

Financial Markets Committee Meeting

Friday, 31 January 2020

Bank Negara Malaysia

Summary of Discussion

The meeting discussed foreign exchange (FX) and bond market development initiatives for 2020 and deliberated on strategies to further enhance market accessibility and liquidity.

1. Benchmark rates

- Pending the review of the status of KLIBOR as a benchmark rate, based on industry feedback, the Average Overnight Interbank Rate (AOIR) will be developed as a short-term alternative benchmark rate.
- The AOIR framework will be aligned with International Organization of Securities Commissions (IOSCO) principles to ensure benchmark credibility and is targeted to be completed by end June 2020.

2. Securities Borrowing and Lending (SBL) Program

- The SBL guidelines will be reviewed to improve bond and money market liquidity and support market-making activities.
- An exposure draft of the reviewed SBL Program is targeted to be issued by BNM for release in 1H 2020 for industry consultation in collaboration with FMAM.

3. Structured switch auction

- BNM is assessing the operations of switch auctions in 2020, subject to market conditions.

4. Accessibility and liquidity of ringgit beyond local trading hours

- BNM hopes to elevate the status and presence of participating banks in the Appointed Overseas Office (AOO) pilot program to further improve investor experience in accessing ringgit prices during London and New York hours.
- BNM and FMAM will conduct more investor engagement to expand the outreach of the program.
- An information kit on the existing initiatives will be prepared to harmonise communication with investors on ringgit market accessibility.

5. Developing the onshore derivatives market

- The meeting deliberated on measures to deepen the onshore FX forward market. Further analysis will be conducted to assess the feasibility of these measures:
 - I. Flexibility for utilisation of FX swaps as a funding instrument for resident corporates.
 - II. Flexibility for unwinding of forward contracts with different counterparties.
 - III. Lengthen the tenor for resident hedging for foreign currency loan repayment to beyond 12 months in line with underlying tenure.
 - IV. Flexibility to hedge FX risk of crude palm oil (CPO) contracts to other non-FX derivatives contracts as well.

6. Liberalisation of FEA rules

- The meeting deliberated on further liberalisation aimed at improving efficiency and ease of doing business for resident entities involved in the global supply chain.

7. Other matters arising

- The review of physical settlement of Malaysian Government Securities (MGS) futures is in its finalisation stages.