

# Malaysian Financial Market: Progressive, Stable and Dynamic

4<sup>th</sup> March 2020



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

Hosted by:



**BNP PARIBAS**

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  - **FAQs (Third Party FX and Standard Documentation)**

# Malaysian Financial Market: Progressive, Stable and Dynamic

## ACCESS

A global network of Appointed Overseas Office (AOO) of the onshore bank (163 AOOs across 35 countries; 12 in London)

## COMMUNICATION

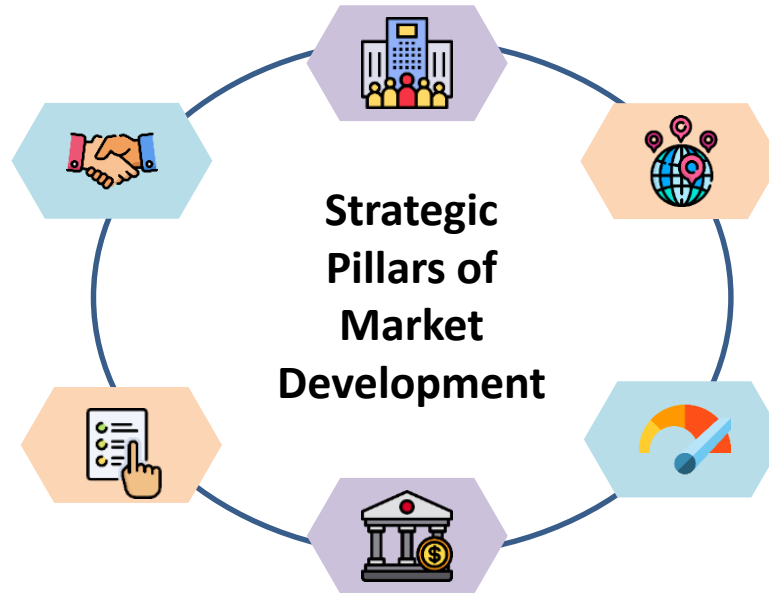
Direct engagements with market participants and dedicated one-stop investor webpage:

[bnm.my/investinmalaysia](http://bnm.my/investinmalaysia)

## FLEXIBILITY

Flexible FX hedging framework to facilitate management of FX risks

## Strategic Pillars of Market Development



## LIQUIDITY

Liquid onshore FX market accessible directly onshore banks or via AOO including outside of Malaysian hours

## COMPETITIVE

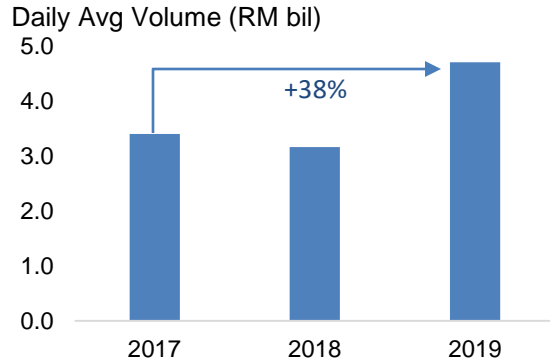
Competitive pricing via third party FX transaction, not limited to the custodian banks

## EFFICIENT

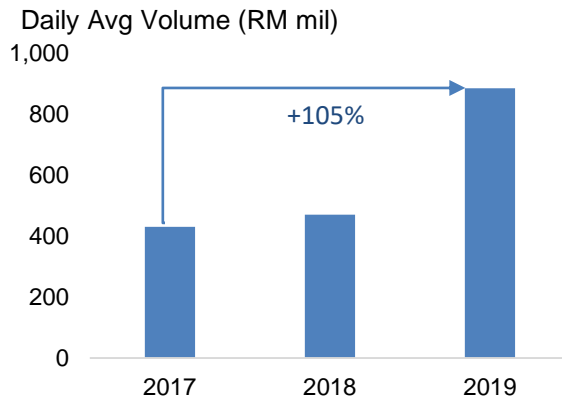
A Minimum Due Diligence guide to streamline processes and documentation requirements for increased efficiency and ease of investing

# Overview of Malaysian Financial Market

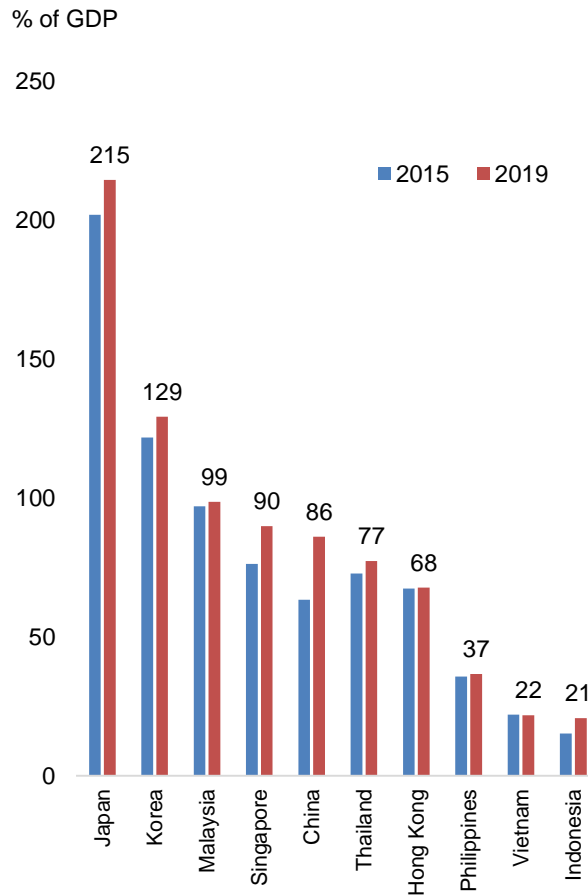
## Growing average daily trading volume in the bond market



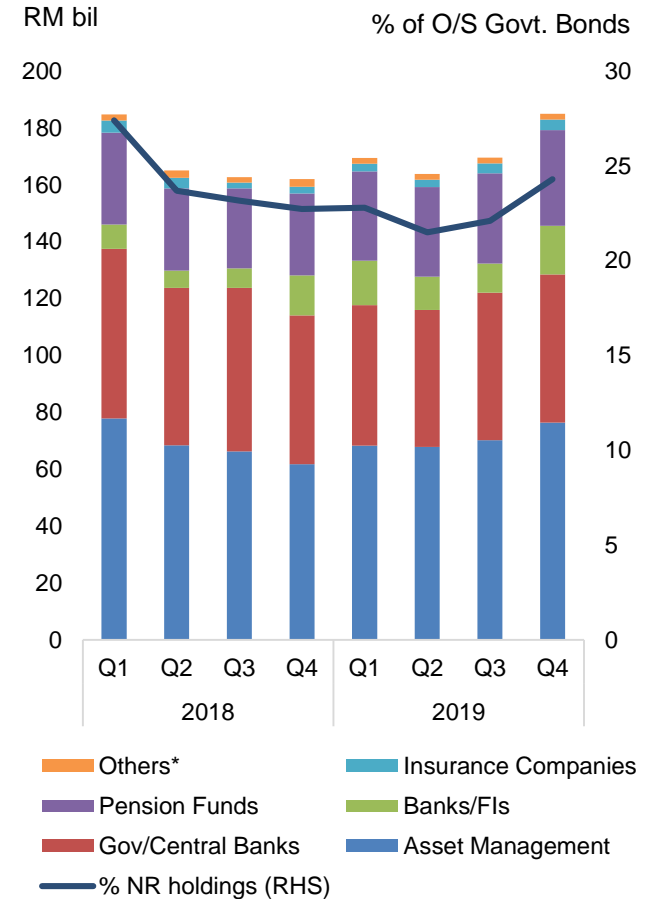
## Development of repo market support market making activities



## Third largest local currency bond market in the region



## Long term stable investors remain as key holders

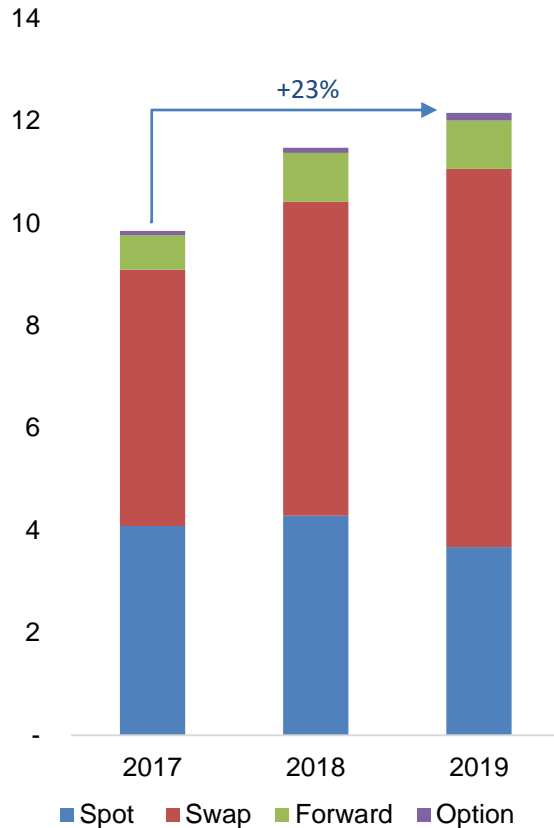


Source : BNM, Bloomberg, Asian Bonds Online

# Overview of Malaysian Financial Market

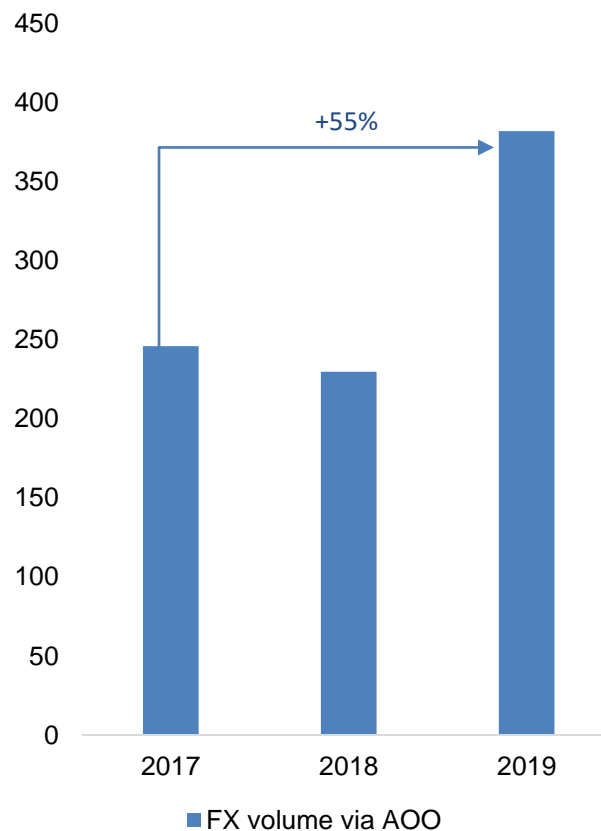
## Vibrant onshore FX market with improved liquidity

Daily Average Volume (USD bil)



## AOO continue to facilitate access to onshore markets globally

Daily Average Volume (USD mil)



## Onshore dynamic hedging programme continue to gain traction

**84** investors  
managing  
**USD30 billion**

2018

**108** investors  
managing **USD38 billion**

YTD 2020

Source : BNM



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# Summary of Development Initiatives

No	Development Initiatives	Status
1	Increased flexibility for dynamic hedging programme participants to manage FX risks since May'19	✓
2	Expansion of dynamic hedging programme to include trust banks and global custodians since May'19	✓
3	Publication of reference USDMYR prices on Bloomberg by pilot AOO banks after local trading hours effective Jan'20 to increase transparency	✓
4	Additional flexibilities for identified Appointed Overseas Offices (AOOs) to facilitate market-making after onshore trading hours beginning Aug'19	✓
5	Principal Dealers will quote all off-the-run bonds available on the Bank's Securities Operations effective Aug'19	✓
6	Publication of revised repo guidelines with greater flexibilities in Nov'19	✓
7	Publication of Auction Calendar 2020 which featured more reopenings to build larger benchmark sizes and boost liquidity	✓
8	Enhanced hedging platform with physical delivery of MGS futures	By 2H'20
9	Dedicated one-stop information hub on Malaysian financial market in BNM website – <a href="http://bnm.my/investinmalaysia">http://bnm.my/investinmalaysia</a>	✓
10	Publication of standard documentation guide for FX transactions in Aug'19	✓

# Appendix



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# Initiatives on Malaysian Ringgit Liquidity

## Appointed Overseas Office (AOO) Pilot Programme



Provides additional flexibilities for AOOs to facilitate efficient pricing of ringgit after KL trading hours



Improving overall market accessibility as reflected by the narrowing of USDMYR bid/ask spread and healthy transaction volume



7 banks are currently enrolled in the programme:

- ✓ Bank of America
- ✓ BNP Paribas
- ✓ CIMB
- ✓ HSBC
- ✓ JP Morgan
- ✓ Maybank
- ✓ Standard Chartered

## Publish reference rate USDMYR



USDMYR prices are available on Bloomberg and Reuters after local onshore hours to increase transparency of Ringgit prices after Malaysian trading hours

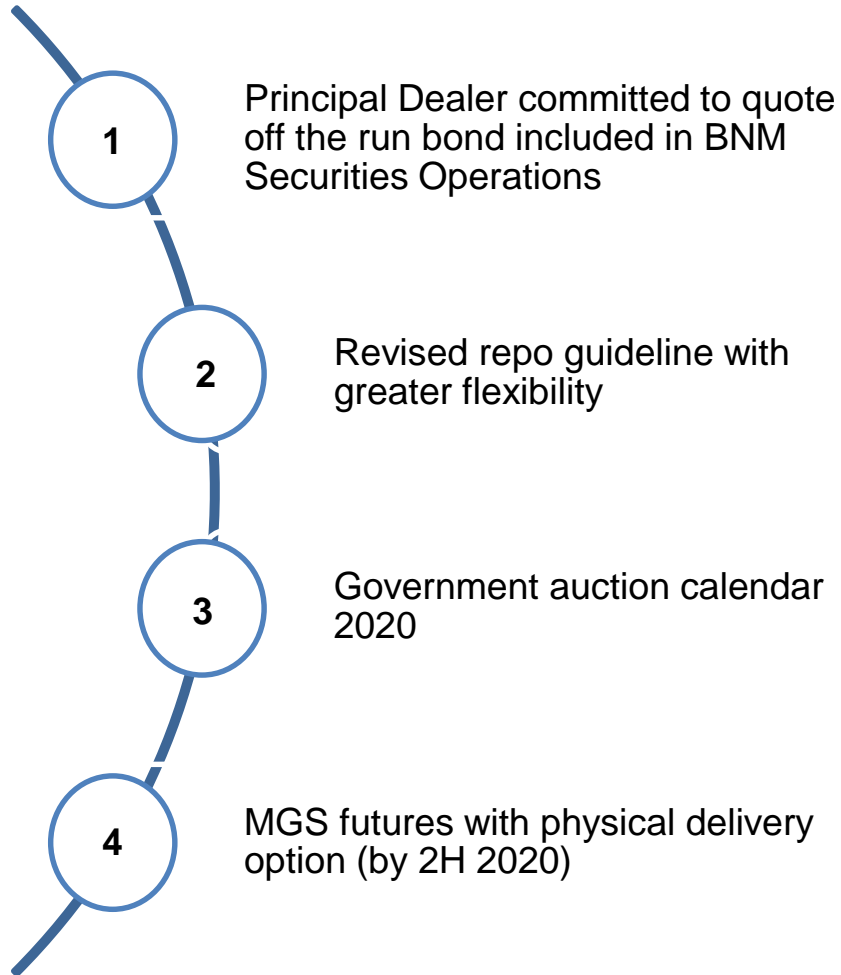
MYR Currency		Settings
Malaysian Ringgit Spot		Quote   RFQ » Economic Release Impact »
02/05/20	---	Live
1)All Quotes	2)Onshore	3)Non Deliverable Forwards
Contributor View		Best Bid/Ask View
Source	Firm Name	Bid / Ask
BGN	Bloomberg BGN	4.1215 / 4.1240
CMPN	Composite(NY)	4.1215 / 4.1240
REGN	Regional BGN (Onshore Rate)	4.1215 / 4.1240
BFIX	Bloomberg Fixing	4.1214 / 4.1232
LAST	Last Update	4.1200 / 4.1250
CIIR	CIMB Bank KUL	4.1210 / 4.1240
SCKL	SCB KL AOO	4.1090 / 4.1140
HSKL	HSBC KL AOO	4.1080 / 4.1160
BOFA	BOFA KL AOO	4.1070 / 4.1121
BPKL	BNPP AOO	4.1090 / 4.1140
JPAO	JP Morgan KL AOO	4.1080 / 4.1130
MAYK	Maybank AOO	4.1090 / 4.1110

Source : BNM, Bloomberg, Asian Bonds Online



# Initiatives on Bond Market Liquidity

## Development initiatives



## Progress and Impact



Improved market making activities to aid off-the-run liquidity



Greater flexibility to market participants with extended maximum tenor and wider range of securities



Target to reduce number of outstanding issuances while increasing benchmark sizes to boost liquidity



Enhancing the delivery mechanism for MGS futures settlement to develop an effective hedging platform for investors

Source : BNM



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## What is Dynamic Hedging framework?

The flexibility to actively manage FX risk exposure arising from holding of ringgit assets using forward contracts with onshore banks and AOO **without** the need to provide documentation to facilitate hedging activities



### FLEXIBILITY

- Enter into forward contract to sell up to 100% of invested underlying ringgit asset
- Enter into forward contract to buy up to 25% of invested underlying ringgit asset
- Unwind the forward contracts described above freely



### ELIGIBILITY

- Institutional investors
  - ✓ Submit directly to [investorregister@bnm.gov.my](mailto:investorregister@bnm.gov.my) or via onshore banks/AOOs
  - ✓ Trust Banks/ Custodians may submit on behalf of their clients
- Trust Banks/ Global Custodians
  - ✓ Undertake dynamic hedging on behalf of clients to BNM
  - ✓ Conduct trades on gross basis



### FREQUENTLY ASKED QUESTION

- Are investors permitted to register for dynamic hedging at **firm level** instead of the fund level?  
*Yes*
- Can investor undertake dynamic hedging beyond the 25% long MYR forward threshold?  
*Yes, upon BNM approval*
- Can investor undertake FX transaction with banks other than their custodian banks?  
*Yes, with onshore banks/AOO*

Source : BNM

# Initiatives on Policy Clarity - Standardized FX Documentation Guide

This document is an industry-led initiative aimed at promoting greater market efficiency. The adoption of this minimum standard FX documentation will **streamline the due diligence processes by banks** to improve transparency, document requirements and enhance investors' experience



## KEY HIGHLIGHTS

- Request for documentary evidence may be obtained **either pre- or post-transaction** as guided by the onshore bank's KYC principle
- Non-resident institutional investors are allowed to enter into FX transactions arising from FX exposures **with any licensed onshore bank or AOO** (subject to proof of underlying where relevant), **regardless of whether a direct custodial relationship for cash or securities exists.**
- **Prerequisites for NR custodian and trust banks** prior to undertaking FX transactions on behalf of clients.



## LINKS TO THE GUIDE

- A summary of the document is available on the websites of Bank Negara Malaysia, Financial Markets Association of Malaysia, Association of Banks in Malaysia and Association of Islamic Banks in Malaysia
  - ✓ Bank Negara Malaysia  
<http://bnm.my/investinmalaysia>
  - ✓ Financial Markets Association of Malaysia  
<http://www.ppkm.net/>
  - ✓ Association of Banks in Malaysia  
<https://abm.org.my/>

Source : BNM



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# Initiatives on Policy Clarity - One-Stop Information Hub for Investors

Consolidates relevant information such as regulations and latest development initiatives into one webpage for ease of reference



The screenshot shows the Bank Negara Malaysia website with a navigation menu at the top. The main heading is 'MALAYSIAN FINANCIAL MARKET DEVELOPMENTS'. Below this is a sub-heading 'Investing in the Malaysian Financial Market' followed by a paragraph of text. A light blue box contains the section 'What's new for investors?' with two links: 'Development initiatives to further enhance market accessibility and liquidity, 16 Aug 2019' and 'Development initiatives to enhance market accessibility and liquidity, 16 May 2019'. Below this is a list of links with expand/collapse icons: 'Dynamic Hedging Programme', 'Appointed Overseas Office (AOO) Pilot Programme', 'Appointed Overseas Office Framework', 'List of counterparties for access to the Malaysian financial market', 'Forward hedge of crude palm oil futures and options on crude palm oil futures', 'Standard documentation guide for FX Transactions', 'Statements by Financial Markets Committee(FMC)', '2020 Government Bond Auction Calendar', and 'Foreign Exchange Policy'.

Access the website through the following link or QR code:

- <http://bnm.my/investinmalaysia>
- QR code



Source : BNM



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## Third Party FX



- Who can transact third party FX on behalf of investors with AOO or onshore banks?
  - ✓ NR investor
  - ✓ NRFIs/Trust Bank mandated to fully or partially manage the investors ringgit assets; subjected to attestation requirement based on transaction type and purpose
- Are investors required to perform NDF attestation to access onshore FX market?
  - ✓ No, NR investors are not required to make NDF attestation

## Standard Documentation



- Is it a must to provide proof of underlying for every transaction?
  - ✓ No. Onshore banks / AOOs may exercise their own KYC process guided by a Minimum Due Diligence
- What is deemed as proof of underlying?
  - ✓ Any document proving holding of assets, payment, sale & purchase, proof of account, etc
- Can documents be furnished post-transaction?
  - ✓ Yes. Guided by banks' KYC process.
- Is prefunding of account necessary for settlement?
  - ✓ There is no regulatory requirement of prefunding for any MYR financial instrument settlements