

Financial Markets Committee
Wednesday, 15 November 2017,
Sasana Kijang, BNM

Summary of Discussion

The main agenda was to discuss the third series of initiatives and updates on the financial market performance and development.

1. Third Series of FMC initiatives to develop the onshore financial market

- The meeting discussed the third series of liberalisation measures that would be announced during the 2017 Financial Market Association Malaysia (FMAM) Annual Dinner. The third series would focus on enhancing the resilience of the Malaysian financial market.
 - (i) BNM shared that the regulated short-selling framework will be extended to MGII and Islamic banks based on bilateral binding promise (muwa'adah mulzimah) concept.
 - (ii) The second initiative under the third series would be the issuance of Bank Negara Interbank Bills (BNIBs) in ringgit and foreign currency to licensed onshore banks. BNIBs will be recognised as a high-quality liquid asset (HQLA) under Basel III Liquidity Coverage Ratio.
 - The ringgit BNIB would serve as an additional instrument for ringgit liquidity management and monetary operation. However, this will not replace the current Bank Negara Monetary Note (BNMN).
 - The foreign currency BNIB would provide for onshore foreign currency liquidity management.

FMC members fully support the initiative as the foreign currency BNIB serves as an alternative investment avenue for onshore banks and for foreign banks to manage their pool of dollar liquidity and nostro balances. On members' enquiry on whether the dollar BNIB would be assigned 0% risk weight, BNM shared that it would be in accordance to Basel standards at which it would carry 20% risk weight due to the denomination in dollar.
 - (iii) The third initiative would be the expansion of eligible collateral for monetary operations to include Bankers' Acceptance (BAs) and Negotiable Instrument of Deposits (NIDs) issued by AAA-rated banks. BNM highlighted that only NIDs below 5 years issued by AAA-rated banks are eligible to be collateralised.

2. Updates on Financial Market Performance and Development

- The meeting discussed the improvements in the onshore FX market liquidity with the introduction of FMC initiatives since last year.
- BNM then shared updates on the bond and equity markets. While the bond market has recorded an outflow, the equity market has remained stable with significant inflows year-to-date. The KLCI has also remained stable compared to regional peers.
- BNM also shared on the progress of the attestation by non-resident banks and securities companies as well as the dynamic hedging framework which has garnered positive feedback from registered asset managers.
- BNM shared that based on discussions held separately with local and foreign fund managers, some fund managers have requested for additional flexibility above the 25% active management allowed under the dynamic hedging framework. BNM noted that further assessment is required to assess the fund managers' request for additional flexibility is due to tracking of dollar denominated index whereby there is a need to add on ringgit exposure when ringgit is on a depreciating trend.

- FMC members shared that fund managers would normally use the forward market to lock-in the FX rate to manage their FX risks pending asset purchases. Post-monitoring can ascertain if these asset managers would subsequently execute the asset purchase. Members also shared that suitable level have to be ascertained for foreign holdings of ringgit assets to manage the vulnerability of the market to sharp and large potential outflows that may lead to instability.
- Members enquired if the Special Deposit Facility (SDF) will be extended beyond December 2017. It is noted that the increase in the SDF balances correspond to the increase in export proceeds conversion. FMC members shared that corporates are willing to forgo the 0.25% interest to reduce operational burden from transferring between ringgit and SDF account. Corporates can invest in higher yielding ringgit assets should the SDF facility be discontinued.
- The meeting was then briefed on the initiative under the FX Sub-committee. The initiative was led by 8 banks and a process guide in consultation with the Foreign Exchange Administration (FEA) department was prepared to address inconsistent approaches to customer due diligence for export proceeds conversion as per FEA Supplementary Notice 1. The meeting welcomed the initiative that would address differing documentation requirements by banks, enhance business efficiency and provide level playing field amongst banks in competing for clients.

Other developments and initiatives

- The meeting discussed on the future review of the composition of the FX and Bond Sub-committee members as well as the terms of reference for the FMC to ensure appropriate representation for future discussion on financial market development.
- The meeting then discussed on the possibility of the establishment of a central clearing counterparty (CCP) to enhance market transparency and efficiency for the development of the repo market.
- Members then enquired on the progress updates on the RENTAS segregated account to which BNM shared that system enhancements are currently in progress and should be completed by next year for banks that are ready. Further information on LEI will be made available on the Bank's website.
- On members' enquiry on whether BNM will be the Local Operating Unit (LOU) issuing LEI, BNM shared that investors can engage any of the existing LOUs including those present in Malaysia.