Financial Markets Committee (FMC) Meeting
Wednesday, 11 November 2020
Bank Negara Malaysia

Summary of Discussion

The meeting discussed on issues, challenges and initiatives in enhancing the development of onshore financial markets to broaden market access and ease of doing business for global and domestic investors.

1. Enhancing investor confidence

a. The Malaysian financial markets remained resilient throughout various episodes of market volatility amid the ongoing pandemic crisis. In August 2020, both global and onshore investors had the opportunity to seek clarity from authorities in the virtual investor engagement session spearheaded by the Financial Markets Association of Malaysia (FMAM) with participation from Bank Negara Malaysia (the Bank) and the Ministry of Finance.

b. Going into 2021, FMC members expect an improved outlook in tandem with global recovery and acknowledge that regular engagement with investors is key to preserve market confidence. To further enhance outreach efforts, FMAM will commit to organising biannual investor engagement sessions next year to provide an open, transparent communication platform for financial market participants.

2. Progress of market initiatives in 2020

i. Primary Market Maker (PMM) Framework

- PMMs continue to ensure after-hour liquidity is readily available for non-residents with year-to-date transacted volume of USD3.0 billion as at end-October. Non-resident index tracking investors wishing to gain exposure to the Malaysian market may approach the PMMs on the flexibility to undertake forward without underlying of up to USD5 million.

ii. Development of Islamic repo market

- The meeting was updated on legal drafting progress to provide further clarity on the enforceability of netting provisions for Collateralised Commodity Murabahah (CCM) transactions among Islamic market players.

iii. Physical delivery of MGS futures

- Following relaunch in September 2020 with enhanced physical delivery feature, the 5-year MGS futures have seen an uptick in transaction volume with 3 banks on board as market makers to ensure continuous liquidity.

- Moving forward, the meeting concurred that promotional efforts should emphasise on education and product awareness. Greater diversity of bond futures players including active participation from large institutional investors would serve as a key impetus to spur hedging and trading activities.

iv. Pilot flexibility for onshore banks to offer ringgit interest rate swap (RM IRS) to non-resident banks without underlying

- As part of ongoing efforts to deepen the onshore RM IRS market and to provide better access for non-resident banks into the onshore financial markets, the Bank has introduced a pilot flexibility programme on 2 November 2020 where non-resident banks may enter into ringgit-denominated IRS contracts without firm commitment directly with selected licensed onshore banks or via their Appointed Overseas Offices (AOO). The pilot environment is intended to assess potential impact on the onshore IRS market in considering further liberalisation.

3. Ongoing focus areas for 2021

i. Preparation for LIBOR[1] transition

a. The meeting deliberated on transition implementation progress for derivative products, in particular cross currency swap contracts with reference to USD LIBOR:

- While standard ISDA[2] fallback provisions are in place to provide for the discontinuation of LIBOR in conventional contracts, the absence of standard protocols for legacy Islamic contracts may entail bilateral negotiation between contractual parties. Nonetheless, the impact is expected to be limited to a small number of outstanding profit rate swap contracts. The meeting noted that industry-driven consultation is ongoing in seeking endorsement from the Bank's Shariah Advisory Council on the adoption of alternative compounded risk-free rate in Islamic financial products.
- In terms of transition timeline, domestic market participants have committed to adopt ISDA fallback protocols for legacy contracts by Q1 2021, as well as to cease trading of USD LIBOR derivative products by end-Q2 2021.

b. The Malaysian Association of Corporate Treasurers highlighted that proactive engagement between banks and corporate clients on clear

[1] London Interbank Offered Rate.
[2] International Swaps and Derivatives Association.

transition action plan is essential to ensure corporates are well-informed of the costs and implication on the wide range of financial instruments employed. In this regard, financial institutions have largely commenced a series of customer engagement programmes which will take place in stages.

ii. Enhancement of foreign exchange policies (FEP)

a. The meeting discussed on FEP liberalisation strategies to further enhance business efficiency and FX risk management for corporates. Engagement with industry players will be conducted to solicit feedback on potential areas for enhancement.

iii. Capital market development

a. Members exchanged views on measures for strategic collaboration in capital market development including bond market infrastructure and the development of currency futures.

b. With regards to concerns on pre-funding for equity settlement highlighted by Japanese investors, the Securities Commission Malaysia (SC) clarified that Bursa Malaysia does not impose pre-funding requirement for settlement of equities and the practice could be attributed to operational policies adopted by custodian banks to minimise settlement failure. In this regard, SC will engage stakeholders involved in the equity settlement and clearing process and assess potential refinements to improve investor's experience.

4. Policy priorities in supporting economic recovery

- Heading into 2021, FMC members are sanguine about the prospect of growth recovery as broader activities resume given encouraging progress in vaccine development. The Bank remains committed to ensure sufficient liquidity to support effective financial intermediation activities and efforts to further develop the onshore market will be underpinned by continuous engagement with market participants.