FREQUENTLY ASKED QUESTIONS
GUIDELINES ON COMPLIANCE FUNCTION FOR LABUAN FINANCIAL INSTITUTIONS

A. APPLICATION OF THE GUIDELINES

1. Based on the revised Guidelines, are existing Labuan Financial Institutions (LFIs) required to resubmit compliance officer appointments to Labuan Financial Services Authority (Labuan FSA)?

- No. Existing LFIs (i.e. Labuan banks including Islamic banks, Labuan investment banks including Islamic Investment banks, Labuan (re)insurers including takaful operators, Labuan fund managers including Islamic fund managers and Labuan trust companies) are not required to resubmit unless there are changes to the current appointments.
- If there are any changes on the current appointments, existing LFIs are required to comply with the compliance officer appointment requirements (paragraph 8.2).

2. What are the compliance officer appointment requirements for the current "Selected LFIs" newly brought into scope under the Guidelines?

- The current Selected LFIs would need to notify Labuan FSA of their compliance officer appointments by 1 July 2026. If the Designated Compliance Officer (DCO) for Anti-Money Laundering and Counter Financing of Terrorism also assumes the broader compliance roles, the LFI is required to notify the dual function to Labuan FSA (paragraph 6.3.1).
- For clarity, selected LFIs comprise:
  (i) Labuan insurance/takaful-related companies excluding insurance managers;
  (ii) Money-broking companies and Islamic money-broking companies;
  (iii) Securities licensees and Islamic securities licensees;
  (iv) Credit token business and Islamic credit token business;
  (v) Labuan exchanges; and
  (vi) Labuan payment system operators.

B. REQUIREMENTS FOR COMPLIANCE FUNCTION

3. What are the expectations for LFIs that outsource their compliance function to third-party service providers?

- LFIs are expected to ensure that the outsourcing of compliance function does not dilute their management oversight, responsibilities or obligations in fulfilling compliance requirements. This includes ensuring robust due diligence processes, maintaining effective oversight and governance over the outsourcing arrangement and implementing comprehensive risk management controls.
- With the implementation of the revised Guidelines, LFIs are required to obtain prior approval from Labuan FSA for the outsourcing of the compliance function to a third-party service provider (paragraph 6.4.3). LFIs that are not subject to the outsourcing requirements[1] may apply the same outsourcing principles as best practice guidance to manage the risks in compliance function outsourcing.

4. Is dual-hatting allowed for a Compliance Officer and what safeguards are required to preserve impartiality?

- Labuan FSA expects LFIs to maintain the independence of the compliance function and avoid multi-role assignments involving compliance officers. However, Labuan FSA recognises that smaller LFIs or those operating within group structures may operate at a scale where dual-hatting arrangement is a proportionate and efficient approach. In such pecuniary situations, the LFI is required to ensure that compliance oversight remains independent and effective.

- To ensure independence is preserved under such dual-hatting arrangements, the following safeguards should be applied:

  (i) Four-eye Policy
    - Compliance work is independently reviewed (e.g. by the Group Compliance function located at head/regional office or another senior officer) and not approved by the preparer;
    - Compliance records are kept separate from business decisions to ensure audit transparency; and
    - Any material compliance issue needs to be escalated directly to the Board/Audit Committee or an independent director.

[1] This refers to the *Guidelines on External Service Arrangements for Labuan Financial Institutions* issued on 30 April 2020.

(ii) Matrix/dotted-line Reporting

- The compliance officer must have a dotted-line reporting relationship to the Group Compliance at head office to provide an additional layer of independent oversight and challenge compliance matters, separate from the business leadership role.

C. COMPLIANCE FUNCTION OVERSIGHT AND RELATED AREAS

5. Can the LFI operating as a branch rely on its parent/head office's compliance policies?

The LFI operating as a branch may adopt or leverage the compliance policy of its parent or head office. However, Labuan FSA expects the compliance policy is appropriately tailored to meet the specific regulatory requirements applicable in the Labuan International Business and Financial Centre (Labuan IBFC).

6. Can the LFI include the roles and responsibilities of Board, senior management and Compliance Officer/Function in the compliance manual?

Yes. The manual may clearly define the roles and responsibilities of the Board, senior management and Compliance Officer/Function to support effective compliance governance. For instance, the Board and senior management oversee the LFI's overall compliance framework and ensure that a sound compliance culture is embedded across the LFI. The Compliance Officer/Function is responsible for implementing and enforcing measures in line with regulatory requirements and internal policies.

7. Do the Guidelines cover Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) compliance requirements?

The Guidelines aim to establish a sound, independent and effective compliance framework within LFIs to ensure ongoing adherence to applicable law, regulatory requirements and internal policies and procedures. While the Guidelines do not prescribe detailed AML/CFT obligations, the compliance function is expected to exercise oversight over all areas of regulatory compliance, including AML/CFT, in coordination with the relevant risk and control functions.

For detailed AML/CFT compliance requirements, LFIs should refer to the *Guidelines on Anti-Money Laundering, Countering Financing of Terrorism, Countering Proliferation Financing and Targeted Financial Sanctions for Labuan Key Reporting Institutions* (AML/CFT/CPF and TFS for Labuan KRIs), which outline detailed requirements for managing money laundering and terrorism financing risks.

D. COMPLIANCE REPORTING OBLIGATIONS

8. Are materials presented for group-level Risk Committee meetings sufficient to fulfill the requirement for senior management to report annually to the Board on the effectiveness of the LFI's compliance risk management (paragraph 7.1.3(v))?

No. Labuan FSA expects a separate report on the effectiveness of the LFI's overall compliance risk management to be submitted to the LFI's Board. The report should specifically address the compliance risks, controls and regulatory obligations relevant to the LFI's operations.

9. Under paragraph 7.3.2(ii), the compliance manual must include processes for staff to confidentially report violations or non-compliance to the Compliance Officer within the stipulated timeline. How is "stipulated timeline" defined?

The "stipulated timeline" refers to the specific period set under the LFI's compliance procedures for any violations or non-compliance reporting. Labuan FSA expects LFIs to define a clear, reasonable timeframe that ensures timely escalation, investigation and resolution of compliance matters. It should be effectively communicated to all staff.

10. What does "material" mean in paragraph 7.3.4 regarding reporting non-compliance to Labuan FSA?

"Material" non-compliance refers to compliance failures that may have a significant impact on the LFI's operations, financial condition, reputation or its ability to meet legal and regulatory obligations. For example, compliance failures that may attract a significant risk of legal or regulatory sanctions, material financial loss, or loss to reputation.