



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

KLIBOR Rate Setting

Applicable to:

1. KLIBOR submitters; and
2. Designated KLIBOR distributor.

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BNM/RH/PD 032-10

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PART A OVERVIEW

1. Introduction

- 1.1 Kuala Lumpur Interbank Offered Rate (KLIBOR) was introduced in June 1987 as an official indicator of the conditions in the interbank money market.
- 1.2 The rates that the KLIBOR submitters quote for KLIBOR setting indicate the rates at which they are willing to lend ringgit funds for the relevant tenors to KLIBOR submitters and are mainly used as reference for other products such as the floating leg of interest rate swaps, options, futures and structured products.

2. Objective

- 2.1 This policy document aims to ensure that the KLIBOR rate setting process is reliable, accurate and provide assurance of the integrity and credibility of the benchmark rates being quoted by the KLIBOR submitters.

3. Scope of policy

- 3.1 This policy document sets out requirements which must be observed by KLIBOR submitters and the designated KLIBOR distributor in undertaking KLIBOR rate setting process.

4. Applicability

- 4.1 This policy document is applicable to –
 - (a) KLIBOR submitters; and
 - (b) A designated KLIBOR distributor.

5. Legal provisions

- 5.1 The requirements and guidance in this policy document are specified pursuant to sections 140(1) and 266 of the Financial Services Act 2013 (FSA).

6. Effective date

- 6.1 This policy document comes into effect on 1 January 2017.

7. Interpretation

- 7.1 The terms and expressions used in this policy document shall have the same meaning assigned to them in the FSA unless otherwise defined in this policy document.

- 7.2 For the purposes 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 to promote common understanding and advice or recommendations that are encouraged to be adopted;

“board” refers to the board of directors of a KLIBOR submitter;

“contingency procedures” means the procedures to be taken in anomalous circumstances affecting the KLIBOR rate setting process;

“**corporations**” refer to anybody corporate, excluding the interbank institutions, formed or incorporated or existing within Malaysia or outside Malaysia, which deal in the financial markets;

“**designated KLIBOR distributor**” means an entity which has been appointed by the Bank under paragraph 12.1 to compile, calculate and disseminate KLIBOR rates;

“**interbank institutions**” mean –

(a) a licensed bank and a licensed investment bank under the FSA; and

(b) a prescribed development financial institution under the DFIA;

which are approved by the Bank as participants of the wholesale interbank market;

“**KLIBOR submitter**” means a market participant which is a licensed bank or licensed investment bank that has been appointed by the Bank in writing pursuant to sections 6 and 140 of the FSA to provide quotations for the relevant tenors under the KLIBOR rate setting process;

“**senior management**” refers to the chief executive officer and senior officers of a KLIBOR submitter.

8. Policy document superseded

- 8.1 This policy document supersedes the policy document on the KLIBOR Rate Setting issued by the Bank on 20 September 2013.

PART B POLICY REQUIREMENTS**9. Appointment and obligations of KLIBOR submitters**

- S** 9.1 Where the Bank appoints any licensed bank or licensed investment bank to be a KLIBOR submitter, the KLIBOR submitter shall ensure the integrity and credibility of benchmark rates quoted.
- S** 9.2 A KLIBOR submitter shall submit quotations for KLIBOR to the designated KLIBOR distributor no later than 11.00 a.m. of each business day as follows –
- (a) submit quotations for KLIBOR for tenors of 1, 2 and 3 months at a spread (from KLIBID¹) of not more than 5 basis points per transaction size of RM5 million;
 - (b) submit quotations for KLIBOR for tenors of 6, 9² and 12 months at a spread (from KLIBID) of not more than 10 basis points per transaction size of RM5 million;
 - (c) accept deals from the Bank at the quoted KLIBOR rates for a transaction size of RM5 million for all tenors;
 - (d) honour the KLIBID and KLIBOR rates that they quote when other KLIBOR submitters wish to deal at the quoted rates within 10 minutes before the 11.00 a.m. fixing time; and
 - (e) promptly inform the Bank of any issue detected that may affect the integrity of the KLIBOR rate setting process.
- S** 9.3 Where the Bank suspends or revokes a KLIBOR submitter's appointment, the KLIBOR submitter shall cease to carry on the role of a KLIBOR submitter with effect from the date set out in the Bank's suspension or revocation letter. For the avoidance of doubt, this does not preclude the Bank from taking other measures provided under the FSA for any conduct that impeaches the credibility and integrity of the KLIBOR rate setting.

¹ KLIBID refers to Kuala Lumpur Interbank Bid Rate.

² Subject to paragraph 15.1 in Part C of this policy document.

10. Hierarchy of inputs

- S** 10.1 KLIBOR submitters shall establish a clear hierarchical structure of the basis for determining the rates to be submitted in the following order of preference –
- (a) KLIBOR submitter’s own concluded arm’s-length transactions in the underlying or related markets;
 - (b) KLIBOR submitter’s own firm (executable) bids and offers; and
 - (c) Expert judgment.
- S** 10.2 The related market for transactions to substantiate a KLIBOR submission refers to Negotiable Instruments of Deposits (NIDs) issued to interbank institutions and NIDs traded in the interbank market which are issued to interbank institutions and corporates. For the avoidance of doubt, the NIDs exclude Islamic NIDs.
- S** 10.3 In circumstances where there is insufficient data or low liquidity in the market such that inputs referred to in paragraphs 10.1(a) and (b) may not be sufficient to substantiate a submission of a quotation for KLIBOR, KLIBOR submitters shall also rely on expert judgment to substantiate a submission. For purposes of paragraph 10.1(c), “expert judgment” refers to the exercise of discretion by the KLIBOR submitter with respect to the use of data in determining quotations for KLIBOR.
- G** 10.4 The considerations in applying expert judgment may include –
- (a) credit standing of the counterparty;
 - (b) proximity of transactions to time of submission;
 - (c) transaction size;
 - (d) other market information such as own concluded transactions in related markets, or reported or observed transactions in the underlying or related markets; and
 - (e) values extrapolated from prior or related transactions, values adjusted for

factors that might influence the quality of data such as market events or impairment of a buyer, or weighted firm bids or offers that may be greater than a particular concluded transaction.

- S** 10.5 Any application of expert judgment must be clearly documented and shall be applied in a consistent manner, based on credible factors considered by KLIBOR submitters. The officers involved in the exercise of expert judgement must possess the appropriate levels of competence to carry out the KLIBOR quotation determination process.

11. Governance of KLIBOR submissions

Roles and responsibilities of the board and senior management

- S** 11.1 The board of a KLIBOR submitter shall ensure that the KLIBOR submitter establishes appropriate internal policies, procedures and processes to discharge its obligations under this policy document, including adequate arrangements to ensure that the internal policies, procedures and processes are adhered to at all times. Such internal policies, procedures, processes and arrangements shall be approved by the board.
- S** 11.2 The senior management of a KLIBOR submitter shall perform the following obligations –
- (a) set clear internal policies on the KLIBOR submission process which shall, at a minimum, set out –
 - (i) the desk or unit responsible for the submission of the rates and the person responsible for approving the rates which must be at a senior level; and
 - (ii) the reporting structure with respect to the submission of the KLIBOR rates to enable timely escalation to senior management for appropriate action on any anomaly, potential fraud or misconduct;

- (b) ensure that the KLIBOR submission policies are relevant and reviewed annually, and any material change to the policies are deliberated and approved by the board;
- (c) ensure a robust surveillance mechanism is in place to monitor daily quotations are submitted in a timely manner and enable early detection of potential anomalous submissions which may inappropriately influence setting of the KLIBOR benchmark; and
- (d) monitor and ensure compliance with this policy document.

Conflict of interest

- S** 11.3 KLIBOR submitters shall establish effective policies and procedures including policies on ethical conduct, to identify and mitigate actual and potential conflicts of interest that may arise in the KLIBOR submission process.
- S** 11.4 KLIBOR submitters shall ensure there are proper monitoring mechanisms to identify any submissions that may be influenced by the KLIBOR submitter's own trading position.

Independent review and reporting

- S** 11.5 An independent review shall be undertaken by the compliance and internal audit function of the KLIBOR submitter, at minimum, on an annual basis to affirm the integrity of KLIBOR submissions. This does not preclude the KLIBOR submitter from conducting more frequent reviews based on the materiality of the risk identified by the senior management.
- S** 11.6 The chief executive officer must submit an annual attestation to the Bank confirming the KLIBOR submitter's adherence to this policy document and KLIBOR submitter's own internal policies and procedures relating to the KLIBOR submission process.

- S** 11.7 Any anomalies, fraud or misconduct, or findings from the independent reviews must be reported to the board and promptly acted on in accordance with the board's direction. A copy of the report of the anomalies or irregular findings arising from the independent review must be submitted to the relevant supervision departments of the Bank as follows –

Pengarah
Jabatan Penyeliaan Konglomerat Kewangan
Bank Negara Malaysia
Jalan Dato Onn
50480 Kuala Lumpur; or

Pengarah
Jabatan Penyeliaan Perbankan
Bank Negara Malaysia
Jalan Dato Onn
50480 Kuala Lumpur

Training

- S** 11.8 All officers involved in the KLIBOR rate setting process must be provided with adequate training on the obligations contained in this policy document and applicable codes of conduct to ensure the officers observe the highest standards of integrity in KLIBOR rate setting process for the orderly functioning of the financial markets.

Documentation

- S** 11.9 All policies, processes and daily rates relating to KLIBOR submissions must be documented and kept for at least seven (7) years from the date the policies and processes were approved. The daily rates submitted shall also be documented and kept for at least seven (7) years from the date the rates were submitted.

12. Appointment and obligations of designated KLIBOR distributor

- S** 12.1 Where the Bank appoints any entity to be a designated KLIBOR distributor for compiling, calculating and disseminating the KLIBOR rates, such designated KLIBOR distributor shall –
- (a) make all reasonable efforts to promote consistent, accurate and timely dissemination of KLIBOR rates;
 - (b) have in place procedures to safeguard confidential information and have controls to prevent any unauthorised disclosure of information;
 - (c) make the calculation methodology available in its homepage³ and accessible to all its clients;
 - (d) store historical data and make available the data on KLIBOR as and when requested by the Bank;
 - (e) immediately inform the Bank where the number of submissions by KLIBOR submitters at any time falls below twelve (12);
 - (f) inform the Bank if they identify any potential manipulation of the rates;
 - (g) institute contingency procedures to address any potential operational disruptions affecting the discharge of its obligations under the KLIBOR rate setting process; and
 - (h) transmit the official KLIBOR rates to other information providers as timely as possible.

13. Contingency procedures

- S** 13.1 KLIBOR submitters must have contingency procedures in place to ensure that it will be able to successfully submit quotations for KLIBOR to the designated KLIBOR distributor. This must include the identification and authorization of alternate officers-in-charge of submitting the quotes and back-up manual arrangements (including by phone, email and facsimile) for submission in case of inability to submit quotes to the designated KLIBOR distributor.

³ Homepage refers to the designated KLIBOR distributor's internet homepage or platform-based homepage that is accessible to all its clients.

- G** 13.2 In the event of a suspected anomaly in a quotation by a KLIBOR submitter, the designated KLIBOR distributor may contact the relevant KLIBOR submitter to verify the quotation submitted.
- S** 13.3 In case of a suspected calculation error by the designated KLIBOR distributor –
- (a) KLIBOR submitters or the designated KLIBOR distributor, as the case may be, must lodge a report to the Bank (i.e. Jabatan Operasi Pelaburan dan Pasaran Kewangan) informing of such suspected error through phone (03 2698 2116) within 10 minutes of publication of the KLIBOR rates, followed immediately by an email (irmu@bnm.gov.my) with any supporting documentation;
 - (b) the Bank will assess whether a recalculation is warranted. If a recalculation is deemed necessary, the Bank shall notify the designated KLIBOR distributor; and
 - (c) upon notification from the Bank, the designated KLIBOR distributor will publish the revised rate by 12.00 p.m. on the same day through the KLIBOR distributor's platform.

14. Complaints and whistleblowing procedures

- S** 14.1 KLIBOR submitters shall ensure an appropriate documented whistleblowing arrangements are in place to enable whistle-blowers to anonymously report any attempt to manipulate or collude in respect of the rates submission process.

- G** 14.2 KLIBOR stakeholders⁴ may lodge complaints or whistleblowing reports relating to the KLIBOR rate setting with the Bank together with any supporting documentation to –

Pengarah
Jabatan Operasi Pelaburan dan Pasaran Kewangan
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur
Fax : + 603-2691 8836

PART C TRANSITIONAL ARRANGEMENTS

- S** 15.1 The submission of the 9-month KLIBOR tenor shall be discontinued with effect from 1 January 2018.
- S** 15.2 To facilitate a smooth transition in view of the discontinuation of the 9-month KLIBOR tenor, the Bank will allow a period of 1 year from the effective date of this policy document for all market participants to implement an orderly phasing out of the 9 month KLIBOR.
- G** 15.3 Existing agreements should be reviewed to determine how the discontinuation of the 9-month KLIBOR tenor affects their contractual arrangements. Concerned counterparties may bilaterally agree on considering alternative benchmarks and on any rate defined by interpolation of available KLIBOR tenors.
- S** 15.4 When entering into new agreements referencing the KLIBOR rates, the discontinued 9-month KLIBOR tenor should not be referenced.

⁴ Stakeholders refer to subscribers and other persons or entities who own contracts or financial instruments that reference KLIBOR.