IV

Bond, Note, and *Sukuk* Transactions and Trading Market Infrastructure

A. Trading of Bonds, Notes, and *Sukuk*

In Malaysia, bonds, notes, and *sukuk* can be traded either OTC (in the case of unlisted debt securities) or on exchange (listed debt securities only). In contrast to equities, bonds, notes, and *sukuk* are typically traded in big lots and less frequently. As such, most bonds, notes, and *sukuk* transacted in the secondary market are traded OTC via negotiations between buyer and seller. Most transactions take place over the telephone or via voice broker. In addition, in Malaysia, market participants can make use of the ETP operated by Bursa Bonds (a subsidiary of BM) to view, research, and execute OTC trades. At the same time, the trading on an exchange of listed bonds, notes, or *sukuk* is also possible, directly on the main board of BMS.

The dealing of unlisted debt securities is regulated under the CMSA. In this regard, only bond dealers who are certified by the FMA are eligible under the CMSA to deal or transact such securities with Sophisticated Investors in Malaysia and are to confine the dealing to Sophisticated Investors as required by the CMSA. On BMS alone, there are presently 57 so-called Bond Members who are dealing in debt securities.[41] Background information on the types of licenses for dealing in securities, and licensing requirements can be found in the Licensing Handbook published by SC Malaysia. (for more details, please refer to Chapter II.H and I).[42]

The trading of listed debt securities is subject to the Listing Requirements and BMS Trading Rules. More information can be found in the individual sections of this chapter that follow.

B. Issuance and Tendering Platform

In the Malaysian market, the primary market segment is facilitated by BNM in the form of FAST, a system designed to facilitate the primary issuance of all debt securities and money market instruments approved by BNM and/or relevant authorities that are either issued via tender or on a private placement basis. It provides information on issue terms, real-time prices, completed trade details, and other relevant news about debt securities.

FAST was first launched by BNM in September 1996 to automate the tendering procedure of government securities or BNM paper, which are issued through the Principal Dealer network. In July 1997, FAST was further enhanced to include commercial paper and MTN, which are issued via tender or private placement.

[41] For a full list, please see http://www.bursamalaysia.com/market/securities/bonds/brokers/list-of-bond-members

[42] See http://www.sc.com.my/wp-content/uploads/eng/html/cmsa/Licensinghandbook.pdf

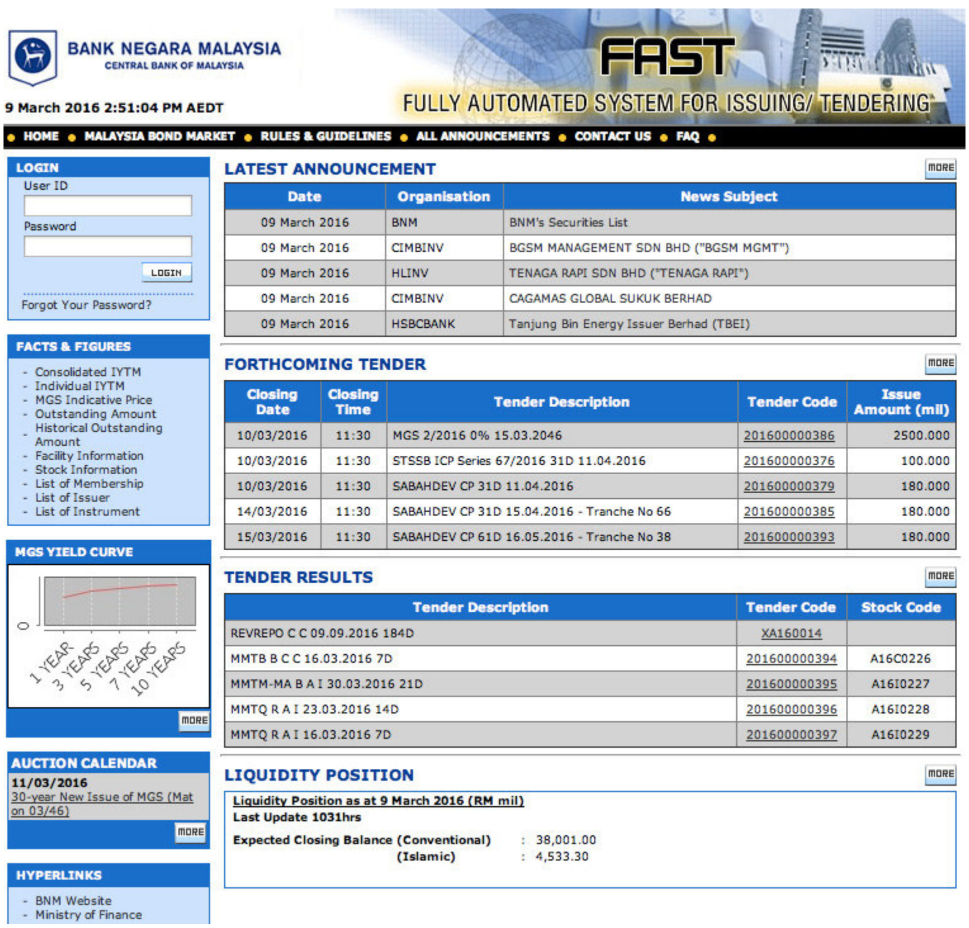
Information in FAST is available to its members via terminal access and includes

- daily indicative yield to maturity for government and BNM paper,
- weekly indicative yield to maturity for PDS, and
- MGS indicative prices.

At the same time, a significant amount of current and historical data—including announcements and bond-, note-, or *sukuk*-related information—are available on the FAST website (Figure 4.1). The PTC of every issuance is also viewable to registered participants.

The majority of debt securities issued or tendered via FAST continue to be traded in the OTC market.

Figure 4.1: Fully Automated System for Issuing/Tendering Homepage



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA
FAST
FULLY AUTOMATED SYSTEM FOR ISSUING/ TENDERING
9 March 2016 2:51:04 PM AEDT

HOME • MALAYSIA BOND MARKET • RULES & GUIDELINES • ALL ANNOUNCEMENTS • CONTACT US • FAQ

LOGIN
User ID
Password
LOGIN
Forgot Your Password?

FACTS & FIGURES
- Consolidated IYTM
- Individual IYTM
- MGS Indicative Price
- Outstanding Amount
- Historical Outstanding Amount
- Facility Information
- Stock Information
- List of Membership
- List of Issuer
- List of Instrument

MGS YIELD CURVE
0
1 YEAR 3 YEARS 5 YEARS 7 YEARS 10 YEARS
MORE

AUCTION CALENDAR
11/03/2016
30-year New Issue of MGS (Mat on 03/46)
MORE

HYPERLINKS
- BNM Website
- Ministry of Finance

LATEST ANNOUNCEMENT MORE

Date	Organisation	News Subject
09 March 2016	BNM	BNM's Securities List
09 March 2016	CIMBINV	BGSM MANAGEMENT SDN BHD ("BGSM MGMT")
09 March 2016	HLINV	TENAGA RAPI SDN BHD ("TENAGA RAPI")
09 March 2016	CIMBINV	CAGAMAS GLOBAL SUKUK BERHAD
09 March 2016	HSBCBANK	Tanjung Bin Energy Issuer Berhad (TBEI)

FORTHCOMING TENDER MORE

Closing Date	Closing Time	Tender Description	Tender Code	Issue Amount (mil)
10/03/2016	11:30	MGS 2/2016 0% 15.03.2046	201600000386	2500.000
10/03/2016	11:30	STSSB ICP Series 67/2016 31D 11.04.2016	201600000376	100.000
10/03/2016	11:30	SABAHDEV CP 31D 11.04.2016	201600000379	180.000
14/03/2016	11:30	SABAHDEV CP 31D 15.04.2016 - Tranche No 66	201600000385	180.000
15/03/2016	11:30	SABAHDEV CP 61D 16.05.2016 - Tranche No 38	201600000393	180.000

TENDER RESULTS MORE

Tender Description	Tender Code	Stock Code
REVREPO C C 09.09.2016 184D	XA160014	
MMTB B C C 16.03.2016 7D	201600000394	A16C0226
MMTM-MA B A I 30.03.2016 21D	201600000395	A16I0227
MMTQ R A I 23.03.2016 14D	201600000396	A16I0228
MMTQ R A I 16.03.2016 7D	201600000397	A16I0229

LIQUIDITY POSITION MORE
Liquidity Position as at 9 March 2016 (RM mil)
Last Update 1031hrs
Expected Closing Balance (Conventional) : 38,001.00
(Islamic) : 4,533.30

Source: Bank Negara Malaysia. FAST. https://fast.bnm.gov.my/fastweb/public/MainPage.do

C. Trading Platforms

Trading of bonds, notes, or *sukuk* in the Malaysian market can be done in the OTC market, on the ETP, or on exchange.

1. Over-the-Counter Market

The traditional OTC market itself is less a trading platform and more an organized market. Trades in bonds, notes, and *sukuk* are concluded directly between institutional counterparties via phone or using the services of a voice broker or inter-dealer broker. Individual dealers may also use Bloomberg or similar global trading system providers, and/or an in-house trading system.

Participants in the OTC market for debt securities must be dealers certified by the FMA (for details, please refer to Chapter II .I).

While there is no common trading platform as such in the OTC market in Malaysia, market participants tend to draw on the information (e.g., issuance, prices, yields) available in FAST (see section B) and execution capabilities of ETP (see section C.2) for their trading and decision-making activities in the bond market.

At the same time, all debt securities trades executed in the OTC market will need to be captured in ETP at the end of the trading day under SC regulations.

2. Registered Electronic Facilities

Pursuant to Section 34 of the CMSA, the SC requires that providers register all electronic trading platforms—the official term is recognized market operator—used in or accessed by trading participants in Malaysia, including those for bond, note, and *sukuk* trading.

ETP is an electronic trade reporting and trading platform for the domestic bond market. It is operated Bursa Bonds (a subsidiary of BM). ETP acts as the centralized price and trade information repository as it interfaces with FAST and information vendors.

Among other features, ETP provides

- mandatory reporting of all secondary bond market transactions;
- an electronic order matching platform for the matching of bid and ask quotes for MGS, MGII, and corporate issues; and
- an advertisement and a negotiation platform where dealers can advertise and negotiate for one-to-one deals for all debt securities and *sukuk*.

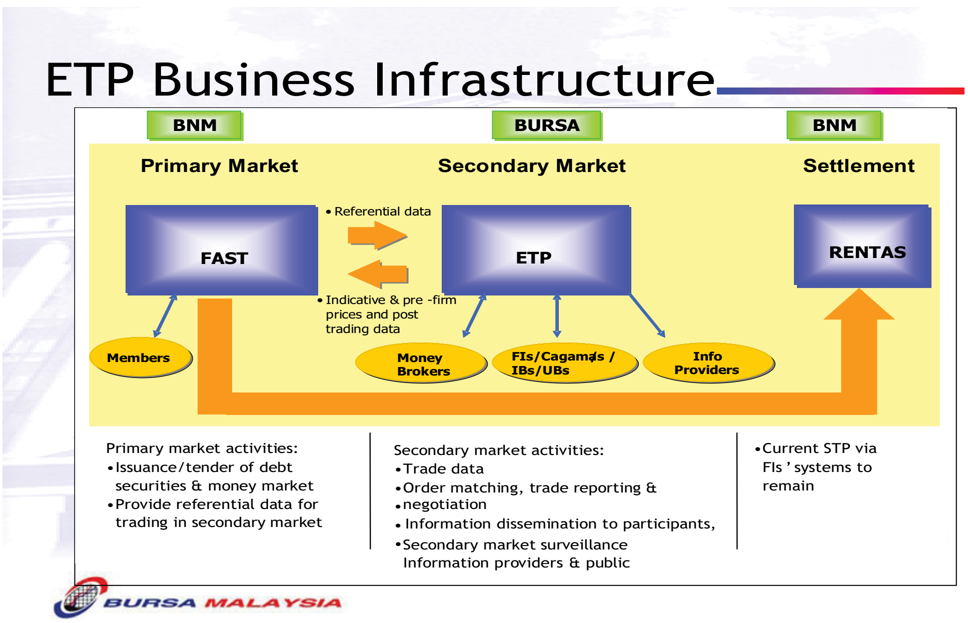
The key business components of ETP include the provision of

- a central order book for matching, trade reporting, and negotiation;
- a comprehensive system for price, yield, and trade information dissemination;
- data storage for market historical data; and
- a real-time market surveillance system.

More detailed descriptions of, and additional information on, the above features and functions can be obtained through the BM website.[43]

Figure 4.2 illustrates the structure of ETP in the context of the bond market in Malaysia.

Figure 4.2: Electronic Trading Platform Business Infrastructure



BNM = Bank Negara Malaysia, ETP = Electronic Trading Platform, FAST = Fully Automated System for Issuing/Tendering, FIs = financial institutions, IBs = investment banks, RENTAS = Real-Time Electronic Transfer of Funds and Securities System, STP = straight-through processing, UBs = universal banks.
Source: Bursa Malaysia. FAQ on the Electronic Trading Platform. http://www.bursamalaysia.com/misc/securities_equities_FAQsETP_Generic.pdf

Any person may apply to Bursa Bonds to access information on the ETP. Membership to deal securities on ETP is open only to money brokers and applicants registered with the FMA for the purpose of dealing in debt securities.

There are three categories of membership on ETP:

(i) Trading Participant Members can trade on their own or on behalf of their customers on ETP;
(ii) Executing Participant Members can only trade on behalf of a Trading Participant Member; only money brokers can be Executing Participant Members; and
(iii) General Participant Members can only view and, where permitted, make announcements on ETP.

[43] See http://www.bursamalaysia.com/market/securities/bonds/trading/electronic-trading-platform/

Potential members must fulfill the eligibility criteria in Chapter 3 of the Rules of Bursa Bonds.[44] If eligibility is confirmed, an application for membership must be completed and submitted to BM's Intermediary Affairs Department for processing.

Members of ETP can avail themselves of the trading and reporting hours listed in Figure 4.3.

Figure 4.3: Electronic Trading Platform Trading and Reporting Hours

Activities \ Sessions	Morning Session	Afternoon Session
Auto Matching	9 a.m.~12:30 p.m.	2:30 p.m.~5 p.m.
Negotiation	9 a.m.~12:30 p.m.	2:30 p.m.~5 p.m.
Trades Reporting - Initiation	9 a.m.~12:30 p.m.	2:30 p.m.~5:15 p.m.
Trades Reporting - Confirmation	9 a.m.~12:30 p.m.	2:30 p.m.~5:30 p.m.
Trades Reporting by BNM	9 a.m.~8 p.m.	

BNM = Bank Negara Malaysia.
Source: Bursa Malaysia. FAQ on the Electronic Trading Platform. http://www.bursamalaysia.com/misc/securities_equities_FAQsETP_Generic.pdf

In addition to ETP, Bloomberg and Reuters have also been offering registered electronic facilities for the OTC bond market.[45]

3. Trading on Exchange

Trading of debt securities is also available on BMS. These debt securities are referred to as ETBS and are quoted and traded on the main board of the exchange. ETBS on BMS were announced in September 2012 and include fixed- and floating-rate instruments, hybrids, and convertibles, issued by both the government and corporate sectors. The first ETBS was launched in January 2013.[46]

The trading of ETBS and their features are geared more toward retail investors. ETBS are traded in minimum board lots of 10 units; given that the principal amount of a unit is MYR100, each board lot will represent MYR1,000, excluding transaction costs. ETBS are

[44] See http://www.bursamalaysia.com/market/regulation/rules/bursa-malaysia-rules/bonds-otc/rules-of-bursa-malaysia-bonds/
[45] Securities Commission Malaysia. http://www.sc.com.my/wp-content/uploads/eng/html/resources/guidelines/rep/ref_application_150410.pdf
[46] See http://www.bursamalaysia.com/misc/system/assets/4105/Market_Securities_Bonds_ETBS_The_Marketplace.pdf

quoted and reported real-time on BMS, giving investors a continuous update on the value of their securities.

Access to trading ETBS on BMS is available only to Bond Members: brokers, commercial and Islamic banks, and investment banks with a license to deal in debt securities. Retail investors can trade ETBS via their appointed Bond Member intermediary. The trading hours for ETBS follow the normal exchange schedule from opening to closing, but are divided into distinct segments, as shown in Figure 4.4. ETBS are subject to the same trading, payment, and settlement rules as equities.

Figure 4.4: Exchange-Traded Bonds and Sukuk Trading Hours

Trading Phases		Normal Market and Odd Lot Market
1st Session	Pre-Opening	8:30 am
	Opening and Continuous Trading	9:00 am
	Closing	12:30 pm
Lunch		
2nd Session	Pre-Opening	2:00 pm
	Opening and Continuous Trading	2:30 pm
	Pre-Closing	4:45 pm
	Trading at Last	4:50 pm
	Closing	5:00 pm

Source: Bursa Malaysia. FAQ on the Exchange-Traded Bonds and Sukuk. http://www.bursamalaysia.com/market/securities/education/faqs-on-exchange-traded-bonds-and-sukuk-etbs

Participants on BMS can execute bond transactions via two distinct methods:

(1) **Order Matching.** Orders placed by the buyer and seller will be automatically matched by a matching mechanism with a set of predefined matching principles. Once matched, an acknowledgement will automatically be sent to both parties.

There are two types of transactions under Order Matching:

(i) **Outright Buy and Sell**. Outright Buy and Sell occurs in a typical secondary market transaction when a bond is bought or sold under standard trading terms and conditions; and

(ii) **When-Issued**. When-Issued is a primary market transaction where trading commences on the tender announcement date after the debt instrument is available for subscription or purchase, and the bond, note, or *sukuk* is traded either on price or yield, and trading continues until the tender results are announced to the market.

(2) **Trade Negotiation**. A trader may advertise quotes to selected participants who may respond and negotiate electronically with the initiator to reach a favorable and agreeable price and volume.

In addition to the outright buy and sell and when-issued transactions, trade negotiation is also available for repo sell and buyback transactions.

Trading on BMS is done via two daily sessions on trading days (Table 4.1). Please note that in addition to Malaysian national holidays, a number of nontrading days may be observed that coincide with public holidays specific to the Federal Territory of Kuala Lumpur where BMS is located.

Table 4.1: Bursa Malaysia Securities Trading Hours

Session	Start	End
Morning Session	9 a.m.	12:30 p.m.
Afternoon Session	2:30 p.m.	5 p.m.

Source: Adapted by ADB Consultants for SF1 from Bursa Malaysia. Regulations. http://www.bursamalaysia.com/market/regulation/rules/bursa-malaysia-rules/securities/rules-of-bursa-malaysia-securities

Further information on the bond trading procedures, practices, and conventions is best accessed on the BM website at http://www.bursamalaysia.com/market/regulation/rules/bursa-malaysia-rules/securities/rules-of-bursa-malaysia-securities.

D. Mandatory Trade Reporting (via Electronic Trading Platform)

The key function of ETP in the present day is to facilitate the mandatory reporting of all secondary market transactions in bonds, notes, and *sukuk* in Malaysia, across both OTC and exchange trades. This practice of reporting is made pursuant to the ETP rules, which are administered by Bursa Bonds.

The initiating party of the bond, note, or *sukuk* trade reporting is the selling dealer, who enters OTC trade details via their ETP access point or a direct interface of the dealer's own trading system with ETP as soon as possible after the trade and at latest by the end of the trading day. The buyer of the bond, note, or *sukuk* will confirm the trade from their end during the ETP operating hours (for details, please refer to section C.2). Trades matched and executed on ETP itself are automatically considered reported, and trades on BMS are automatically interfaced with ETP.

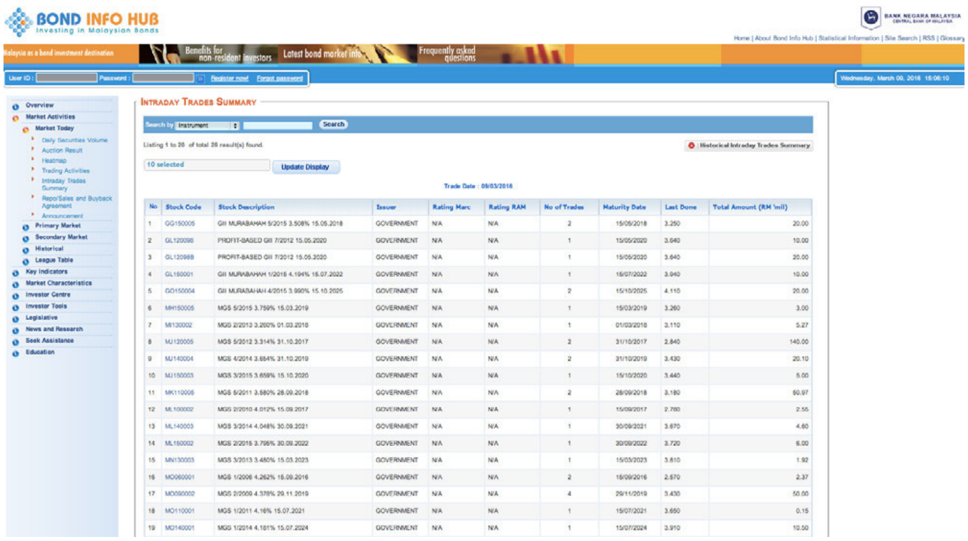
ETP and its trade capture mechanism replaced the original trade reporting function under the Bond Information and Dissemination System effective 10 March 2008.

To provide transparency in the bond market, the bond, note, and *sukuk* transactions reported via ETP are disseminated through Bond Info Hub website under an initiative by BNM. For illustration, Figure 4.5 shows a screenshot of the Intraday Trade Summary. More information on Bond Info Hub is provided in section F of this chapter.

E. Market Monitoring and Surveillance in the Secondary Market

BNM and the SC carry out secondary market surveillance, taking in the respective instruments and market participants in the OTC market under their purview.

Figure 4.5: Bond Info Hub Website—Intraday Trades Summary



INTRADAY TRADES SUMMARY

Listing 1 to 20 of total 28 result(s) found.

Trade Date : 09/03/2016

No	Stock Code	Stock Description	Issuer	Rating Marc	Rating RAM	No of Trades	Maturity Date	Last Done	Total Amount (RM 'mil)
1	GG150005	GII MURABAHAH 5/2015 3.508% 15.05.2018	GOVERNMENT	N/A	N/A	2	15/05/2018	3.250	20.00
2	GL120098	PROFIT-BASED GII 7/2012 15.05.2020	GOVERNMENT	N/A	N/A	1	15/05/2020	3.640	10.00
3	GL12098B	PROFIT-BASED GII 7/2012 15.05.2020	GOVERNMENT	N/A	N/A	1	15/05/2020	3.640	20.00
4	GL150001	GII MURABAHAH 1/2015 4.194% 15.07.2022	GOVERNMENT	N/A	N/A	1	15/07/2022	3.940	10.00
5	GO150004	GII MURABAHAH 4/2015 3.990% 15.10.2025	GOVERNMENT	N/A	N/A	2	15/10/2025	4.110	20.00
6	MH150005	MGS 5/2015 3.759% 15.03.2019	GOVERNMENT	N/A	N/A	1	15/03/2019	3.260	3.00
7	MI130002	MGS 2/2013 3.260% 01.03.2018	GOVERNMENT	N/A	N/A	1	01/03/2018	3.110	5.27
8	MJ120005	MGS 5/2012 3.314% 31.10.2017	GOVERNMENT	N/A	N/A	2	31/10/2017	2.840	140.00
9	MJ140004	MGS 4/2014 3.654% 31.10.2019	GOVERNMENT	N/A	N/A	2	31/10/2019	3.430	20.10
10	MJ150003	MGS 3/2015 3.659% 15.10.2020	GOVERNMENT	N/A	N/A	1	15/10/2020	3.440	5.00
11	MK110006	MGS 6/2011 3.580% 28.09.2018	GOVERNMENT	N/A	N/A	2	28/09/2018	3.180	50.97
12	ML100002	MGS 2/2010 4.012% 15.09.2017	GOVERNMENT	N/A	N/A	1	15/09/2017	2.780	2.55
13	ML140003	MGS 3/2014 4.048% 30.09.2021	GOVERNMENT	N/A	N/A	1	30/09/2021	3.670	4.60
14	ML150002	MGS 2/2015 3.795% 30.09.2022	GOVERNMENT	N/A	N/A	1	30/09/2022	3.720	6.00
15	MN130003	MGS 3/2013 3.480% 15.03.2023	GOVERNMENT	N/A	N/A	1	15/03/2023	3.810	1.92
16	MO060001	MGS 1/2006 4.262% 15.09.2016	GOVERNMENT	N/A	N/A	2	15/09/2016	2.670	2.37
17	MO090002	MGS 2/2009 4.378% 29.11.2019	GOVERNMENT	N/A	N/A	4	29/11/2019	3.430	50.00
18	MO110001	MGS 1/2011 4.16% 15.07.2021	GOVERNMENT	N/A	N/A	1	15/07/2021	3.650	0.15
19	MO140001	MGS 1/2014 4.181% 15.07.2024	GOVERNMENT	N/A	N/A	1	15/07/2024	3.910	10.50

Source: Bank Negara Malaysia. Bond Info Hub. Market Activities>Market Today>Intraday Trades Summary. http://bondinfo.bnm.gov.my/portal/server.pt?open=514&objID=41920&parentname=CommunityPage&parentid=2&mode=2

As for the exchange market, both the ETP and the outright trading of listed bond, notes, or *sukuk* on BMS are subject to market monitoring and surveillance activities by the BM Market Surveillance Department.

Effective 31 December 2012, BM has been using the Millennium Surveillance™ System (MSS) for its equity, bonds, and derivatives markets. MSS is a multi-asset, cross-market, flexible platform, which allows for swifter implementation of changes in response to trading behavior and regulatory developments. MSS allows BM to identify trading-behavior patterns rapidly at both the broker and investor levels. It also includes a comprehensive market replay capability to promptly reconstruct trading activities in the market as they have occurred, allowing each transaction and its effects on the market to be closely reviewed.[47]

The implementation of this market surveillance system is part of BM's commitment to investor protection and to ensure a fair and orderly market. It is also in line with BMS' broader effort to create a more facilitative trading environment for investors.

Potential trading breaches may be subject to further investigation and enforcement action by BM on the errant trading participant under the BMS Rules and by the SC in the case of a breach of the CSMA and related securities regulations.

[47] For further information, please see http://www.bursamalaysia.com/market/regulation/market-surveillance/overview/

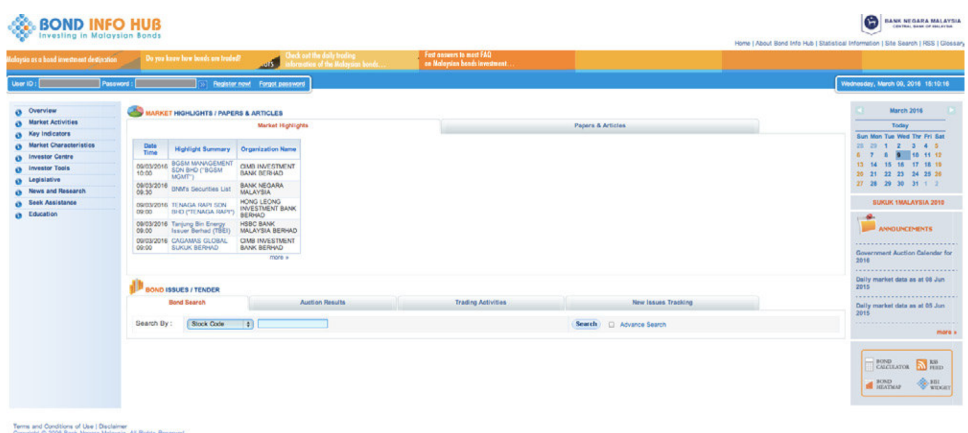
F. Bond Info Hub (Bank Negara Malaysia Initiative)

Bond Info Hub was established in 2006 as an initiative under the financial sector development and financial market infrastructure measures of BNM. Bond Info Hub is an engaging, informative, and comprehensive investor-centric hub that serves as a single source of information on the Malaysian bond market for the global investment community (Figure 4.6). Bond Info Hub serves as a one-stop source of information to rapidly yet comprehensively assess the viability and risk–reward of investing in the Malaysian domestic bond market.

While being a key initiative to promote the domestic bond market, Bond Info Hub also acts as a conduit to correct misperceptions, especially among foreign investors, about the state of bond market development in Malaysia. The website contains explanations of the eligibility and requirements for investing in Malaysian debt securities, details taxation procedures, and outlines the relevant regulatory framework given the considerations of foreign issuers.

Bond Info Hub is accessible by any party free of charge and provides traded prices and comprehensive primary market and secondary market facts and data.[48]

Figure 4.6: Bond Info Hub Homepage



Source: Bank Negara Malaysia. Bond Info Hub. http://bondinfo.bnm.gov.my/portal/server.pt

Bond Info Hub is supplied with bond, note, and *sukuk* information and market data from FAST, ETP, and BMS for their respective market segments and issued and traded debt instruments.

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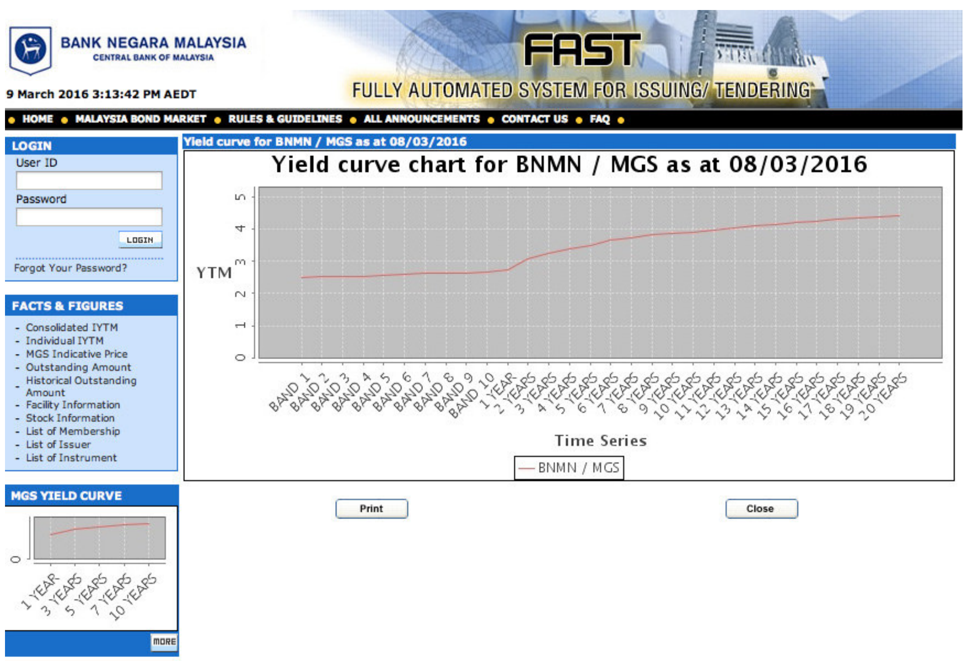
[48] See http://bondinfo.bnm.gov.my/portal/server.pt/community/malaysian_bonds_market_information,_malaysia_bonds,_islamic_bonds,_ringgit_bonds,_asian_bonds,_bond_info_hub/313/attribute_link___home_page

G. Yield Curves and Bond and *Sukuk* Indexes

1. Government Bond and *Sukuk* Yield Curves

For Malaysian government bonds, notes, and *sukuk*, yield curves are calculated by BNM and made available via FAST and Bond Info Hub. In addition to an aggregate yield curve, a number of subsets of bond, note, and *sukuk* yields can be accessed using either website. Examples of the yield curves and available styles of display are shown in Figures 4.7 and 4.8. The yield curves are also readily available from a number of information vendors.

Figure 4.7: Fully Automated System for Issuing/Tendering—Government Bond Yield Curve



BNMN = Bank Negara Malaysia Notes, MGS = Malaysian Government Securities.
Source: Bank Negara Malaysia. FAST. MGS Yield Curve >BNMN/MGS. https://fast.bnm.gov.my/fastweb/public/MainPage.do

Figure 4.8: Bond Info Hub Website—Government Bond Yield Curve

YTM = yield to maturity.
Source: Bank Negara Malaysia. Bond Info Hub. Market Activities>Secondary Market>Yields Summary. http://bondinfo.bnm.gov.my/portal/server.pt

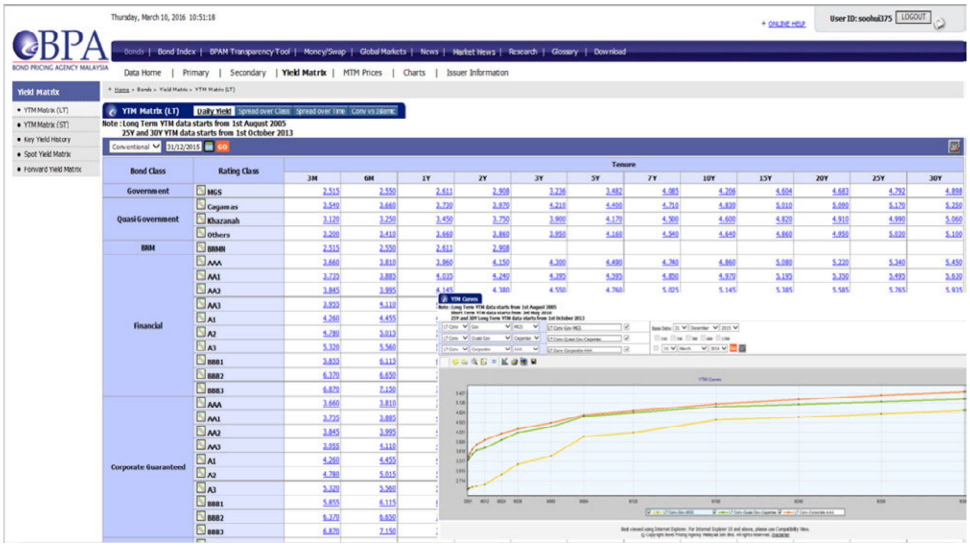
2. Other Bond and *Sukuk* Yield Curves

BPAM generates the most comprehensive set of yield curves for the Malaysian market. BPAM features a total of 194 yield curves based on type of bond (conventional or Islamic), issuer class, rating, and tenure buckets for long-term and short-term instruments. A snapshot of bond yield curves in Malaysian market is provided to the viewer via its website, which requires user registration and may be subject to commercial consideration. Figure 4.9 gives an example of the yield curve display and the range of yield curve and other data available on the BPAM website.

3. Bond and *Sukuk* Indexes in Malaysia

In conjunction with Thomson Reuters, BPAM calculates and disseminates the Thomson Reuters BPA Malaysia Ringgit Bond Index Series on the basis of the price and yield information provided by BPAM in its role as the Malaysian market's bond pricing agency (for more details, please refer to Chapter II.J.) The indexes combine BPAM's extensive experience of consistent and market neutral valuations with years of index calculation experience at Thomson Reuters.

Figure 4.9: Bond Pricing Agency Malaysia Website—Bond Yields in Malaysia



Source: Bond Pricing Agency Malaysia. http://www.bpam.com.my/#,

The Thomson Reuters BPA Malaysia All Bond Index Series contains a total of 369 subindexes, which focus on market movements by issuer type, rating, and maturity bands, and which cover

- conventional bond and *sukuk* indexes,
- government bond indexes,
- corporate bond indexes,
- maturity band and rating subindexes.

In addition, nine indexes are available under the Thomson Reuters BPA Malaysia Liquid Index Series, focusing on the five bonds (and notes and *sukuk*) with the highest volume and liquidity in each segment and which feature a greater sensitivity to market movements.

Thomson Reuters BPA Malaysia Indexes are viewable on desktop products such as Thomson Reuters Eikon, Datastream, and BPAM BondStream. A snapshot version is also accessible via mobile devices. In addition, BPAM provides the service of creating and calculating a range of custom indexes that may follow specific requirements or mirror existing or target portfolios.

Among the Thomson Reuters BPA Malaysia Indexes, the Sukuk Index, TR BPAM SUK (ticker sign <TRBPAMALLI>), which covers MYR-denominated, long-term, investment-grade Islamic bonds, is being widely used, including by the Malaysia International Islamic Financial Centre (Figure 4.10).

Figure 4.10: Malaysia Islamic Financial Centre Website— Thomson Reuters Bond Pricing Agency Malaysia *Sukuk* Index

Source: Malaysia Islamic Financial Centre. Capital Markets>TR BPAM SUK. http://www.mifc.com/index.php?ch=ric&pg=ric_heatmap&ac=519&tp=1,

H. Repo Market

1. Repo Market Overview[49]

There are two market segments for repo transactions in the Malaysian market: an interbank (or OTC) market segment and the bilateral repo segment that comprises transactions between BNM and the Primary Dealers who are appointed by BNM. Based on feedback from market participants, the majority of repo transactions are concluded between BNM and the Primary Dealers.

49 Part of the information contained herein has been adapted by ADB Consultants for SF1 from a 2014 ASEAN+3 SRO Working Group case study on the repo markets with the kind permission of the author, Ryuichi Shiina of the Japan Securities Dealers Association.

Bilateral repo is mostly used for open market operations by BNM to manage or provide liquidity to the banking system and financial market, and by Primary Dealers to obtain liquidity. On the other hand, OTC or private repos are transacted between Primary Dealers and bond dealers, or between a dealer and a client, without BNM participation. Both bilateral and OTC repo practices are governed by BNM under its supervision of the money market in accordance with its Policy Document on Repurchase Agreement Transactions issued in December 2014.[50]

The Policy Document on Repurchase Agreement Transactions covers the scope of repo transactions that can be conducted by licensed banks and investment banks, and promotes sound risk management practices by all participants. Repos can be done using MYR- or FCY-denominated debt securities; cross-currency repos, in which repo securities and cash are denominated in different currencies, are permitted. Both bilateral and private repo transactions involve conventional and Islamic securities.

Price discovery for repo transactions is available through the ETP and OTC quotes in generally accessed trading platforms, and divided into benchmark MGS and other securities. All repo transactions executed in the Malaysian market are to be captured in the ETP within 10 minutes of execution, upon which the data become available to the market at large. Repos are also to be reported via BNM's STATSmart system under participants' regular reporting obligations.

Repo transactions can be settled in RENTAS on a delivery-versus-payment basis for both bilateral and OTC repo. As a service to participants, the second leg of a repo transaction can be automatically settled at maturity, without the need for further instructions. The value date for repo transactions is typically T+1.

The total volume of repo transactions in 2014 was MYR197 billion (USD56 billion). An indication of daily repo volumes, including the types of underlying debt securities, is available from Bond Info Hub (Figure 4.11).

Repo market activities in Malaysia started in the 1980s with hold-in-custody repo, where financial institutions primarily used certificates of deposits and bankers acceptances as collateral to source funding from corporate clients. Since then the types of collateral used have expanded to include sovereign bonds and PDS, in line with the development of the ringgit bond market.

Repo transaction volume increased significantly in 2005 and peaked in 2006 at MYR665 billion. This followed measures taken by BNM to enhance liquidity in the ringgit bond market, including the active use of repo as a monetary policy instrument, introduction of the Institutional Securities Custodian Programme to enable borrowing and lending of securities, and a securities lending facility for Principal Dealers. The use of repo as a monetary policy instrument has helped BNM to manage liquidity in the banking system as well as to recirculate securities back into the market. In 2012, 15% of BNM's monetary operations were conducted via repo and BNM plans to increase its use of repo in its market operations.[51]

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50 See http://www.bnm.gov.my/guidelines/01_banking/04_prudential_stds/Repurchase_Agreement_Transactions.pdf

51 This excerpt and other selected details on the repo market in Malaysia were taken from the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) Working Group on Financial Markets. 2014. *EMEAP Repo Markets: State of Play Report*. Available at http://www.emeap.org/wp-content/uploads/2015/04/Publications_EMEAP_Working_Group_on_FinancialMarkets_-_Report_on_EMEAP_Repo_Markets_.pdf

Figure 4.11: Bond Info Hub Website—Repo Summary

Source: Bond Info Hub. Market Activities>Secondary Market>Repo Summary. http://bondinfo.bnm.gov.my/portal/server.pt?open=514&objID=41920&parentname=CommunityPage&parentid=2&mode=2

2. Acceptance of Standards

In its Policy Document on Repurchase Agreement Transactions, BNM prescribes that all ringgit and non-ringgit repo transactions shall be subject to the Global Master Repurchase Agreement (GMRA), which specifies all terms of the transaction and duties and obligations between the parties involved. In particular, repo transactions with ringgit securities shall adopt the GMRA Malaysian Annex. The annex is based on the GMRA 2000 and was issued by the FMA in 2006.

As a result, the GMRA is widely adopted among market participants in Malaysia and typically executed with the official Malaysian Annex. The original adoption of the GMRA Malaysian Annex in 2006, and the subsequent discipline acquired by market participants, caused the volume of repo market transactions to decline for a period of time. However, the longer-term positive effects of the adopted standard ultimately increased confidence in the market as well as trading volumes.

Currently, FMA is working in conjunction with BNM to standardize rules and market practices aimed at developing a well-functioning domestic currency repo market. In this regard, FMA completed the drafting of the Country Annex for Malaysia for the 2011 GMRA and submitted the document to BNM for consideration. For now, the 2011 GMRA Country Annex for Malaysia is to be used as a standard template for dealings in repo between

Malaysian banks for ringgit bonds and shall minimize the need for banks to bilaterally negotiate with each other. It will then be rolled out to institutional investors holding bonds so that they can get cash readily and at cheaper rates of financing, and reduce their need for large cash holdings incurring negative carry to cater for redemptions.

3. Specific Repo Practices

This section summarizes a number of relevant practices in the repo market in Malaysia.

(a) Type of Repo

In Malaysia, the repo practice follows the classic repo type (outright sale and purchase). Under the guidance of BNM, the legal agreement should provide for the absolute transfer of title of the eligible securities, including any eligible securities transferred through substitution or mark-to-market adjustment.

From a legal perspective, securities are transferred to the lender so the lender can sell the securities in the market. In case of default, the lender can liquidate the bonds in the market to settle any obligations of the borrower.

(b) Size and Tenure

The standard lot size for ringgit repo transactions is MYR1 million, with the minimum market lot set at MYR100,000. Repos denominated in a foreign currency are expected to follow the conventions usually practiced in the market of the respective currency.

The maximum tenure of a repo is 365 days. Interbank repo transactions tend to be between 3 months and 1 year, while bilateral repo transactions focus on tenures of 2 weeks to 6 months.

(c) Eligible Debt Securities or Sukuk as Collateral

Eligible debt securities for repo transactions in the interbank market include all specified RENTAS securities, both conventional and Islamic. The BNM Policy Document (Section 9) further prescribes the following eligible securities:

(i) MYR-denominated securities
- (a) securities issued by the Government of Malaysia;
- (b) securities issued by BNM;
- (c) PDS with ratings from domestic credit rating agencies RAM and MARC of at least BBB, P3, or MARC-3;
- (d) NID; and
- (e) bankers acceptances;

(ii) Non-MYR-denominated securities
- (a) securities issued by the Government of Malaysia;
- (b) securities issued by the International Islamic Liquidity Management Corporation;
- (c) securities (both sovereign and corporate issuances) with a rating from international credit rating agencies Fitch Ratings; Standard & Poor's Rating Services; and Moody's Investor Services of at least Baa, BBB, F3, A-3, or P-3;

(d) PDS with ratings from domestic credit rating agencies RAM and MARC of at least BBB, P3, or MARC-3; and
(e) NID.

The MYR- and non-MYR-denominated debt securities and *sukuk* that are eligible as collateral to be transacted under repurchase operations with BNM are as per the list of collateral in the Guidelines on Standing Facilities issued by BNM.[52]

The securities used for repo transactions must not be convertible at the inception of the repo transaction.

(f) Margin

Variation margin over the tenure of the repo is typically determined in cash. If there is interest payable on the cash margin, such interest will be included in the calculation of the cash margin.

(g) Accounting and Tax Treatment

In principle, under the definition of this type of repo transaction (classic repo), the securities are still booked in the borrower's balance sheet even if the securities are already transferred to the lender. Hence, the securities remain in the accounts of the borrower.

The income from the repo fee is subject to the normal business income tax. There is no capital gain on the repo because there is no real trade in the debt securities used as collateral. There is no capital gains tax or withholding tax in Malaysia.

(h) Market Participants

Market participants in private repo transactions include licensed (CMSL) banks and investment banks, as defined under the Financial Services Act, 2013, subject to the requirement that at least one principal to the repo transaction must be a licensed bank or investment bank.

In practice, however, most repo transactions are bilateral agreements between BNM and Principal Dealers who are banks.

Foreign banks or brokers with representation in Malaysia may participate in private repo transactions through their subsidiaries (since incorporation is required). At the same time, foreign investors may only participate in the repo market by conducting repo transaction with a licensed onshore intermediary.

The participation of nonresidents in the repo market has grown after the liberalization of the FEA Rules in April 2004. The liberalization also allows nonresidents to obtain ringgit financing through repo, subject to a limit of MYR10 million, in accordance with the FEA Rules on ringgit funding by nonresidents.

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[52] See http://www.bnm.gov.my/index.php?ch=en_reference&pg=en_reference_index&ac=584&lang=en

I. Securities Borrowing and Lending

SBL is possible in Malaysia, including for debt instruments and *sukuk*, and conducted either using the BNM Institutional Securities Custodian Programme (ISCAP), the services of BM (via a subsidiary), or directly between trading counterparties.

1. Under the Institutional Securities Custodian Programme

Under ISCAP, institutional investors (mainly pension funds and insurance companies) and financial institutions are able to lend securities, particularly debt securities and *sukuk*, to BNM for a lending fee. ISCAP was announced by BNM in 2004, under an initiative to increase liquidity in the bond market and has been operational since 2005.

The objective of ISCAP has been to unlock the held-to-maturity positions in bonds, notes, and *sukuk* of institutional and other investors in order that these holdings may be reutilized by BNM in the market via repo transactions (e.g., support the Principal Dealers' market-making activities). In turn, investors with long-term holdings are able to enhance the return on their portfolio or defray costs associated with maintaining a securities portfolio. Institutional investors are the major participants of ISCAP, comprising more than 90% of total securities lent.

The rules and conditions of ISCAP follow BNM's operational guidelines for the repo business.

2. Eligible Debt Securities

Eligible debt securities to be lent under ISCAP follow the prescriptions in the Policy Document on Repurchase Agreement Transactions issued by BNM (for details, please refer to see section H.3.c).

The eligible securities for CLA transactions via BM are stated in a list which can be downloaded from the BM website.[53] Counterparties in Negotiated Transaction trades may only use debt securities declared eligible by MyClear.

3. Tax Treatment

Tax Guidelines on Securities Borrowing and Lending issued by the Inland Revenue Board of Malaysia are not relevant for ISCAP transactions. There are no specific tax treatment provisions for debt securities borrowing and lending.

J. Interest Rate Futures

Bursa Malaysia Derivatives (BM Derivatives) offers interest rate futures for the hedging of exposures in underlying MGS as well as futures contracts based on the KLIBOR.

BM Derivatives, formerly known as Malaysia Derivatives Exchange Bhd., is a 75%-owned subsidiary of BM and provides, operates, and maintains a futures and options exchange. The remaining 25% of BMD is held by the Chicago Mercantile Exchange. BM Derivatives was

[53] Download from http://www.bursamalaysia.com/market/products-services/securities-borrowing-lending-sbl/sbl-eligible-securities/

established on 17 April 1993; is governed by the relevant provisions of the CMSA (Part II–Securities and Derivatives Markets); and is supervised as an approved derivatives exchange by the SC.

At present, BM Derivatives offers two contracts for medium-term (3-year) and long-term (5-year) MGS futures, known as FMG3 and FMG5, respectively. Eligible MGS can have a remaining time to maturity of 2.5–3.5 years for the FMG3 and 4.5–5.5 years for the FMG5 contract and must be new or reissued with a minimum issuance size of MYR500 million.

To trade on BM Derivatives, investors need to place orders with a Trading Participant (Futures Broker) licensed by the SC and who are BM Derivatives members. The investor may place voice orders directly with the broker or through Internet orders which are then routed to BM Derivatives via the Trading Participant. The trading hours of the FMG5 contract are reflected in the contract specifications as reflected in Figure 4.12.

Figure 4.12: Bursa Malaysia Derivatives Website—Malaysian Government Securities Futures

Source: BMD. http://www.bursamalaysia.com/market/derivatives/products/financial-derivatives/5-year-malaysian-government-securities-futures-5fmg5/

The value of a contract is MYR100,000 with a minimum fluctuation of 0.01% or MYR10. The coupon rate is 6% per annum, payable semi-annually. The speculative position limit for the FMG3 and FMG5 contracts is 10,000 contracts in any single quarterly month or all months combined. (The contracts' quarterly cycle months are March, June, September, and December).

BM Derivatives traded contracts can be accessed on the CME GLOBEX® Electronic Trading Platform. To access, participants need to enter <BMD\FMG3\relevant contract month code> (e.g., BMD\FMG3\MAR15) or <BMD\FMG5\relevant contract month code> (e.g., BMD\FMG5\MAR15).