



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

# **Electronic Money (E-Money)**

Applicable to: Approved issuers of e-money

**TABLE OF CONTENTS**

<b>PART A</b>	<b>OVERVIEW .....</b>	<b>1</b>
1	Introduction .....	1
2	Applicability .....	1
3	Legal provisions .....	1
4	Effective date .....	2
5	Interpretation .....	2
6	Related legal instruments and policy documents .....	7
7	Policy documents superseded .....	8
<b>PART B</b>	<b>GOVERNANCE .....</b>	<b>9</b>
8	Governance arrangements .....	9
9	Board of directors .....	9
10	Senior management .....	12
11	Control function .....	14
12	Shariah governance .....	17
13	Fit and proper .....	18
<b>PART C</b>	<b>OPERATIONAL AND RISK MANAGEMENT REQUIREMENTS .....</b>	<b>19</b>
14	Local incorporation .....	19
15	Minimum capital funds for non-bank EMI .....	19
16	Safeguarding of funds .....	19
17	Business continuity management .....	20
18	Outsourcing arrangement .....	21
19	Fraud risk management .....	26
20	Account management .....	29
21	White labelling .....	31
22	Other business or activity .....	32
23	Specific requirements for registered merchant acquirers .....	34
24	Exit plan .....	34
25	Winding down or cessation of e-money business .....	36
26	Prohibitions .....	37
<b>PART D</b>	<b>INFORMATION TECHNOLOGY (IT) REQUIREMENTS .....</b>	<b>38</b>
27	Technology risk management .....	38
28	Technology operations management .....	39
29	Cybersecurity management .....	55
30	Technology audit .....	60
31	Internal awareness and training .....	61

<b>PART E</b>	<b>REGULATORY PROCESS</b>	<b>62</b>
32	Approval and notification	62
33	Submission requirements	62
34	Membership in the Financial Ombudsman Scheme	63
<b>APPENDICES</b>		<b>64</b>
Appendix 1	Criteria for eligible EMI	64
Appendix 2	Responsibilities of board committees	65
Appendix 3	Computation of capital funds	66
Appendix 4	Examples of arrangements excluded from the scope of outsourcing	67
Appendix 5	Minimum requirements on the outsourcing agreement	68
Appendix 6	Other exit triggers	70
Appendix 7	Storage and transportation of sensitive data in removable media	71
Appendix 8	Control measures on mobile application and devices	72
Appendix 9	Control measures on QR code	73
Appendix 10	Control measures on cybersecurity	74

## **PART A OVERVIEW**

### **1 Introduction**

- 1.1 E-money serves as a payment instrument that can be used to make payments for purchases of goods and services to merchants who accept e-money as a mode of payment. E-money users may also send or receive funds to or from another user's e-money or bank account, respectively, through person-to-person (P2P) fund transfer service if the e-money issuer (EMI) is allowed to offer such service.
- 1.2 Over the past decade, e-money has evolved and grown significantly due to the proliferation of mobile technology such as Quick Response (QR) codes and mobile applications (apps), digitalization of financial services and shift in consumer behaviour. In addition, the form of e-money has evolved from the traditional stored value cards to network-based solutions such as online accounts or e-wallets.
- 1.3 Due to the growing prominence of e-money in the financial landscape, enhancements to the e-money regulatory framework are needed to ensure e-money continues to be a safe and reliable payment instrument amid the advancement in functionalities and evolution in the enabling technology. This is important to ensure the safety of the e-money funds<sup>1</sup> and the soundness of EMI to manage potential risk of loss to customers, hence fostering continued public confidence in the use of e-money.
- 1.4 This policy document outlines requirements aimed to—
- (a) ensure the safety and reliability of e-money issued by EMI; and
  - (b) preserve customers' and merchants' confidence in using or accepting e-money for the payment of goods and services.

### **2 Applicability**

- 2.1 This policy document is applicable to EMI as defined in paragraph 5.2.

### **3 Legal provisions**

- 3.1 The requirements in this policy document are specified pursuant to—
- (a) sections 47(1), 123(1) and 143 of the FSA; and
  - (b) sections 29(2), 57(1), 135(1) and 155 of the IFSA.

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<sup>1</sup> As reflected in the outstanding e-money liabilities.

- 3.2 The guidance in this policy document is issued pursuant to section 266 of the FSA and section 277 of the IFSA.

#### 4 Effective date

- 4.1 This policy document comes into effect on 31 January 2025.

#### 5 Interpretation

- 5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA or IFSA, as the case may be, unless otherwise defined in this policy document.

- 5.2 For the purpose of this policy document–

“**S**” denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;

“**G**” denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

“**active politician**” refers to an individual who-

- (a) is a member of any national or state legislative body; or
- (b) is an office bearer of, or holds any similar position in a political party, in or outside Malaysia;

“**affiliate**”, in relation to an entity, refers to any corporation that controls, is controlled by, or is under common control with, the entity;

“**Bank**” refers to Bank Negara Malaysia;

“**banking institution**” refers to a licensed bank, a licensed Islamic bank, and a prescribed institution as defined under the Development Financial Institutions Act 2002 (DFIA);

“**business continuity management**” or “**BCM**” refers to an enterprise-wide framework that encapsulates policies, processes and practices that ensure the continuous functioning of an EMI during an event of disruption. It also prepares the EMI to resume and restore its operations and services in a timely manner during an event of disruption, thus minimising any material impact to the EMI;

**“control function”** refers to a function that has a responsibility independent from business lines to provide objective assessments, reporting and assurance on the effectiveness of an EMI’s policies and operations, and its compliance with legal and regulatory obligations. This includes the risk management function, the compliance function, and the internal audit function;

**“counterparty information”** refers to any information relating to the affairs or the account of any counterparty of the EMI;

**“credit transfer”** refers to a payment service which allows a payor to instruct the institution at which the payor’s bank account or e-money account is held to transfer funds to a beneficiary in another bank account or e-money account, irrespective of any underlying obligation between the payor and the beneficiary. For the avoidance of doubt, any reference to “credit transfer” in this policy document shall include a reference to both a fund transfer transaction and a purchase transaction regardless of the technology used to facilitate the transaction including QR code;

**“critical system”** refers to any application system that supports the provision of EMI services, where failure of the system has the potential to significantly impair the EMI’s provision of financial services to customers or counterparties, business operations, financial position, reputation, or compliance with applicable laws and regulatory requirements;

**“cross-selling”** refers to an act of an EMI offering to its customers either complementary or related financial products or services. This includes an EMI acting as an agent to provide the financial products or services;

**“customer”** or **“user”** refers to any person to whom e-money has been issued or any person who uses e-money to make payment or any other transaction allowed by EMI;

**“customer information”** refers to any information relating to the affairs or the account of any customer of the EMI in whatever form including in the form of a record, book, register, correspondence, other document or material;

**“cyber resilience”** refers to the ability of people, processes, IT systems, applications, platforms or infrastructures to withstand adverse cyber events;

**“cyber risk”** refers to threats or vulnerabilities emanating from the connectivity of internal technology infrastructure to external networks or the Internet;

**“digital services”** refers to the provision of payment services delivered to customers via electronic channels and devices including internet and mobile devices, self-service terminals and point-of-sale terminals;

**“electronic money” or “e-money”** refers to any payment instrument or Islamic payment instrument, whether tangible or intangible, that–

- (a) stores funds electronically in exchange of funds paid to the issuer; and
- (b) is able to be used as a means of making payment to any person other than the issuer;

**“eligible EMI”** refers to an EMI described in Appendix 1;

**“e-money issuer” or “EMI”** refers to any person approved by the Bank under section 11 or section 15(1)(e) of the FSA or section 11 of the IFSA to issue e-money;

**“executive director”** refers to a director of an EMI who has management responsibilities in the EMI or any of its affiliates;

**“Financial Ombudsman Scheme (FOS)”** refers to a scheme that functions as an alternative dispute resolution channel to resolve disputes between financial institutions and consumers. The Ombudsman for Financial Services (OFS) is the operator of the FOS approved by the Bank pursuant to section 126(2) of the FSA and section 138(2) of the IFSA;

**“independent director”** refers to a director who is described as being independent in accordance with paragraph 9.14;

**“internal control framework”** refers to the set of rules and controls governing an EMI’s organisational and operational structure, including reporting processes and control functions;

**“licensed bank”** refers to any person licensed under section 10 of the FSA to carry on banking business;

**“licensed Islamic bank”** refers to any person licensed under section 10 of the IFSA to carry on Islamic banking business and includes a licensed international Islamic bank;

**“material outsourcing arrangement”** refers to an outsourcing arrangement which–

- (a) in the event of a service failure or security breach, has the potential to significantly impact EMI’s provision of financial services to customers,

- business operations, financial position, reputation, or compliance with applicable laws and regulatory requirements;
- (b) involves customer information where in the event of unauthorised access, disclosure, modification, loss or theft of the information, has a material impact on the customer or EMI; or
- (c) where the arrangement involves control functions or customer funds management.

**“material technology project”** refers to projects which involve critical systems, the delivery of essential services to customers or counterparties, or compliance with regulatory requirements;

**“merchant”** refers to a person or an entity that accepts e-money for sale of goods or services;

**“non-bank EMI”** refers to an EMI which is not a licensed bank, licensed Islamic bank, or a prescribed institution as defined under the DFIA;

**“OTP”** or **“one-time password”** refers to an alphanumeric or numeric code represented by a minimum of six characters or digits which is valid only for single use to validate a specific transaction;

**“outsourcing arrangement”** refers to an arrangement in which a service provider performs an activity on behalf of EMI on a continuing basis<sup>2</sup>, where the activity would otherwise be undertaken by the EMI but does not include activities set out in Appendix 4;

**“outstanding e-money liabilities”** refers to—

- (a) the unutilised amount of e-money which has been issued; and
- (b) the utilised amount of e-money which is pending payment to merchants;

**“payment instrument”** refers to any instrument, whether tangible or intangible, that enables a person to obtain money, goods or services or to make any payment;

**“production data centre”** refers to any facility which hosts active critical production application systems irrespective of location;

**“purchase transaction”** refers to any transaction between a customer and a merchant for the purchase of goods and services;

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<sup>2</sup> For the avoidance of doubt, an agreement which is time-bound does not preclude the activity from being considered as being performed on a continuing basis.



**“registered merchant acquirer”** refers to any person who is registered by the Bank pursuant to sections 17(1) and 18 of the FSA to provide merchant acquiring services and fulfils the criteria under paragraph 2.1 of the policy document on Merchant Acquiring Services as amended from time to time;

**“risk-based authentication”** refers to a dynamic and data-driven authentication method, where information about each transaction is evaluated to determine the transaction’s risk in order to prevent fraud and provide better customer experience;

**“senior management”** refers to the Chief Executive Officer (CEO) and senior officers;

**“senior officer”** refers to a person, other than the CEO or a director, having authority and responsibility for planning, directing or controlling the activities of an EMI, including the Chief Operating Officer, Chief Financial Officer, members of decision-making committees and other persons performing key functions such as risk management, compliance or internal audit;

**“service provider”** refers to an entity, including an affiliate, providing services to an EMI under an outsourcing arrangement;

**“shareholder”** refers to any person who holds an aggregate of 5% or more interest in shares<sup>3</sup> of an EMI;

**“Shariah compliant e-money”** refers to any designated Islamic payment instrument that is structured based on appropriate Shariah contracts, whether tangible or intangible, that–

- (a) stores funds electronically in exchange of funds paid to the issuer; and
- (b) is able to be used as a means of making payment to any person other than the issuer;

**“standard EMI”** refers to an EMI other than an eligible EMI;

**“sub-contractor”** refers to any entity, including an affiliate, which performs the whole or a part of the outsourced activity for the primary service provider;

**“technology service provider”** refers to a group affiliate or external entity providing technology-related functions or services that involve the transmission, processing, storage or handling of confidential information pertaining to the EMI

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<sup>3</sup> Interest in shares shall be construed as set out in section 2(1) and Schedule 3 of the FSA or IFSA.

or its customers. This includes cloud computing software, platform and infrastructure service providers;

**“wallet limit”** refers to the maximum monetary value that can be stored in an e-money; and

**“white labelling”** refers to an arrangement between an EMI and a partner or other entity to allow such partner or entity to offer e-money to their customers under their own brand, while the ultimate responsibility remains with the EMI in managing the e-money funds and operations.

## **6 Related legal instruments and policy documents**

- 6.1 This policy document must be read together with other relevant legal instruments, policy documents and guidelines issued by the Bank, as amended from time to time, in particular–
- (a) Policy Document on Anti-Money Laundering, Counter Financing of Terrorism and Targeted Financial Sanctions for Financial Institutions (AML/CFT and TFS for FIs);
  - (b) Guidelines on Complaints Handling;
  - (c) Policy Document on Fair Treatment of Financial Consumers;
  - (d) Policy Document on Fit and Proper Criteria for Approved Person;
  - (e) Guidelines on Product Transparency and Disclosure;
  - (f) Policy Document on Management of Customer Information and Permitted Disclosures;
  - (g) Policy Document on Interoperable Credit Transfer Framework;
  - (h) Policy Document on Merchant Acquiring Services;
  - (i) Policy Document on Risk-Based Authentication for Online Payment Card Transaction;
  - (j) Policy Document on Payment Cards Framework;
  - (k) Policy Document on Risk Management in Technology (RMiT);
  - (l) Policy Document on Electronic Know-Your-Customer (e-KYC);
  - (m) Policy Document on Business Continuity Management;
  - (n) Policy Document on STATsmart Reporting Requirements on Data Submission for Reporting Entities;
  - (o) Policy Document on Wakalah;
  - (p) Policy Document on Wadi'ah;
  - (q) Policy Document on Qard; and
  - (r) Shariah Advisory Council of Bank Negara Malaysia (SAC) Ruling on E-Money as a Shariah Compliant Payment Instrument.

## **7 Policy documents superseded**

- 7.1 This policy document supersedes the policy document on Electronic Money (E-Money) issued on 30 December 2022.

## PART B GOVERNANCE

### 8 Governance arrangements

- S** 8.1 An EMI shall establish appropriate governance arrangements, which are effective and transparent, to ensure the continued integrity of its e-money scheme, which include, among others, the following–
- (a) a board of directors (the board) and senior management that consists of people with calibre, credibility and integrity;
  - (b) clearly defined and documented organisational arrangements, such as ownership and management structure; and
  - (c) segregation of duties and control function to reduce potential mismanagement and fraud.

### 9 Board of directors

- S** 9.1 The board responsibilities outlined in this policy document shall be read together with section 56 of the FSA and section 65 of the IFSA.
- S** 9.2 The board must have a board charter that sets out the mandate, responsibilities and procedures of the board and its committees (if any), including the matters reserved for the board's decision.
- S** 9.3 The board has the overall responsibility for promoting the sustainable growth and financial soundness of an EMI, and for ensuring reasonable standards of fair dealing, without undue influence from any party. This includes consideration of the long-term implications of the board's decisions on the EMI and its customers, employees, officers and the general public. In fulfilling this role, the board must–
- (a) approve the risk appetite, business plans and other initiatives which would, individually or collectively, have a material impact on the EMI's risk profile<sup>4</sup>;
  - (b) oversee the selection, performance, remuneration and succession plans of the CEO, control function heads and other members of senior management, such that the board is satisfied with the collective competence of senior management to effectively lead the operations of the EMI;
  - (c) oversee the implementation of the EMI's governance framework and internal control framework, and periodically review whether these remain appropriate in light of material changes to the size, nature and complexity of the EMI operations;

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<sup>4</sup> This would include initiatives, which affect the financial soundness, reputation or key operational controls of the EMI.

- (d) promote, together with senior management, a sound corporate culture within the EMI, which reinforces ethical, prudent and professional conduct and behaviour;
- (e) oversee and approve business continuity plans, as well as exit plan, and ensure such plans are updated, particularly as and when there are material changes to the size, nature and complexity of the EMI operations that can significantly affect the said plans; and
- (f) promote timely and effective communication between the EMI and the Bank on matters affecting or that may affect the safety and soundness of the EMI.

- S** 9.4 The chairman, in leading the board, is responsible for the effective overall functioning of the board. In fulfilling this role, the chairman must—
- (a) ensure that appropriate procedures are in place to govern the board's operations;
  - (b) ensure that decisions are taken on a sound and well-informed basis, including by ensuring that all strategic and critical issues are considered by the board, and that directors receive the relevant information in a timely manner;
  - (c) encourage healthy discussion and ensure that dissenting views can be freely expressed and discussed; and
  - (d) lead efforts to address the board's developmental needs.
- S** 9.5 For the board of an EMI approved by the Bank under section 15(1)(e) of the FSA or section 11 of the IFSA, the overall responsibility outlined in paragraph 9.3 includes the responsibility to promote Shariah compliance in accordance with requirements set out under paragraph 12 and to ensure its integration with the EMI business and risk strategies.

### ***Board appointments***

- S** 9.6 A director must fulfil the minimum requirements set out in paragraphs 9.7 to 9.8 at the time of his appointment and on a continuing basis throughout the appointment period.
- S** 9.7 An EMI shall only appoint as its director, a person who is not disqualified under section 59(1) of the FSA or section 68(1) of the IFSA and has been assessed by the EMI to have complied with the fit and proper requirements specified by the Bank.
- S** 9.8 A director of an EMI must not be an active politician.

**Composition of the board**

- S** 9.9 The board and its committees (if any) must be of a size and composition that promotes effective deliberation and encourages active participation of all directors.
- S** 9.10 An EMI shall ensure board members collectively possess the necessary skill sets or business knowledge required to effectively support the board. These criteria and skill sets shall be reviewed regularly by the board to ensure alignment with the strategic direction of, and emerging challenges faced by the EMI.
- S** 9.11 The chairman of the board must be a non-executive director.
- S** 9.12 An EMI<sup>5</sup> shall ensure no less than two-thirds of the board members are non-executive directors.
- S** 9.13 For an eligible EMI, no less than one-third of the board members shall be independent directors.
- S** 9.14 The board must determine whether an individual to be appointed as an independent director is independent in character and judgment, and free from associations or circumstances that may impair the exercise of his independent judgment. An individual must not be considered to be an independent director if he—
- (a) is or had been an executive director in the EMI or any of its affiliates in the last two (2) years;
  - (b) is a substantial shareholder, or acting on behalf of the substantial shareholder, of the EMI or any of its affiliates; or
  - (c) had a significant business or other contractual relationship with the EMI or any of its affiliates in the last two (2) years.
- S** 9.15 For the purpose of paragraph 9.14, the board must clearly define what constitutes a “significant business or other contractual relationship”, taking into account the nature, size and complexity of the EMI’s operations.

**Board meetings**

- S** 9.16 The board must meet regularly, whereby the number and frequency of board meetings must commensurate with the size and complexity of the EMI’s operations, to review the EMI’s performance, including the status of its compliance with regulatory requirements and to deal with any issues pertaining to the operations of the EMI.

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<sup>5</sup> For the avoidance of doubt, this requirement applies to all eligible and standard EMI.

- S** 9.17 A director must devote sufficient time to prepare for and attend board meetings and maintain a sound understanding of the business of the EMI, as well as, relevant market and regulatory developments.
- S** 9.18 In respect of the quorum for board meetings, an EMI must require at least half of the board members to be present.
- S** 9.19 The board must ensure that clear and accurate minutes of board meetings are maintained to record the decisions of the board, including key deliberations, rationale for each decision made, and any significant concerns or dissenting views. The minutes must indicate whether any director abstained from voting or excused himself from deliberating on a particular matter.
- S** 9.20 For eligible EMIs, a director must attend at least 75% of the board meetings held in each financial year.

***Board committees (applicable to eligible EMIs only)***

- S** 9.21 At a minimum, an eligible EMI shall establish the following board committees—  
(a) board audit committee; and  
(b) board risk management committee.
- G** 9.22 An eligible EMI may combine its board audit committee and board risk management committee.
- S** 9.23 Each board committee shall—  
(a) not be chaired by the chairman of the board;  
(b) have at least three (3) directors of the EMI as members of the board committee;  
(c) have at least one-third of independent directors of the EMI as members of the board committee; and  
(d) be chaired by an independent director.
- S** 9.24 For purposes of paragraphs 9.23(b) and (c), the directors shall be among those who have the skills, knowledge and experience relevant to the responsibilities of the board committee.
- S** 9.25 Each board committee shall have its Terms of Reference and shall assume the specific responsibilities enumerated for it in Appendix 2.

**10 Senior management**

- S** 10.1 An EMI shall only appoint as its senior management, a person who is not disqualified under section 59(1) of the FSA or section 68(1) of the IFSA and has

been assessed by the EMI to have complied with the fit and proper requirements specified by the Bank.

- S** 10.2 An eligible EMI shall not appoint its substantial shareholder as its senior management. This serves to preserve an appropriate separation between ownership and management of an EMI in line with the broader responsibilities of EMIs towards its customers and merchants.
- S** 10.3 A CEO must devote the whole of his professional time to the service of the EMI and shall have his principal or only place of residence within Malaysia unless the Bank approves otherwise in writing under section 55(3) of the FSA and section 64(3) of the IFSA.
- S** 10.4 An EMI that is involved in other business or activity, other than issuing e-money, shall appoint a dedicated senior officer with relevant expertise and experience to assume the role of the Head of e-money business.
- S** 10.5 The senior management of an EMI is responsible for ensuring the following—
- (a) effective policies and procedures are established and implemented for, among others, the following areas—
    - (i) risk management and appropriate controls to manage and monitor risks;
    - (ii) due diligence and oversight to manage arrangements with service providers supporting the e-money operations;
    - (iii) sufficient and timely reporting or escalation of issues to the board;
  - (b) overseeing the formulation and effective implementation of any business or strategic plan, including the strategic technology plan and associated technology policies and procedures;
  - (c) robust decision making processes with adequate consideration on customers' interests; and
  - (d) a robust assessment is conducted to approve any deviation from policies and procedures, including technology-related policies. Material deviations must be reported to the board.
- S** 10.6 The senior management shall consist of individuals with the appropriate skill set and experience to support and manage the e-money business. This includes individuals with technology background to provide guidance on the EMI's technology plans and operations.
- S** 10.7 For the purpose of paragraph 10.6, an eligible EMI shall ensure that a designated staff who does not engage in day-to-day technology operations shall be responsible for the identification, assessment and mitigation of technology risks.



**11 Control function**

- G** 11.1 The board and senior management are encouraged to create an environment, which-
- (a) ensures that the EMI and its officers comply with legal and regulatory requirements;
  - (b) adopts relevant risk management practices; and
  - (c) encourages ethical conduct that underlies the legal and regulatory requirements.
- S** 11.2 The board is responsible for overseeing the management of an EMI's control function. The board shall–
- (a) ensure an effective risk management framework that is appropriate to the nature, scale and complexity of its activities is in place;
  - (b) ensure that the control functions are established and sufficiently resourced, with the officers<sup>6</sup> accorded with appropriate stature, authority and independence;
  - (c) ensure the appointment of officers who have adequate working knowledge in e-money business and the legal and regulatory framework, and can effectively support the EMI's internal control framework;
  - (d) provide the relevant officers with direct and unimpeded access to the board; and
  - (e) where the risk management officer and compliance officer is the same person or performs the responsibilities of other control functions except for internal audit, be satisfied that a sound overall control environment will not be compromised by the combination of responsibilities performed by the officer.
- S** 11.3 The senior management is collectively responsible for the effective management of an EMI's internal control framework. In discharging this responsibility, senior management shall–
- (a) establish a written policy for the control function and ensure that it is kept up to date;
  - (b) establish a control function commensurate with the size, nature of operations and complexity of the EMI, having regard to the requirements in paragraphs 11.4 to 11.17;
  - (c) provide sufficient resources for the control function, including officers with the appropriate competencies and experience;
  - (d) ensure that the person performing the control function is kept informed of any organisational developments to facilitate the timely identification of compliance risk;

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<sup>6</sup> Compliance, risk management and internal audit officer.

- (e) report to the board regularly on compliance or risk issues, and promptly on any material incidents of non-compliance; and
- (f) report to the board at least annually on the effectiveness of the EMI's overall compliance and risk management.

- S** 11.4 An EMI shall organise its control function in a manner that allows compliance and risk management to be managed effectively, taking into account the size, nature of operations and complexity of the EMI's business.
- S** 11.5 The control function must be independent of business lines in order to carry out its role effectively. As such, an EMI must ensure that the control function is not placed in a position where there are real or potential conflicts in respect of its scope of responsibilities, reporting lines or remuneration.
- S** 11.6 Where two or more control function responsibilities (excluding internal audit) are performed by one officer, senior management must ensure that officer has the capacity and expertise to deliver his broader mandates while providing adequate focus to his control function responsibilities.
- S** 11.7 Where two or more control function responsibilities (excluding internal audit) are performed by one officer, the said officer must ensure that his independence, ability to provide sufficient time, focus and commitment to his responsibilities in respect of the control function are not impaired.

### **Compliance**

- S** 11.8 The compliance officer shall identify and assess the compliance risk associated with an EMI's activities. This requires the compliance officer to have adequate knowledge and exposure to key business processes of the EMI and keep up to date with material changes in the EMI's business.
- S** 11.9 The compliance officer must report to senior management on a regular basis the findings and analyses of compliance risk. The report shall include at a minimum—
- (a) the results of the compliance risk assessment undertaken during the assessment period, highlighting key changes in the compliance risk profile of an EMI, as well as, areas where greater attention by senior management would be needed;
  - (b) a summary of incidents of non-compliance and deficiencies in the management of compliance risk in various parts of the EMI;
  - (c) an assessment of the impact (both financial and non-financial) of such incidents of non-compliance and deficiencies on the EMI (for example, fines, administrative enforcement or disciplinary actions taken by any regulatory authority against the EMI or its officers);

- (d) recommendations of corrective measures to address incidents of non-compliance and deficiencies in the management of compliance risk; and
- (e) a record of corrective measures already taken and an assessment of the adequacy and effectiveness of such measures.

- S** 11.10 The compliance officer shall ensure that the reports referred to in paragraph 11.9 are readily available to the internal audit function of the EMI, the Bank and other relevant regulatory authorities upon request.

### ***Risk management***

- S** 11.11 An EMI shall establish a risk management framework that enables the identification, measurement, and continuous monitoring of all relevant and material risks. The framework shall be supported by a robust management information system (MIS) that facilitates timely and reliable reporting of risks.
- S** 11.12 An EMI shall establish risk monitoring and reporting requirements, which include the development and use of key risk indicators to provide early warnings on adverse risk developments to ensure the EMI is able to manage and mitigate its risks in a timely manner.
- S** 11.13 The risk management officer must report to the board and senior management on a regular basis on the assessment of material risks affecting the EMI and ensure the material risks are mitigated and periodically monitored. The report must be readily available to the internal audit function of the EMI, the Bank and other regulatory authorities upon request.

### ***Internal Audit***

- S** 11.14 An EMI shall ensure that there is clear separation of the internal audit function and other control functions, e.g. compliance and risk management function.
- S** 11.15 Compliance and risk management functions and the framework for such functions shall be included in the risk assessment methodology of the internal audit function, and an audit programme that covers the adequacy and effectiveness of the compliance and risk management functions' responsibilities shall be established, including testing of controls commensurate with the perceived level of risk.
- S** 11.16 The internal audit function shall report regularly to the board and senior management on the effectiveness and adequacy of the risk management and compliance functions and assess whether the said functions are working effectively.

- S** 11.17 The internal audit function shall inform senior management, including the compliance or risk management officer, of any incidents of non-compliance or material risks that it discovers.

## **12 Shariah governance**

- S** 12.1 Paragraphs 12.2 to 12.8 shall only apply to EMIs approved by the Bank under section 15(1)(e) of the FSA or section 11 of the IFSA.
- S** 12.2 An EMI that issues Shariah compliant e-money shall comply with the rulings of the Shariah Advisory Council of Bank Negara Malaysia and relevant Shariah standards issued by the Bank.
- S** 12.3 The board shall be responsible for ensuring the EMI's Shariah compliant e-money complies with Shariah at all times.
- S** 12.4 Senior management shall ensure the operationalisation of Shariah compliant e-money complies with Shariah at all times.
- S** 12.5 An EMI that issues Shariah compliant e-money shall appoint a qualified individual, a company or an existing Shariah committee<sup>7</sup> within its group affiliate as a Shariah advisor, who is responsible to provide objective and sound advice to ensure that the EMI complies with Shariah at all times.
- S** 12.6 For purposes of paragraph 12.5, the individual Shariah advisor or the representative of a company appointed as the Shariah advisor of an EMI shall—
- (a) be a Muslim individual;
  - (b) not be an active politician;
  - (c) hold a bachelor's degree in Shariah, which includes study in *Usul Fiqh* (principles of Islamic jurisprudence) or *Fiqh Muamalat* (Islamic transaction/commercial law); and
  - (d) possess solid knowledge in Shariah with reasonable knowledge and experience in Islamic finance.
- S** 12.7 An EMI shall notify the Bank in writing on a new appointment of the Shariah advisor within fourteen (14) days from the date of such appointment.
- S** 12.8 An EMI must ensure the robustness of its internal control functions for effective management of Shariah non-compliance risk. This shall include, but is not limited to, the EMI conducting an annual assessment on the compliance of its Shariah compliant e-money issued by it with the relevant Shariah requirements.

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<sup>7</sup> Which has been approved by the Bank under section 31 of the IFSA.

**13 Fit and proper**

- S** 13.1 An EMI shall ensure its directors, CEO and individual Shariah advisor are people with calibre, credibility, integrity, and fulfil the fit and proper criteria as stipulated in the policy document on Fit and Proper Criteria for Approved Person as amended from time to time<sup>8</sup>.
- S** 13.2 Where the Shariah advisor appointed is a company, an EMI shall ensure that the company's executive director, senior management and representative of a company appointed as the Shariah advisor of an EMI fulfil the fit and proper criteria as stipulated in the policy document on Fit and Proper Criteria for Approved Person as amended from time to time.

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<sup>8</sup> For the avoidance of doubt, references to "key responsible persons" in the policy document on Fit and Proper Criteria for Approved Person as amended from time to time, shall be deemed to include references to a "Shariah Advisor" for purposes of this policy document.

## **PART C OPERATIONAL AND RISK MANAGEMENT REQUIREMENTS**

### **14 Local incorporation**

- S** 14.1 An EMI shall be a company incorporated under the Companies Act 2016.

### **15 Minimum capital funds for non-bank EMI**

- S** 15.1 A non-bank EMI shall maintain the required minimum amount of capital funds as prescribed by the Bank under section 12(1) of the FSA and IFSA.
- S** 15.2 For purposes of paragraph 15.1, the required minimum capital funds shall be computed in accordance with Appendix 3.

### **16 Safeguarding of funds**

- S** 16.1 An EMI shall ensure any funds collected in exchange of e-money issued are maintained separately in a separate account from other funds be it the EMI's working capital or any funds maintained for the EMI's other business or activity.
- S** 16.2 A non-bank EMI shall deposit the funds collected in exchange of e-money issued in a trust account with a banking institution after receiving it from a customer in accordance with the following requirements—
- (a) the trust account shall be established in accordance with the Trustee Act 1949;
  - (b) the funds can only be used for the following—
    - (i) refund to customers;
    - (ii) payment to merchants for settlement of transaction conducted by the customer, including for repayment of any advance settlement by relevant intermediaries (e.g. payment system operator, acquirer) involved in making the payment to merchants; or
    - (iii) payment to another e-money account or bank account arising from a credit transfer transaction conducted by the customer.
  - (c) the funds can only be invested in high quality liquid ringgit assets, which are limited to—
    - (i) deposits placed with banking institutions;
    - (ii) debt securities issued or guaranteed by the Federal Government or the Bank;
    - (iii) Cagamas debt securities; and
    - (iv) other instruments as may be specified by the Bank;

- (d) any revenue earned from the investment of the funds in the trust account can only be used for activities specified under paragraph 16.2(b) unless the funds are in excess of the total outstanding e-money liabilities; and
- (e) payment for any costs, charges and expenses incurred in connection with the administration of the trust account can be made from the trust account only if the balance in the trust account after deduction of the cost, charges and expenses is sufficient to cover all outstanding e-money liabilities.

- S** 16.3 A non-bank EMI shall ensure that funds in the trust account are at all times sufficient to cover the total outstanding e-money liabilities.
- G** 16.4 Where a non-bank EMI's total outstanding e-money liabilities are greater than the funds in the trust account, a non-bank EMI is encouraged to deposit funds into the trust account within one (1) working day to ensure paragraph 16.3 is complied with.
- G** 16.5 Notwithstanding paragraph 16.2, a non-bank EMI with total outstanding e-money liabilities of less than RM1 million may safeguard the funds collected in exchange of e-money issued using–
- (a) a bank guarantee; or
  - (b) other methods subject to the following conditions:
    - (i) effectiveness of the method must be at par with a bank guarantee or trust account; and
    - (ii) the non-bank EMI obtains the Bank's prior written approval.
- G** 16.6 An EMI is recommended to spread out the placement of the funds received in exchange of e-money issued, in bank accounts maintained at several banking institutions to mitigate risk exposure to any single banking institution.
- S** 16.7 A non-bank EMI shall ensure that it has sufficient liquidity for its daily operations. At a minimum, an EMI shall maintain a liquidity ratio<sup>9</sup> of one (1).

## **17 Business continuity management<sup>10</sup>**

- S** 17.1 The board and senior management are responsible for ensuring identification and implementation of an effective BCM framework within the EMI.
- S** 17.2 An EMI must undertake a structured risk assessment process to–
- (a) identify potential threats that could cause material business disruptions, resulting in inability to fulfil business obligations; and

<sup>9</sup> Liquidity ratio refers to current ratio of the EMI (i.e. current asset / current liabilities).

<sup>10</sup> For the avoidance of doubt, eligible EMIs and EMIs that are banking institutions shall comply with the requirements under the policy document on Business Continuity Management as amended from time to time.

- (b) assess the likelihood of the identified threats occurring and determine the impact on the EMI.

- G** 17.3 For purposes of paragraph 17.2, the EMI is encouraged to carry out a business impact analysis (BIA) on an annual basis and whenever there are material changes to the EMI's business activity, as this forms the foundation of developing the business continuity plan (BCP).
- S** 17.4 An EMI shall determine the maximum tolerable downtime (MTD) and recovery time objectives (RTO) for each critical business function. The goal is to develop a BCP that details the procedures and the minimum level of resources required to recover the critical business functions within the recovery timeframe and maintain services at an acceptable level.
- S** 17.5 An EMI shall develop an effective BCP and disaster recovery plan (DRP) for at least all critical business functions.
- S** 17.6 To ensure the comprehensiveness of its BCM, an EMI shall ensure its service provider has an effective BCP and DRP, and implements relevant safeguards to ensure continuity of the material outsourcing arrangements, with the objective to minimise the EMI's business disruptions.
- S** 17.7 The BCP and DRP of an EMI and its service provider must be tested regularly to ensure the functionality and effectiveness of the recovery strategies and procedures, preparedness of staff and other recovery resources.

## **18 Outsourcing arrangement**

- S** 18.1 An EMI shall remain responsible and accountable for any services outsourced to a service provider under an outsourcing arrangement.
- S** 18.2 An EMI shall obtain the Bank's prior written approval before—
  - (a) entering into a new material outsourcing arrangement; or
  - (b) making material changes to an existing material outsourcing arrangement.
- S** 18.3 For the purpose of paragraph 18.2, in assessing whether an outsourcing arrangement is material, an EMI shall take into consideration the following factors:
  - (a) significance of the outsourcing activity in facilitating the EMI to achieve its strategic and business objectives;
  - (b) impact on the EMI's continuing ability to meet its obligations to its customers and counterparties in the event the service provider fails to provide the service or encounters a breach of data confidentiality or security;



- (c) aggregate exposure to a particular service provider in cases where the EMI, including any affiliates, outsources multiple activities to the same service provider; or
- (d) complexity of the outsourcing arrangement and number of parties involved, in particular where the service is sub-contracted or where more than one service provider collaborates to deliver an end-to-end outsourcing solution.

**S** 18.4 The board shall review and approve any new material outsourcing arrangement considered by the EMI or any material changes to an existing material outsourcing arrangement, before the proposal is submitted to the Bank for approval.

**S** 18.5 Prior to entering into any outsourcing arrangement, an EMI shall, at a minimum, ensure the following–

- (a) availability of sufficient expertise within the EMI to oversee and manage<sup>11</sup> the outsourcing relationship; and
- (b) the scope and nature of services and operations to be outsourced would not compromise the controls and risk management of the EMI services.  
An EMI shall ensure the following–
  - (i) the outsourcing of such processes does not take away the critical decision making function of the EMI;
  - (ii) the outsourcing of such processes does not threaten strategic flexibility and internal control framework of the EMI;
  - (iii) the outsourcing of such processes would not impair the reputation, integrity and credibility of the EMI; and
  - (iv) processes are in place for the EMI to retain the continuous ability to comply with the regulatory and supervisory requirements on the outsourced functions.

**S** 18.6 An EMI shall have a contingency plan or arrangements to secure business continuity in the event the outsourcing arrangement is suddenly terminated. This is to mitigate any major business disruption that may occur as a result of the termination of the outsourcing arrangement. The contingency plan shall be reviewed from time to time to ensure that the plan is current and ready for implementation in the event of sudden termination of the outsourcing arrangement.

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<sup>11</sup> For the avoidance of doubt, an EMI may leverage on group resources to meet this requirement provided there is a clear mandate that the function of the shared group service includes the oversight of affiliates' outsourcing arrangements, and that access to these group resources is always available upon the EMI's request for internal use or for supervisory purposes.

- S** 18.7 An EMI shall require the service provider to report to the EMI and the EMI shall monitor the service provider to ensure that the integrity and quality of work conducted by the service provider is maintained.
- S** 18.8 An EMI shall ensure periodic independent reviews are conducted on the outsourced arrangement to monitor the performance of service providers. The reviews shall be done either by the EMI's internal and/or external auditors, or independent reports shall be made available by the service providers, with the same scope of review as if the said operations are conducted in-house.
- S** 18.9 An EMI shall ensure that any weaknesses highlighted during the review under paragraph 18.8 are well documented and promptly rectified by the service provider, especially where such weaknesses may affect the integrity of the internal controls of the EMI.

### ***Assessment of service provider***

- S** 18.10 An EMI shall conduct appropriate due diligence of a service provider at the point of considering new outsourcing arrangements, and upon renewing or renegotiating existing arrangements. The due diligence must cover, at a minimum–
- (a) capacity, capability, financial strength and business reputation. This includes an assessment whether the service provider is a going concern and has strong governance structures to manage the outsourced activity throughout the duration of the arrangement;
  - (b) risk management and internal control capabilities, including physical and IT security controls, and BCM. This includes the ability of the service provider to respond to service disruptions or problems resulting from natural disasters and physical or cyber-attacks, within an appropriate timeframe;
  - (c) the location of the outsourced activity (e.g. city and country), including primary and back-up sites;
  - (d) access rights of the EMI and the Bank to the service provider;
  - (e) measures and procedures to ensure data protection and confidentiality;
  - (f) reliance on sub-contractors, if any, in particular where the sub-contracting adds further complexity to the operational chain of the outsourcing arrangement;
  - (g) undue risks<sup>12</sup> resulting from similar business arrangements, if any, between the service provider and the EMI;
  - (h) the extent of concentration risk to which the EMI is exposed with respect to a single service provider and mitigation measures to address this

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<sup>12</sup> For instance, concentration risk to a systemic service provider in the industry or where the service provider's fee structure or relationship with the EMI may create potential conflict of interest issues.

concentration. This does not apply to a service provider that is an affiliate and is supervised by a financial regulatory authority; and

- (i) ability of the service provider to comply with relevant laws, regulations and requirements in this policy document.

- S** 18.11 In performing due diligence on an affiliate, an EMI shall make an objective assessment of the affiliate's ability to perform the outsourced activity guided by the considerations listed in paragraph 18.10.
- S** 18.12 An EMI shall ensure that the outcomes of the due diligence process are well-documented and included in the outsourcing arrangement proposal to the board, for approval.

### ***Outsourcing agreement***

- S** 18.13 An EMI shall ensure that the outsourcing arrangement is governed by a written agreement that is legally enforceable and shall include the minimum requirements specified in Appendix 5.
- S** 18.14 The outsourcing agreement must also contain provisions which—
  - (a) enable the Bank to have direct, timely and unrestricted access to the systems and any information or documents relating to the outsourced activity;
  - (b) enable the Bank to conduct on-site supervision of the service provider where the Bank deems necessary;
  - (c) enable the Bank to appoint an independent party to perform a review of the relevant systems, information or documents of the service provider relating to the outsourced activity, where the Bank deems necessary; and
  - (d) allow the EMI the right to modify or terminate the arrangement when the Bank issues a direction to the EMI to that effect under the FSA or IFSA, as the case may be.

### ***Protection of data confidentiality***

- S** 18.15 An EMI shall ensure that appropriate controls are in place and are effective in safeguarding the security, confidentiality and integrity of any information shared with the service provider. In meeting this requirement, an EMI shall ensure that—
  - (a) information disclosed to the service provider is limited to the extent necessary to provide the contracted service, and only on a need-to-know basis;
  - (b) all locations (e.g. city and country) where information is processed or stored by the service provider, including back-up locations, are made known to the EMI;

- (c) where the service provider is located, or performs the outsourced activity outside Malaysia, the service provider is subject to data protection standards that are at a minimum comparable to Malaysia;
- (d) where the service provider provides services to multiple clients, the EMI's information must be segregated<sup>13</sup> from the information of other clients of the service provider;
- (e) the service provider maintains compliance with applicable security requirements and established security standards<sup>14</sup> at all times; and
- (f) the service provider undertakes measures to safeguard customer information of the EMI at all times and reports any customer information breach to the EMI within an agreed timeframe.

### ***Outsourcing outside Malaysia***

- S** 18.16 In conducting the due diligence process in respect of outsourcing arrangements where the service provider is located or performs the outsourced activity outside Malaysia, an EMI shall ensure that such assessment addresses the added dimensions of risks associated with outsourcing outside Malaysia, and the ability of the EMI or service provider to implement appropriate responses to emerging risk events in a timely manner.
- S** 18.17 An EMI shall ensure that the outsourcing arrangements undertaken outside Malaysia are conducted in a manner which does not affect–
- (a) the EMI's ability to effectively monitor the service provider and execute its BCM;
  - (b) the EMI's ability to promptly recover data in the event of the service provider's failure, having regard to the laws of the particular jurisdiction; and
  - (c) the Bank's ability to exercise its supervisory powers, in particular the Bank's timely and unrestricted access to systems, information or documents relating to the outsourced activity.

### ***Outsourcing involving cloud services***

- S** 18.18 In relation to the EMI's ability to conduct audits and inspections on the cloud service provider and sub-contractors, an EMI may rely on third party certification and reports made available by the cloud service provider for the audit, but such certifications or reports shall not substitute the EMI's right to conduct on-site inspections where necessary. This is provided that such reliance must be supported by an adequate understanding and review of the scope of the audit and methods employed by the third party, and access by the

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<sup>13</sup> Either logically or physically.

<sup>14</sup> Any relevant local or international standards commonly applied by the relevant industry.

EMI to the said third party and cloud service provider to clarify matters relating to the audit.

- S** 18.19 In relation to the testing of a cloud service provider's BCP, an EMI must be able to access information on the state of robustness of the controls instituted by such cloud service providers arising from the BCP testing.

## **19 Fraud risk management**

- S** 19.1 An EMI shall ensure risk management processes, procedures, systems and controls are in place to enable effective fraud risk mitigation and management.
- S** 19.2 An EMI shall establish effective procedures on fraud detection, analysis, investigation and reporting, which include—
- (a) fraud detection and transaction monitoring that can facilitate timely identification and mitigation of suspicious transactions;
  - (b) regular analysis to understand fraud trends and modus operandi. This includes the ability to be vigilant of evolving trends and taking into account material changes in the business strategy, which may increase exposure to potential fraud risk; and
  - (c) reporting of fraud incidents to senior management and the board on a regular basis.
- S** 19.3 An EMI shall conduct periodic reviews on the adequacy of its fraud risk mitigation measures.
- S** 19.4 In the event of fraud occurrences, the EMI shall take appropriate and immediate corrective measures to address gaps and vulnerabilities in order to strengthen the security features of its e-money scheme.
- S** 19.5 An EMI shall implement relevant safeguards to prevent unauthorized reloading and usage of an e-money account, in particular if auto reloading and peer-to-peer transfer services are allowed.

### ***Risk-based authentication for online payment transactions***

- S** 19.6 An EMI shall authenticate its customer for online payment transactions using strong authentication methods, such as multi-factor authentication (MFA)<sup>15</sup>, to mitigate the risk of fraudulent online payment transactions.
- G** 19.7 Notwithstanding paragraph 19.6, an EMI may adopt risk-based authentication for low risk online payment transactions.

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<sup>15</sup> Based on three (3) basic authentication factors, namely, something the user knows (e.g. PIN, personal information), something the user possesses (e.g. identity card, registered mobile number) and something the user is (e.g. biometric characteristics) which are mutually exclusive.

- S** 19.8 For the purpose of paragraph 19.7, low risk online payment transactions shall consist of the following–
- (a) online payment transactions below RM250 per transaction; or
  - (b) recurring or card-on-file<sup>16</sup> transactions below RM10,000<sup>17</sup> per transaction, where an EMI has authenticated its customer using strong authentication for first time use.
- S** 19.9 In applying risk-based authentication for low risk online payment transactions under paragraph 19.7, an EMI shall–
- (a) ensure the use of effective risk analysis tools and establish a set of criteria or factors that appropriately reflect the nature, size and characteristics of the online payment transactions. Such criteria or factors must be consistent with the EMI's risk appetite and tolerance level; and
  - (b) periodically review the risk assessment criteria or factors to ensure its continued relevance, having regard to latest developments in cybersecurity risks and authentication technologies, as well as, fraud trends and incidents.
- G** 19.10 An EMI is encouraged to identify a tolerable aggregate amount of low risk online payment transactions eligible for risk-based authentication to mitigate against high fraud losses.
- S** 19.11 An EMI shall notify the Bank at least fourteen (14) days prior to first-time implementation of risk-based authentication for low risk online payment transactions under paragraph 19.7.
- S** 19.12 Where an EMI adopts risk-based authentication that enables customers to make unauthenticated online payment transactions, the EMI shall–
- (a) provide customers with an option to opt-out or disable the function that allows unauthenticated online payment transactions, and the option shall be made available through convenient means;
  - (b) set a maximum daily cumulative limit for both the amount and number of unauthenticated online payment transactions for a customer;
  - (c) ensure that customer uses a strong authentication method once the online payment transactions exceed the maximum daily cumulative limit; and
  - (d) not hold a customer liable for fraud losses arising from unauthenticated online payment transactions in situations where the EMI has decided not to apply authentication methods, unless the EMI can prove with sufficient evidence that the customer has acted fraudulently.

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<sup>16</sup> Refers to a transaction where the cardholder has authorised the merchant to store the cardholder's card payment information securely for future purchases.

<sup>17</sup> For open third party fund transfer and open payment transactions with a value of RM10,000 and above, an EMI shall deploy multi-factor authentication solutions with stronger security controls as per paragraph 28.71 to 28.73 of this policy document.

- S** 19.13 An EMI shall provide convenient means to customers to reduce the limits applied under paragraphs 19.8 or the maximum daily cumulative limit as set under paragraph 19.12(b).
- S** 19.14 An EMI shall undertake efforts to raise awareness among customers on an on-going basis to ensure customers understand the functionalities of risk-based authentication, potential risks of unauthenticated transactions, as well as, measures that may be taken by customers to limit such risks (e.g. opt-out). Such efforts shall be made using—
- (a) mediums or channels which enable communications to be displayed prominently and easily accessible to customers, such as in mobile phone applications, e-mails and application notifications; and
  - (b) communication methods that can facilitate easy understanding by customers such as by being multi-lingual, publishing frequently-asked-questions and providing clarity in explanation by call-centres.
- S** 19.15 An EMI shall immediately provide transaction alerts to customers, including customers with foreign-registered mobile numbers after every successful online payment transaction that is not authenticated as per paragraph 19.6.

***Contactless verification requirement***

- S** 19.16 Paragraphs 19.17 to 19.20 shall only apply to an EMI that issues international scheme prepaid cards.
- S** 19.17 An EMI shall set a maximum amount for each contactless transaction, as well as, an appropriate cumulative limit for contactless transactions, which do not entail any customer verification.
- S** 19.18 To promote confidence in the use of contactless prepaid cards, an EMI shall provide customers with the ability to manage the cumulative transaction limit by undertaking the following—
- (a) provide customers with convenient means to set a lower cumulative transaction limit for contactless transactions;
  - (b) provide customers with convenient means to turn off the contactless functionality in contactless prepaid cards; and
  - (c) raise awareness among customers about the facilities set out in paragraphs (a) and (b), at a minimum via the EMI's websites and product disclosure sheet.

***Opt-in requirement for card-not-present and overseas transactions***

- S** 19.19 An EMI must by default disable customers from making—
- (a) any card-not-present transaction that is not authenticated via a strong authentication method such as a dynamic password; and
  - (b) any overseas transaction using a prepaid card,
- and inform the customers on the risks of such transactions.
- S** 19.20 An EMI shall only allow customers to make the transactions listed in paragraph 19.19 where the customers have expressly opted-in to conduct such transactions. Where customers have opted-in to conduct such transactions, the EMI shall provide the customers with the option to disable such transactions.
- G** 19.21 Notwithstanding paragraph 19.16, an EMI that facilitates cross-border payment via its network-based e-money is also encouraged to observe the requirements in paragraphs 19.19 (b) and 19.20, where relevant.

**20 Account management**

- S** 20.1 An EMI shall ensure all e-money transactions in Malaysia are in ringgit.
- S** 20.2 An EMI shall ensure e-money transactions comply with the prevailing foreign exchange rules, including but not limited to those related to investments in foreign currency assets by residents and payment in foreign currency between residents, through the implementation of robust internal controls and procedures.
- S** 20.3 An EMI shall ensure any physical cash withdrawal outside Malaysia using e-money, is undertaken in foreign currency only.
- S** 20.4 An EMI that facilitates withdrawal of e-money balances into a bank account shall ensure any withdrawal of funds from the e-money account is paid into the customer's own bank account with a banking institution only, unless the EMI participates in the Real-time Retail Payments Platform (RPP) and offers credit transactions where withdrawal of e-money balances<sup>18</sup> may be made to other bank or e-money accounts.
- S** 20.5 An EMI shall ensure proper recording, management and monitoring of the accounts of all its customers, at all times.

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<sup>18</sup> Subject to compliance with the relevant AML/CFT requirements.



***Wallet limit***

- S** 20.6 An EMI shall ensure the wallet limit adopted for its e-money is commensurate with the purpose and size of customer transactions.
- S** 20.7 An EMI shall ensure adequate security and operational safeguards are in place to mitigate any risks associated with the use of e-money within the specified wallet limit.
- S** 20.8 An EMI shall obtain the Bank's prior written approval if the increase in wallet limit will result in the following—
- (a) the wallet limit to be RM5,000 or more; or
  - (b) changes in the functionality and product features of the e-money.
- S** 20.9 An EMI shall notify the Bank at least fourteen (14) days prior to any increase in wallet limit below the RM5,000 threshold and where the increase does not involve any changes in functionality and product features of the e-money.

***Refund of e-money balances***

- S** 20.10 An EMI shall provide refunds of e-money balances in its customers' accounts in the event a customer decides to close their account, was wrongly charged or due to disputed transactions.
- S** 20.11 The refund shall be made without any additional costs and shall be done within fourteen (14) days from the date the claim is made by the customer except for complex refund cases.
- G** 20.12 Notwithstanding paragraph 20.11, in cases where a customer requests for the refund of e-money balances to be remitted overseas, an EMI may charge the customer the actual costs incurred by the EMI. The EMI is encouraged to also disclose clearly in the terms and conditions of the e-money product, the circumstances under which a fee will be imposed for the refund of e-money balances and the applicable fee.
- S** 20.13 For complex refund cases that cannot be completed within fourteen (14) days, the EMI shall communicate the reason for such delays to customers in a timely manner and complete the cases within thirty (30) days.
- S** 20.14 An EMI shall provide customers with options for the method of refund and shall not limit refunds only via the crediting of funds back into the customer's e-money account.

***Unclaimed e-money balances***

- S** 20.15 An EMI shall manage any unclaimed e-money balances in accordance with the Unclaimed Moneys Act 1965.

**21 White labelling**

- S** 21.1 An EMI shall obtain the Bank's prior written approval before—
- (a) entering into a white labelling arrangement for the first time; or
  - (b) making material changes to existing white labelling arrangements.
- S** 21.2 After obtaining the Bank's written approval under paragraph 21.1(a), an EMI shall notify the Bank on any subsequent white labelling arrangement, at least fourteen (14) days prior to entering into the said arrangement.
- S** 21.3 Prior to obtaining the Bank's approval, the board shall review and approve the EMI's plan to offer the white labelling arrangement and ensure that the EMI has sufficient resources and capacity to offer such solution. This includes, but is not limited to, having in place a framework, policy and operational procedures, manpower and system infrastructure to support the white labelling solution offered to the partner or other entity.
- S** 21.4 Senior management shall ensure adequate oversight on the implementation of the EMI's white labelling arrangement.
- S** 21.5 By providing white labelling solutions to the partner or another entity, it does not absolve the EMI's responsibility to ensure that the said solution complies with the requirements under this policy document and other applicable standards including those specified in paragraph 6.1.
- S** 21.6 An EMI must not engage in white labelling arrangements with a partner or entity with dubious or illegal activities.
- S** 21.7 At a minimum, an EMI that provides white labelling of its e-money shall ensure—
- (a) proper due diligence is conducted on the partner or entity that it plans to offer the white labelling solution to, which includes assessments on their credibility and capability;
  - (b) an agreement with the partner or entity involved in the white-labelling arrangement is in place and clearly indicates the following—
    - (i) the rights and responsibilities of each party;
    - (ii) responsibilities of the partner or entity on controls and measures to ensure information security;
    - (iii) dispute resolution process in the event of default or non-performance of obligations, including remedies and indemnities where relevant;

- (iv) ability of the EMI and its external auditor<sup>19</sup> to conduct audits and on-site inspections on the partner or entity in relation to the white labelling arrangement;
  - (c) partner or other entity involved in the white-labelling arrangement provide adequate system safeguards for the installation and use of the white labelling solution; and
  - (d) partner or other entity involved in the white-labelling arrangement have appropriate policies and procedures for customer and merchant on-boarding.
- S** 21.8 The EMI shall provide clear and prominent disclosure to customers on the roles and responsibilities of the partner or entity, as well as, the EMI for the e-money issued, including in managing any disputes or issues faced by the customers.
- S** 21.9 The EMI shall disclose the name and brand of the partner and other entity that is using its white labelling solution on the EMI's website and any other relevant platform.
- S** 21.10 The EMI shall maintain proper records with appropriate level of granularity of funds tagged to each partner or entity and their individual customers, including but not limited to, records of funds collected from customers, the e-money transactions, complaints and resolutions, as well as, refunds made to its customers or payment to its merchants.
- S** 21.11 For purposes of paragraph 21.10, a non-bank EMI shall ensure that the trustee who manages the trust account as required under paragraph 16.2 also has clarity on the funds tagged to the customer and merchants of each partner or entity to ensure proper distribution of funds.

## **22 Other business or activity**

### ***Promoting or cross-selling financial products or services***

- S** 22.1 A non-bank EMI shall not use its e-money platform or system to promote or cross-sell any financial products or services<sup>20</sup> except with the Bank's prior written approval.
- S** 22.2 The board shall review and approve any arrangement to promote or cross-sell any financial products or services before the proposal is submitted to the Bank for approval.

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<sup>19</sup> Including an agent appointed by the EMI.

<sup>20</sup> For the avoidance of doubt, this shall include any financial products or services regardless if it is offered by a regulatee of the Bank or otherwise.

- S** 22.3 Prior to entering into any arrangement to promote or cross-sell any financial products or services on its e-money platform or system, a non-bank EMI shall, at a minimum, ensure the following–
- (a) the scope and nature of such arrangement would not significantly increase the risk exposure to the non-bank EMI and would not impair the reputation, integrity and credibility of the non-bank EMI; and
  - (b) the necessary controls and risk management are in place to manage any risks from such arrangement.
- S** 22.4 A non-bank EMI shall ensure the agreement to promote or cross-sell any financial products or services on its e-money platform or system clearly sets out the accountabilities of each party in the arrangement.
- S** 22.5 A non-bank EMI shall provide clear communication to its customers on the demarcation of roles between the non-bank EMI for the e-money business and the provider of the products or services promoted or cross-sold on its e-money platform or system.
- S** 22.6 A non-bank EMI shall inform customers on who is responsible to manage complaints or disputes pertaining to the products or services promoted or cross-sold on its e-money platform or system, including appropriate avenues for customers to seek redress.
- S** 22.7 A non-bank EMI shall notify the Bank at least fourteen (14) days prior to entering into an arrangement to promote or cross-sell non-financial products or services.

### ***Other business of EMI***

- S** 22.8 A non-bank EMI that carries on any other business or activity within the same entity, which is not in connection with or for the purposes of its e-money business, shall–
- (a) establish clear segmentation between the e-money business and the other business or activity, which shall include but is not limited to, establishing and maintaining segmented financial reports<sup>21</sup> on e-money business;
  - (b) establish clear segregation of policies and procedures between the e-money business and the other business or activity;
  - (c) establish clear roles, responsibilities and accountability of the board, senior management and staff for each business or activity;
  - (d) ensure no comingling of e-money funds with its working capital or funds of the other business or activity; and

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<sup>21</sup> May be segmented in the management accounts.

- (e) demonstrate a strong financial position to mitigate the potential that the other business or activity may pose higher risk to the sustainability of the non-bank EMI.

- S** 22.9 A non-bank EMI shall notify the Bank in a timely manner on the following–
- (a) prior to operationalising other business or activities that may potentially be of high risk, the potential impact of such business or activities on the financial viability or reputation of the non-bank EMI; and
  - (b) if there is potential risk or issues arising from its existing non-e-money business or activities which may significantly impact the financial viability or reputation of the non-bank EMI.

## **23 Specific requirements for registered merchant acquirers**

- S** 23.1 An EMI that acquires merchants for the purpose of accepting payment instruments including its own e-money shall be registered pursuant to section 17(1) and 18 of the FSA.
- S** 23.2 For the purpose of paragraph 23.1, the EMI which is a registered merchant acquirer shall also refer to the requirements specified in the policy document on Merchant Acquiring Services as amended from time to time.

## **24 Exit plan**

- S** 24.1 A non-bank EMI shall be prepared to exit the e-money business in the event its business proves to be unsustainable or can no longer support its operations in a reliable manner.
- S** 24.2 A non-bank EMI shall maintain an exit plan, which will enable the non-bank EMI to unwind its business operations voluntarily without any regulatory intervention and in an orderly manner without causing disruption to its customers, merchants and the payment ecosystem where it operates.
- S** 24.3 For the purpose of paragraph 24.2, a non-bank EMI shall establish an exit plan valid for a three (3)-year period, which can be operationalised, if needed. At a minimum, the exit plan must include the following–
- (a) plausible internal triggers<sup>22</sup> for exiting the business, which demonstrate unsustainable business, inability to fulfil the value proposition for its e-money business or materialisation of risks beyond the non-bank EMI's own risk appetite;

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<sup>22</sup>Refer to paragraph 24.4 (b).

- (b) likely options and related measures to be taken for exit that minimises disruption to its customers, merchants and the payment ecosystem<sup>23</sup> where it operates;
- (c) potential impediments to the execution of identified exit options and measures to mitigate the impact of such impediments;
- (d) sources of funding and liquidity for exit (in addition to safeguarding customer funds) and the estimated timeframe to exit the business;
- (e) the necessary capabilities required to extract and aggregate data on customers and/or merchants in a timely manner, upon request, including up-to-date contact information and refund/payment mechanism; and
- (f) the necessary capabilities and resources required to ensure continuity of services throughout the implementation of the exit plan, including the continuity of services under outsourcing arrangements.

**S** 24.4 In relation to paragraph 24.3, a non-bank EMI shall provide to the Bank, a comprehensive description of its exit plan which includes the following–

*Table 1: Content of an exit plan*

	Requirement	Details
(a)	Governance to support informed decision making in the activation of exit plan	<ul style="list-style-type: none"> <li>Well-defined roles and responsibilities of the board, senior management and business unit.</li> <li>Policies, procedures and MIS to inform and support decision-making and smooth execution of exit plan.</li> </ul>
(b)	Exit triggers	<ul style="list-style-type: none"> <li>Identification of exit triggers, i.e. factors and indicators/thresholds that will prompt activation/execution of the exit plan.</li> <li>The exit triggers at a minimum shall include compliance-related indicators, in particular on minimum capital funds, liquidity ratio and the safeguarding of customer funds.</li> <li>Processes for continuous monitoring of factors and indicators/thresholds.</li> </ul>
(c)	Measures to enable an orderly exit from the business while minimizing disruption to third parties, in	<ul style="list-style-type: none"> <li>Identification of possible actions that can be undertaken under different scenarios.</li> <li>Identification of possible funding sources to credibly implement the exit plan.</li> </ul>

<sup>23</sup>For example, if the e-money is used for transportation purposes, whether its exit will cause the transportation community to be significantly disrupted.

	particular customers and counterparties	<ul style="list-style-type: none"> <li>• Description of operational dependencies on external parties and its associated costs throughout the exit phase to ensure smooth operational continuity throughout the exit phase.</li> </ul>
(d)	Communication and engagement strategy (including to the Bank) to mitigate unintended consequences	<ul style="list-style-type: none"> <li>• Identification of key stakeholders, including customers, merchants, relevant regulators and authorities, counterparties, service providers, etc.</li> <li>• Information needs of respective stakeholders.</li> <li>• Medium, timing and frequency of communication.</li> <li>• Person responsible for ensuring the effective coordination and execution of the communication and engagement strategy.</li> </ul>

- G** 24.5 A non-bank EMI is encouraged to consider other exit triggers as listed in Appendix 6 to be included in the exit plan.
- S** 24.6 A non-bank EMI shall submit an exit plan, together with an undertaking to the Bank upon submission of application to issue e-money. The subsequent exit plan and undertaking shall be endorsed by the board and submitted to the Bank within one (1) month after it being endorsed. The undertaking shall cover the non-bank EMI's commitment to its exit plan if its internal triggers are met within the stipulated period.
- S** 24.7 The exit plan and undertaking shall be reviewed every three (3) years or as and when there are material changes to the non-bank EMI's structure or operations.
- S** 24.8 The full implementation of the exit plan shall result in the cessation of the e-money business by the non-bank EMI.

## **25 Winding down or cessation of e-money business**

- S** 25.1 An EMI shall wind-down its existing e-money operations upon the date of revocation of its e-money approval or cessation of business or operations. The winding down procedures shall be commensurate with the nature, size and complexity of the EMI's e-money business and be made in accordance with relevant regulatory requirements.

- S** 25.2 In line with sections 23(2)(b) of the FSA and 20(2)(b) of the IFSA, where the approval to issue e-money is either revoked by the Bank or the EMI has ceased its business or operations, such EMI shall continue to discharge its obligations which includes but is not limited to the following–
- (a) refund the funds collected from customers and settle the outstanding amount with the merchants and relevant beneficiaries of its e-money scheme at a reasonably practicable time;
  - (b) contact and periodically provide reminders to relevant stakeholders, which includes but is not limited to customers and merchants, for them to claim any unclaimed balances of e-money from the EMI;
  - (c) provide adequate notice to the relevant stakeholders on its winding down or cessation of e-money business or operations and that it no longer has the approval under the FSA or IFSA to issue e-money; and
  - (d) ensure customer information continues to be safeguarded and/or disposed appropriately in accordance with statutory records retention requirements.
- S** 25.3 An EMI shall maintain relevant records and accounts to identify the beneficiaries of the e-money funds to enable the EMI to clearly identify and distinguish the funds maintained under paragraph 16.1, 16.2 or 16.5 from other working capital funds of the EMI.
- S** 25.4 For purposes of paragraph 25.3, a non-bank EMI shall ensure these records and information are made available to the trustee who manages the trust account required under paragraph 16.2 to facilitate proper distribution of funds upon winding down or cessation of business or operations.

## **26 Prohibitions**

- S** 26.1 An EMI shall not–
- (a) issue e-money at a premium or discount, i.e. issue e-money that has a monetary value different than the funds received;
  - (b) use the funds collected in exchange of e-money issued to extend loans or financing to any person;
  - (c) extend credit to the customer or any other person, or pay interest, profit or any other form of returns on the e-money balances, that would add to the monetary value of the e-money; and
  - (d) associate, link or use the e-money scheme or platform to conduct dubious or illegal activities.



**PART D INFORMATION TECHNOLOGY (IT) REQUIREMENTS<sup>24</sup>****27 Technology risk management**

- S** 27.1 An EMI shall establish the Technology Risk Management Framework (TRMF), which is a framework to safeguard the EMI's information infrastructure, systems and data as an integral part of the EMI's risk management framework.
- G** 27.2 An EMI is encouraged to include the following in the TRMF–
- (a) clear definition of technology risk;
  - (b) clear responsibilities assigned for the management of technology risk across different levels and functions, with appropriate governance and reporting arrangements;
  - (c) identification of technology risks to which the EMI is exposed, including risks from the adoption of new or emerging technology;
  - (d) risk classification of all information assets/systems based on its criticality;
  - (e) risk measurement and assessment approaches and methodologies;
  - (f) risk controls and mitigations; and
  - (g) continuous monitoring to timely detect and address any material risks.
- G** 27.3 An EMI is encouraged to establish an independent enterprise-wide technology risk management function which is responsible for–
- (a) implementing the TRMF and Cyber Resilience Framework (CRF) as provided under paragraph 29;
  - (b) advising on material technology projects and ensuring critical issues that may have an impact on the EMI's risk tolerance are adequately deliberated by or escalated to senior management in a timely manner; and
  - (c) providing independent views to the board and senior management on third party assessments<sup>25</sup>, where necessary.
- G** 27.4 An EMI is encouraged to designate a Chief Information Security Officer (CISO), or by whatever name called, to be responsible for the technology risk management function of the EMI. The EMI is encouraged to ensure that the

<sup>24</sup> For the avoidance of doubt, eligible EMIs and EMIs that are banking institutions shall comply with the requirements under the policy document on Risk Management in Technology as amended from time to time.

<sup>25</sup> Relevant third party assessments may include the Data Centre Risk Assessment (DCRA), Network Resilience and Risk Assessment (NRA) and independent assurance for introduction of new or enhanced digital services.

CISO has sufficient authority, independence and resources<sup>26</sup>. It is recommended that the CISO–

- (a) be independent from day-to-day technology operations;
- (b) keep apprised of current and emerging technology risks which could potentially affect the EMI's risk profile; and
- (c) be appropriately certified.

- G** 27.5 An EMI is encouraged to make the CISO responsible for ensuring the EMI's information assets and technologies are adequately protected, which includes–
- (a) formulating appropriate policies for the effective implementation of TRMF and CRF;
  - (b) enforcing compliance with policies in paragraph (a) above, frameworks and other technology-related regulatory requirements; and
  - (c) advising senior management on technology risk and security matters, including developments in the EMI's technology security risk profile in relation to its business and operations.

## **28 Technology operations management**

### ***Technology Project Management***

- S** 28.1 An EMI shall establish appropriate governance requirements commensurate with the risk and complexity<sup>27</sup> of technology projects undertaken. This shall include establishing project oversight roles and responsibilities, authority and reporting structures, and risk assessment throughout the project life cycle.
- G** 28.2 It is recommended that the risk assessment identify and address the key risks arising from the implementation of technology projects. These include the risks that could threaten successful project implementation and the risks that a project failure will lead to a broader impact on the EMI's operational capabilities. It is recommended that due regard be given to the following areas–
- (a) the adequacy and competency of resources including those of the service provider to effectively implement the project. This should also take into consideration the number, size and duration of material technology projects undertaken concurrently by the EMI;

<sup>26</sup> An EMI's CISO may take guidance from the expertise of a group-level CISO, in or outside of Malaysia, and may also hold other roles and responsibilities. Such designated CISO shall be accountable for and serves as the point of contact with the Bank on, the EMI's technology-related matters, including managing entity-specific risks, supporting prompt incident response and reporting to the EMI's board.

<sup>27</sup> For example, large-scale integration projects or those involving critical systems should be subject to more stringent project governance requirements such as more frequent reporting to the board and senior management, more experienced project managers and sponsors, more frequent milestone reviews and independent quality assurance at major project approval stages.

- (b) the complexity of systems to be implemented such as the use of unproven or unfamiliar technology and the corresponding risks of integrating the new technology into existing systems, managing multiple service provider-proprietary technologies, large-scale data migration or cleansing efforts and extensive system customisation;
- (c) the adequacy and configuration of security controls throughout the project life cycle to mitigate cybersecurity breaches or potential leaks of confidential data;
- (d) the comprehensiveness of user requirement specifications to mitigate risks from extensive changes in project scope or deficiencies in meeting business needs;
- (e) the robustness of system and user testing strategies to reduce risks of undiscovered system faults and functionality errors;
- (f) the appropriateness of system deployment and fallback strategies to mitigate risks from prolonged system stability issues; and
- (g) the adequacy of disaster recovery operational readiness following the implementation of new or enhanced systems.

- G** 28.3 The board and senior management are encouraged to receive and review timely reports on the management of key risks arising from the implementation of material technology projects on an ongoing basis throughout the implementation of material technology projects.

### ***System Development and Acquisition***

- G** 28.4 An EMI is encouraged to establish an Enterprise Architecture Framework (EAF) that provides a holistic view of technology throughout the EMI. The EAF is an overall technical design and high-level plan that describes the EMI's technology infrastructure, systems' inter-connectivity and security controls. The EAF facilitates the conceptual design and maintenance of the network infrastructure, related technology controls and policies and serves as a foundation on which the EMI's plan and structure system development and acquisition strategies to meet business goals.
- S** 28.5 An EMI shall establish clear risk management policies and practices for the key phases of the system development life cycle (SDLC) encompassing system design, development, testing, deployment, change management, maintenance and decommissioning. Such policies and practices shall also embed security and relevant enterprise architecture considerations into the SDLC to ensure confidentiality, integrity and availability of data<sup>28</sup>. The policies and practices shall be reviewed at least once every three (3) years to ensure that they remain relevant to the EMI's environment.

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<sup>28</sup> The security considerations shall include ensuring appropriate segregation of duties throughout the SDLC.

- G** 28.6 An EMI is encouraged to deploy automated tools for software development, testing, software deployment, change management, code scanning and software version control to support more secure systems development.
- G** 28.7 An EMI is encouraged to consider the need for diversity<sup>29</sup> in technology to enhance resilience by ensuring critical systems infrastructure are not excessively exposed to similar technology risks.
- S** 28.8 An EMI shall establish a sound methodology for rigorous system testing prior to deployment. The testing shall ensure that the system meets user requirements and performs robustly. Where sensitive test data is used, the EMI shall ensure proper authorisation procedures and adequate measures to prevent their unauthorised disclosure are in place.
- G** 28.9 It is encouraged that the scope of system testing referred to in paragraph 28.8 includes unit testing, integration testing, user acceptance testing, application security testing, stress and regression testing, and exception and negative testing, where applicable.
- S** 28.10 An EMI shall ensure any changes to the source code of critical systems are subject to adequate source code reviews to ensure the code is secure and developed in line with recognised coding practices prior to introducing any system changes.
- S** 28.11 Where critical systems are developed and maintained by a service provider, an EMI shall ensure the source code continues to be readily accessible and secured from unauthorised access.
- S** 28.12 An EMI shall physically segregate the production environment from the development and testing environment for critical systems. Where an EMI is relying on a cloud environment, it shall ensure that these environments are not running on the same virtual host.
- S** 28.13 An EMI shall establish appropriate procedures to independently review and approve system changes. An EMI shall also establish and test contingency plans in the event of the unsuccessful implementation of material system changes to minimise any business disruption.
- S** 28.14 Where an EMI's IT systems are managed by technology service providers, the EMI shall ensure, including through contractual obligations, that the technology

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<sup>29</sup> Diversity in technology may include the use of different technology architecture designs and applications, technology platforms and network infrastructure.

service providers provide sufficient notice to the EMI before any changes are undertaken that may impact the IT systems.

- G** 28.15 When decommissioning critical systems, an EMI is encouraged to ensure minimal adverse impact on customers and business operations. This includes establishing and testing contingency plans in the event of unsuccessful system decommissioning.

### ***Cryptography***

- G** 28.16 An EMI is encouraged to adopt strong cryptographic controls for protection of important data and information which include—
- (a) adoption of industry standards for encryption algorithms, message authentication, hash functions, digital signatures and random number generation;
  - (b) adoption of robust and secure processes in managing cryptographic key lifecycles which include generation, distribution, renewal, usage, storage, recovery, revocation and destruction;
  - (c) periodic review, at least every three (3) years, of existing cryptographic standards and algorithms in critical systems, external linked or customer-facing applications to prevent exploitation of weakened algorithms or protocols; and
  - (d) development and testing of compromise-recovery plans in the event of a cryptographic key compromise. This should set out the escalation process, procedures for keys regeneration, interim measures, changes to business-as-usual protocols and containment strategies or options to minimise the impact of a compromise.
- G** 28.17 An EMI is encouraged to conduct due diligence and evaluate the cryptographic controls associated with the technology used in order to protect the confidentiality, integrity, authentication, authorisation and non-repudiation of information. Where an EMI does not generate its own encryption keys, the EMI is encouraged to undertake appropriate measures to ensure robust controls and processes are in place to manage encryption keys. Where this involves reliance on third party assessment<sup>30</sup>, the EMI is encouraged to consider whether such reliance is consistent with the EMI's risk appetite and tolerance. An EMI is encouraged to also give due regard to the system resources required to support the cryptographic controls and the risk of reduced network traffic visibility of data that has been encrypted.

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<sup>30</sup> For example, where the EMI is not able to perform its own validation on embedded cryptographic controls due to the proprietary nature of the software or confidentiality constraints.

- G** 28.18 An EMI is encouraged to ensure cryptographic controls are based on the effective implementation of suitable cryptographic protocols. It is recommended that the protocols include secret and public cryptographic key protocols, both of which should reflect a high degree of protection to the applicable secret or private cryptographic keys. It is recommended that the selection of such protocols be based on recognised international standards and tested accordingly. Commensurate with the level of risk, storage of secret cryptographic key and private-cryptographic key, and encryption/ decryption computation should be undertaken in a protected environment, supported by a hardware security module (HSM) or trusted execution environment (TEE).
- G** 28.19 An EMI is encouraged to store public cryptographic keys in a certificate issued by a certificate authority as appropriate to the level of risk. Such certificates associated with customers should be issued by recognised certificate authorities. The EMI is encouraged to ensure that the implementation of authentication and signature protocols using such certificates are subject to strong protection to ensure that the use of private cryptographic keys corresponding to the user certificates are legally binding and irrefutable. The initial issuance and subsequent renewal of such certificates should be consistent with industry best practices and applicable legal/ regulatory specifications.

### ***Data Centre Infrastructure***

- S** 28.20 An EMI shall ensure proper management of data centres and specify the resilience and availability objectives<sup>31</sup> of its data centres which are aligned with its business needs.
- S** 28.21 An EMI shall ensure its network infrastructure is designed to be resilient, secure and scalable proportionate to the EMI's business risk and model. Potential data centre failures or disruptions shall not significantly degrade the delivery of its financial services or impede its internal operations.
- G** 28.22 An EMI is encouraged to ensure production data centres are concurrently maintainable. This includes ensuring that production data centres have redundant capacity components and distribution paths serving the computer equipment.
- G** 28.23 An EMI is encouraged to host critical systems in a dedicated space intended for production data centre usage. The dedicated space should be physically secured from unauthorised access and is not located in a disaster-prone area.

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<sup>31</sup> Availability objectives refer to the level of availability of the data centre, which needs to be specified as an internal policy.

An EMI is also encouraged to ensure there is no single point of failure (SPOF) in the design and connectivity for critical components of the production data centres, including hardware components, electrical utility, thermal management and data centre infrastructure.

- S** 28.24 An EMI shall establish proportionate controls, ensure adequate maintenance, and holistic and continuous monitoring of the critical components of the production data centres aligned with the EMI's risk appetite.
- G** 28.25 An EMI is encouraged to appoint a technically competent external technology service provider to carry out a production data centre risk assessment and set proportionate controls aligned with the EMI's risk appetite. The assessment should consider all major risks associated with the production data centre and should be conducted periodically or whenever there is a material change in the data centre infrastructure. The assessment should, at a minimum, include a consideration of whether paragraphs 28.22 to 28.24 have been adhered to. In appointing a technology service provider to manage the data centre, an EMI may rely on independent third party assurance reports provided such reliance is consistent with the EMI's risk appetite and tolerance, and the independent assurance has considered similar risks and meets the expectations in this paragraph for conducting the assessment. The designated board-level committee should deliberate the outcome of the assessment.

### ***Data Centre Operations***

- S** 28.26 An EMI shall ensure its capacity needs are well-planned and managed with due regard to business growth plans. This includes ensuring adequate system storage, central processing unit (CPU) power, memory and network bandwidth.
- G** 28.27 An EMI is encouraged to involve both the technology stakeholders and the relevant business stakeholders within the EMI in its development and implementation of capacity management plans.
- S** 28.28 An EMI shall establish appropriate monitoring mechanisms to track capacity utilisation and performance of key processes and services<sup>32</sup>. These monitoring mechanisms shall be capable of providing timely and actionable alerts to administrators.

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<sup>32</sup> For example, batch runs and backup processes for the EMI's application systems and infrastructure.

- S** 28.29 An EMI shall segregate incompatible activities<sup>33</sup> in the data centre operations environment to prevent any unauthorised activity<sup>34</sup>. Where service providers' or programmers' access to the production environment is necessary, these activities shall be properly authorised and monitored.
- S** 28.30 An EMI shall establish adequate control procedures for its data centre operations. These control procedures shall include procedures for batch processing management to ensure timely and accurate batch processes, implementing changes in the production system, error handling, as well as, management of other exceptional conditions.
- G** 28.31 An EMI is encouraged to undertake an independent risk assessment of its end-to-end backup storage and delivery management to ensure that existing controls are adequate in protecting sensitive data at all times.
- S** 28.32 An EMI shall maintain a sufficient number of backup copies of critical data, the updated version of the operating system software, production programs, system utilities, all master and transaction files and event logs for recovery purposes. Backup media shall be stored in an environmentally secure and access-controlled backup site.
- G** 28.33 In complying with paragraph 28.32, an EMI is encouraged to adopt the controls as specified in Appendix 7 or their equivalent to secure the storage and transportation of sensitive data in removable media.
- G** 28.34 Where there is a reasonable expectation for immediate delivery of service, an EMI is encouraged to ensure the relevant systems are designed for high availability.

### ***Network Resilience***

- G** 28.35 An EMI is encouraged to design a reliable, scalable and secure enterprise network that is able to support its business activities, including future growth plans.
- G** 28.36 An EMI is encouraged to ensure the network services for its critical systems are reliable and have no SPOF in order to protect the critical systems against potential network faults and cyber threats.

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<sup>33</sup> This includes security administration covering management of user access rights, security operations and network security.

<sup>34</sup> This includes segregating system development activities from data centre operations.



- G** 28.37 An EMI is encouraged to establish real-time network bandwidth monitoring processes and corresponding network service resilience metrics to flag any over utilisation of bandwidth and system disruptions due to bandwidth congestion and network faults. This includes traffic analysis to detect trends and anomalies.
- S** 28.38 An EMI shall ensure network services supporting critical systems are designed and implemented to ensure the confidentiality, integrity and availability of data.
- G** 28.39 An EMI is encouraged to establish and maintain a network design blueprint identifying all of its internal and external network interfaces and connectivity. The blueprint should highlight both physical and logical connectivity between network components and network segmentations.
- S** 28.40 An EMI shall ensure sufficient and relevant network device logs are retained for investigations and forensic purposes for at least three (3) years.
- S** 28.41 An EMI shall implement appropriate safeguards to minimise the risk of a system compromise in one entity affecting other entities within the group. Safeguards implemented may include establishing logical network segmentation for the EMI from other entities within the group.
- G** 28.42 An EMI is encouraged to appoint a technically competent external technology service provider to carry out regular network risk assessments and set proportionate controls aligned with its risk appetite. The assessment should be conducted periodically or whenever there is a material change in the network design. The assessment should consider all major risks and determine the current level of resilience.

### ***Technology Service Provider Management***

- S** 28.43 In addition to the requirements in paragraph 18 on outsourcing arrangements, an EMI and its board and senior management shall comply with the requirements under paragraphs 28.44 to 28.50 for IT related technology service providers.
- S** 28.44 The board and senior management of an EMI shall exercise effective oversight and address associated risks when engaging technology service providers for critical technology functions and systems. Engagement of technology service providers, including engagements for independent assessment, does not in any way reduce or eliminate the principal accountabilities and responsibilities of the EMI for the security and reliability of technology functions and systems.

- S** 28.45 An EMI shall conduct proper due diligence on the technology service provider's competency, system infrastructure and financial viability as relevant prior to engaging its services. In addition, an assessment shall be made on the technology service provider's capabilities in managing the following specific risks—
- (a) data leakage such as unauthorised disclosure of customer information and counterparty information;
  - (b) service disruption including capacity performance;
  - (c) processing errors;
  - (d) physical security breaches;
  - (e) cyber threats;
  - (f) over-reliance on key personnel;
  - (g) mishandling of confidential information pertaining to the EMI or its customers in the course of transmission, processing or storage of such information; and
  - (h) concentration risk.
- S** 28.46 At a minimum, the agreement between the EMI and its technology service providers shall contain arrangements for disaster recovery and backup capability, where applicable, and critical system availability.
- S** 28.47 An EMI shall ensure its ability to regularly review any agreements with its technology service providers taking into account the latest security and technological developments in relation to the services provided.
- S** 28.48 An EMI shall ensure data residing in technology service providers are recoverable in a timely manner. The EMI shall ensure clearly defined arrangements with the technology service provider are in place to facilitate the EMI's immediate notification and timely update to the Bank and other relevant regulatory bodies in the event of a cyber-incident.
- S** 28.49 An EMI shall ensure the storage of its data is at least logically segregated from the other clients of the technology service provider. There shall be proper controls implemented including periodic review of the access provided to authorised users.
- S** 28.50 An EMI shall ensure critical systems hosted by technology service providers have adequate recovery and resumption capability and provisions to facilitate an orderly exit in the event of failure or unsatisfactory performance by the technology service provider.

**Cloud Services**

- S** 28.51 An EMI shall fully understand the inherent risk of adopting cloud services. In this regard, an EMI is required to conduct a comprehensive risk assessment prior to cloud adoption which considers the inherent architecture of cloud services that leverages on the sharing of resources and services across multiple tenants over the internet. The assessment shall specifically address risks associated with the following–
- (a) sophistication of the deployment model;
  - (b) migration of existing systems to cloud infrastructure;
  - (c) location of cloud infrastructure;
  - (d) multi-tenancy or data co-mingling;
  - (e) service provider lock-in and application portability or interoperability;
  - (f) ability to customise security configurations of the cloud infrastructure to ensure a high level of data and technology system protection;
  - (g) exposure to cyber-attacks via cloud service providers;
  - (h) termination of a cloud service provider including the ability to secure the EMI's data following the termination;
  - (i) demarcation of responsibilities, limitations and liability of the cloud service provider; and
  - (j) ability to meet regulatory requirements and international standards on cloud computing on a continuing basis.
- S** 28.52 The risk assessment required under paragraph 28.51 shall be documented and made available for the Bank's review as and when requested by the Bank.
- S** 28.53 An EMI shall demonstrate that specific risks associated with the use of cloud services for critical systems have been adequately considered and addressed. The risk assessment shall address the risks outlined in paragraph 28.51, as well as, the following areas–
- (a) the adequacy of the over-arching cloud adoption strategy of the EMI including–
    - (i) board oversight over cloud strategy and cloud operational management;
    - (ii) senior management roles and responsibilities on cloud management;
    - (iii) conduct of day-to-day operational management functions;
    - (iv) management and oversight by the EMI of cloud service providers;
    - (v) quality of risk management and internal control functions; and
    - (vi) strength of in-house competency and experience;
  - (b) the availability of independent, internationally recognised certifications of the cloud service providers, at a minimum, in the following areas–

- (i) information security management framework, including cryptographic modules such as those used for encryption and decryption of user data; and
  - (ii) cloud-specific security controls for protection of customer information and counterparty information or proprietary information including payment transaction data in use, in storage and in transit;
- (c) the degree to which the selected cloud configuration adequately addresses the following attributes–
  - (i) geographical redundancy;
  - (ii) high availability;
  - (iii) scalability;
  - (iv) portability;
  - (v) interoperability; and
  - (vi) strong recovery and resumption capability including appropriate alternate internet paths to protect against potential internet faults.

**G** 28.54 An EMI is encouraged to consider the need for a third party pre-implementation review on cloud implementation that also covers the areas set out in paragraph 28.53.

**S** 28.55 An EMI must implement appropriate safeguards on customer information and counterparty information and proprietary data when using cloud services to protect against unauthorised disclosure and access. This shall include retaining ownership, control and management of all data pertaining to customer information and counterparty information, proprietary data and services hosted on the cloud, including the relevant cryptographic keys management.

### ***Access Control***

**S** 28.56 An EMI must implement an appropriate access control policy for identification, authentication and authorisation of users (internal and external users such as technology service providers). This must address both logical and physical technology access controls which are commensurate with the level of risk of unauthorised access to its technology systems.

**G** 28.57 In observing paragraph 28.56, an EMI is encouraged to consider the following in its access control policy–

- (a) adopt a “deny all” access control policy for users by default unless explicitly authorised;
- (b) employ “least privilege” access rights or on a “need-to-have” basis where only the minimum sufficient permissions are granted to legitimate users to perform their roles;

- (c) employ time-bound access rights which restrict access for a specific period including access rights granted to technology service providers;
- (d) employ segregation of incompatible functions to ensure that no single person is responsible for an entire operation that may provide the ability to independently modify, circumvent, and disable system security features. This may include a combination of functions such as—
  - (i) system development and technology operations;
  - (ii) security administration and system administration; and
  - (iii) network operation and network security;
- (e) employ dual control functions which require two or more persons to execute an activity;
- (f) adopt stronger authentication for critical activities including for remote access;
- (g) limit and control the use of the same user ID for multiple concurrent sessions;
- (h) limit and control the sharing of user ID and passwords across multiple users; and
- (i) control the use of generic user ID naming conventions in favour of more personally identifiable IDs.

- S** 28.58 An EMI must employ robust authentication processes to ensure the authenticity of identities in use. Authentication mechanisms shall commensurate with the criticality of the functions and adopt at least one (1) or more of these three (3) basic authentication factors, namely, something the user knows (e.g. password, PIN), something the user possesses (e.g. smart card, security device) and something the user is (e.g. biometric characteristics, such as a fingerprint or retinal pattern).
- S** 28.59 An EMI shall periodically review and adapt its password practices to enhance resilience against evolving attacks. This includes effective and secure generation of passwords. There shall be appropriate controls in place to check the strength of the passwords created.
- G** 28.60 Authentication methods that depend on more than one factor typically are more difficult to compromise than a single factor system. In view of this, an EMI is encouraged to properly design and implement (especially in high-risk or 'single sign-on' systems) MFA that are more reliable and provide stronger fraud deterrents.
- G** 28.61 An EMI is encouraged to adopt dedicated user domains for selected critical functions, separate from the broader enterprise-wide user authentication system.

- S** 28.62 An EMI shall establish a user access matrix to outline access rights, user roles or profiles, and the authorising and approving authorities. The access matrix must be periodically reviewed and updated.
- S** 28.63 An EMI shall ensure the following—
- (a) access controls to enterprise-wide systems are effectively managed and monitored; and
  - (b) user activities in critical systems are logged for audit and investigations. Activity logs shall be maintained for at least three (3) years and regularly reviewed in a timely manner.

### ***Patch and End-of-Life System Management***

- S** 28.64 An EMI shall ensure that critical systems are not running on outdated systems with known security vulnerabilities or end-of-life (EOL) technology systems. In this regard, an EMI shall clearly assign responsibilities to identified functions—
- (a) to continuously monitor and implement latest patch releases in a timely manner; and
  - (b) identify critical technology systems that are approaching EOL for further remedial action.
- G** 28.65 An EMI is encouraged to establish a patch and EOL management framework which addresses among others the following requirements—
- (a) identification and risk assessment of all technology assets for potential vulnerabilities arising from undeployed patches or EOL systems;
  - (b) conduct of compatibility testing for critical patches;
  - (c) specification of turnaround time for deploying patches according to the severity of the patches; and
  - (d) adherence to the workflow for end-to-end patch deployment processes including approval, monitoring and tracking of activities.

### ***Security of Digital Services***

- S** 28.66 An EMI shall implement robust technology security controls in providing digital services which assure the following—
- (a) confidentiality and integrity of customer information and counterparty information and transactions;
  - (b) reliability of services delivered via channels and devices with minimum disruption to services;
  - (c) proper authentication of users or devices and authorisation of transactions;
  - (d) sufficient audit trail and monitoring of anomalous transactions;

- (e) ability to identify and revert to the recovery point prior to incident or service disruption; and
- (f) strong physical control and logical control measures.

- G** 28.67 An EMI is encouraged to implement controls to authenticate and monitor all financial transactions. These controls, at a minimum, should be effective in mitigating man-in-the-middle attacks, transaction fraud, phishing and compromise of application systems and information.
- S** 28.68 An EMI must implement additional controls to authenticate devices and users, authorise transactions and support non-repudiation and accountability for high-risk transactions or transactions above RM10,000. These measures must include, at a minimum, the following—
- (a) ensure transactions are performed over secured channels such as the latest version of Transport Layer Security (TLS);
  - (b) both client and host application systems must encrypt all confidential information prior to transmission over the network;
  - (c) adopt MFA for transactions;
  - (d) if OTP is used as a second factor, it must be dynamic and time-bound;
  - (e) request users to verify details of the transaction prior to execution;
  - (f) ensure secure user and session handling management;
  - (g) be able to capture the location of origin and destination of each transaction;
  - (h) implement strong mutual authentication between the users' end-point devices and EMI's servers, such as the use of the latest version of Extended Validation SSL certificate (EV SSL); and
  - (i) provide timely notification to customers that is sufficiently descriptive of the nature of the transaction.
- S** 28.69 An EMI must ensure the MFA solution used to authenticate financial transactions are adequately secure, which includes the following—
- (a) binding of the MFA solution to the customer's account;
  - (b) activation of MFA must be subject to verification by the EMI; and
  - (c) timely notification to customers of any activation of and changes to the MFA solution via the customers' verified communication channel.
- G** 28.70 An EMI is encouraged to deploy MFA technology and channels that are more secured than unencrypted short messaging service (SMS).
- S** 28.71 An EMI shall deploy MFA solutions with stronger security controls for open third party fund transfer and open payment transactions with a value of RM10,000 and above.

- S** 28.72 Such stronger MFA solutions shall adhere to the following requirements–
- (a) payor/sender must be made aware and prompted to confirm details of the identified beneficiary and amount of the transaction;
  - (b) authentication code must be initiated and generated locally by the payor/sender using MFA;
  - (c) authentication code generated by payor/sender must be specific to the confirmed identified beneficiary and amount;
  - (d) secure underlying technology must be established to ensure the authentication code accepted by the EMI corresponds to the confirmed transaction details; and
  - (e) notification must be provided to the payor/sender of the transaction.
- S** 28.73 Where an EMI deploys OTP as part of its stronger MFA solutions, the following features must be implemented–
- (a) binding of the transaction details to the OTP generated by the device (e.g. beneficiary account number, amount of transaction);
  - (b) generation of the OTP from the customer's device and not from the EMI's server; and
  - (c) requiring the customer to physically enter the generated OTP into the application.
- S** 28.74 For financial transactions below RM10,000, an EMI may decide on proportionate controls and authentication methods for transactions assessed by the EMI to be of low risk. In undertaking the assessment, the EMI must establish a set of criteria or factors that reflect the nature, size and characteristics of a financial transaction. Such criteria or factors must be consistent with the EMI's risk appetite and tolerance. The EMI must periodically review the risk assessment criteria to ensure its continued relevance, having regard to the latest developments in cybersecurity risks and authentication technologies, as well as, fraud trends and incidents.
- S** 28.75 Where an EMI decides not to adopt MFA for financial transactions that are assessed to be of low risk, the EMI must nevertheless implement adequate safeguards for such transactions which shall include at a minimum the following measures–
- (a) set appropriate limits on a per-transaction basis, and on a cumulative basis;
  - (b) provide convenient means for customers to reduce the limits described in paragraph (a) or to opt for MFA;
  - (c) provide convenient means for its customers to temporarily suspend their account in the event of suspected fraud; and
  - (d) provide its customers with adequate notice of the safeguards set out in sub-paragraphs (a) to (c).



- S** 28.76 An EMI shall ensure sufficient and relevant digital service logs are retained for investigations and forensic purposes for at least three (3) years.
- S** 28.77 An EMI shall ensure that critical online payments<sup>35</sup> services or transactions have high availability with reasonable response time to customer actions.
- G** 28.78 An EMI is encouraged to ensure the use of more advanced technology to authenticate and deliver digital services such as biometrics, tokenisation and contactless communication<sup>36</sup> comply with internationally recognised standards where available. The technology should be resilient against cyber threats<sup>37</sup> including malware, phishing or data leakage.
- G** 28.79 An EMI is encouraged to undertake a comprehensive risk assessment of the advanced technologies and the algorithms deployed in its digital services. Algorithms should be regularly reviewed and validated to ensure they remain appropriate and accurate. Where third party software is used, an EMI may rely on relevant independent reports provided that the reliance of reports is consistent with the EMI's risk appetite and tolerance as well as the nature of digital services provided by the EMI which leverage on the technologies and algorithms.
- G** 28.80 An EMI is encouraged to ensure authentication processes using biometric technology are secure, highly resistant to spoofing and have a minimal false acceptance rate to ensure confidentiality, integrity and non-repudiation of transactions.
- G** 28.81 An EMI is encouraged to perform continuous surveillance to assess the vulnerability of the operating system and the relevant technology platform used for its digital delivery channels to security breaches and implement appropriate corresponding safeguards. It is recommended that an EMI implements sufficient logical and physical safeguards for the following channels/ devices—
- (a) QR code;
  - (b) internet application; and
  - (c) mobile application and devices.

In view of the evolving threat landscape, these safeguards should be continuously reviewed and updated to protect against fraud and to secure the confidentiality and integrity of customer information and counterparty information and transactions.

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<sup>35</sup> For example, Internet and mobile application.

<sup>36</sup> Such as Quick Response (QR) code, Bar Code, Near Field Communication (NFC), Radio Frequency Identification (RFID).

<sup>37</sup> For example, in respect of QR payments, an EMI shall implement safeguards within its respective mobile applications to detect and mitigate risks relating to QR code that may contain malware or links to phishing websites.

- G** 28.82 An EMI should ensure the adequacy of security controls implemented for internet applications, which include to—
- (a) ensure the internet application only runs on secured versions of web browsers that have continued developer support for security patches to fix any vulnerabilities; and
  - (b) put in place additional authentication protocols to enable customers to identify the EMI's genuine websites.
- G** 28.83 An EMI is encouraged to adopt the controls specified in the following Appendices for the respective digital delivery channel—
- (a) Appendix 8: Control Measures on Mobile Application and Devices; and
  - (b) Appendix 9: Control Measures on QR Code.

## **29 Cybersecurity management**

### ***Cyber Risk Management***

- G** 29.1 An EMI is encouraged to ensure that there is an enterprise-wide focus on effective cyber risk management to reflect the collective responsibility of business and technology lines for managing cyber risks.
- S** 29.2 An EMI shall develop a CRF which articulates the EMI's governance for managing cyber risks, its cyber resilience objectives and its risk tolerance, with due regard to the evolving cyber threat environment. Objectives of the CRF includes ensuring operational resilience against extreme but plausible cyber-attacks.
- G** 29.3 It is encouraged that the CRF be able to support effective identification, protection, detection, response, and recovery (IPDRR) of systems and data hosted on-premise or by technology service providers from internal and external cyber-attacks. It is recommended that the CRF consists of, at a minimum, the following elements—
- (a) development of an institutional understanding of the overall cyber risk context in relation to the EMI's businesses and operations, its exposure to cyber risks and current cybersecurity posture;
  - (b) identification, classification and prioritisation of critical systems, information, assets and interconnectivity (with internal and external parties) to obtain a complete and accurate view of the EMI's information assets, critical systems, interdependencies and cyber risk profile;
  - (c) identification of cybersecurity threats and countermeasures including measures to contain reputational damage that can undermine confidence in the EMI;

- (d) layered (defense-in-depth) security controls to protect its data, infrastructure and assets against evolving threats;
- (e) timely detection of cybersecurity incidents through continuous surveillance and monitoring;
- (f) detailed incident handling policies and procedures and a crisis response management playbook to support the swift recovery from cyber-incidents and contain any damage resulting from a cybersecurity breach; and
- (g) policies and procedures for timely and secure information sharing and collaboration with other EMIs and participants in financial market infrastructure to strengthen cyber resilience.

### ***Cybersecurity Operations***

- G** 29.4 An EMI is encouraged to establish clear responsibilities for cybersecurity operations which include implementing appropriate mitigating measures in the EMI's conduct of business that correspond to the following phases of the cyber-attack lifecycle—
- (a) reconnaissance;
  - (b) weaponisation;
  - (c) delivery;
  - (d) exploitation;
  - (e) installation;
  - (f) command and control; and
  - (g) exfiltration.
- G** 29.5 Where relevant, an EMI is encouraged to adopt the control measures on cybersecurity as specified in Appendix 10 to enhance its resilience to cyber-attacks.
- G** 29.6 An EMI is encouraged to deploy effective tools to support continuous and proactive monitoring and timely detection of anomalous activities in its technology infrastructure. The scope of monitoring should cover all critical systems including the supporting infrastructure.
- S** 29.7 An EMI shall ensure that its cybersecurity operations continuously prevent and detect any potential compromise of its security controls or weakening of its security posture.
- S** 29.8 An EMI shall conduct annual penetration tests on its internal and external network infrastructure, as well as, critical systems including web, mobile and all external-facing applications. The penetration testing shall reflect extreme but plausible cyber-attack scenarios based on emerging and evolving threat

scenarios. An EMI shall engage suitably accredited penetration testers and technology service providers to perform this function.

- S** 29.9 An EMI shall establish standard operating procedures (SOP) for vulnerability assessment and penetration testing (VAPT) activities. The SOP shall outline the relevant control measures including ensuring the external penetration testers are accompanied on-premises at all times, validating the event logs and ensuring data purging.
- S** 29.10 An EMI shall ensure the outcome of the penetration testing exercise is properly documented and escalated in a timely manner to senior management to identify and monitor the implementation of relevant remedial actions.

### ***Distributed Denial of Service (DDoS)***

- G** 29.11 An EMI is encouraged to ensure its technology systems and infrastructure, including critical systems outsourced to or hosted by technology service providers, are adequately protected against all types of DDoS attacks (including volumetric, protocol and application layer attacks) through the following measures—
- (a) subscribing to DDoS mitigation services, which include automatic “clean pipe” services to filter and divert any potential malicious traffic away from the network bandwidth;
  - (b) regularly assessing the capability of the service provider to expand network bandwidth on-demand including upstream service provider capability, adequacy of the service provider’s incident response plan and its responsiveness to an attack; and
  - (c) implementing mechanisms to mitigate against Domain Name Server (DNS) based layer attacks.

### ***Data Loss Prevention (DLP)***

- G** 29.12 An EMI is encouraged to establish a clear DLP strategy and processes in order to ensure that proprietary and customer information and counterparty information is identified, classified and secured. It is recommended for an EMI to—
- (a) ensure that data owners are accountable and held responsible for identifying and appropriately classifying data;
  - (b) undertake a data discovery process prior to the development of a data classification scheme and data inventory; and
  - (c) ensure that data accessible by third parties is clearly identified and policies should be implemented to safeguard and control third party

access. This includes having in place adequate contractual agreements to protect the interests of the EMI and its customers.

- G** 29.13 An EMI is encouraged to design internal control procedures and implement appropriate technology in all applications and access points to enforce DLP policies and trigger any policy violations. The technology deployed should cover the following–
- (a) data in-use – data being processed by IT resources;
  - (b) data in-motion – data being transmitted on the network; and
  - (c) data at-rest – data stored in storage mediums such as servers, backup media and databases.
- G** 29.14 An EMI is encouraged to implement appropriate policies for the removal of data on technology equipment, mobile devices or storage media to prevent unauthorised access to data.

### ***Security Operations Centre (SOC)***

- S** 29.15 An EMI shall have in place an SOC – whose functions can either be performed in-house or by technology service providers – with adequate capabilities for proactive monitoring of its technology security posture. This shall enable the EMI to detect anomalous user or network activities, flag potential breaches and establish the appropriate response supported by skilled resources based on the level of complexity of the alerts. The outcome of the SOC activities shall also inform the EMI's review of its cybersecurity posture and strategy.
- G** 29.16 The SOC is encouraged to be able to perform the following functions–
- (a) log collection and the implementation of an event correlation engine with parameter-driven use cases such as Security Information and Event Management (SIEM);
  - (b) incident coordination and response;
  - (c) vulnerability management;
  - (d) threat hunting;
  - (e) remediation functions including the ability to perform forensic artifact handling, malware and implant analysis; and
  - (f) provision of situational awareness to detect adversaries and threats including threat intelligence analysis and operations, and monitoring indicators of compromise (IOC). This includes advanced behavioural analysis to detect signature-less and file-less malware and to identify anomalies that may pose security threats including at endpoints and network layers.
- G** 29.17 An EMI is encouraged to ensure that the SOC provides a regular threat assessment report, which should include, at a minimum, the following–

- (a) trends and statistics of cyber events and incidents categorised by type of attacks, target and source IP addresses, location of data centres and criticality of applications; and
- (b) intelligence on emerging and potential threats including tactics, techniques and procedures (TTP).

**G** 29.18 An EMI is encouraged to subscribe to reputable threat intelligence services to identify emerging cyber threats, uncover new cyber-attack techniques and support the implementation of countermeasures.

**S** 29.19 An EMI shall ensure the following–

- (a) the SOC is located in a physically secure environment with proper access controls; and
- (b) the SOC operates on a 24x7 basis with disaster recovery capability to ensure continuous availability.

### ***Cyber Response and Recovery***

**S** 29.20 An EMI shall establish comprehensive cyber crisis management policies and procedures that incorporate cyber-attack scenarios and responses in the organisation's overall crisis management plan, escalation processes, business continuity and disaster recovery planning. This includes developing a clear communication plan for engaging shareholders, regulatory authorities, customers and employees in the event of a cyber-incident.

**G** 29.21 An EMI is encouraged to establish and implement a comprehensive Cyber Incident Response Plan (CIRP). The CIRP should address the following–

- (a) Preparedness: Establish a clear governance process, reporting structure and roles and responsibilities of the Cyber Emergency Response Team (CERT), as well as, invocation and escalation procedures in the event of an incident;
- (b) Detection and analysis: Ensure effective and expedient processes for identifying points of compromise, assessing the extent of damage and preserving sufficient evidence for forensics purposes;
- (c) Containment, eradication and recovery: Identify and implement remedial actions to prevent or minimise damage to the EMI, remove the known threats and resume business activities; and
- (d) Post-incident activity: Conduct post-incident review incorporating lessons learned and develop long-term risk mitigations.

**G** 29.22 An EMI is encouraged to conduct an annual cyber drill exercise to test the effectiveness of its CIRP, based on various current and emerging threat scenarios (e.g. social engineering), with the involvement of key stakeholders including members of the board, senior management and relevant technology

service providers. The test scenarios should include scenarios designed to test–

- (a) the effectiveness of escalation, communication and decision-making processes that correspond to different impact levels of a cyber-incident; and
- (b) the readiness and effectiveness of CERT and relevant technology service providers in supporting the recovery process.

- S** 29.23 An EMI shall immediately notify the Bank of any cyber-incidents<sup>38</sup> affecting the EMI. Upon completion of the investigation, the EMI is also required to submit a report on the incident to the Bank through the relevant Operational Risk Reporting (ORR) system or any other channel as specified by the Bank.
- S** 29.24 An EMI shall collaborate and cooperate closely with relevant stakeholders and authorities in combating cyber threats and sharing threat intelligence and mitigation measures.

### **30 Technology audit**

- S** 30.1 An EMI shall ensure that the scope, frequency and intensity of technology audits are commensurate with the complexity, sophistication and criticality of technology systems and applications.
- S** 30.2 The internal audit function shall be adequately resourced with relevant technology audit competencies and sound knowledge of the EMI's technology processes and operations.
- G** 30.3 An EMI is encouraged to ensure its technology audit staff are adequately conversant with the developing sophistication of the EMI's technology systems and delivery channels.
- S** 30.4 An EMI shall establish a technology audit plan that provides appropriate coverage of critical technology services, technology service providers, material external system interfaces, delayed or prematurely terminated material technology projects and post-implementation reviews of new or material enhancements of technology services.
- G** 30.5 The internal audit function under paragraph 30.2 may be enlisted to provide advice on compliance with, and adequacy of, control processes during the planning and development phases of new major products, systems or

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<sup>38</sup> Examples include (but not limited to) phishing, ransomware, malware, DDoS and brute force attack, network intrusion, advance persistent threats, insider threats, data exfiltration and compromised credentials.

technology operations. In such cases, the technology auditors participating in this capacity should carefully consider whether such an advisory or consulting role would materially impair their independence or objectivity in performing post-implementation reviews of the products, systems and operations concerned.

## **31 Internal awareness and training**

- S** 31.1 An EMI shall provide adequate and regular technology and cybersecurity awareness education for all staff in undertaking their respective roles and measure the effectiveness of its education and awareness programmes. This cybersecurity awareness education shall be conducted at least annually by the EMI and shall reflect the current cyber threat landscape.
- G** 31.2 An EMI is encouraged to provide adequate and continuous training for staff involved in technology operations, cybersecurity and risk management in order to ensure that the staff are competent to effectively perform their roles and responsibilities.
- G** 31.3 An EMI is encouraged to provide its board members with regular training and information on technology developments to enable the board to effectively discharge its oversight role.



## PART E REGULATORY PROCESS

### 32 Approval and notification

- S** 32.1 An EMI shall seek the Bank's prior written approval on any proposed changes to its e-money business model that are significant or that changes the risk profile of its business model.
- S** 32.2 An EMI shall notify the Bank fourteen (14) days prior to establishing or relocating its offices in or outside Malaysia<sup>39</sup>.
- S** 32.3 An EMI shall notify the Bank fourteen (14) days prior to the appointment of an auditor<sup>40</sup>.
- S** 32.4 An EMI shall notify the Bank on the appointment of its chairman, director or CEO, within fourteen (14) days from the date of appointment.

### 33 Submission requirements

- S** 33.1 An EMI shall submit monthly statistics on the operation of its e-money business to the Bank no later than the 15<sup>th</sup> day of the month following the reporting month using the format provided by the Bank via the STATsmart online submission system.
- S** 33.2 An EMI shall submit independent audit reports of its e-money business, including IT audit, as and when required by the Bank.
- S** 33.3 An EMI shall submit to the Bank its audited financial statement on an annual basis no later than three (3) months after the financial year-end.
- S** 33.4 A bank EMI is deemed to fulfil the requirement under paragraph 33.3 upon submission to the Bank of its audited financial statements in accordance with the requirements in the policy document on Financial Reporting for Financial Institutions, the policy document on Financial Reporting for Development Financial Institutions or any other documents as may be specified by the Bank and as amended from time to time.
- S** 33.5 A non-bank EMI shall submit written assurance from its external auditor on the adequacy of controls for its safeguarding methods in accordance with paragraph 16. At a minimum, the written assurance shall include a review of the following—

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<sup>39</sup> Pursuant to section 25(2) of the FSA or section 22(2) of the IFSA.

<sup>40</sup> Pursuant to section 67(3) of the FSA or section 76(3) of the IFSA.

- (a) the separation of funds collected from customers, from other funds be it the working capital funds of the non-bank EMI or funds for its other business;
- (b) ensure the balance of funds maintained by the non-bank EMI under paragraph 16.2 or 16.5, is greater than or at least equal to the non-bank EMI's outstanding e-money liabilities;
- (c) the effectiveness of the controls put in place by a non-bank EMI to ensure that the funds maintained by the non-bank EMI under paragraph 16.2 or 16.5 are topped up in a timely manner if the outstanding e-money liabilities of the non-bank EMI are greater than the said funds; and
- (d) ensure the funds maintained by the non-bank EMI under paragraph 16.2 or 16.5 are only used for purposes permitted under this policy document.

- S** 33.6 The written assurance specified in paragraph 33.5 from the external auditor shall include the method of assessment and basis of opinion on the compliance level. A non-bank EMI shall ensure that the written assurance, together with details of the action plans and timelines to address any gaps identified, are deliberated at its board or board audit committee and submitted to the Bank on an annual basis no later than three (3) months after its financial year-end.

#### **34 Membership in the Financial Ombudsman Scheme**

- S** 34.1 An EMI shall be a member of an approved FOS pursuant to regulation 3 of the Financial Services (Financial Ombudsman Scheme) Regulation 2015.
- S** 34.2 The membership of an EMI in the FOS shall commence on the date it begins its operation. An EMI shall notify the OFS on the commencement of its operations within seven (7) days from the date it begins its operations.
- S** 34.3 An EMI shall comply at all times with the terms of membership as set out in the terms of reference for the OFS.
- S** 34.4 For disputes within the OFS' jurisdiction, an EMI shall attach a copy of the OFS pamphlet<sup>41</sup> and include the following statement in the letter conveying the EMI's final decision on a dispute to the customer so that the customer may pursue the next course of action:

*"If you are not satisfied with our decision, please refer your dispute to the Ombudsman for Financial Services (OFS) within six months from the date of our decision. The procedure for lodging a dispute with OFS is provided in the attached pamphlet on "Resolution of Financial Disputes".*

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<sup>41</sup> Available in OFS official website.

## APPENDICES

### Appendix 1 Criteria for eligible EMI

1. An eligible EMI refers to an EMI which fulfils any of the following criteria—
  - (a) the EMI has at least 500,000 active users<sup>42</sup> for a consecutive period of six (6) months beginning 2017;
  - (b) the EMI has a market share of at least 5% of the total e-money transaction volume in Malaysia for a given year beginning 2017;
  - (c) the EMI has a market share of at least 5% of the total e-money transaction value in Malaysia for a given year beginning 2017; or
  - (d) the EMI has a market share of at least 5% of the total outstanding e-money liabilities in Malaysia for a given year beginning 2017.
2. An eligible EMI which did not fulfil all criteria specified in paragraph 1 for any given year may make an application in writing to the Bank for the written approval of the Bank for the EMI to cease from being categorised as an eligible EMI.
3. The Bank may, upon receipt of an application under paragraph 2 and being satisfied that the eligible EMI did not fulfil all criteria specified in paragraph 1 for any given year, issue a written approval for the EMI to cease from being categorised as an eligible EMI effective on the date of the written approval or such other date determined by the Bank.
4. Any EMI who ceases to be categorised as an eligible EMI under paragraph 3 shall be recategorised as an eligible EMI if the EMI fulfils again any of the criteria specified in paragraph 1.

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<sup>42</sup> An active user refers to a user who conducts at least one financial transaction per month to make payment or funds transfer using e-money or to reload e-money into the e-money account.

## Appendix 2 Responsibilities of board committees

### ***Board risk management committee***

1. Support the board in overseeing the implementation of the EMI's risk management framework.

### ***Board audit committee***

1. Support the board in ensuring that there is a reliable and transparent financial reporting process within the EMI.
2. Oversee the effectiveness of the internal audit function of the EMI. At a minimum, this must include—
  - (a) reviewing and approving the audit plan, scope, procedures and frequency;
  - (b) reviewing audit reports and ensuring that senior management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the internal audit and other control functions; and
  - (c) establishing a mechanism to assess the performance and effectiveness of the internal audit function.
3. Foster quality audits of the EMI by exercising oversight over the external auditor. At a minimum, this must include—
  - (a) making recommendations to the board on the appointment, removal and remuneration of the external auditor;
  - (b) monitoring and assessing the independence of the external auditor including by approving the provision of non-audit services by the external auditor;
  - (c) monitoring and assessing the effectiveness of the external audit, including by meeting with the external auditor without the presence of senior management at least annually;
  - (d) maintaining regular, timely, open and honest communication with the external auditor, and requiring the external auditor to report to the board audit committee on significant matters; and
  - (e) ensuring that senior management is taking necessary corrective actions in a timely manner to address external audit findings and recommendations.
4. Review and update the board on all related party transactions.
5. Review third-party opinions on the design and effectiveness of the EMI's internal control framework.

### Appendix 3 Computation of capital funds

**Share capital** *which includes–*

Paid-up ordinary shares/common stock

Paid-up irredeemable non-cumulative preference shares

*plus Reserves* *which includes–*

General reserve fund

*less Intangible Assets*<sup>43</sup>

*plus Retained Profit* (or *less Accumulated Losses*)

*plus Audited Profit for the period* (or *less Unaudited Loss for the period*)

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<sup>43</sup> Including goodwill, capitalised development costs, licenses and intellectual properties.

**Appendix 4 Examples of arrangements excluded from the scope of outsourcing**

1. Arrangements which entail procurement of services which are not performed by an EMI by itself in the ordinary course of its e-money business, leveraging common industry-wide infrastructure driven by regulatory requirements, and involvement of third parties due to legal requirements, are generally not considered as outsourcing arrangements. These include—
  - (a) services for the transfer, clearing and settlement of funds or securities provided by an operator of a designated payment system or an approved operator of payment system under the FSA or IFSA;
  - (b) global financial messaging network services provided by an operator that is owned by its member financial institutions and is subject to the oversight of relevant regulators;
  - (c) independent consultancy service (e.g. legal opinions, tax planning and valuation);
  - (d) independent audit assessment;
  - (e) clearing and settlement arrangement between clearing houses and settlement institutions and their members;
  - (f) agent banking;
  - (g) trustee arrangement;
  - (h) credit or market information services;
  - (i) repair, support and maintenance of tangible assets;
  - (j) purchase or subscription of commercially available software;
  - (k) maintenance and support of licensed software;
  - (l) marketing and advertising;
  - (m) telecommunication, postal and courier service;
  - (n) physical security, premise access and guarding services; and
  - (o) catering, cleaning and event services.

**Appendix 5 Minimum requirements on the outsourcing agreement**

1. The outsourcing agreement shall, at a minimum, provide for the following—
  - (a) duration of the arrangement with date of commencement and expiry or renewal date;
  - (b) responsibilities of the service provider, with well-defined and measurable risk and performance standards in relation to the outsourced activity. Commercial terms tied to the performance of the service provider must not create incentives for the service provider to take on excessive risks that would affect the EMI;
  - (c) controls to ensure the security of any information shared with the service provider at all times, covering at a minimum—
    - (i) responsibilities of the service provider with respect to information security;
    - (ii) scope of information subject to security requirements;
    - (iii) provisions to compensate the EMI for any losses and corresponding liability obligations arising from a security breach attributable to the service provider;
    - (iv) notification requirements in the event of a security breach; and
    - (v) applicable jurisdictional laws;
  - (d) continuous and complete access by the EMI to its data held by the service provider in the event of a dispute with the service provider, or termination of the arrangement;
  - (e) ability of the EMI and its external auditor<sup>44</sup> to conduct audits and on-site inspections on the service provider and its sub-contractors, and to obtain any report or finding made in relation to the outsourced activity;
  - (f) notification to the EMI of adverse developments that could materially affect the service provider's ability to meet its contractual obligations;
  - (g) measures that the service provider would take to ensure continuity of the outsourced activity in the event of an operational disruption or failure on the part of the service provider;
  - (h) regular testing of the service provider's BCP, including specific testing that may be required to support the EMI's own BCP testing, and a summary of the test results to be provided to the EMI with respect to the outsourced activity;
  - (i) the dispute resolution process in the event of default or non-performance of obligations, including remedies and indemnities where relevant;
  - (j) circumstances that may lead to termination of the arrangement, the contractual parties' termination rights and a minimum period to execute the termination provisions, including providing sufficient time for an orderly transfer of the outsourced activity to the EMI or another party;

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<sup>44</sup> Including an agent appointed by the EMI.

- (k) where relevant, terms governing the ability of the primary service provider to sub-contract to other parties. Sub-contracting should not dilute the ultimate accountability of the primary service provider to the EMI over the outsourcing arrangement, and the EMI must have clear visibility over all sub-contractors<sup>45</sup>. Therefore, the outsourcing agreement between the EMI and primary service provider must stipulate the following–
- (i) the accountability of the primary service provider over the performance and conduct of the sub-contractor in relation to the outsourcing arrangement;
  - (ii) the rights of the EMI to terminate the outsourcing agreement in the event of excessive reliance on sub-contracting (e.g. where the sub-contracting materially increases the risks to the EMI);
  - (iii) the requirement for the sub-contractor and its staff to be bound by confidentiality provisions even after the arrangement has ceased; and
  - (iv) use of information shared with the service provider is limited to the extent necessary to perform the obligations under the outsourcing agreement.

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<sup>45</sup> In this respect, the primary service provider must provide sufficient notice to the EMI before entering into an agreement with the sub-contractor.



**Appendix 6 Other exit triggers**

For the purpose of paragraph 24.5, an EMI may take into consideration the following factors in determining the exit triggers–

- (a) Financial-related indicators which include but not limited to–
  - (i) Significantly low return on equity for a continuous time period; or
  - (ii) Significantly high cost-to-income ratio for a continuous time period.
- (b) Operational-related indicators which include but not limited to–
  - (i) Prolonged and/or frequent unscheduled downtime of e-money system.
  - (ii) Multiple successful cyber-attack incidences; or
  - (iii) Breaches of customer information with monetary impact to customer.

**Appendix 7 Storage and transportation of sensitive data in removable media**

An EMI should ensure adequate controls and measures are implemented for the storage and transportation of sensitive data in removable media, including–

1. Deploying the industry-tested and accepted encryption techniques;
2. Implementing authorised access control to sensitive data (e.g. password protection, user access matrix);
3. Prohibiting unauthorised copying and reading from the media;
4. Should there be a need to transport the removable media to a different physical location, EMIs should–
  - (a) strengthen the chain of custody process for media management which includes–
    - (i) the media should not be under single custody at any point of time;
    - (ii) the media should always be within sight of the designated custodians; and
    - (iii) the media should be delivered to its target destination without unscheduled stops or detours;
  - (b) use secure and official vehicle for transportation; and
  - (c) use strong and tamper-proof containers for storing the media with high-security lock (e.g. dual key and combination lock);
5. Ensuring technology service providers comply with the requirements in paragraphs 1 to 4 of this Appendix, in the event outsourced services are required in undertaking the storage management or transportation process of sensitive data in removable media.

**Appendix 8 Control measures on mobile application and devices**

1. An EMI should ensure digital payment services involving sensitive customer information and counterparty information offered via mobile devices are adequately secured. This includes the following—
  - (a) ensure mobile applications run only on the supported version of operating systems and enforce the application to only operate on a secure version of operating systems which have not been compromised, jailbroken or rooted (i.e. the security patches are up-to-date);
  - (b) design the mobile application to operate in a secure and tamper-proof environment within the mobile devices. The mobile application shall be prohibited from storing customer information and counterparty information used for authentication with the application server such as PIN and passwords. Authentication and verification of unique key and PIN shall be centralised at the host;
  - (c) undertake proper due diligence processes to ensure the application distribution platforms used to distribute the mobile application are reputable;
  - (d) ensure proper controls are in place to access, maintain and upload the mobile application on application distribution platforms;
  - (e) activation of the mobile application must be subject to authentication by the EMIs;
  - (f) ensure secure provisioning process of mobile application in the customer's device is in place by binding the mobile application to the customer's profile such as device ID and account number; and
  - (g) monitor the application distribution platforms to identify and address the distribution of fake applications in a timely manner.
2. In addition to paragraph 1 of this Appendix, an EMI should also ensure the following measures are applied specifically for applications running on mobile devices used by the EMIs, appointed parties or intermediaries for the purpose of processing customer information and counterparty information—
  - (a) mobile device to be adequately hardened and secured;
  - (b) ensure the capability to automatically wipe data stored in the mobile devices in the event the device is reported stolen or missing; and
  - (c) establish safeguards that ensure the security of customer information and counterparty information (e.g. Primary Account Numbers (PAN), Card Verification Value Numbers (CVV), expiry dates and Personal Identification Numbers (PIN) of payment cards), including to mitigate risks of identity theft and fraud<sup>46</sup>.

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<sup>46</sup> This includes risks associated with malwares that enable keystroke logging, PIN harvesting and other malicious forms of customer information and counterparty information downloading.

**Appendix 9 Control measures on QR code**

1. Ensure QR code authenticity which among others include—
  - (a) QR codes are securely generated by the host server, unique for each merchant/ customer/ transaction, where dynamic QR codes should have a reasonable expiry time;
  - (b) block QR code applications from operating on unsecured (e.g. rooted or jail-broken) devices;
  - (c) any fake QR code shall be rejected upfront and the merchant/ customer shall be automatically notified of the authenticity of the scanned QR code; and
  - (d) bind the QR code to the respective customer or merchant ID and transaction amount.
2. Ensure QR codes do not contain any confidential data and are not stored in endpoint devices.
3. Ensure all relevant risks associated with the use of static QR codes at participating merchants are mitigated, including but not limited to the following—
  - (a) all information from the scanned QR codes shall be transmitted to the payment instrument's host server for authentication;
  - (b) educate merchants on fraud risk related to static QR codes and the preventive measures to effectively mitigate such risk (e.g. merchants shall regularly inspect the displayed static QR code to ensure it has not been tampered with); and
  - (c) enforce masking of sensitive customer information and counterparty information when displayed on mobile devices.

**Appendix 10 Control measures on cybersecurity**

1. Conduct periodic review on the configuration and rules settings for all security devices. Use automated tools to review and monitor changes to configuration and rules settings.
2. Update checklists on the latest security hardening of operating systems.
3. Update security standards and protocols for web services encryption regularly. Disable support of weak ciphers and protocols in web-facing applications.
4. Ensure technology networks including mobile and wireless networks are segregated into multiple zones according to threat profile. Each zone shall be adequately protected by various security devices including firewalls and Intrusion Prevention Systems (IPS).
5. Ensure security controls for server-to-server external network connections include the following–
  - (a) server-to-server authentication such as Public Key Infrastructure (PKI) certificate or user ID and password;
  - (b) use of secure tunnels such as Transport Layer Security (TLS) and Virtual Private Network (VPN) IPSec; and
  - (c) deploying staging servers with adequate perimeter defences and protection such as firewall, IPS and antivirus.
6. Ensure security controls for remote access to server include the following–
  - (a) restrict access to only hardened and locked down end-point devices;
  - (b) use secure tunnels such as TLS and VPN IPSec;
  - (c) deploy “gateway” server with adequate perimeter defences and protection such as firewall, IPS and antivirus; and
  - (d) close relevant ports immediately upon expiry of remote access.
7. Ensure overall network security controls are implemented including the following–
  - (a) dedicated firewalls at all segments. All external-facing firewalls must be deployed on High Availability (HA) configuration and “fail-close” mode activated. Deploy different brand name/model for two firewalls located in sequence within the same network path;
  - (b) IPS at all critical network segments with the capability to inspect and monitor encrypted network traffic;
  - (c) web and email filtering systems such as web-proxy, spam filter and anti-spoofing controls;
  - (d) end-point protection solution to detect and remove security threats including viruses and malicious software;
  - (e) solution to mitigate advanced persistent threats including zero-day and signatureless malware; and
  - (f) capture the full network packets to rebuild relevant network sessions to aid forensics in the event of incidents.
8. Synchronise and protect the Network Time Protocol (NTP) server against tampering.