

Financial Markets Committee Meeting

Tuesday 16 July 2019

Bank Negara Malaysia

Summary of Discussion

The meeting discussed the progress of the initiatives announced in May 2019 and updates on financial market development since the last FMC meeting in April 2019:

1) Dynamic hedging programme for investors

- Enhancements to the framework have gained considerable traction from investors, leading to increased participation from 88 to 97 registered investors managing an asset size of USD32 billion.
- Investors have greater flexibility to manage their FX risks with approvals to extend positioning beyond the previous limit.
- Access to the programme for investors that deal through intermediaries such as foreign trust banks has been progressing with positive responses.

2) Standard documentation guide for FEA Notices

- A standard documentation guide on FX transactions has been circulated by The Association of Banks in Malaysia (ABM) and Association of Islamic Banking Institutions Malaysia (AIBIM) to members on 5 July 2019.
- Aimed at greater market efficiency, the guide will streamline minimum due diligence processes by banks to improve transparency, document requirements and enhance investors' experience.
- As the guide has received considerable interest from market participants, the meeting has agreed for a summary of the guide to be made available on BNM, Financial Markets Association of Malaysia (FMAM), ABM and AIBIM's website by mid-August 2019.

- Additionally, standard documentation guides on investment in foreign currency assets, borrowing, payment and export of goods will also be issued by the industry in due course.

3) Facilitating third-party FX transactions

- The meeting clarified that there is no restriction for non-resident institutional investors to enter into FX transactions arising from FX exposures with any licensed onshore bank or Appointed Overseas Office (AOO) (subject to proof of underlying where relevant), regardless of whether a direct custodial relationship for cash or securities exists. Therefore, it is not mandatory for an investor to only transact FX with its custodian bank.
- Local custodians have given their commitment to settle third-party FX throughout the Malaysian market trading hours.
- The meeting also discussed the differing treatment by custodian banks for third-party FX and agreed that all local custodian banks are to communicate officially to global custodian banks that third party FX transactions are permitted.

4) Increase bond and repo market liquidity

- Enhancements to BNM's repo facility have doubled the total number of bonds available for repo under the Bank's Institutional Securities Custodian Program (ISCAP) with the total value of repos conducted to date amounting to RM3.6 billion from RM1.7 billion previously.
- Market participants were supportive of the initiative. During the recent Principal Dealers (PD) Meeting held in July 2019, PDs have also given their commitment to quote all off-the-run bonds available on the Bank's Securities List.
- A review to the repo guidelines is currently underway to allow greater flexibility for market participants. The amended guidelines will be published by mid-August 2019 for industry consultation.
- The meeting also discussed on other potential regulatory restrictions which may have hampered repo activities including the Collective Investment Scheme (CIS) guidelines issued by Securities Commission Malaysia.

- To encourage repo transactions amongst insurers, effective 17 December 2018, flexibility is accorded under the Risk-Based Capital Framework for licensed insurers that enter into repo transactions, subject to a prudential limit. Similar flexibility is also accorded to Takaful Operators who enter into Shariah-compliant repo. The meeting has agreed to engage Life Insurance Association of Malaysia (LIAM) to assess the utilization of repo facility by insurance companies.
- Following interest from non-resident pension funds to participate in onshore securities lending, BNM will also review the policy document on Securities Borrowing and Lending (SBL) to enable non-resident institutional investors to participate in SBL activities via onshore market participants. Onshore banks have agreed to explore the mechanism and operational details for this initiative.

5) Physical delivery for MGS futures

- A focus group comprising Securities Commission Malaysia, Bursa Malaysia, Bank Negara Malaysia and market-makers have led an initiative to introduce physical delivery for MGS futures. The industry-wide initiative is currently on track in meeting its project timeline. The meeting was updated that the terms of the contract to resolve settlement issues have been agreed upon during the first focus group meeting in April and the settlement model was subsequently discussed during the second focus group meeting in July.

6) Ringgit accessibility beyond local trading hours

- The meeting was updated by the banks that their respective AOOs in London and New York are able to provide USD/MYR quotes when the local market is closed.
- Feedback from investors in these locations have been positive. Banks will continue to promote ringgit accessibility via AOOs to facilitate client trade and hedging needs.

7) Further developments to the IRS market

- The meeting clarified that at present, non-resident financial institutions can transact ringgit interest rate swaps (IRS) with any AOOs subject to proof of underlying while non-resident corporates can freely transact ringgit IRS without proof of underlying. Recognizing the need to develop the derivatives market to enable efficient risk management by market participants, the meeting also discussed efforts to further develop the IRS market to enhance market liquidity and participation.