

Financial Markets Committee Roundtable
Thursday, 15 June 2017,
Sasana Kijang, BNM

Summary of Discussion

The main agenda was to discuss the progress of FMC initiatives to develop the onshore financial market and new initiatives to be introduced by BNM. The new initiatives were (1) Issuance of Bank Negara Interbank Bills (BNIBs) to licensed banks (2) Expansion of eligible collateral for Monetary Operations, and (3) FX hedging ratio for investors

1. Recap on FMC initiatives to develop onshore financial market

- BNM shared on the development in the FX and bond markets and progress of the initiatives introduced since the formation of the FMC. For the FX hedging framework, while there is interest by market participants, BNM expects more growth and utilization of the flexibility.
- FMC members then shared that while the risk profile of the market has improved, the area of concern surrounds the ideal amount of holdings by non-residents for short-term papers and the cost and benefit of these short-term foreign flows to Malaysia considering the costs to BNM to manage the liquidity and potential outflows. BNM shared that although the percentage of non-resident holdings remains high, a more diversified investor base with an increasing percentage of long-term investors has mitigated some of the risks and led to a more balanced two-way flow.
- The meeting then discussed the Appointed Overseas Office (AOO) framework whereby members highlighted the need for a standardized agreement to clarify the accountability of AOOs to counterparts in back to back arrangements. The roundtable also raised its concern that AOO of banking groups which have not attested may be facilitating NDF market making activities to which BNM clarified that AOOs are required to attest before being allowed to facilitate ringgit transactions and will clarify the matter via a circular to be issued on 15 June 2017.
- The meeting also discussed on the use of ringgit deposit as a potential avenue for NDF players. FMC members proposed some measures on deposit placement from non-resident financial institutions that have not attested and urged for a study to be conducted to analyse the impact of the measures on banking system liquidity.
- On the proposal to include MGII as eligible securities for short-selling, the meeting was informed that market players are generally receptive on the initiative upon engagement with the industry.

2. Proposed new initiatives

Issuance of Bank Negara Interbank Bills (BNIBs) to licensed banks

- The roundtable discussed the issuance of BNIBs in MYR and foreign currency to domestic interbank institutions as an additional tool for liquidity management in the onshore financial market.
- BNM shared that the features of MYR BNIBs are similar to existing BNMNs, except for the ownership and tradability which are restricted to only onshore licensed banks. BNIB issuances will be recognized as HQLA.
- Members raised concerns on the use of BNIB as underlying assets for structured products to be sold to non-residents and proposed restrictions on the use of structured products backed by BNIB.

Expansion of eligible collateral for Monetary Operations

- BNM shared that eligible collateral for BNM monetary operations will be expanded to include NIDs and BAs issued by AAA-rated banks.

- Members proposed for the inclusion of NIDs issued by AA-rated banks to spur demand for retail NIDs which are mainly issued by AA-rated banks and suggested for BAs to be deductible from eligible liability (EL) base as per current treatment for NIDs, given both instruments exhibit similar characteristics.

FX hedging ratio for investors

- The roundtable discussed the possibility of hedge ratios for institutional investors as a prudential measure to manage FX risks arising from investments abroad undertaken on behalf of clients. The hedge ratio policy will be applicable to licensed fund management companies as well as licensed insurers and takaful operators offering investment-linked funds.
- Attendees discussed that there could be existing investment mandates in place for existing investment-linked funds in terms of derivative exposures to which BNM shared that any new policy proposed will be applied prospectively. FMC members also shared that whilst prevailing regulations on unit trust funds allow hedging up to 100% of underlying assets there are limitations for unit trust funds to enter into derivatives.

Others

- BNM briefed that a review was being undertaken on the relevance and role of money brokers in the market and sought members' view and feedback on the industry.
- The meeting was informed that the Guidelines on Regulated Short Selling of Corporate Bonds was issued on 13 April 2017 and there will be a revision of retail bond framework which includes expansion of eligible issuers and type of instruments as well as refinement to the disclosure document.

Next meeting

- Will be convened within 2-3 weeks.