Financial Markets Committee (FMC) Meeting
Tuesday, 9 March 2021
Bank Negara Malaysia

Summary of Discussion

The meeting deliberated on the outlook for financial markets, reviewed ongoing initiatives and discussed strategies to further improve onshore market access, liquidity and efficiency.

1. The outlook for economy and financial markets in 2021

a. The meeting noted that the global economic recovery has been gaining momentum. On the domestic front, growth is expected to improve from the second quarter onwards, supported by the recovery in global demand and the domestic vaccine rollout. Nevertheless, members acknowledged that there are a number of downside risks, including resurgence in COVID-19 infections, the effectiveness of vaccine rollouts, ongoing sovereign rating reviews and the risk of reversal in investor sentiment.

b. The meeting discussed the recent trend in rising global and domestic bond yields, reflecting expectations of improved global growth, as well as uncertainty of rising inflation and the trajectory of monetary policy.

c. The meeting also took note that the market may have factored in the expected higher issuance of government bonds for 2021. Bank Negara Malaysia ("BNM") assured members that it will continue to monitor domestic financial market conditions and stands ready to provide liquidity as and when needed to ensure orderly functioning of the financial markets.

2. Progress of market initiatives in 2021

a. Development of an Alternative Reference Rate ("ARR") for Malaysia

i. As the steering committee and consultative platform to oversee the development of ARR, as well as on the strategic direction of KLIBOR[1] and KLIRR[2], FMC members deliberated on its first key task of conducting an initial public consultation.

ii. In light of the target for the publication of the public consultation paper by end-March, the meeting discussed the potential design features for the ARR including calculation methodology, data sources, publication window, treatment of erroneous data and contingency arrangements.

[1] Kuala Lumpur Interbank Offered Rate
[2] Kuala Lumpur Islamic Reference Rate

iii. The existing KLIBOR will also continue to be available alongside the new ARR until further review by end-2022. Nevertheless, KLIBOR shall be continuously refined to ensure its robustness including a review on possible discontinuation of less referenced tenors. As a precautionary matter, the meeting also discussed potential fallback plans for the current KLIBOR-referenced contracts should it be discontinued at a later date or if market participants voluntarily migrate to the new ARR.

iv. As for KLIRR, the meeting noted its limited use as a reference for Islamic financial products. Instead, the meeting supported the proposal to publish transacted rates in the Islamic money market alongside conventional money market and repo rates, for market development and transparency purposes.

v. The meeting agreed for the key discussion points to be included in the draft consultation paper for feedback from all market participants.

b. Progress updates on other market initiatives

i. Primary Market Maker ("PMM") Framework

- The meeting discussed on the efficiency and effectiveness of the PMM framework, and noted that its volume grew by 5.8% year-on-year to USD800 million in the first two months of 2021, supported by better pricing transparency via continuous USD/MYR reference price quotes. Notwithstanding this encouraging growth, members shared that a number of non-resident investors expressed their preference to access FX liquidity during onshore hours via their Appointed Overseas Offices ("AOO").

- The meeting noted that the pilot flexibility for PMMs to facilitate FX forwards without underlying of up to USD5 million for non-resident index tracking investors has been extended for further review for another 3 months. Members discussed the prospect of streamlining the pilot flexibility into the dynamic hedging programme given positive investors' feedback and continued growing interest in the dynamic hedging programme.

ii. Pilot flexibility on ringgit-denominated interest rate swaps ("IRS")

- The meeting noted encouraging progress and positive feedback on the pilot flexibility introduced in November 2020 to allow selected onshore banks and their AOOs to trade IRS with non-resident banks without firm commitment. A cumulative notional volume of RM20.9 billion in IRS trades were transacted since inception.

- As the pilot flexibility transitions into a formal liberalisation[3], the meeting acknowledged the vital role of onshore banks in stepping up efforts to attract greater participation of non-resident investors in the onshore IRS market.

iii. Eligibility of Collateralised Murabahah ("CM") for netting under Netting of Financial Agreements Act 2015 ("NFA")

- BNM, Financial Markets Association Malaysia ("FMAM") and their respective legal counsels have reached a consensus on the approach to include CM under the NFA by prescribing CM as a Qualified Financial Transaction ("QFT").
- The relevant agencies (i.e. BNM, Securities Commission Malaysia ("SC"), Perbadanan Insurans Deposit Malaysia ("PIDM") and Danaharta) will make an assessment and proceed with the next action plan.

iv. Resolution of pre-funding of equity issues for equity settlement

- SC confirmed that there is no prefunding requirement imposed on settlement of equities. However, based on investors' feedback, the 10 am cut-off time for equity settlement in Bursa may have led to global custodians imposing an earlier timeline for operational buffers, hampering the possibility for same day equity settlement for some investors.
- BNM, SC and the Custodian Bank Working Group ("CBWG") discussed and agreed that in order to address the relatively early timing of 10 am settlement by Bursa, NR custodian banks and stockbroking corporations may approach licensed onshore banks ("LOB") for the overdraft ("OD") and intraday facility arrangements[4]. Such facilities are subject to due diligence by the LOBs and may be pre-approved. More information can be found in the FAQ under Third Party FX in the bnm.my/investinmalaysia website.

3. Enhancing and deepening further the onshore financial market

a. Investments in onshore foreign currency assets by resident individuals

i. The meeting deliberated on the landscape, challenges and strategies to further develop onshore foreign currency wealth management products for investors. Members proposed possible refinements to the FEP with the aim of encouraging deepening and diversification of foreign currency

[3] On 10 March 2021, BNM announced the liberalisation of the onshore IRS market effective 15 March 2021, where non-resident banks may trade ringgit-denominated IRS without any underlying commitment with any onshore bank or its AOOs.

[4] Illustration on flow for equity settlement available in Appendix.

investments onshore, whilst being cognizant of the need to manage any potential risks to financial stability.

b. Further developing the repo, securitisation and conforming loan markets
    i. Members noted the encouraging increase in repo market volume which grew 70% year-on-year in 2020 to a daily average of RM1.5 billion (2019: RM 882 million; 2018: RM456 million), and deliberated strategies to further deepen repo market liquidity. Members concurred that interbank players should continue in its efforts to sign Global Master Repurchase Agreements (GMRA) with a greater pool of counterparties, including insurance companies, corporate clients and institutional investors.
    ii. The meeting deliberated on the development of securitisation and conforming loans market, giving due consideration towards supply side factors including accounting treatments, documentation requirements and profile of underlying assets (composition of fixed-to-float rate instruments), as well the level of demand by investors in relation to other available instruments in the market.

Appendix

Flow on equity settlement

