Financial Markets Committee
Friday, 12 January 2018
Sasana Kijang, BNM

Summary of Discussion

The main agenda was to discuss the industry's recommendation on three primary developmental areas; market liquidity, market intermediaries and infrastructure, as well as market professionalism and integrity. The meeting discussed the following:

1. FX Market

Due diligence best practices on compliance to FEA requirements

- The working group has finalised the due diligence best practices for export proceeds conversion. Rather than issuing a "guideline" that sets a minimum requirement for industry to adhere to, the committee explored other options for issuance of the best practices, taking into account enforceability of these best practices.

- Members suggested, amongst others, to publish these practices under the FMC as industry best practices.

Hedging flexibility

- BNM sought feedback on additional hedging flexibilities to be introduced and sought relevant data from members to assess demand for further development.

Expanding the access for non-bank market participants

- The meeting discussed on non-interbank market participants' access to money brokers and enhancing competitive pricing. Member commented that while there are participants who do not currently utilise money broker services due to internal infrastructure and cost implications, money brokers may provide more efficient and cost effective execution.

- The meeting concurred that availability of money brokers to provide competitive pricing and execution is an important market development although multi-tier pricing may continue to apply for different types of market participants, i.e.: interbank vs non-interbank clients.

- The meeting was updated on the current work on electronic trading platform (ETP) for FX and money markets. On related note, member shared that, for electronic trading for securities and derivatives markets, there are already guidelines that sets out requirements for registration of electronic facility as well as other on-going requirements applicable to the operators of the electronic facility.

Appointed Overseas Office

- The meeting discussed on client confidentiality issues that will be faced by non-resident financial institutions (NRFI) who are interested to be appointed as AOO. The meeting shared possible solution of an alternative compliance and reporting mechanism which will be discussed further with interested onshore banks and NRFIs. On a related note, members are encouragred to provide feedback on enhancement of the AOO framework, if any, to BNM.

2. Bond Market

Bond liquidity

- Member shared that small funds faced difficulty to trade in size smaller than market standard lot. Member banks generally agreed to facilitate bond transaction below the standard lot amount to promote greater price discovery and liquidity for insurance companies and asset managers in managing their smaller funds.

MGS Futures

- The meeting deliberated on the issue of pricing and valuation for MGS futures. It was suggested that the current MGS futures framework, including the cash-settled only mechanism, to be reviewed to improve MGS futures pricing mechanism.

- Member commented that the current contract size of MGS futures is small. Member suggested for it to be enlarged to attract institutional investors' participation as small contract sizes would make hedging through MGS futures inefficient and costly.

Repo transaction

- Member commented that insurance companies do not generally participate in repo transactions as it would reduce their total capital calculation under the Risk-Based Capital framework. It was suggested for members to understand the regulatory objectives behind the framework and work on solutions that will allow for some flexibility on the use of repo transactions while adhering to the regulatory requirements.

Central counterparties

- The meeting discussed on the possibility for the establishment of a central counterparty (CCP) to address credit concerns and promote greater transaction and liquidity in the market. The meeting was informed that the focus is currently on the establishment of a trade repository for data collection on over-the-counter (OTC) derivatives.

3. Professionalism and Integrity

- The meeting was updated that for 2018, there will be a new syllabus for PPKM modules which are more substantive. In addition, members will be required to comply with 38 hours of continuous professional development (CPD) hours at a minimum per calendar year.

- On a related note, it was clarified that insurance companies and asset managers will be bound by the Code of Conduct when they deal in the money and FX markets. It is also important for the relevant dealers to take PPKM's bond market module as it will enhance their technical knowledge of the bond market which will be good for the overall development of the financial industry.

4. Other Matters

Interest Rate Swap (IRS)

- Member shared that, in general, demand for IRS or other derivatives instruments is lower from the insurance companies due to many factors, including interpretation of hedging requirement under the regulatory framework, as well as risk appetite of individual insurance companies. Member viewed the assessment of hedge effectiveness as being subjective and difficult to ascertain. It was suggested for greater regulatory emphasis to be given on governance for undertaking or assessing hedges, taking into account the principle objective behind the regulatory requirement.

Primary Dealers' (PD) incentive

- It was informed that incentive for PDs/iPDs that allows them to use their government bond holding to meet the Statutory Reserve Requirement will be discontinued upon its expiry at the end of January 2018.

USD Bank Negara Interbank Bill (BNIB)

- The meeting was informed of a suggestion on the use of different reference rates for floating rate BNIB issuance and members are invited to provide feedback on this.

MIFID II implementation

- Banks shared that the implementation of MIFID II does not have any major impact on their businesses as they do not primarily transact with European-based banks.

- On a related note, it was informed that clearing of trades by European banks for products traded on Bursa, which is a non-approved clearing house, would incur additional costs. Hence, there is on-going work to get Bursa Malaysia’s clearing house to be an approved clearing house under MIFID II requirement.