

Client Alert

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Bank Negara Malaysia issues Exposure Draft on the Interoperable Credit Transfer Framework

Bank Negara Malaysia (i.e., the Central Bank of Malaysia) ("**BNM**") had, on 7 December 2017, issued an exposure draft of the Interoperable Credit Transfer Framework ("**Exposure Draft**") to invite public and industry feedback on the proposed introduction of interoperable credit transfer services that leverages on a shared payment infrastructure in Malaysia.

The Exposure Draft is part of BNM's continuous efforts to migrate the nation towards the use of electronic payments. Through the proposed Interoperable Credit Transfer Framework ("**Framework**"), BNM aims to:

- foster an efficient, competitive and innovative payment system in Malaysia that will enable customers of banks and non-banks (i.e., eligible e-money issuers) to transfer funds across payment networks seamlessly by referencing certain personal numbers (e.g., mobile phone numbers) of the recipients or scanning Quick Response ("**QR**") codes; and
- set in place adequate safeguards to promote the safety and integrity of credit transfer systems.

The Framework is expected to come into force on **1 July 2018**.

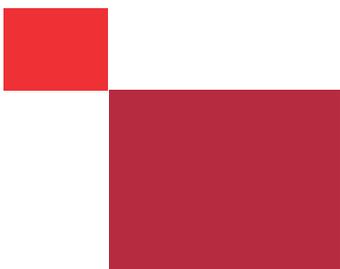
Key features

The key features of Exposure Draft are set out below.

1. Interoperable credit transfer services and shared payment infrastructures

An approved operator of a shared payment infrastructure ("**Operator**") shall establish an interoperable QR code schemes to facilitate credit transfers between (a) bank accounts (inter-bank credit transfers); and (b) between e-money accounts or between bank accounts and e-money accounts, in Malaysia (i.e., inter-scheme credit transfers).

The Operator will also establish a National Addressing Database, i.e., a central addressing repository that links bank and e-money accounts to certain common identifiers (e.g., identity card or company registration numbers), and provide access to the share payment infrastructure (and the National Addressing Database) to banks and e-money issuers.





Banks and eligible e-money issuers, on the other hand, are required to among others:

- (a) ensure that all inter-bank credit transfers and inter-scheme credit transfers are processed through shared payment infrastructures;
- (b) enable their respective customers to register their account information and identifiers in the National Addressing Database; and
- (c) waive transaction fees imposed on customers for any credit transfer transactions of up to RM 5,000.

2. Innovation sandbox and open API

The Operator is also encouraged to coordinate with its participants to publish its Application Programming Interface ("**API**") for the shared payment infrastructure and to allow the use of these APIs by third parties for the purpose of experimenting and testing new products, services and solutions.

It is also envisaged that operators of shared payment infrastructures will establish 'sandbox' facilities to provide test environments mimicking the functionality of the shared payment infrastructure.

Conclusion

The Exposure Draft builds on similar initiatives adopted by some jurisdictions in the ASEAN region (e.g., Thailand) and is in line with the press statement released by BNM on 22 May 2017, through which BNM announced its formation of Payment Network Malaysia Sdn. Bhd. ("**PayNet**") as the operator of shared payment infrastructures for Malaysia to "*increase synergies and efficiencies through coordinated strategies for the development of shared payment infrastructures under a single entity that will improve the cost-effectiveness, inclusiveness and the value proposition of e-payment services in Malaysia*".

It is anticipated that the Framework will herald the innovation and technological advancement in payment infrastructures and increase accessibility for consumers and competition between market participants in the e-payments industry in Malaysia. The Framework also represents the next step Malaysia is taking to displace the use of cash and cheques, and thereby signal Malaysia's embrace of the digital economy.

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