



## **GUIDELINES ON COMPLIANCE FUNCTION FOR LABUAN FINANCIAL INSTITUTIONS**

### **1.0 Introduction**

- 1.1 Compliance is a key corporate culture which concerns all stakeholders within an organisation and should be viewed as part of its core functions. The *Guidelines on Compliance Function for Labuan Financial Institutions* (the Guidelines) set out Labuan Financial Services Authority (Labuan FSA)'s minimum expectation on the compliance function as an integral part of the corporate governance in addressing compliance risk within the Labuan Financial Institution (LFI) as well as developing and enforcing a strong compliance culture. The "compliance risk" in the context of the Guidelines refers to the risk of financial losses due to legal or regulatory sanctions, or reputational loss due to non-compliance to the applicable requirements of the laws, regulations, or code of conduct related to the LFI's activities.
- 1.2 The role of the compliance function of the LFI is to provide independent assurance to the Board of Directors (Board) and the senior management on the state of compliance of the LFI with regard to the legal and regulatory requirements as well as internal policies of the LFI. In this regard, the compliance function is also expected to work with its senior management and staff to identify and manage legislative, regulatory as well as operational compliance risks.
- 1.3 In view of the criticality of the compliance function to the LFI, Labuan FSA expects the Board and Principal Officer (PO) to be ultimately responsible in ensuring the appropriate compliance framework is instituted based on the nature and complexity of the LFI's business, structure and operations.

## 2.0 Applicability

2.1 The Guidelines are applicable to any person licensed or approved by Labuan FSA to carry on the following business:

- (i) Labuan banking business or investment banking business under Part VI of the Labuan Financial Services and Securities Act 2010 (LFSSA);
- (ii) Labuan Islamic banking business or Islamic investment banking business under Part VI of the Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA);
- (iii) Labuan insurance or reinsurance business under Part VII of the LFSSA, excluding Labuan captive insurance business;
- (iv) Labuan takaful business or retakaful business under Part VII of the LIFSSA, excluding Labuan captive takaful business;
- (v) Labuan insurance-related activities or Labuan takaful-related activities under Part VII of the LFSSA and Part VII of the LIFSSA, respectively, excluding Labuan insurance managers and Labuan takaful managers;
- (vi) Fund manager of a public fund or an Islamic public fund under Part III of the LFSSA and Part IV of the LIFSSA;
- (vii) Labuan trust company business under Part V of the LFSSA, excluding Labuan managed trust companies;
- (viii) Money-broking business or Islamic money-broking business under Part VI of the LFSSA and Part VI of the LIFSSA, respectively;
- (ix) Securities licensees or Islamic securities licensees under Part IV of the LFSSA and Part V of the LIFSSA, respectively;
- (x) Credit token business or Islamic credit token business under Part VI of the LFSSA and Part VI of the LIFSSA, respectively;
- (xi) Exchanges established under Part IX of the LFSSA;

- (xii) Payment system operated under Part XI of the LFSSA and Part XII of the LIFSSA; and
- (xiii) Any other person or licensed entity that Labuan FSA may specify from time to time.

2.2 Notwithstanding the exclusions under paragraph 2.1 (iii), (iv) and (vii), Labuan captive insurers/Labuan captive takaful operators and Labuan managed trust companies may, as a best practice, rely on their managers (i.e. Labuan underwriting managers and Labuan managed trust managers) in managing the compliance risks and upholding regulatory standards in a manner proportionate to the scope of their business operations.

### **3.0 Legal Provision**

- 3.1 The Guidelines are issued pursuant to Section 4A of the Labuan Financial Services Authority Act 1996 (LFSAA) for the purpose of specifying the requirements to be implemented by LFIs.
- 3.2 Any person who fails to comply with the Guidelines may be subject to enforcement actions which include an administrative penalty under Section 36G of the LFSAA and/or any other enforcement action provided under LFSAA, or other applicable laws governed by Labuan FSA.

### **4.0 Effective Date**

- 4.1 The Guidelines shall come into effect on **1 January 2026** and would remain effective and applicable unless amended or revoked. Notwithstanding this, LFIs are highly encouraged to early adopt the requirements of the Guidelines prior to the effective date.
- 4.2 As a transitional measure, existing LFIs are granted a six-month period to comply with the Guidelines by **1 July 2026**.

## 5.0 Definitions

<b>Board of Directors (Board)</b>	For LFI operating as a branch, any reference made in the Guidelines in relation to the “Board” refers to the regional/head office of the LFI; or any equivalent person or body with the authority to oversee the LFI, whichever is relevant.
<b>Compliance Function</b>	Refers to a function within a LFI responsible for ensuring the adequacy and effectiveness of controls to manage compliance risk as well as for assessing and monitoring compliance risk exposure. This may comprise officers carrying out compliance function responsibilities of a LFI, as prescribed under paragraph 7.2 of the Guidelines.
<b>Compliance Officer</b>	Refers to the senior officer of a LFI who serves as the primary authority on compliance matters and is responsible for overseeing the management of compliance risk of the LFI.
<b>Group Centralised Compliance Function</b>	Refers to the group’s centralised compliance service arrangements which may be undertaken by: <ul style="list-style-type: none"> <li>(i) related companies in the form of subsidiary, holding company and related companies as defined under Sections 3 and 4 of Labuan Companies Act 1990;</li> <li>(ii) regional or head office of the LFI;</li> <li>(iii) other branch of the entities mentioned in (i) and (ii); or</li> <li>(iv) any service provider engaged for the group’s compliance function.</li> </ul>
<b>Internal Control Functions</b>	Refers to a function that operates independently from business lines to provide objective assessment, reporting or assurance. This includes functions such as internal audit, compliance and risk management. For the purpose of the Guidelines, the compliance function must be independent from the internal audit function.

<b>Principal Officer (PO)</b>	The officer that is ultimately responsible for managing the overall affairs of the LFI and is equivalent to the role of a Chief Executive Officer (CEO).
<b>Selected Labuan Financial Institutions (Selected LFIs)</b>	Refer to Labuan insurance/takaful-related companies excluding insurance/takaful managers, money-broking companies and Islamic money-broking companies, securities licensees and Islamic securities licensees, credit token business and Islamic credit token business, Labuan exchanges and Labuan payment system operators.
<b>Senior Management</b>	<p>Refers to the principal officer, or any officer(s) or committee performing a senior management function who are principally accountable for:</p> <ul style="list-style-type: none"> <li>(a) Making decisions that affect the whole, or a substantial part of, the LFI's business;</li> <li>(b) Implementing and enforcing policies and strategies approved by the Board including the Head of Department or any equivalent designated person; or</li> <li>(c) Internal controls or other key functions of the LFI which include compliance, AML/CFT compliance, Shariah advisory, internal audit and risk management.</li> </ul>

## 6.0 Requirements for Compliance Function

### 6.1 Sufficient Resources

- 6.1.1 Compliance function must have adequate and competent resources to carry out its responsibilities effectively.
- 6.1.2 The officer of the compliance function shall have the skills, knowledge and expertise necessary for the discharge of their responsibilities or tasks. In addition to formal qualifications, the main requirement is the ability of the

officer to perform its role, which may be gained through working experience. In this regard, it is recommended that they have at least two (2) years of relevant experience in the respective financial sector or other related industry experience that their LFI is operating in.

6.1.3 Notwithstanding the minimum requirements in paragraph 6.1.2, the Compliance Officer shall possess sufficient understanding on the nature of the business of the LFI and the industry which it operates to commensurate its key role within the compliance function.

## **6.2 Independence of Compliance Function**

6.2.1 The compliance function shall be sufficiently independent to carry out its role and responsibilities as intended by the Guidelines. For this purpose, the compliance function must remain independent from business operations to ensure that its roles are carried out effectively without undue influence. For instance, the compliance team should report directly to the Board or a dedicated compliance committee rather than to the head of business unit.

6.2.2 To ensure the independence of the compliance function, the following elements need to be adhered to:

**(i) *Status***

The compliance function should be accorded a formal status within the LFI to give it the appropriate standing, authority and independence.

**(ii) *Not Placed in a Position of Conflict***

The officer of the compliance function must not be placed in a position or situation of potential conflict of interest vis-à-vis their responsibilities. In addition, these officers should not be susceptible

to undue influence regarding the manner and extent to which they are expected to perform their compliance duties.

**(iii) *Have Access to Information and Personnel***

The compliance function shall have the right to communicate with any LFI's board, senior management and staff to have unimpeded access to information to enable it to carry out its responsibilities.

**(iv) *Compensation Policy***

The compensation policy for the compliance function and officers performing compliance-related roles is structured in a way that does not compromise their independence. For instance, the compensation policy must not be tied to the financial performance of any specific business line for which they exercise compliance responsibilities. Notwithstanding this, remuneration related to the financial performance of the LFI as a whole is acceptable.

6.2.3 When dual-hatting in the compliance function is unavoidable, such as in smaller-sized LFIs or those with pecuniary group structure, the LFI is expected to implement appropriate safeguards to preserve the independence and effectiveness of the compliance function. In this regard, the LFI must ensure that the compliance oversight remains effective, objective, unbiased and aligned with the expectations set out in the Guidelines. This can be achieved through appropriate arrangements, including but not limited to the following matters:

**(i) *Implementation of the Four-Eye Policy***

The LFI to ensure that all compliance-related assessments and recommendations are subject to independent review, notwithstanding any dual responsibilities undertaken by the Compliance Officer. Such review is necessary to maintain appropriate checks and balances, prevent any single individual from

holding sole decision-making authority and support independent oversight. In effecting the Four-Eye Policy, LFIs are required to ensure the following:

- (a) Compliance activities must not be reviewed or approved by the same person who performed them. All key compliance-related assessments and reviews must be subject to verification and sign-off by a second reviewer. The second reviewer must be sufficiently independent and impartial, without a direct reporting line to the originator (e.g. another senior officer, group compliance/risk function or Board committee);
- (b) Compliance actions and activities must be clearly documented; and
- (c) Compliance issues must be escalated to an independent party (e.g. Board/Audit Committee, group compliance/risk function or independent director).

***(ii) Matrix/Dotted-Line Reporting Structure***

The LFI would need to arrange for its Compliance Officer to have a matrix or dotted-line reporting to the regional or group-level compliance team to provide an additional layer of independent oversight. This arrangement would ensure objectivity, mitigate conflicts of interest and safeguard the LFI's ability to manage compliance matters effectively and independently.

### 6.3 Appointment of a Compliance Officer

- 6.3.1 The LFI shall appoint a Compliance Officer to head its compliance function and notify Labuan FSA of the appointment. The Compliance Officer's role can also be part of the LFI's arrangement with its group's centralised compliance function as stated in paragraph 6.4.1. In this regard, all LFIs are required to submit the particulars of their Compliance Officer to Labuan FSA using the attached format in **Appendix I**.
- 6.3.2 LFIs must be satisfied that the Compliance Officer is a fit and proper person in accordance with the *Guidelines on Fit and Proper Person Requirements* issued by Labuan FSA.
- 6.3.3 It is the responsibility of the LFI to ensure that the proposed Compliance Officer has the relevant qualities, experience and skills to perform his duties.
- 6.3.4 Labuan FSA is aware that some LFIs may have limited manpower size. As such, a person who has been appointed as a Designated Compliance Officer for Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) purposes may also function as the Compliance Officer under the Guidelines. In such cases, the LFI is also responsible to ensure that the requirements of the *Guidelines on AML/CFT/CPF and TFS for Labuan Key Reporting Institutions* are fully complied with. In addition, the LFI shall inform Labuan FSA of the dual role played by its Compliance Officer as part of the notification requirement under paragraph 6.3.1.
- 6.3.5 For the purposes of the Guidelines, Selected LFIs have the discretion to either establish a dedicated compliance function or to only appoint a Compliance Officer. This arrangement should take into account the size, nature of operations and complexity of the LFI. For instance, larger LFIs with complex operations or engaged in high-risk business lines should establish a dedicated compliance function to ensure robust risk management and regulatory oversight. However, regardless of the compliance function in place, the Compliance Officer shall remain

accountable for ensuring the LFI's compliance with regulatory requirements.

6.3.6 Notwithstanding paragraph 6.3.5, Labuan FSA reserves the right to require the Selected LFIs to establish a compliance function when deemed necessary, taking into consideration the Selected LFI's risk profile and operational complexity.

## **6.4 Management of Compliance Function**

### ***Centralised Compliance Function***

6.4.1 LFI operating as part of a group may leverage on their group's centralised compliance function, taking into account the LFI's unique business operations and Labuan's legal and regulatory requirements. Where the LFI's compliance function is leveraged on the group's centralised compliance function, Labuan FSA expects that the LFI will be able to manage its compliance risk in a more effective manner and notify Labuan FSA in writing within thirty (30) days before the arrangements take effect.

6.4.2 In relation to paragraph 6.4.1, Labuan FSA may liaise with the LFI concerned to deny or modify the proposed arrangement within the 30-day window. Should there be no response from Labuan FSA within the timeframe, this would be tantamount to Labuan FSA's concurrence and the LFI may proceed with the arrangement on group's centralised compliance function accordingly. Notwithstanding this, Labuan FSA reserves the right to review such arrangements as deemed necessary.

### ***Outsourcing to Third Party***

6.4.3 Labuan FSA acknowledges the existence of small-sized LFIs that have insufficient resources to carry out the compliance function. In this regard, the LFI may outsource its compliance function to a third party service provider, subject to Labuan FSA's prior approval and the LFI is required to adhere to the outsourcing requirements under **Appendix II**. The LFI that has obtained prior approval for the outsourcing of compliance function to third party service provider shall also have a dedicated officer overseeing the outsourced compliance function.

6.4.4 As the outsourcing requirements in **Appendix II** serve as mitigants to key risks arising from an outsourcing arrangement, the LFI which leverages on its group's centralised compliance function as specified under paragraph 6.4.1 would also need to adhere to the same requirements to the extent that these are practicable and applicable. Necessary modifications to these requirements may be made to suit the extent and nature of the arrangement the LFI has with its Group's centralised compliance function.

6.4.5 Notwithstanding the allowance to leverage on compliance centralisation arrangement or approvals that may be accorded for the outsourcing to third party service provider under paragraphs 6.4.1 and 6.4.3, Labuan FSA expects the Board and the PO of the LFI to remain responsible for the effectiveness of the LFI's outsourced compliance function.

### ***Shared Functions***

6.4.6 For Selected LFIs, compliance function responsibilities may be shared with other internal control functions, subject to the approval of the Selected LFI's Board. In such cases, compliance responsibilities can be integrated within risk management function, with clearly defined roles to ensure that the oversight of compliance risk and coordination for effective compliance monitoring and reporting.

6.4.7 For avoidance of doubt, compliance function responsibilities must not be shared with, nor should the Compliance Officer take on responsibilities for internal audit as such arrangements would compromise the independence of the review process as specified under paragraph 8.1.

6.4.8 Where compliance function responsibilities are shared between a compliance function and other internal control functions, the Selected LFI is required to ensure the following measures are put in place:

- (i) the compliance policy must clearly define and document the allocation of responsibilities including the timely communication and escalation of compliance issues to senior management and the Board;
- (ii) the Compliance Officer must hold overall responsibility for coordinating the identification and management of compliance risks across the LFI and ensuring consistent compliance monitoring and testing;
- (iii) the Compliance Officer must have a sound understanding of the compliance risks managed by other internal control functions including the controls in place to address these risks;
- (iv) arrangements for coordination among the internal control functions and the compliance function must be in place to ensure that the Compliance Officer is able to perform his roles effectively; and
- (v) senior management must ensure that officers in other internal control functions have the skills and resources to handle their roles effectively while also focusing on their compliance function responsibilities.

6.4.9 Where the Compliance Officer also undertakes responsibilities for other internal control functions, the Compliance Officer must ensure his independence and his ability to provide adequate time, focus and

commitment to his responsibilities in respect of the compliance function is not impaired.

## 7.0 Duties and Responsibilities

### 7.1 Responsibilities of the Board and Senior Management

7.1.1 The Board and senior management collectively play a pivotal role in cultivating a robust compliance culture within LFI that not only upholds adherence to legal and regulatory requirements but also promotes the ethical principles underpinning such requirements.

#### ***Responsibilities of the Board***

7.1.2 The Board is responsible in relation to the following compliance matters:

- (i) approve and oversee implementation of the LFI's compliance policy as well as its continual relevance;
- (ii) approve the establishment of the compliance function and ensure that the compliance function remains sufficiently independent at all times to carry out its mandate;
- (iii) discuss concerns on compliance matters<sup>1</sup> regularly and ensure that any tabled compliance agenda is given sufficient deliberation;
- (iv) ensure that any compliance issues are resolved effectively and expeditiously by the PO and the senior management, with the assistance of the compliance function; and
- (v) assess on an annual basis the overall performance of the compliance function and the Compliance Officer. The assessment shall take into account, among others, the overall effectiveness of

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<sup>1</sup> For example, changes to law, regulations or guidelines that affect the LFI's operations, instances of non-compliance, resources adequacy for the compliance function or other regulatory concerns requiring attention.

the compliance function as an internal control within the LFI and any compliance-related initiatives conducted to instil awareness and better compliance culture amongst the staff. The scope of the assessment may be expanded to include evaluating the adequacy of the compliance manual, the mechanism for compliance monitoring and reporting, the timeliness and effectiveness of compliance issue escalation and remediation and efforts to promote a strong compliance culture.

### ***Responsibilities of the Senior Management***

7.1.3 In complementing the Board, the PO and the senior management are responsible for the following compliance matters:

- (i) ensure that the compliance manual is established and maintained to remain relevant and up-to-date with the LFI's business objectives and the dynamic regulatory landscape;
- (ii) carry out the directives or decisions of the Board in respect of compliance-related matters;
- (iii) ensure that the compliance function has adequate and competent resources to carry out its role and responsibilities effectively;
- (iv) provide regular updates to the Board on compliance issues and immediately report on any material incidents<sup>2</sup> of non-compliance; and
- (v) table the report to the Board, at least annually, on the effectiveness of the LFI's overall management of compliance risk in such a manner as to assist the Board in fulfilling its responsibilities as specified under paragraph 7.1.2 (v).

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<sup>2</sup> For example, failures that may attract a significant risk of legal or regulatory sanction.

## **7.2 Responsibilities of the Compliance Function**

- 7.2.1 The compliance function, on an on-going basis; identifies, assesses, advises, monitors and reports on LFI's compliance with Labuan's legislative and regulatory requirements as well as its internal policies. This duty extends to identifying violations of all applicable regulatory requirements. Labuan FSA expects that officers of the compliance function should be knowledgeable of the relevant requirements of Labuan legislation, as well as guidelines and circulars issued by Labuan FSA at all times.
- 7.2.2 The compliance function must be kept abreast of any organisational developments to facilitate timely identification and mitigation of compliance risk.
- 7.2.3 The compliance function must carry out its responsibilities in accordance with its assessment of the level and impact of the LFI's compliance risk, which may impair the LFI's operations. As such, the compliance function should prioritise areas where compliance risks are assessed to be high, while preserving appropriate oversight and management of all identified compliance risks.

## **7.3 Manual of Compliance Policies, Procedures and Systems**

- 7.3.1 The Compliance Officer shall be responsible for establishing and maintaining a compliance manual containing policies, procedures including procedures on dealing with non-compliance and systems for compliance monitoring which must be approved by the Board and available for inspection or examination by Labuan FSA.
- 7.3.2 At the minimum, the manual shall cover the following items:
  - (i) procedures to be followed when breaches of legal or regulatory requirements or internal policies are detected, along with measures to rectify the breach and prevent its recurrence;

(ii) all legal and regulatory obligations of the LFI including processes to allow staff to confidentially report the violation or non-compliance to the Compliance Officer within the stipulated timeline; and

(iii) a paragraph stating the following:

*“No action, suit, prosecution or other proceedings shall lie or be brought, instituted or maintained in any Court or any tribunal or proceedings against the staff who report such violation or non-compliance provided that such act was done or made in good faith”.*

7.3.3 The Compliance Officer shall ensure the requirements of the manual are complied with by the staff of the LFI.

7.3.4 Any non-compliance matter shall be recorded; indicating the nature, form and period of non-compliance are to be immediately reported to the LFI's senior management and its Board. Any non-compliance matters which are deemed material by the Board shall be *immediately* reported to Labuan FSA's Supervision Department, along with the LFI's rectification plans, in writing to the following designated address.

Director  
Supervision Department  
Labuan Financial Services Authority  
Level 17, Main Office Tower  
Financial Park Complex  
Jalan Merdeka  
87000 Federal Territory of Labuan, Malaysia

Telephone no: 03 8873 2000  
Facsimile no: 03 8873 2209  
Email: [sed@labuanfsa.gov.my](mailto:sed@labuanfsa.gov.my)

## 7.4 Conducting Reviews and Assessments

7.4.1 The compliance function shall undertake, but not limited to, the following activities:

- (i) establish, communicate, monitor and enforce effective compliance policies and procedures to address legislative and regulatory requirements. These include ongoing monitoring and assessment of new requirements which are periodically reported to the LFI's Board and senior management;
- (ii) carry out structured reviews of compliance arrangements and control systems to identify any deficiencies and make regular assessment reports to the senior management;
- (iii) identify, assess and monitor the compliance risk associated with the LFI's business activities; and
- (iv) make recommendations for any updates or revisions to the manual subject to a minimum submission of once a year.

7.4.2 In relation to paragraph 7.4.1(ii), the compliance function must conduct appropriate testing to assess the effectiveness of internal controls in managing the compliance risk and promptly address any deficiencies identified. This includes developing plans to rectify such deficiencies to effectively close the gaps and prevent recurrence. When internal controls are tested using a sampling approach, the testing must align with the level of compliance risk associated with the business process (e.g. transaction frequency or volume). In addition, the sample must be representative of the different types of internal controls implemented at various stages of the LFI's business processes.

7.4.3 In relation to paragraph 7.4.1(iii), various indicators can be used to identify, assess and systematically monitor the level of compliance risk. These indicators can be either qualitative or quantitative, and may include, but are

not limited to patterns in customer complaints, unusual trading or payments activity, and assessments conducted by regulatory authorities.

## **7.5 Advisory**

7.5.1 The compliance function is expected to regularly advise the Board, senior management and staff on legal and regulatory requirements. This includes keeping them updated on the developments affecting legal and regulatory requirements and providing the Board and senior management with an assessment of their implications on the LFI's compliance risk profile and capacity to manage compliance risk going forward.

## **7.6 Training and Awareness Programme**

7.6.1 The officer of the compliance function shall continuously attend relevant training programme at least once a year to update themselves on the latest legal/regulatory requirements; relevant industry developments or any pertinent compliance matters, in order to enhance their professional skills and carry out their role effectively.

7.6.2 In addition, the compliance function must also ensure that all directors, senior management and staff are familiar with and understand Labuan's legislative and regulatory requirements which are relevant to the LFI. For this purpose, the Compliance Officer shall organise periodic internal briefings or training sessions to create awareness of the said relevant requirements amongst the LFI's officers.

7.6.3 The LFI must maintain training logs for all relevant trainings attended or organised by the compliance team. These training logs must be regularly updated, properly documented and readily available for supervisory review upon request by Labuan FSA.

## 7.7 Compliance Report

- 7.7.1 The Compliance Officer shall prepare and submit the Compliance Report to the Board on regular basis. The minimum areas that the Compliance Officer should cover in the Compliance Report are outlined in **Appendix III**. The Compliance Report should be maintained with all other books and records of the LFI.
- 7.7.2 In addition, at the end of each calendar year, the Compliance Officer shall prepare an Annual Compliance Report which incorporates a summary of key compliance deliberations or observations which have been earlier highlighted to the Board during the year.
- 7.7.3 The LFI shall submit a copy of the Annual Compliance Report to Labuan FSA via the Supervisory Intelligence System (SIS) within thirty (30) days after the Board meeting in which the said report was tabled at but no later than 31 March of the year following the reporting year<sup>3</sup>. For example, the compliance report for the year 2023 must reach Labuan FSA by 31 March 2024.

## 8.0 Other Matters

### 8.1 Independence of the Internal Audit Function

- 8.1.1 The LFI must ensure a clear distinction between the compliance function and the internal audit function to ensure that compliance activities are subject to independent review. While compliance function plays a fundamental role in the initial process of managing risks, the internal audit function would subsequently evaluate the effectiveness of such compliance efforts. In this regard, the assessment of the adequacy and effectiveness

<sup>3</sup> This aligns with the *Circular on Submission of Compliance Report and Anti-Money Laundering Counter Financing of Terrorism (AML/CFT) Independent Audit Report to Labuan FSA* dated 8 July 2022, or as may be updated or amended by Labuan FSA in the future.

of the compliance function, including the testing of compliance risks mitigation and controls shall form part of the internal audit programme.

8.1.2 The compliance function is required to address any audit findings related to compliance provided by the internal audit function.

## **8.2 Removal and Vacancy of the Compliance Officer**

8.2.1 Labuan FSA may direct the removal of a Compliance Officer if he does not fulfil the requirements under paragraph 6.0 of the Guidelines. In such cases, the LFI shall identify another officer who is suitably qualified, within sixty (60) days from the date of removal. In the interim, the LFI shall immediately appoint an officer to undertake the compliance function and notify Labuan FSA accordingly.

8.2.2 In any other situations where the Compliance Officer's role was left vacant, the LFI shall notify Labuan FSA within ten (10) working days of the vacancy and shall identify the replacement officer within thirty (30) days from the date of the vacancy. In the event that the vacancy was due to the dismissal of the Compliance Officer by the LFI, the notification to Labuan FSA shall also be accompanied by an explanation for the Compliance Officer's dismissal.

**Labuan Financial Services Authority**  
**10 September 2025 (Revised)**  
**6 November 2013 (1<sup>st</sup> Issuance)**

**APPENDIX I****APPOINTMENT OF COMPLIANCE OFFICER****APPOINTMENT OF COMPLIANCE OFFICER****Name of Institution :****Type of Licence :****PROFILE OF COMPLIANCE OFFICER***Important: All fields are mandatory and should not be left blank*

<b>Section A: Personal Details</b>			
Name (as per NRIC/passport)			
NRIC Details (for Malaysian)		NRIC No.:	
Passport Details (for Non-Malaysian)		Passport No.:	
		Country of Issue:	
<b>Section B: Role and Function Declaration</b>			
Do you serve as the Designated Compliance Officer under Section 19(4) of the Anti Money Laundering and Terrorism Financing Act 2001?		<input type="checkbox"/> No	<input type="checkbox"/> Yes
Do you also serve other internal control functions in the Company? (Only applicable to the Selected LFI <sup>4</sup> only)		<input type="checkbox"/> No	<input type="checkbox"/> Yes (if yes, please specify)
<b>Section C: Education and Professional Qualification</b>			
Qualification		Awarding Institution/ Professional Body	Year Obtained
<b>Section D: Past and Current Work Experience</b>			
Date (dd/mm/yy)	Name of Employer	Designation	Key Areas of Responsibilities
From			
<b>Section E: Directorship Held in Other Company(s)</b>			
Name of Corporation	Place of Incorporation	Date of Appointment (dd/mm/yy)	Nature of Appointment (executive or non-executive)

<sup>4</sup> This refers to Labuan insurance/takaful-related companies excluding insurance managers, Labuan money-broking business and Islamic money-broking business, Labuan securities licensees and Islamic securities licensees, Labuan credit token business and Islamic credit token business, Labuan exchanges and Labuan payment system operators.

**STATUTORY DECLARATION BY COMPLIANCE OFFICER  
ON FIT AND PROPER PERSON**

*Important: All fields are mandatory and should not be left blank*

I, .....NRIC/Passport No:....., a proposed compliance officer of.....(name of the Labuan Financial Institution), do hereby solemnly and sincerely declare that:

1. I have read Section 4 of the Labuan Financial Services and Securities Act 2010 (LFSSA) /Section 4 of the Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA) and the Guidelines on Fit and Proper Person issued by Labuan FSA (the Guidelines).
2. to the best of my knowledge and belief in making this declaration and/or submitting the attached documents in relation to this declaration, that I am a fit and proper person based on the criteria stated under the said Section 4 of LFSSA /Section 4 of LIFSSA and the Guidelines.
3. the information given in this declaration and in the attached documents (if any) are accurate, true and complete.
4. I understand that if it is found that I have made false declaration herein and/or in the attached document (if any), Labuan FSA is entitled to take any legal action including disqualifying myself from acting in the capacity expressly mentioned herein.

And I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declaration Act 1960.

Subscribed and solemnly declared by the above named .....

At ..... Signature .....

In the State of ..... Signature .....

This ...day of .... 20..

Before me,

.....  
(Commissioner for Oaths/Notary Public)

## APPENDIX II        OUTSOURCING REQUIREMENTS

The following requirements shall be complied with in respect of outsourcing of LFI's compliance function to third party service provider. To the extent practical and applicable, these requirements shall also be adhered to by the LFI which leverages on its group centralised compliance function with permitted modifications as provided in paragraph 6.4.4 of the Guidelines.

### ***A. Due diligence on selection process***

The LFI must, in appointing a third party service provider, consider the service provider's:

- (i) knowledge of the legal and regulatory requirements which are relevant to the LFI;
- (ii) adequacy of resources and ability to efficiently conduct the function, including having a dedicated officer to conduct the outsourced compliance function;
- (iii) policies and procedures in preventing abuse of clients' confidential information;
- (iv) ability to manage any conflict of interest; and
- (v) present and potential litigation proceedings, which may have potential impact on its performance of the outsourced compliance function.

### ***B. Service Level Agreement (SLA)***

The compliance outsourcing arrangement must be formalised via a written and binding SLA with the service provider. The SLA shall include, but not limited to, the following matters:

- (i) Roles and responsibilities of the service provider, and its liability for any breaches of the SLA;
- (ii) Scope, terms and conditions of the outsourcing arrangement including mechanisms to resolve any disputes;
- (iii) Reporting and monitoring mechanisms between service provider and LFI which includes the service/performance levels expected;

- (iv) The rights of Labuan FSA and LFI's to conduct examination and to have access to the service provider's records and documents relating to the outsourced compliance function;
- (v) Proper maintenance of the records and documents relating to the outsourced function;
- (vi) Termination of contract, ownership of intellectual property following termination and specifications relating to transfer of compliance records and information back to the LFI;
- (vii) Protection of confidentiality of the LFI's and clients' information as well as requirement for immediate notification for any confidentiality breach; and
- (viii) Prohibition for sub-contracting of any parts of the outsourced compliance function to another party.

For LFI operating as a branch which leverages on its group centralised compliance function, a reference document on the compliance arrangement is required which includes:

- (i) Roles and responsibilities of the group centralised compliance function;
- (ii) Reporting and monitoring mechanisms between group centralised compliance function and LFI which includes the service/performance levels expected;
- (iii) The rights of Labuan FSA's and LFI's to conduct examination and to have access to the group centralised compliance function's records and documents relating to the centralised compliance function;
- (iv) Proper maintenance of the records and documents relating to the centralised compliance function; and
- (v) Protection of confidentiality of the LFI's and clients' information as well as requirement for immediate notification for any confidentiality breach.

### ***C. Continuous monitoring mechanism***

- (i) The LFI that engages a third party compliance service provider must have policies and procedures to monitor the performance of the compliance service provided by the service provider including periodical review of the SLA's adherence.
- (ii) The LFI must perform an assessment on a service provider on a periodic basis which should include:
  - (a) the service provider's adherence to the SLA and rendering of service vis-à-vis the expectation of the LFI; and
  - (b) any new material risk arising from the outsourcing arrangement and mitigating actions to manage such risk.
- (iii) The LFI must submit a report on the assessment to its Board and senior management and should be part of the evaluation on the compliance function as stated under paragraph 7.1.2 (v) of the Guidelines.

### ***D. Outsourcing Abroad***

Where a third party service provider is located outside of Malaysia, the LFI must:

- (i) analyse the economic, legal and political conditions of the country that the service provider is operating from, which may impact the undertaking of the outsourced compliance functions;
- (ii) refrain from outsourcing to jurisdictions where the Labuan FSA is hindered from having prompt access to information; and
- (iii) commit to retrieve information from the service provider in a timely manner should Labuan FSA request for such information.

## APPENDIX III      COMPLIANCE REPORT

The minimum areas to be included in the Compliance Report are:

- I.      Compliance programme / activities carried out for the year under review;
- II.     Executive summary on the compliance status for the following:
  - (a)    Compliance with Labuan Laws, Regulations and LFSA guidelines;
  - (b)    Compliance with AMLATFA; and
  - (c)    Compliance with company's internal policy and procedure;
- III.    Results of compliance risk assessment undertaken during the assessment, highlighting key changes in the compliance risk profile of the LFI;
- IV.     Detailed report covering:
  - (a)    Instances of non-compliance;
  - (b)    Assessment of impact (both financial and non-financial) of such incidents on the LFI (e.g. fines, administrative or other disciplinary actions taken by regulatory authority in respect of any staff of the LFI); and
  - (c)    Action taken to rectify the non-compliance instances;
- V.      Training/awareness programme conducted or attended by the company's staff; and
- VI.     Any other pertinent compliance matters.

Please take note that the above are not the report template or exhaustive; but rather specifying the minimum coverage areas for the Compliance Report. The Compliance Officer may decide to present the report in a format deemed appropriate for the understanding of their Board.