

**Financial Markets Committee Meeting**  
**Wednesday, 5 August 2020**  
**Bank Negara Malaysia**

## **Summary of Discussion**

The meeting deliberated on recent developments in the financial markets in the post-MCO<sup>1</sup> period and discussed strategies to enhance accessibility and efficiency of the Malaysian financial markets for investors and ensure domestic economic recovery.

### **1. Improving domestic financial conditions**

Following improved global risk sentiment and relaxation of the MCO, onshore financial market conditions have stabilised and remained supportive of economic recovery:

- a. Market functioning has normalised with a rebound in monthly onshore foreign exchange (FX) turnover to pre-MCO average volume (July 2020: USD239 billion; 2018-2019 average: USD240 billion) as economic activities pick up.
- b. Similarly, bond market liquidity improved. Daily average volume of government securities increased by 23% to RM5.8 billion YTD (2019: RM4.7 billion), while banking system liquidity remained ample at RM144 billion with additional RM56 billion of liquidity injection mainly via Statutory Reserve Requirement (SRR) reduction, outright purchase of government securities and reverse repo operations.
- c. FMC members observed that non-resident portfolio inflows have also gained strength amid improvement in risk sentiment.

### **2. Greater access to the Malaysian financial markets**

The meeting discussed on progress in facilitating onshore access to foreign investors:

#### **i. Access to ringgit market via Primary Market Makers (PMMs)**

- a. Following transition of the PMM pilot programme to a permanent arrangement, non-resident demand for ringgit via PMMs during London and New York hours has remained steady even throughout periodical risk aversion episodes in March-April 2020.
- b. Investors are now able to benefit from greater transparency following publication of MYR quotes on Bloomberg after onshore hours by the PMMs since January 2020.

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<sup>1</sup> Movement Control Order (MCO)

## **ii. Dynamic hedging programme**

- a. Participation has grown to 113 investors from 105 investors as at end-2019, collectively managing USD39 billion of ringgit assets.
- b. The recent addition under dynamic hedging programme are mainly Japanese investors. This was positively attributed to resolution of issues surrounding documentation requirements, third-party FX and pre-funding requirements. In addition, increasing number of Japanese trust banks are also able to facilitate third-party FX and dynamic hedging transactions.
- c. In further enhancing access for non-residents, the meeting then discussed on a pilot initiative for PMMs to facilitate selected FX forward trades without underlying (with a limit) for non-resident index tracking investors, subject to a registration process. Beginning September 2020, non-resident investors may approach PMMs to participate in the pilot scheme.

## **3. Enhancing market depth and liquidity**

- a. The meeting acknowledged the increased vibrancy in both primary and secondary bond markets. Onshore trading activity has seen robust improvement in terms of bond and repo market volume. This was well-supported by BNM's expanded repo facility which now encompasses about 80% of the MGS universe to recirculate captive bond holdings.
- b. More frequent re-openings for the 2020 government bond auctions have led to a significant deepening in bond market liquidity, with the 10-year MGS benchmark reaching outstanding amount of RM20.5 billion. Moving forward, the meeting acknowledged that more re-openings are in the pipeline to further consolidate the number of outstanding bonds for better liquidity.
- c. As part of initiatives to spur activities in repo market, the meeting noted efforts by the Financial Markets Association Malaysia (FMAM) to encourage signing of Global Master Repurchase Agreements (GMRA) and Sell and Buy Back Agreements (SBBA) among market participants, including insurance companies and development financial institutions (DFIs). BNM, in collaboration with FMAM, will continue to drive the initiative to review the Netting of Financial Agreements Act 2015 in order to facilitate Collateralised Commodity Murabahah (CCM) transactions among Islamic market players.
- d. The meeting was updated that industry-wide testing is currently underway for the project delivery on physical settlement of MGS futures and is on track for its target launch date in September 2020.
- e. The meeting concurred that communication channels should be expanded to provide the latest information on the Malaysian market as an investment destination, which includes media articles and investor engagement sessions comprising a widened audience base of both domestic and international investors.

#### **4. Liberalisation of foreign exchange policies**

- a. The meeting noted that market feedback on recent liberalisation of foreign exchange policies (FEP) on 30 April 2020 was positive, where corporates were accorded greater flexibility to manage their FX risk exposure and to improve business efficiency.
- b. The meeting discussed on extension of ringgit overdraft facility by a licensed onshore bank to non-resident custodian banks for up to 2 days arising from inadvertent delays in securities settlement. BNM reiterated that the offering of such facility is currently permissible under the prevailing FEP and will provide further clarity on what constitutes an inadvertent delay in due course.
- c. The meeting provided positive feedback on the standard documentation guide namely the minimum due diligence issued by the industry and simplified FEP website, which have provided ease of reference and transparency for external stakeholders such as banks, corporates and investors. As part of ongoing efforts to enhance awareness, BNM will continue its collaboration with the Asian Banking School in designing FEP training programs for industry players.

#### **5. Positioning for global recovery**

- a. Moving forward, while headline events and uncertainties may lead to pockets of volatility in the near term, the meeting acknowledged that market participants will continue to focus on the pace and trajectory of economic recovery which shall be underpinned by effective initiatives and policies.
- b. The meeting noted that a multipronged approach of maintaining investor confidence while continuously developing and deepening the domestic financial markets is key to withstand external shocks. To this end, BNM reiterated its commitment to maintain orderly market conditions as well as to strengthen inter-agency engagement and communication to instil confidence in the financial system.