



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Malaysia Islamic Overnight Rate (MYOR-i) Exposure Draft

Applicable to the following interbank institutions:

1. Licensed Islamic banks
2. Licensed banks and licensed investment banks carrying on Islamic banking business
3. Prescribed development financial institutions carrying on Islamic financial business
4. Other interbank institutions that are direct participants of RENTAS

This exposure draft sets out the proposed requirements, design, methodology and governance framework for a new transaction-based Islamic benchmark rate administered by Bank Negara Malaysia (the Bank) and named the Malaysia Islamic Overnight Rate (MYOR-i).

The Bank invites written feedback on the proposals in this exposure draft, including suggestions on areas to be clarified and alternative proposals that the Bank should consider. The written feedback should be constructive and supported with clear rationale and justifications, including accompanying data (if any), evidence, analysis or illustrations, where appropriate, to facilitate an effective review of this exposure draft. In addition to providing general feedback, respondents are encouraged to provide answers to the specific questions set out in this exposure draft.

Responses must be submitted to the Bank's Financial Benchmark Review team at fbr@bnm.gov.my by 25 October 2021. In the course of preparing your feedback, you may also direct queries to the aforementioned email.

Submissions received may be made public unless confidentiality is specifically requested for the whole or part of the submission.

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PART A OVERVIEW

1 Introduction

- 1.1 In line with the continued development of the Islamic financial market, the Financial Markets Committee (FMC), in consultation with the AIBIM-FMAM¹ Islamic Market Technical and Development Committee (IMTDC), recommended for the replacement of the Kuala Lumpur Islamic Reference Rate (KLIRR) with a new Islamic benchmark rate, named the Malaysia Islamic Overnight Rate (MYOR-i). MYOR-i is designed based on the International Organization of Securities Commissions (IOSCO)'s Principles for Financial Benchmarks.
- 1.2 This policy document sets out the benchmark design, methodology and governance framework to ensure the integrity and credibility of MYOR-i.

2 Applicability

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

3 Legal provisions

- 3.1 The requirements in this policy document are specified pursuant to sections 29, 152 and 155 of the Islamic Financial Services Act 2013 (IFSA) and section 116 of the Development Financial Institutions Act 2002 (DFIA).
- 3.2 The guidance in this policy document is issued pursuant to section 277 of the IFSA and section 126 of the DFIA.

4 Effective date

- 4.1 This policy document comes into effect upon issuance of the final policy document.

5 Interpretation

- 5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the Financial Services Act 2013 (FSA), IFSA or DFIA, as the case may be, unless otherwise defined in this policy document.
- 5.2 For the purposes of this policy document:

¹ AIBIM refers to the Association of Islamic Banking and Financial Institutions Malaysia
FMAM refers to the Financial Markets Association Malaysia
Issued on: 24 September 2021

“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;
“agent”	refers to a market participant, generally an interbank institution or an approved money broker, who executes deals on behalf of its clients pursuant to the clients’ mandate and without taking on market risk in connection with the deals;
“business day”	means any calendar day from Monday to Friday except a public or bank holiday in Kuala Lumpur;
“Commodity Murabahah”	refers to a contract based on the sale and purchase of Shariah-compliant commodities where the acquisition cost and the mark-up are disclosed to the purchaser;
“Eligible Instrument”	means a Shariah-compliant instrument listed in Appendix 1;
“FAST”	means the Fully Automated System for Issuing / Tendering which is a centralised system for the issuance of debt securities and to facilitate the Bank’s monetary policy operations;
“Funding Facility”	refers to the funding facility provided by the Bank to meet temporary liquidity needs of interbank institutions at a profit rate as referenced in the Bank’s Policy Document on Standing Facilities;
“interbank institutions”	refer to the following institutions which are approved by the Bank to deal in the interbank market, whether acting as principals or agents in the wholesale financial markets – <ul style="list-style-type: none">(a) licensed Islamic banks under the IFSA;(b) licensed banks and licensed investment banks approved under section 15(1)(a) of the FSA to carry on Islamic banking business;(c) prescribed development financial institutions approved under section 33B(1) of the DFIA to carry on Islamic financial business; and(d) any other interbank institution which is a direct

participant of the Real-Time Electronic Transfer of Funds and Securities System (RENTAS);

“MYOR-i”	refers to the Malaysia Islamic Overnight Rate, which is the Shariah-compliant transaction-based Islamic benchmark rate for Malaysia with features listed in Appendix 2;
“principal”	refers to a market participant who transacts for its own account and not acting as an agent;
“RENTAS”	means the Real-Time Electronic Transfer of Funds and Securities System which is the real-time gross settlement system;
“senior management”	refers to the chief executive officer and senior officers of interbank institutions;
“Shariah Advisory Council”	refers to the Bank’s Shariah Advisory Council (SAC) established under section 51 of the Central Bank of Malaysia Act 2009, which is the authority for the ascertainment of Islamic law for the purposes of Islamic financial business;
“Shariah-compliant”	refers to Islamic financial products and services that are consistent with Shariah principles and approved by the Bank’s SAC; and
“Standing Facilities”	means both the Lending / Funding Facility and Deposit / Acceptance Facility offered by the Bank.

6 Related legal instruments and policy documents

- 6.1 This policy document must be read together with other relevant legal instruments, policy documents, guidelines, codes or circulars issued by the Bank, in particular -
- (a) Code of Conduct for Malaysia Wholesale Financial Markets;
 - (b) Participation Rules for Payments and Securities Services;
 - (c) Operational Procedures for Malaysian Ringgit (MYR) Settlement in RENTAS;
 - (d) Policy Document on Standing Facilities;
 - (e) Policy Document on Murabahah;
 - (f) Policy Document on Tawarruq; and
 - (g) Policy Document on Wakalah

PART B DESIGN AND METHODOLOGY

7 Calculation and eligible transactions

- G** 7.1 MYOR-i is calculated as the volume-weighted average rate of return on Shariah-compliant unsecured overnight MYR interbank placements, rounded to two decimal places. Eligible transactions comprise the following transactions that are based on an Eligible Instrument:
- (a) Unsecured placements between interbank institutions (either brokered or direct/bilateral); and
 - (b) The Bank's Islamic overnight monetary operations, which comprise tenders conducted through FAST or manual operations, and direct overnight placements between the Bank and interbank institutions, excluding Standing Facilities.
- G** 7.2 To ensure MYOR-i is reflective of the latest conditions and developments in the Islamic financial market, new Eligible Instruments may be added in the future, subject to the following conditions:
- (a) Instruments shall be approved by the Bank's SAC; and
 - (b) Instruments shall meet all requirements for MYOR-i as assessed by the Bank, including but not limited to liquidity, data quality and robust governance standards.

Question 1

Do you agree with the parameters for the inclusion of new Eligible Instruments in the future? If not, please provide appropriate rationale.

8 Data sources and quality

- G** 8.1 The data used to calculate MYOR-i is collected from two key sources:
- (a) RENTAS; and
 - (b) FAST.
- S** 8.2 In the event² that there is insufficient or missing transaction data submitted through RENTAS³, interbank institutions shall provide all relevant data on their overnight interbank money market transactions to the Bank according to the template provided in Appendix 3 via email by RENTAS closing time, or immediately upon request by the Bank.
- S** 8.3 Interbank institutions shall notify the Investment Operations and Financial Market Department of the Bank and provide all relevant transaction data by the cut-off time specified in paragraph 9.2 upon identification of errors in RENTAS transaction data which affect the calculation of MYOR-i. The notification shall first be made via telephone followed by an email with supporting documentation.

² For example, due to IT or RENTAS-related issues.

³ Information in MT202 settlement instructions.

- S** 8.4 The senior management of interbank institutions shall put in place and implement robust internal policies and mechanisms, including effective back-up arrangements to ensure the accuracy of RENTAS transaction data and enable timely detection of errors which may affect the calculation of MYOR-i.

9 Publication

- G** 9.1 MYOR-i for a given business day is published by 12:00 noon on the following business day on the Bank's official website.
- S** 9.2 Interbank institutions shall report any identified errors to the Investment Operations and Financial Market Department of the Bank by 2:00 p.m. on the publication day. Errors identified or reported after 2:00 p.m. shall not be taken into account by the Bank for the determination of the correct rate.
- G** 9.3 A republication shall be made by the Bank if the erroneous rate is two or more basis points away from the correct rate.
- G** 9.4 A notification shall be made by the Bank by 3:00 p.m. on the same publication day on the official webpage for MYOR-i to indicate a potential republication due to erroneous data. In the absence of such a notification, MYOR-i will not be republished.
- G** 9.5 The republication shall be made by the Bank by 4:00 p.m. on the same publication day. An annotation shall be made to the republished rate to indicate a rate change.

Question 2

Please indicate your preference between the following options for the cut-off times for MYOR-i, or suggest an alternative option with appropriate rationale.

Cut-off times	Option 1	Option 2
Publication	12:00 noon	12:00 noon
Reporting of errors	2:00 p.m.	1:00 p.m.
Notification on potential republication	3:00 p.m.	2:00 p.m.
Republication	4:00 p.m.	3:00 p.m.

PART C GOVERNANCE

10 Administration of MYOR-i

- G** 10.1 The Bank is the administrator of MYOR-i and shall undertake periodic reviews of the design and methodology of MYOR-i to ensure that the benchmark rate accurately reflects the underlying market structure.
- G** 10.2 The Bank will seek the views of the FMC and the IMTDC to ensure that a holistic approach is undertaken when reviewing any changes to MYOR-i design or methodology. For material changes, the Bank will conduct a public consultation to seek feedback from market participants.

11 Contingency arrangements

- G** 11.1 In the event of disruption to the normal production of MYOR-i (e.g. disruption to trade settlement, interbank trading or data collection), the Bank shall calculate and publish MYOR-i based on the average MYOR-i, adjusted for any changes in the Funding Facility profit rate, over the previous three publication days:

$$MYOR-i_t = \frac{1}{3} \sum_{n=1}^3 [MYOR-i_{t-n} + (FFPR_t - FFPR_{t-n})]$$

where t = day of disruption event (i.e. contingency calculation day); and
FFPR = Funding Facility profit rate

Refer to Appendix 4 for an illustration of the contingency calculations.

Question 3

Do you agree with the contingency calculation methodology? If not, please provide suggestions, supported by appropriate rationale.

- G** 11.2 For exceptional circumstances other than short-term disruptions, the Bank shall exercise expert judgement and recommend an appropriate rate for publication.

APPENDICES

APPENDIX 1 Eligible Instruments

1. Commodity Murabahah

APPENDIX 2 MYOR-i features

Description	MYOR-i is the transaction-based Islamic benchmark rate based on Shariah-compliant unsecured MYR overnight interbank placements.
Administrator and calculator	The Bank
Calculation methodology	Volume-weighted average
Rounding precision	Rounded to two decimal places
Eligible transactions	<p>Transactions based on Eligible Instruments and are one of the following:</p> <p>(a) Unsecured placements between interbank institutions (either brokered or direct/bilateral)</p> <p>(b) The Bank's Islamic overnight monetary operations, which comprise tenders conducted through FAST or manual operations, and direct overnight placements between the Bank and interbank institutions, excluding Standing Facilities.</p>
Data sources	RENTAS and FAST
Data collection window	Eligible transactions done throughout the entire business day (i.e. until RENTAS close).
Publication	12:00 noon Kuala Lumpur time on the next business day on the Bank's official website.
Republication	<p>A republication shall be made by the Bank if the erroneous rate is two or more basis points away from the correct rate and is identified or reported by 2:00 p.m. on the publication day.</p> <p>A notification on potential republication due to erroneous data will be made by 3:00 p.m., with republication (if any) by the Bank by 4:00 p.m. on the same day.</p>
Contingency arrangements	In the event of disruption to the normal production of MYOR-i, the Bank shall calculate MYOR-i based on the average MYOR-i, adjusted for any changes in the Funding Facility profit rate, over the previous three publication days. For exceptional circumstances, the Bank shall exercise expert judgement and recommend an appropriate rate.

APPENDIX 3 Template for submission of RENTAS transaction data

Institution : _____

Date : _____

Transaction ID	Sender Ref ID	Seller BIC	Buyer BIC	Settlement date	TRN code	Trans type	Status	Currency code	Amount	MT202 Additional Info				
										Market Type	Method / Brokers	Product	Rate	Maturity date
					MMO00	MT202	Settled	MYR		I		MUR		

For the columns under “MT202 Additional Info”, the information shall be consistent with the codes outlined in Appendix XVII of the Operational Procedures for MYR Settlement in RENTAS, in particular:

Category	Details	Code
Market type	Islamic	I
Method / Brokers	Brokered Affin Moneybrokers Brokered ICAP (Malaysia) Brokered Harlow’s & MGI Direct Trade	AF IM HA DT
Product	Murabahah	MUR
Rate	Up to 2 decimal places	x.xx
Maturity date	MMM format: JAN, FEB, MAR, APR, MAY, JUN, JUL, AUG, SEP, OCT, NOV, DEC	DDMMYY

APPENDIX 4 Illustration of a contingency calculation

For illustrative purposes, the MYOR-i for t-3, t-2 and t-1 were 1.73%, 1.75% and 2.02% respectively. There was a 25 bps increase in the Funding Facility profit rate (FFPR) on day t-1:

Rates expressed as percentages (%)

Day	t-3	t-2	t-1	t
MYOR-i	1.73	1.75	2.02	<i>Contingency</i>
FFPR	2.00	2.00	2.25	2.25

*25 bps increase in FFPR

According to the formula, the MYOR-i for day t-3 and day t-2 will be adjusted upwards by 25 bps to 1.98% and 2.00% respectively:

Day	t-3	t-2	t-1
Adjusted MYOR-i	$1.73 + (2.25 - 2.00)$ $= 1.98$	$1.75 + (2.25 - 2.00)$ $= 2.00$	$2.02 + (2.25 - 2.25)$ $= 2.02$

Add the difference between the FFPR for the contingency calculation day (t) and the historical date (t-n)

Contingency MYOR-i for day t = $(1.98 + 2.00 + 2.02) / 3 = 2.00$