EXPOSURE DRAFT ON LABUAN DIGITAL BANKING FRAMEWORK

This exposure draft (ED) issued by Labuan FSA sets out the proposed revisions to the **Labuan Digital Banking Framework (Guidelines).**

Following the first introduction of the Guidelines in 2020, the review is intended to ensure that the Framework remains responsive to market developments, aligned with emerging supervisory expectations, and sufficiently robust to address the evolving risks associated with digital banking operations. This is particularly timely given the continued growth of digital banking models, rapid advancement of financial technology, and increasing need for stronger safeguards in governance, technology and cyber risk management, compliance, customer protection and operational resilience. The proposed revisions seek to enhance regulatory clarity, promote responsible innovation, and ensure that Labuan digital banks are supported by sound financial standing, robust technological capabilities and sustainable business plans.

Labuan FSA welcomes and values feedback from industry players, professional advisers, potential applicants and other relevant stakeholders on the proposed requirements under this ED. Comments may include suggestions, recommendations or alternative proposals, and should be supported by rationale, practical considerations and relevance to the Labuan digital banking ecosystem.

Feedback on the ED shall be submitted electronically to Labuan FSA using the response template by **28 September 2026** to ***bpu@labuanfsa.gov.my***. Should you require any clarification on the ED, please contact the following officers:

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LABUAN DIGITAL BANKING FRAMEWORK

1.0 General

1.1 Technology-based innovation continues to reshape the delivery of banking services by enabling financial institutions and technology-driven financial players to offer more efficient, scalable and customer-centric banking solutions through digital channels. In the context of Labuan IBFC, digital banking provides an avenue to support international and cross-border banking needs, particularly for wholesale clients, regional businesses, digital platforms and other market participants requiring technology-enabled, multi-currency and cross-border financial services. The Labuan Digital Banking Framework (the Guidelines) seek to support the continued development of Labuan IBFC banking ecosystem, while complementing Malaysia's domestic banking system and supporting responsible innovation in financial services.

1.2 The Guidelines sets out the requirements for qualified applicants to undertake Labuan banking businesses[1] which are conducted primarily or wholly through digital or other forms of electronic channels. The Guidelines allows qualified corporation, including credible technology-driven and non-bank-backed applicants, to undertake digital banking business. Applicants seeking to establish a Labuan digital bank shall submit their applications in accordance with this Guidelines and the applicable requirements under the *Guidelines on Entry Criteria for Labuan Bank*. For avoidance of doubt, for existing licensed Labuan banks[2] that wish to undertake digital banking business are allowed to operate within the scope of their existing banking licence.

1.3 For clarity, this Guidelines applies only to Labuan digital banking business conducted under a Labuan banking licence[1]. It does not apply to Labuan investment banking business conducted primarily or wholly through digital or electronic channels, which shall continue to be governed by the *Guidelines on the Establishment of Labuan Investment Banking Business in Labuan IBFC*.

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[1] Refers to definitions of Labuan banking businesses under Section 86 of Labuan Financial Services and Securities Act 2010 including Labuan Islamic banking business under Section 60 of Labuan Islamic Financial Services and Securities Act 2010.

[2] Existing Labuan Banks licensed under the Guidelines on Entry Criteria for Labuan Bank.

2.0 Applicability

2.1 The Guidelines is applicable to any person licensed by Labuan Financial Services Authority (Labuan FSA), including new applicants, to carry on Labuan banking business under Section 88 of Labuan Financial Services and Securities Act 2010 (LFSSA) or Section 63 of Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA).

3.0 Legal Provision

3.1 The Guidelines is issued pursuant to Section 4A of the Labuan Financial Services Authority Act 1996 (LFSAA) to clarify the provisions of Part VI of LFSSA and Part VI of LIFSSA.

3.2 Any person who fails to comply with this Guidelines commits an offence and may be punishable under Sections 36B or 36G of LFSAA as the case may be. Labuan FSA may also undertake the appropriate enforcement action to the extent provided by the law.

3.3 The Guidelines should be read together with the requirements of the relevant Guidelines and Circulars including those listed under **Appendix**.

4.0 Effective Date

4.1 The Guidelines shall come into effect immediately and would remain effective and applicable unless amended or revoked. The Guidelines would supersede the Labuan Digital Banking Framework dated 7 December 2020.

4.2 All approvals granted by Labuan FSA relating to Labuan digital banking business before the effective date of this Guidelines shall remain valid unless revoked and are subjected to the new requirements of this Guidelines upon its effective date.

5.0 Eligibility

5.1 An applicant for a Labuan Digital Banking licence shall meet the following requirements:

(i) at least one entity within the applicant group has a minimum of three years' demonstrable track record in operating an existing business in the technology, e-commerce, digital platform or other technology-enabled field, and is able to contribute relevant and deployable technological capabilities to the proposed digital bank. Relevant capabilities may include, but are not limited to, financial technology, advanced data analytics, artificial intelligence and machine learning, digital platforms that support the delivery or integration of financial services, and telecommunications or other digital infrastructure;

(ii) sufficient financial resources and demonstrates ability to meet and maintain the applicable minimum paid-up capital requirement at the onset and the minimum capital funds requirement on an ongoing basis. Such financial capacity may be demonstrated through committed shareholder funding, written confirmation or undertaking from shareholders, or other credible and demonstrable funding arrangements acceptable to Labuan FSA;

(iii) the applicant, directors, principal officer, controller, and any person who is primarily responsible for the operations or financial management shall be fit and proper persons;

(iv) has credible, viable and sustainable business plan which demonstrates a clear value proposition, sets out the approach on how it intends to incorporate innovative use of technology for its operations to meet the proposed strategic business objectives; and

(v) demonstrates a credible and implementable plan for the core banking infrastructure and key operational arrangements required to support the proposed digital banking business, including, but not limited to, correspondent banking, payment and settlement arrangements, technology service providers and other critical third-party arrangements.

6.0 Capital Requirement

6.1 Maintain minimum capital that is unimpaired by losses of at least RM50 million or its equivalent in any foreign currency. Labuan FSA may exercise its discretion to require additional capital to commensurate with the business operations of the digital bank, taking into account the risk profiles as well as nature, scale, complexity and diversity of the business activities.

6.2 Place a non-interest-bearing security deposit with Labuan FSA amounting to RM2.5 million or its equivalent in any foreign currency which is refundable after three years from the date of placement, subject to the assessment of the digital bank's performance over three years.

7.0 Internal Controls and Risk Management

7.1 Ensure the policies and controls on technology-related areas, especially on information security, system resilience and business continuity management including IT governance, cybersecurity, online client on-boarding processes and systems are adequate.

7.2 Establish and maintain adequate technology and cyber risk management policies, controls and processes, in accordance with the Guidelines on Technology and Cyber Risk Management for Labuan Banking and Insurance Business and other applicable requirements issued by Labuan FSA.

7.3 Establish procedures for regular review of its security and technology related arrangements to ensure that such arrangements remain appropriate having regard to the continuing developments in IT based on the cybersecurity risk profile.

7.4 Have robust Know-Your-Customer (KYC) including e-KYC framework which consists of proper customer due diligence and enhanced due diligence processes for onboarding clients and for transactional activities.

7.5 Labuan digital bank is expected to adhere to the principles of good conduct as provided below:

(i) Integrity and Fair Dealing

Conduct its business with honesty, fairness, integrity and professionalism.

(ii) Skills, Care and Diligence

Act competently and diligently with regard to all dealings with its clients.

(iii) Handling of Confidential Information

Treat information relating to the deals transacted or being transacted as confidential and limit access to such information. Subject to applicable laws and regulations, confidential information may be disclosed where the disclosure is:

(a) with the explicit permission from the parties involved; or

(b) required by laws, a court of law or relevant supervisory authorities.

(iv) Professional Client Management

(a) Act in the best interest of its clients and must not jeopardise or prejudice the clients' interest and ensure that client's asset is properly safeguard from any wrongful conversion or inappropriate use by any individual.

(b) Any information provided to its clients must be fair, accurate and timely.

(v) <u>Proper Disclosure Mechanism</u>

Have in place adequate mechanism to properly disclose pertinent information to its clients including potential risks and chargeable fees taking into account the nature of the Labuan digital bank which predominantly has minimal face-to-face client dealings.

(vi) <u>Dispute and Complaint Handling</u>

Have in place adequate mechanism to handle client disputes or complaints that are appropriate to the nature, scale and complexity of the business. Details of the complaints, responses and actions taken must be recorded and maintained.

(vii) <u>Conflict of interest</u>

Efficiently manage conflict of interest which may rise in the course of the company carrying out its business. Such conflict must be managed in a timely manner.

8.0 Anti-Money Laundering and Countering the Financing of Terrorism

8.1 Have in place policies, controls and procedures to manage and mitigate Money Laundering/Terrorism Financing (ML/TF) risks that may arise from the digital banking activities.

8.2 Ensure that the infrastructure provided is effectively reliable to capture all digital transactions including:

(i) Identifying and assessing the ML/TF risks that may arise in relation to the digital infrastructure. This includes, but not limited to the risks with regard to the development of new products, services, business practices, delivery mechanisms, adoption of new technologies and dealings with their counterparties (e.g. clients, liquidity provider);

(ii) Effecting appropriate measures to manage and mitigate the risks; and

(iii) Maintaining sufficient documentation of this risk management policy.

9.0 Exit Plan

9.1 Labuan digital bank is required to develop and maintain a credible and feasible exit plan to ensure that the bank is able to unwind its business operations voluntarily without any regulatory intervention and in an orderly manner without causing disruption to its customers and the financial system.

9.2 The exit plan should be proportionate to the nature, scale, complexity and risk profile of the digital bank, and should cover at least the following:

(i) circumstances in which the plan will be triggered;

(ii) arrangements for the repayment or transfer of deposits and settlement of customer and counterparty obligations;

(iii) sources of funding and liquidity required to implement the exit plan; and

(iv) communication strategy including the method and timeframe for communicating with relevant parties, e.g. Labuan FSA, customers and investors.

10.0 Other Operational Requirements

10.1 Ensure appropriate due diligence is conducted on counterparties engaged by the Labuan digital bank's business, including ascertaining that such counterparties are appropriately authorised, licensed or otherwise permitted to undertake the relevant activities in their respective jurisdictions, where applicable.

10.2 Establish an operational office in Labuan to comply with LFSSA or LIFSSA.

10.3 Ensure that the persons in control, directors and officers are fit and proper.

10.4 Maintain adequate and proper records and books of accounts in Labuan and ensure that all its operations are conducted in, from or through the operational office in Labuan.

10.5 Indicate clearly the Labuan digital bank's names in all media being used for communication purposes.

10.6 Appoint an internal and external auditor to carry out an audit of its operations and accounts pursuant to Sections 173 and 174 of LFSSA and Sections 134 and 135 of LIFSSA, as the case may be.

10.7 Obtain prior approval from Labuan FSA on the following matters:

(i) Change of name;

(ii) Change of business plan;

(iii) Change of ten per centum or more of the shareholding[3] of the bank;

(iv) Appointment of its board of directors[3];

(v) Appointment of Principal Officer (PO). The appointment of PO is only valid for two (2) years or as may be determined by Labuan FSA. The Labuan digital bank may renew the appointment of the PO by submitting the renewal application one (1) month before the expiry date;

(vi) Establishment of office outside Labuan including the acquisition of subsidiary and establishment of a marketing office or co-located office;

(vii) Reduction of paid-up capital[4]; or

(viii) Use of external service provider.

10.8 Notify Labuan FSA within 14 days pertaining to the following matters:

(i) Resignation of directors and principal officer;

(ii) Change of place of business or office in Labuan;

(iii) Change to its constituent documents; or

(iv) Significant event that affects its going concern or reputation.

[3] For branch set-ups, only notification to Labuan FSA is required for the change of shareholding structure and appointment of its board of directors.

[4] Not tantamount to reduction of amount lower than the prescribed minimum paid-up capital requirement and/or higher capital as imposed/determined by Labuan FSA, during the licence granted.

10.9 Comply with substantial activity requirements in Labuan as prescribed under the Labuan Business Activity Tax (Requirements for Labuan Business Activity) Regulations 2018 (Substance Regulation) and any amendments thereto.

10.10 Comply with the applicable laws, rules and regulations relevant to the Labuan digital banking business, including relevant guidelines issued by Labuan FSA, regulatory requirements of the jurisdictions where the Labuan digital bank is authorised to operate in, as well as the Malaysian Foreign Exchange Administration rules, where applicable, at all times. In this regard, Labuan digital bank is expected to obtain the necessary approvals from the authorities in the markets it intends to operate in prior including promotional activities prior to commencing its business in those respective markets and shall provide a copy of the said approval to Labuan FSA, where relevant.

12.0 Reporting Requirement

12.1 Labuan digital banks are required to submit to Labuan FSA the following:

(i) audited financial statements via Supervisory Intelligent System (SIS) within six (6) months after the closure of each financial year; and

(ii) statistics and information as Labuan FSA may require from time to time.

13.0 Annual Fee

13.1 The annual fee payable is as specified under the *Labuan Financial Services and Securities (Amendment) Regulations 2026 (Fees)*, or such amended or revised regulations as may be prescribed or advised by Labuan FSA from time to time.

13.2 The subsequent payment of annual licence fee is payable by 15 January of each year.

14.0 Application Requirements

14.1 Submit a duly completed application form with the relevant supporting documents as stipulated in the *Form – Application for Licence to Carry on Labuan Banking business*, downloadable at *www.labuanfsa.gov.my* under the category of “licence application form”.

14.2 The application must be accompanied by the applicable processing fee as prescribed under the *Labuan Financial Services Authority (Processing and Approval Fees) (Labuan Financial Institutions) (Amendment) Order 2026* or such amended or revised regulation as may be prescribed or advised by Labuan

FSA from time to time.

14.3 Additionally, applicants must submit a soft copy in Portable Document Format (PDF) of the completed application form and supporting documents together with the official receipt issued by Labuan FSA on the payment of processing fee.

14.4 Labuan FSA may require from the applicant such other information or documents for the purpose of determining the merits of the application.

15.0 Submission of Application and Enquiries

15.1 The application and notification shall be addressed to:

Director General
Labuan Financial Services Authority
17th Floor, Main Office Tower
Financial Park Complex, Jalan Merdeka
87000 Federal Territory of Labuan, Malaysia.
(Attention to: Head of Authorisation and Licensing Unit)

15.2 Any enquiries or clarification may be directed at the following contact details:

Telephone no.	:	03-8873 2000
E-mail	:	(i) bpu@labuanfsa.gov.my (Guidelines)
		(ii) bplicensing@labuanfsa.gov.my (Application & Notification)
		(iii) licensing@labuanfsa.gov.my (Notification & general enquiry including fees)
		(iv) sed@labuanfsa.gov.my (SIS)

Questions

1. What are the key regulatory or operational barriers currently affecting the establishment, operationalisation or scaling of digital banks in Labuan IBFC?

2. What measures could Labuan FSA consider to further facilitate the digital banking ecosystem, without compromising prudential, governance and risk management standards?

3. Are there any additional policy, regulatory or ecosystem enhancements that Labuan FSA should consider to support the sustainable growth and competitiveness of digital banking in Labuan IBFC?

Labuan Financial Services Authority

DD MM 2026

7 December 2020

Appendix

List of Relevant Guidelines and Circulars

The following are the list of Guidelines/Directives/Circulars that are applicable to Labuan banks (including Islamic):

1. Guidelines on Fit and Proper Person Requirements;
2. Guidelines on Compliance Function for Labuan Licensed Entities;
3. Directive on Financial Reporting Standards for Labuan Financial Institutions;
4. Circular on Financial Reporting Standards for Labuan Financial Institutions;
5. Directive on Accounts and Record-Keeping Requirements for Labuan Entities;
6. Guidelines on External Auditor of Labuan Financial Institutions;
7. Guidelines on Shariah Governance for Labuan Islamic Financial Institutions;
8. Directive on Islamic Financial Business in Labuan IBFC;
9. Guidelines on Corporate Governance for Labuan Banks and Labuan (Re)Insurers;
10. Guidelines on Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) for Banking Sector;
11. Guidelines on the Establishment of Marketing Office;
12. Guideline on Co-location of Labuan Bank;
13. Banking Capital Adequacy Framework: Guidelines on Capital Components;
14. Banking Capital Adequacy Framework: Guidelines on Risk Weighted Assets;
15. Guidelines on Minimum Audit Standards for Internal Auditors of Labuan Banks;
16. Guidelines on Single Counterparty Exposure Limit for Labuan Banks;
17. Guidelines on Credit Transactions and Exposures with Connected Parties for Labuan Banks; and
18. Guidelines on Classification and Impairment Provisions for Loans/Financing for Labuan Banks.
19. Guidelines on External Service Arrangements for Labuan Financial Institutions.
20. Guidelines on Technology and Cyber Risk Management for Labuan Banking and Insurance Business
21. Admissibility Framework for Digital Currencies

22. Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Capital Components)
23. Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)
24. Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Operational Risk)
25. Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Risk-Weighted Assets)

Note: The above lists are not exhaustive and may be amended from time to time.