optimisation (SEO) specialist.
- e. Provision of backroom processing.

The above list of activities are not exhaustive but it provides indication of the types of activities that are not under LFSSA and LIFSSA. Labuan entities undertaking them must ensure compliance to the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) Requirements issued by Bank Negara Malaysia (BNM) and Labuan FSA, and market conduct requirements to promote good market conduct practices via product transparency and disclosure as well as high standard of professionalism in their dealings with clients.

**5. What is the level of cyber security expected by Labuan FSA for IFS providers?**

Labuan entities undertaking IFS are expected to have the necessary cyber resilience. This include strengthening their cyber security such as installation of firewalls, regular security scans or the selection and maintenance of password. The extent of such measures would be dependent on the vulnerability of their system setup and the risks posed by the IFS activities.

**6. How relevant are Bank Negara Malaysia's AML/CFT requirements in respect of IFS activities in Labuan IBFC?**

As mentioned in Labuan FSA's circular on undertaking IFS in Labuan IBFC dated 26 June 2018, Labuan entities which intend to undertake IFS activities, particularly on the exchange of digital currencies either from or to fiat money, or from or to another digital currency, would also need to comply with the AML/CFT requirements under the *Guidelines on the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) – Digital Currencies (Sector 6)* issued by BNM. The said Labuan entities are subjected to obligations as a reporting institution under the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001.

**7. How similar or different is Labuan IBFC's treatment or approach to IFS startups compared to other Asian markets?**

Labuan IBFC opt for a more market liberal approach for proposed IFS businesses. Labuan entities are allowed to undertake these businesses subject to them complying with the AML/CFT regulations and market conduct requirements, especially for those whose businesses are governed by LFSSA and LIFSSA.

Unlike other markets which choose to insulate or contain the IFS business in different regulatory platforms (e.g. sandboxes or incubators) for observation and experimental purposes, Labuan IBFC believes that IFS start-ups need to operate in the actual, open international market. This is to inject business pragmatism in IFS undertakings so that they can better adapt and gain traction in the market.

### **III. APPLICATIONS**

#### **8. As an existing Labuan licensed entity, is a specific licence or prior approval required before it adopts fintech as part of its own organisational internal improvement exercise?**

Only notification to Labuan FSA by the Labuan licensed entity is required should the entity plans to implement a blockchain-based technology such as e-KYC to improve its operations.

#### **9. How should Labuan entities apply for their proposed IFS?**

Labuan entities that intend to undertake regulated activities under LFSSA or LIFSSA will need to apply for licence or approval. The following steps are general guides that may be followed:

- a) Identify the regulated activities in LFSSA or LIFSSA; and
- b) Download and complete the relevant licence application form and submit to:

Head of Business Operations Unit  
Legal and Business Management Department  
Labuan FSA  
17<sup>th</sup> Floor, Main Office Tower  
Financial Park Complex, Jalan Merdeka  
87000 Federal Territory of Labuan, Malaysia

(E-mail : [bou@labuanfsa.gov.my](mailto:bou@labuanfsa.gov.my))

The application forms and Guidelines related to the regulated activities may be downloaded from Labuan FSA's website at [www.labuanibfc.com](http://www.labuanibfc.com).

#### **10. Can Labuan FSA assist applicants on their IFS business proposals?**

Applicants are most welcome to engage with the officers of Labuan FSA to discuss on any potential business propositions prior to submitting any applications. This would enable the Authority to facilitate the proposed IFS activity, advise and explain on the relevant regulations depending on the nature of the business proposal. For this purpose, applicants may e-mail Labuan FSA at [bp2@labuanfsa.gov.my](mailto:bp2@labuanfsa.gov.my).