

Financial Markets Committee Meeting

Wednesday 24 April 2019

Bank Negara Malaysia

Summary of Discussion

The meeting discussed on market initiatives on two primary areas; financial market infrastructure development and market accessibility:

1. Development of Financial Market Infrastructure

Updates on previous discussions

- The meeting was informed that odd-lot size quotations for Malaysian Government Securities (MGS) and Malaysian Government Investment Issue (MGII) are now available via a designated page to facilitate non-standard size transactions. This will enhance retail sized investors and smaller fund managers' access to the bond market at more competitive rates.
- The meeting was updated on the development of the electronic trading platform (ETP) framework. The Exposure Draft will be published for market feedback by end 1H 2019. This will improve price discovery process, particularly for investors who do not have full access to the interbank market.

Migration of funds from wholesale money market to retail funds

- The meeting was informed that the recent withdrawal of tax exemption on wholesale money market funds in 2019 has led to a shift of corporates' funds into retail money market funds since the latter continues to benefit from tax exemption.
- The meeting agreed to discuss the matter with relevant authorities to provide clarification on the intent and coverage of the tax review.

Development of repo market

- The meeting agreed to review rules on repo activities to improve repo market liquidity, especially in the longer tenure.
- The meeting deliberated on whether the Guidance Notes on Repurchase Agreement Transactions is still relevant, as the prudential safeguards and risk management practices for repo transactions are already in place within the Foreign Exchange Administration (FEA) rules and the Global Master Repo Agreement (GMRA) signed between counterparties.

- The meeting also discussed on leveraged trading conducted via cross-currency repo transactions and potential risks on financial market stability. The meeting agreed that hedging activities are sufficiently flexible via the dynamic hedging programme, based on the investors who own the economic interest of the asset and have the actual foreign exchange exposure.

Standard documentation principles for the industry on customers

- The meeting was updated that the working group has agreed with the best practices for transactions with resident counterparties, and it will be distributed among the banks in May.
- A draft of best practices concerning transactions with offshore investors will be circulated to members for feedback.
- This will resolve some of the operational hurdles relating to FX hedging for ringgit assets by non-resident investors.

Physical delivery for MGS futures

- The meeting was updated that a focus group meeting will be held in April 2019 to discuss specifications of contract, process flow and operational matters concerning physical delivery for MGS futures. This will address the basis risk between the futures price and its underlying, hence promoting the futures as a risk management instrument.

2. Market Accessibility

Discussion on dynamic hedging and Appointed Overseas Office (AOO) frameworks

- Members highlighted on the low awareness on the frameworks and the need for re-education of the banks' sales advisors to improve the efficiency of information transfer via the AOO channels.
- Members also discussed on the key challenges in encouraging the usage of the AOO channels, namely the lack of avenues for squaring off ringgit positions outside domestic trading hours. Nevertheless, members acknowledged the risk of market fragmentation and the spill-over impact of offshore trading, especially when there is less transparency in the price discovery process.
- The meeting discussed on suggestions to encourage onshore interbank USDMYR liquidity and to facilitate pricing outside the domestic trading hours. Nevertheless, banks informed that AOOs do provide quotations outside domestic trading hours.

- Members also suggested to include participation of corporates, trustee banks or custodians in the dynamic hedging framework to have a more vibrant market with greater two-way flows without the corresponding speculative positioning.
- The meeting agreed that the inclusion of additional market players requires further assessment to ensure that these players do not cause instability in the onshore markets.

3. Other Matters

Treasury Management Centre

- The meeting discussed on the benefits of promoting Malaysia as the destination for multi-national companies (MNCs) to set up their Treasury Management Centres.
- The meeting proposed for minimum standards of incentives to be provided for the Treasury Management Centre initiative to ensure better clarity for MNCs to establish treasury centres in Malaysia.