Financial Markets Committee (FMC) Meeting
11 February 2022
Bank Negara Malaysia

Summary of Discussion

The meeting discussed the key challenges and financial market outlook for 2022, reviewed ongoing initiatives and deliberated on the 2022 development initiatives.

1. Outlook for the economy and financial markets in 2022

1.1 The meeting discussed the latest global financial market developments, including the divergence in the pace of recovery between developed and emerging countries and rising inflation as a result of lingering supply chain disruptions and a tighter labour market. Moving forward, financial market volatility is expected to persist amidst repricing of financial assets in anticipation of rate hikes from major central banks.

1.2 On the domestic front, the meeting noted that the path of rate normalisation would depend on the pace of the economic recovery. Inflation remains relatively moderate, with unemployment figures still above pre-Covid levels. The recent easing of global supply chain frictions has been beneficial for some corporates, supporting a recovery in business activity and expansion plans and contributing to a robust external sector performance. Financial market adjustments have been orderly, underpinned by healthy year-to-date average daily trading volumes of RM3.3 billion and USD12.5 billion in the bond and FX market respectively and supported by attractive yield differentials with developed markets.

1.3 The meeting agreed that downside risks to the outlook remain, including a worsening of the Covid situation, supply chain issues and weaker-than-expected demand, which could be exacerbated by premature policy tightening. Members also noted that in the Environmental, Social and Governance (ESG) space, investors have increasingly begun to emphasize ESG-friendly portfolios which may lead to non-ESG companies facing funding risk in the longer-term.

2. Development of the Malaysia Islamic Overnight Rate (MYOR-i)

2.1 As the steering committee and consultative platform, FMC was presented with the results of the September 2021 public consultation on the design and features of MYOR-i. In ensuring the robustness of the consultation process, all relevant feedback from the 20 respondents were taken into consideration and benchmarked to best market practices. FMC also endorsed the timeline leading up to the official launch of MYOR-i by end-March 2022.

2.2 Responses to the public consultation were generally in agreement with the proposed design and features of MYOR-i (details in Appendix). To address alternative viewpoints and suggestions, the meeting deliberated further on the following features of MYOR-i:

2.2.1 On the error reporting cut-off time, two options were deliberated:

Option 1: Publication at 12 noon, error reporting by 2 p.m., notification on potential republication by 3 p.m. and republication by 4 p.m.

Option 2: Publication at 12 noon, error reporting by 1 p.m., notification on potential republication by 2 p.m. and republication by 3 p.m.

The meeting noted that a majority of respondents (60%, including 10% "indifferent" responses) preferred Option 1, which provides a sufficient 2-hour window for the reporting of errors, similar to the Malaysia Overnight Rate (MYOR). The meeting discussed alternative suggestions (15%) to adopt the same cut-off times as MYOR and decided that Option 1 was preferable given that it would cater for the future inclusion of Islamic instruments whose rates are only known on the maturity date.

2.2.2 The meeting noted that a strong majority of respondents (90%) agreed with the usage of the Funding Facility profit rate (FFPR) in the contingency calculation methodology, which is in line with the Bank's 218th Shariah Advisory Committee (SAC) meeting's decision. The meeting thus agreed with the use of the FFPR in the contingency calculation methodology.

3. 2022 Workplan

3.1 Financial benchmark reforms to secure long-term integrity of the financial markets

3.1.1 FMC will work alongside Financial Markets Association Malaysia (FMAM) to establish the technical specifications and market conventions for the MYOR products. Banks will continue to educate and facilitate corporates on the transition from KLIBOR to MYOR.

3.1.2 FMC as the steering committee will assess KLIBOR continuity beyond 2022 to ensure orderly market adjustments.

3.1.3 Members were updated on the launch of the ISDA[1] 2021 Fallbacks Protocol and Supplement[2] on 16 December 2021. Members agreed that

[1] International Swaps and Derivatives Association

[2] The new derivatives fallbacks cover IBORs in Malaysia (KLIBOR), India (MIFOR), New Zealand (BKBM), Norway (NIBOR), the Philippines (PHIREF) and Sweden (STIBOR), ensuring a robust replacement based on nearly risk-free alternative reference rates would automatically take effect if any of these benchmarks permanently ceases to exist.

adherence to the Protocol would further improve the robustness of legacy KLIBOR derivatives contracts.

3.2 Sustainability initiatives in the financial market

3.2.1 Members shared that the market would welcome the expected issuance of local currency Sustainability bonds and sukuk by the government, as demand for sustainable financial products have grown in recent years. Many local players have issued sustainable bonds to tap into the fast-growing pool of sustainable funds to further support the initiatives.

3.2.2 Members deliberated on the publication of an ESG interbank league table to support and encourage further development of ESG initiatives.

3.2.3 Members were also updated that Securities Commission Malaysia (SC) has released a consultation paper seeking feedback on a principles-based Sustainable and Responsible Investment (SRI) taxonomy for the Malaysian capital market. The deadline for comments and feedback is 31 March 2022. In addition, SC also welcomes collaboration with banks for the upcoming NaviGate[3] programmes in 2022 to create greater awareness and increase participation among market players.

3.3 Engagement strategies

3.3.1 Members discussed and agreed on the importance of continuing regular engagements with investors and key stakeholders. These engagements would provide valuable opportunities to gather useful feedback and insights to ensure development initiatives are relevant and commensurate with market demand and readiness, while simultaneously allowing the Bank to provide clarity and address any misconceptions on its policy stance and market initiatives.

3.3.2 Members were updated that a Financial Market Investor Portal (FMIP) is being set up as the one-stop information centre to improve investors' experience in accessing the Malaysia financial market.

3.4 Deepening of the Islamic financial market

3.4.1 The meeting noted on the ongoing initiatives undertaken by the Association of Islamic Banking and Financial Institutions Malaysia

[3] NaviGate demonstrates SC's continued emphasis in fostering capital market inclusivity and facilitating the acceleration of SRI agenda for the Malaysian capital market which complements ongoing initiatives undertaken by the Capital Markets Malaysia.

(AIBIM) to introduce new Islamic interbank funding products, with a tentative launch of Wakalah instrument in March 2022.

3.4.2 FMC in collaboration with AIBIM plan to develop Practice/Guidance Notes for Collateralised Commodity Murabahah (CCM) and Sell and Buy Back Agreement (SBBA).

3.4.3 Members were updated that based on results of a survey conducted by AIBIM, CCM and SBBA have gained traction among banks where 75% of respondents have CCM or SBBA agreements in place and 50% of respondents have already undertaken CCM or SBBA transactions.

3.5 Development of the funding market

3.5.1 The meeting acknowledged the importance of the collateralised market as a source of funding during both normal and crisis times, and highly encouraged wider participation from the non-banking sector as well as exploring any potential process improvement.

3.5.2 The meeting also discussed the initiatives to further develop the dollar funding market, through broadening of FX hedging instruments and extension of the FX forward curve to facilitate long-term hedging by market players.

3.6 Other matters

3.6.1 To further enhance liquidity and spur trading activities of MGS futures, FMC will explore collaboration with FMAM for greater strategic planning and promotional efforts to enhance awareness and increase participation of MGS futures.

Appendix

Key features and design of MYOR-i

No.	Feature	Details
1	Description	MYOR-i is the transaction-based Islamic benchmark rate based on Shariah-compliant unsecured MYR overnight interbank placements.
2	Eligible Transactions:	a) Unsecured placements between interbank institutions (either brokered or direct/bilateral); and b) The Bank's Islamic overnight monetary operations, which comprise tenders conducted through FAST or manual operations, and direct overnight placements between the Bank and interbank institutions, excluding Standing Facilities.
3	Eligible Instruments	Commodity Murabahah *New Eligible Instruments may be added in the future, subject to the following conditions:* *(a) Instruments shall be approved by the Bank's SAC; and* *(b) Instruments shall meet all requirements for MYOR-i as assessed by the Bank, including but not limited to liquidity, data quality and robust governance standards.*
4	Administrator and Calculator	BNM
5	Calculation methodology	Volume-weighted average and rounded to two decimal places
6	Data Sources	Real Time Electronic Transfer of Funds and Securities System (RENTAS)
7	Data Collection Window	All eligible transactions done throughout the entire business day (until RENTAS closes at 6 p.m.)