

Financial Markets Committee 1/2017
Wednesday, 12 April 2017,
Sasana Kijang, BNM

Summary of Discussion

The main agenda was to discuss the second series of financial market development initiatives. The broad objectives were to (1) Promote fair and effective financial market (2) Improve liquidity in the bond market (3) Provide additional hedging flexibility (4) Strengthen the financial market infrastructure.

1. Promote Fair and Effective Financial Market

- The meeting discussed the upcoming issuance of concept paper on “Principles for a Fair and Effective Financial Market (‘Principles’)” which aims to achieve a financial market environment that is trusted, competitive, resilient and best positioned to support the sustainable growth of the Malaysian economy. The introduction of the Principles is also in line with recent global efforts to restore integrity and trust in the financial markets following the uncovering of serious market offences that had deeply eroded public trust in the system.
- The meeting was also informed on the issuance of a final policy document on “Code of Conduct for Malaysia Wholesale Financial Markets (‘CoC’)” on 13 April 2017 as part of the initiative to enhance market professionalism and integrity. The CoC will come into effect on 2 May 2017 and will supersede the Malaysian Code of Conduct for Principals and Brokers in the Wholesale Money and Foreign Exchange Market issued in 1994. The CoC is applicable to all market participants (both buy-side and sell-side) in the money market and foreign exchange market, including over-the-counter derivatives market for interest rates or exchange rates. This is consistent with the applicability of BIS FX Global Code, which covers a wide range of market participants.
- BNM shared that there are inclusion of additional requirements in the CoC which aim to further strengthen integrity of dealers and brokers, among others:
 - (i) financial institutions are required to report to BNM and FMAM when a dealer or broker is suspected or found guilty of non-compliance with the CoC even if the dealer or broker is no longer employed by a particular financial institution and to undertake reference checks for future hires;
 - (ii) financial institutions are also required to include a notice in the terms of employment of dealers or brokers in relation to their obligation as set out in point (i) above, with a notice that the employee’s information will be shared with other institutions; and
 - (iii) FMAM is expected to undertake a self-policing role, and together with AICB, has the mechanisms in place to fulfill this.

2. Improve Liquidity in the Bond Market

- The meeting discussed the expansion of eligible market participants for regulated short-selling framework for Malaysian Government Securities (MGS) from licensed banks and licensed investment banks to all resident entities. The expansion of eligible market participants aims to facilitate a better price discovery process, portfolio hedging of interest rate risks, and promote repo and securities lending activities.
- In addition to the expansion of eligible market participants, the policy document also incorporates further liberalisation where market participants are allowed to cover the short-selling positions by the value date versus current requirements of T+2 for all eligible market participants and T+3 for Principal Dealers.

- On a related note, the meeting was informed that BNM is proposing to expand eligible securities for short-selling to include Malaysian Government Investment Issue (MGII) to promote liquidity in the MGII market. As such, BNM would be issuing a concept paper to seek financial industry's feedback on this proposal, which may include concerns from Shariah point of view. This consultation period will be until end of April 2017.
- Details of implementation procedures and reporting requirement will be ironed out before the effective date.

Provide additional FX Hedging Flexibility

- The FMC members discussed the additional FX flexibility whereby the existing passive and dynamic hedging flexibilities would be streamlined in May 2017. Registered resident and non-resident investors are allowed to undertake the following:
 - (i) to hedge up to 100% of the underlying exposures; and
 - (ii) to fully unwind the hedge.
- Registered resident and non-resident corporate entities are also allowed to undertake hedging up to 100% of underlying trade in goods or services with the flexibility to unwind up to 100% of their hedged position subject to the condition that the unwinding is undertaken with the same counterparty bank. The operational implementation of the above hedging flexibility would require further consultation with the banks.
- Furthermore, BNM shared that the flexibility for residents to actively manage their FX exposure up to an aggregated net open position limit of RM6 million per client per licensed onshore bank without any requirement for the banks to sight underlying documentation with onshore banks will be expanded to include 3 additional major currency pairs namely GBP, EUR and JPY. Requirement for a one-off declaration of hedging intent remains unchanged.

Strengthen the Financial Market Infrastructure

- BNM shared that the ultimate beneficial ownership (UBO) framework will be implemented through the RENTAS system to support greater transparency and facilitate better surveillance.
- The infrastructure will be enhanced via development of RENTAS segregated account with capabilities to capture transactions and holdings of UBO up to fund manager level. The system will be able to ease reporting burden on custodians, provide real-time information for surveillance purposes and benefit the market through publication of detailed information. The development cost of the system upgrade will entail an increase in custody fees going forward. Early estimate indicates +0.025 bps per annum.
- Overall, the segregated account would provide beneficial ownership transparency at investment execution level.

Others

- BNM shared with the meeting on the recent developments in the market since the introduction of the initiatives in December last year.

Next meeting

- Will be convened within 2-3 weeks.