

**Bond Market Sub-Committee**  
**Thursday, 25 January 2018**  
**Bank Negara Malaysia**

## **Summary of Discussion**

The meeting discussed on 2018 bond development initiative which focuses on three areas; enhance liquidity, promote sustainable growth and improve the hedging mechanism.

### **1. Recap on 2017 bond market development**

- The meeting was updated on 2017 bond market development which revolves around improving onshore hedging framework, further liberalization of regulated short-selling of government and corporate bonds, strengthening the financial market infrastructure, issuance of Bank Negara Interbank Bills and expansion of eligible collateral for monetary operations.
- Malaysian bond market size remained the largest in South East Asia in terms of % to GDP. It was also observed more stable (medium and long-term) foreign holdings of Malaysian government bonds since introduction of these initiatives and noted that the international reserves and support by local institutional investors are sufficient to manage the reversals.

### **2. Improve repo market liquidity**

- The meeting discussed on the use of repo as a liquidity management tool for insurance companies to meet short-term cash requirements. Insurance companies' participation in repo market will also improve the secondary bond market liquidity via the release of captive holdings and hence, deliberated on steps to develop a repo framework for insurers.
- The meeting also discussed on the activities for repo beyond 1-year tenor, citing the use of long-term repo to facilitate the industry in managing the Net Stable Funding Ratio (NSFR).

### **3. Review of MGS futures**

- The meeting discussed on current MGS futures which is cash-settled, but have not gained traction amongst market participants, mainly due to pricing anomaly as the current futures price may deviate substantially from its underlying cash bonds without the ability to deliver the underlying.
- The meeting agreed to conduct a holistic study on the MGS futures framework, including exploring the feasibility to offer the option of physical settlement in addition to cash settlement.

### **4. Enhance interest rate swap (IRS) liquidity**

- The meeting deliberated on insurance companies' participation in IRS market and the interpretation of the existing guideline for the insurance industry.
- The meeting discussed and agreed that the existing guideline is adequate and moving forward, individual insurance companies with intention of using IRS to engage with BNM post deliberation with their internal risk management.

### **5. Facilitation of odd-lot bond transaction**

- The meeting discussed on having a separate screen for pricing of odd-lot size transactions. Development in this area may attract retail investors and small fund managers into bond market.

- The meeting also discussed on the standard lot for government bonds and corporate bonds to commensurate with its market size.
- The meeting agreed to conduct a trial run for an odd lot pricing screen as well as reviewing the standard lot for government and corporate bonds.