Islamic Financial Market Committee (IFMC) Meeting
20 August 2025
Bank Negara Malaysia

Summary

The meeting discussed the latest Islamic financial market developments, followed by strategies to strengthen the Islamic financial market, particularly in relation to MGII and MYOR-i adoption.

1. Initiatives to Improve Non-Resident Holding of MGII

1.1 The meeting was briefed on BNM's effort for MGII inclusion in the FTSE World Government Bond Index (WGBI). Members highlighted that a significant share of WGBI index users originate from a concentrated investor base, therefore inclusion of MGII would require strong buy in from these investors. To support this, members discussed the need for more data granularity on the domicile of non-resident (NR) investors to enable a more targeted strategy to improve NR participation in MGII, which currently stand at 8% compared to 30% for MGS.

1.2 The meeting deliberated on possible issues surrounding the low NR holdings of MGII. Members highlighted that a broad majority of NR investors do not have concerns on the sukuk structure, except for a selected few, which adopt the AAOIFI standard. Additionally, members highlighted investors' concern on MGII's evolving structure. Frequent changes to the structure pose a challenge as investors would need to seek approval for the new structure.

1.3 The meeting deliberated several proposals aimed at increasing non-resident (NR) holdings of MGII. Members also raised the suggestion to increase MGII issuances to a more significant number compared to MGS, ideally more than 50% of issuances to motivate the NR investor base to adopt MGII as their primary choice for Malaysian exposure which would require buy-in from the Government of Malaysia. Further studies such as government budget requirements among others would be needed to implement the suggestion. Additionally, extending MGII maturities beyond 30 years was proposed to attract a broader and more diverse investor base. The committee also highlighted the need for more proactive outreach and engagement with NR investors, particularly those in the Middle East, as some institutions have existing exposure limits to Malaysia. However, current efforts to engage these investors remain limited. To further support awareness and demand, members were encouraged to actively promote MGII in investor forums and engagements, and

to contribute to publications that would enhance public discourse around Islamic financial instruments.

2. Ensuring market-wide adoption of MYOR-i

2.1 The meeting discussed the adoption of MYOR-i and members' reaffirmed commitment to increase MYOR-i-based transactions, particularly within the Islamic derivatives market. Members highlighted that absence of a secondary market remains a key challenge, as Islamic banks are currently restricted from quoting two-way prices for derivatives. While a MYOR curve has already been established, the lack of a MYOR-i curve continues to hinder broader market development. A significant operational hurdle is the inability of Islamic banks to request IPRS rates without an underlying transaction, limiting their ability to price and hedge instruments effectively.

2.2 Members proposed potential incentives such as stamp duty exemptions to support MYOR-i adoption. Concerns were also raised regarding basis risk, as Islamic banks with MYOR-i exposures are currently hedging using MYOR, which may lead to mismatches. In response, members recommended a phased transition to MYOR-i by Islamic Financial Institutions (IFIs) over a three-year period, aligned with the cessation of KLIBOR.

2.3 Additionally, members proposed potential strategies to develop the Islamic derivatives market. These include exploring the possibility of obtaining Shariah Advisory Council (SAC) approval to enable Islamic banks to engage in market making and offer two-way pricing for Islamic derivative instruments, which is currently restricted. Members also recommended that Islamic Financial Institutions (IFIs) allocate their own capital for market making activities, rather than relying solely on their parent entities, to foster greater autonomy and liquidity in the market. Additionally, it was suggested that IFIs be allowed to use MYOR as a fallback mechanism in instances where they are unable to hedge exposures with other Islamic institutions, thereby enhancing flexibility and risk management.

3. Other matters

3.1 Members were updated on the recent initiative by MIFC Leadership Council (MLC), that will conduct a feasibility study on dollar liquidity in the domestic market. The update also covered the need for active participation from regulators in supporting and driving the MLC's strategic agenda.

3.2 Additionally, members suggested mass signing of Tahawwut Master Agreement (TMA) and SBBA to accelerate the development of Islamic financial market which has also been suggested in other forums and has gained traction and support from market participants.