



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

**Proposed Full Transition to MYOR / MYOR-i
and Cessation of KLIBOR**
for the Malaysian Financial Markets
Discussion Paper

Applicable to:

1. Market participants referencing KLIBOR

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BNM/RH/DP 028-20

This discussion paper sets out Bank Negara Malaysia's (BNM) proposed full transition to Malaysia Overnight Rate (MYOR) / Malaysia Islamic Overnight Rate (MYOR-i) and cessation of Kuala Lumpur Interbank Offered Rate (KLIBOR).

BNM, in consultation with the Financial Markets Committee (FMC), invites feedback from all relevant stakeholders, including ministries, government agencies, financial institutions, industry associations, consumer groups, regulators, non-governmental organisations, social enterprises and any other relevant organisations or individuals that have exposures to KLIBOR-linked financial products, to peruse this document and provide written feedback on the proposals.

Submission of feedback for this discussion paper:

- a) Please provide your written feedback on this discussion paper, including suggestions to improve clarity on the proposals or alternatives for consideration. To facilitate a constructive consultation process, the feedback and views shall be supported with clear justifications especially on the practical and operational aspects, including accompanying evidence or illustrations, where appropriate.
- b) Feedback must be submitted electronically to BNM through (<https://forms.office.com/r/BYriH3MTap>) by 27 October 2024. For information related to KLIBOR-linked financial products exposure and legacy contracts, please fill in the attached feedback forms in Appendix I and Appendix III respectively, and email to the financial benchmark review team at fbr@bnm.gov.my.
- c) Specific queries can be directed to the financial benchmark review team at fbr@bnm.gov.my.

DISCLAIMER:

1. This is a non-binding publication and the views, findings, interpretations and conclusions expressed in this document do not necessarily represent the decision or the stated policy of BNM, nor does citing of trade names or commercial processes constitute endorsement. BNM may reproduce and publish contents of the feedback, in any form, and may use, adapt or develop any proposal put forward without seeking permission or providing acknowledgement to the relevant party.
2. This consultation does not constitute an Index Cessation Event under the International Swaps and Derivatives Association (ISDA) IBOR Fallbacks Supplement, ISDA 2021 Fallbacks Protocol and the 2021 ISDA Interest Rate Derivatives Definitions for KLIBOR settings.

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PART A OVERVIEW

1. Background

- 1.1 BNM introduced the Malaysia Overnight Rate (MYOR) in 2021 and Malaysia Islamic Overnight Rate (MYOR-i) in 2022 as the new alternative reference rates (ARRs) amid global moves towards more robust financial benchmarks. This multiple-rate approach, where MYOR / MYOR-i coexist with the Kuala Lumpur Interbank Offered Rate (KLIBOR), offers market participants flexibility in choosing the most suitable rate for their needs.
- 1.2 The proportion of term tenors in the interbank volume¹ has gradually declined in recent years, driven by a shift in banks' preference in favour of the overnight tenor. A recent survey of KLIBOR submitters indicated an increasing reliance on non-transaction-based inputs, which are generally considered as less robust than actual transactions. In contrast, MYOR / MYOR-i are based on a large pool of overnight transactions. Efforts were undertaken to facilitate and encourage greater activity in the MYOR / MYOR-i market. However, the coexistence of KLIBOR was observed as a factor contributing to the slower adoption of MYOR / MYOR-i.²
- 1.3 In line with the global financial benchmark reform movement, many jurisdictions are actively transitioning towards robust financial benchmarks anchored by deep and liquid markets. To ensure the robustness of domestic financial benchmark rates, BNM now seeks to consult the industry on a full transition from KLIBOR to MYOR / MYOR-i and the cessation of KLIBOR, guided by the publication of an industry transition timeline.
- 1.4 This discussion paper is structured into five parts for industry feedback:
 - (a) Proposed roadmap for the full transition to MYOR / MYOR-i and cessation of KLIBOR
 - (b) Term reference rate
 - (c) Proposed publication of compounded MYOR / MYOR-i and MYOR / MYOR-i index
 - (d) Legacy contracts
 - (e) Risk management

Questions

1. Please provide your institution's exposure amount to KLIBOR-linked financial products by maturities as of 30 June 2024 in Appendix I.

¹ Unsecured interbank borrowing & lending and negotiable instruments of deposits (NIDs).

² As discussed during Financial Markets Committee meeting on 28 November 2023. Discussion summary: <https://www.bnm.gov.my/documents/20124/11285645/FMC-Minutes-20231128.pdf>

PART B PROPOSED ROADMAP FOR THE FULL TRANSITION TO MYOR / MYOR-i AND CESSATION OF KLIBOR

2. Proposed Cessation of KLIBOR

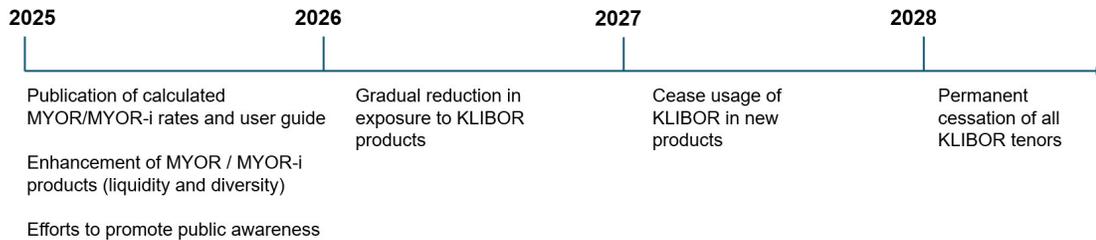
- 2.1 KLIBOR was introduced in 1987 and has long served as a reliable financial benchmark for the Malaysian interbank market. KLIBOR provides an indication of rates at which KLIBOR submitters are willing to lend ringgit funds for specific tenors³ to other KLIBOR submitters. To determine the appropriate rates, KLIBOR submitters have to establish a hierarchical structure of inputs, with own concluded transactions at the top of the waterfall, followed by non-transaction-based inputs such as own executable bids and offers and expert judgment. As such, the robustness of this structure depends heavily on the volume of underlying transactions.
- 2.2 Globally, there has been a concerted shift towards robust financial benchmarks based on actual transactions⁴ in a deep and liquid market as opposed to those based on expert judgment, which carries a higher inherent risk of market manipulation. In 2013, the International Organization of Securities Commissions (IOSCO) published the Principles for Financial Benchmarks which provides an overarching framework of principles to ensure the reliability of financial benchmark determinations and address governance, quality and accountability mechanisms. These principles stress that financial benchmarks should be anchored by observable, arm's-length transactions in an active market. However, the proportion of term interbank volume underpinning KLIBOR submissions has declined, while KLIBOR submitters have shown greater reliance on non-transaction-based inputs, according to a survey of KLIBOR submitters.
- 2.3 IOSCO's principles also recommend that the design of a financial benchmark should also consider the relative size and liquidity of the underlying market in relation to the volume of trading in the market that references the financial benchmark. However, there is a disparity between the limited volume of underlying transactions underpinning KLIBOR and the substantial KLIBOR exposures, which amounted to RM929 billion as at December 2023, including derivatives, bonds, and loans. Nearly 90% of these exposures relate to derivatives, while only about 7% relate to bonds and loans.
- 2.4 Against this backdrop and given the likelihood that liquidity may continue to be concentrated in the overnight tenor, BNM has re-evaluated the multiple-rate approach and views that it is timely to consult on a full transition from KLIBOR to the more robust MYOR / MYOR-i, along with the permanent cessation of all remaining KLIBOR tenors. This is intended to preserve confidence in the reliability and robustness of financial benchmarks used in the domestic financial market.

³ Currently, KLIBOR is published for the 1-, 3- and 6-month tenors, following the discontinuation of the 2-, 9- and 12-month tenors.

⁴ Examples of transaction-based financial benchmarks are MYOR, MYOR-i, Tokyo Overnight Average Rate (TONA), Singapore Overnight Rate Average (SORA), Sterling Overnight Index Average (SONIA) and Secured Overnight Financing Rate (SOFR).

- 2.5 The publication of this discussion paper does not constitute a public statement or indication that KLIBOR has ceased or will cease permanently or indefinitely. BNM will consider industry feedback before announcing the way forward for KLIBOR.
- 2.6 BNM seeks feedback on the proposed 3-year roadmap⁵ for the full transition to MYOR / MYOR-i and cessation of KLIBOR. This timeline allows ample opportunity for market participants to prepare for and support the transition to new financial products referencing MYOR / MYOR-i.

Proposed roadmap for the full transition to MYOR / MYOR-i and cessation of KLIBOR



- 2.7 Given KLIBOR's potential cessation, market participants should consider using MYOR / MYOR-i for new financial contracts to avoid future transition issues. Banks should also proactively engage with customers to educate them on MYOR / MYOR-i and promote their usage. For market participants who prefer to continue using KLIBOR, it is essential to include appropriate contractual fallbacks to mitigate the risk of disruption in the event of KLIBOR's cessation.
- 2.8 During the transition, KLIBOR submissions shall continue to adhere to the policy document on 'KLIBOR Rate Setting' issued by BNM on 24 September 2021, as may be amended from time to time.

Questions

BNM would like to seek feedback on the proposed cessation of KLIBOR:

- Against the backdrop of a global shift towards robust financial benchmarks based on actual transactions and the declining proportion of term tenors as part of interbank volume, what are your views on the proposed cessation of KLIBOR? Please elaborate.
- Do you support the concurrent cessation of all KLIBOR tenors? If not, please provide appropriate rationale.
- Do you have any recommendations or specific concerns on the 3-year timeline and transition plan as outlined in the proposed roadmap? Please provide appropriate rationale.
- Please specify any financial products that may require additional time for transition and provide the reasoning along with an estimate or range of additional time needed.
- What key factors should be considered to promote adoption of financial contracts based on MYOR / MYOR-i?

⁵ The timeline is contingent upon industry readiness.

PART C TERM REFERENCE RATE

3. Background

- 3.1 KLIBOR acts as a forward-looking rate whereby the interest due at the end of an interest period is known at the beginning of that interest period. However, the declining proportion of the underlying market for KLIBOR may potentially affect its future sustainability.
- 3.2 MYOR / MYOR-i is only available for overnight tenors. Relative to KLIBOR, MYOR / MYOR-i is anchored in an active and liquid underlying market and therefore provides a more robust and reliable financial benchmark.
- 3.3 To ensure a smooth transition from KLIBOR to transaction-based MYOR / MYOR-i, there is a need to develop term reference rates based on MYOR / MYOR-i for 1-month, 3-month and 6-month respectively, which will serve as the successors for KLIBOR:

Term Reference Rate

	O/N	1M	3M	6M	
KLIBOR	X	O	O	O	Transition
MYOR / MYOR-i	O	X	X	X	

Developing term reference rates

- 3.4 Arising from issues surrounding the London Interbank Offered Rate (LIBOR), **jurisdictions adopting the ‘single rate’ approach predominantly recommend transitioning away from the Interbank Offered Rates (IBORs) to the compounded ARR** – derived by compounding ARR over a specific period, given its robustness. This is consistent with the Financial Stability Board (FSB)’s view⁶ that a transition to the more robust ARR is important to ensuring financial stability.
- 3.5 In addition to compounded ARR, some developed countries also derive forward-looking term ARR from ARR-based derivatives, such as overnight index swaps (OIS) and futures, with the use limited to specific products. In contrast, other countries face challenges in replicating this approach due to the limited liquidity in their domestic derivatives markets.

Benchmarking of Term Reference Rates

	UK	US	ID	SG	TH
ARR	• SONIA	• SOFR	• INDONESIA	• SORA	• THOR
Term Reference Rate	• Compounded SONIA	• Compounded SOFR	• Compounded INDONESIA	• Compounded SORA	• Compounded THOR
	<i>Alternative:</i>	<i>Alternative:</i>			<i>Alternative:</i>
	• Term SONIA (derived from OIS)	• Term SOFR (derived from futures* / OIS)			• MLR & MRR**
	• Bank rate				

* CME term SOFR was endorsed by the Alternative Reference Rates Committee (ARRC)

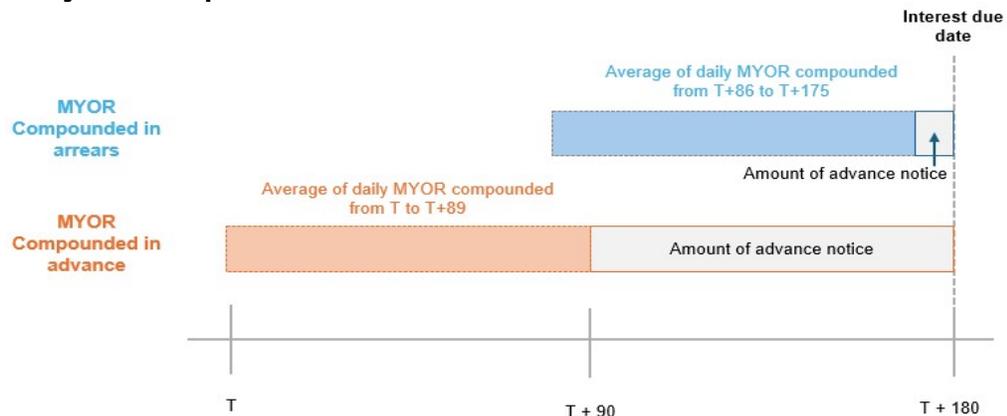
** Minimum Lending Rate (MLR) and Minimum Retail Rate (MRR)

⁶ The FSB’s recommendations were published in the document ‘Reforming Major Interest Rate Benchmarks’ on 22 July 2014.

4. Options for Term Reference Rate

- 4.1 Based on benchmarking against other jurisdictions, the common methods for developing term reference rates based on MYOR / MYOR-i can be broadly categorised as follows:
- calculate by compounding MYOR / MYOR-i published every business day. For the purposes of this discussion paper, business day refers to any calendar day from Monday to Friday, except a public or bank holiday in Kuala Lumpur; or
 - derive term reference rates (Term-MYOR / MYOR-i) based on derivatives transactions which represent the outlook for the unsecured overnight ringgit interbank transactions, incorporating a ‘forward-looking’ element.
- 4.2 Method 4.1(a) can be further classified into two methods according to the time for fixing the interest rate/rate of return used to calculate the amount of interest and the reference period.
- Option 1 - Compounded MYOR / MYOR-i (in arrears):** It is a methodology of computing the interest rate/rate of return for the coming period by compounding the daily MYOR / MYOR-i rates during the interest period leading up to the interest payment date, with some slight shifts in the computation period to provide users with a few days of advance notice on interest payments. **The rate is fixed as the end date of the computation period comes close.**
 - Option 2 - Compounded MYOR / MYOR-i (in advance):** It is a methodology of computing the interest rate/rate of return for the coming period by compounding the daily MYOR / MYOR-i rates from a prior period. In contrary to Option 1, **the rate is fixed in advance at the beginning of the computation period.**

Example on how interest due at T + 180 can be computed for loans with a 90-day interest period



As for method 4.1(b), the feasibility of developing a forward-looking Term MYOR / MYOR-i based on derivatives transactions depends on the existence of a deep and liquid MYOR / MYOR-i derivatives market, which takes time to develop. Term MYOR / MYOR-i, if available, may be preferred by some market participants for use in certain products. However, developments in other jurisdictions have suggested that

the need for such rates may be limited. For instance, **the US and UK authorities had emphasised that the usage of term SOFR⁷ and term SONIA⁸ should be limited to specific cash products.** Method 4.1(b) can be further classified into two methods:

- (c) **Option 3 - Term MYOR / MYOR-i (swaps):** It is a method to develop rates based on market data for MYOR / MYOR-i OIS. These rates reflect the forecast for future interest rates/rates of return. The applied interest rate/rate of return is fixed in advance at the beginning of the computation period.
- (d) **Option 4 - Term MYOR / MYOR-i (futures):** It is a method to develop rates based on prices of MYOR / MYOR-i futures. As with Option 3, these rates reflect the forecast for future interest rates/rates of return. The applied interest rate/rate of return is fixed in advance at the beginning of the computation period.

Questions

7. In most jurisdictions, the authorities have made clear their preference for the market to adopt a broad-based transition to compounded ARR. Do you agree that the same approach can be implemented in Malaysia? If not, please provide the appropriate rationale.
8. The market conventions for compounded ARRs have evolved to include approaches, such as lag, lock-out and payment delay mechanisms, providing cashflow certainty before settlement to ease operational challenges. In this context, is there still a need to develop Option 3 or Option 4? Please identify specific financial products that may require development of Option 3 or Option 4 and provide the appropriate rationale.
9. Based on the market's feedback regarding the most suitable methodology, if it becomes necessary to develop Option 3 or Option 4, and considering the time required to develop a deep and liquid MYOR / MYOR-i OIS and futures market, do you agree with temporarily using compounded MYOR / MYOR-i until Option 3 or Option 4 is developed? Please provide the appropriate rationale.
10. If the market deems it necessary to develop Option 3 or Option 4 for specific financial products, please indicate your preference in chronological order.
11. Besides the aforementioned options, please identify other alternative approaches and provide the appropriate rationale.
12. In most jurisdictions, a market-led working group comprising a diverse range of market participants is established to offer strategic direction on developing and adopting a more robust ARR. To facilitate an orderly transition from KLIBOR to MYOR / MYOR-i, what is your view on establishing a similar market-led working group to:
 - a. identify where the usage of compounded MYOR / MYOR-i is

⁷ The Alternative Reference Rates Committee (ARRC) only recognises the use of term SOFR for business loan activity, particularly multi-lender facilities, middle market loans, and trade finance loans, and certain securitisations that hold underlying business loans or other assets that reference the term SOFR.

⁸ The 'Term Rate Use Case Task Force' formed in the UK provides guidance on the usage for term SONIA in cash products such as export finance, micro / small / mid corporate loans etc.

- appropriate and provide guidance where the usage of alternative approaches may be necessary;
 - b. promote the adoption of MYOR / MYOR-i in the market; and
 - c. recommend the market conventions for financial products referencing MYOR / MYOR-i?
13. Participations by banks and non-banks are welcomed in the working group. Please indicate your interest.
14. Are there any matters that have not been addressed in this consultation with respect to term reference rate?

These questions are intended for market participants who have exposures to Islamic financial products

15. Are there any Shariah concerns on the term reference rates calculation methodology listed above that are not covered under the current policy documents and Shariah Advisory Council (SAC) advice/rulings?
16. Based on your experience transitioning away from LIBOR (if any), which reference rate do you use for Islamic financial products affected by this transition?
17. Based on the specificity of the Shariah contracts used, are there any potential unresolved Shariah issues that might arise if term reference rates are used for Islamic financial products, especially if compounded in arrears method is used, where the effective rates and periodic payment amount are not known upfront?

PART D PROPOSED PUBLICATION OF COMPOUNDED MYOR / MYOR-i AND MYOR / MYOR-i INDEX

5. Background

- 5.1 Consistent with the broad-based adoption of compounded ARR in most jurisdictions and subject to feedback from public consultations regarding the preferred term reference rate methodology, BNM, as the administrator of MYOR / MYOR-i, proposes to publish daily three (3) compounded MYOR / MYOR-i for tenors of 1-month, 3-month and 6-month respectively, serving as reference points for market participants to facilitate the transition to transaction-based MYOR / MYOR-i.
- 5.2 In addition to these three (3) compounded MYOR / MYOR-i, BNM also plans to publish daily a MYOR / MYOR-i index that would allow the calculation of compounded MYOR / MYOR-i over custom time periods.
- 5.3 BNM plans to commence publication of the compounded MYOR / MYOR-i and MYOR / MYOR-i index in the first half of 2025.

6. Calculation Methodology

- 6.1 The compounded MYOR / MYOR-i and MYOR / MYOR-i index would employ **daily compounding**, which should more accurately reflect the time value of money compared to a simple average. This approach aligns with the International Swaps and Derivatives Association's (ISDA) 2021 Interest Rate Derivatives Definitions used in MYOR derivatives. Therefore, MYOR derivatives can be readily used to hedge financial products (e.g. loans, floating rate notes) that reference compounded MYOR.
- 6.2 Interest will compound only on business days. On non-business days, simple interest will apply at the MYOR / MYOR-i rate from the last preceding business day. For instance, during a typical weekend, Friday's MYOR / MYOR-i rate will be used for Friday, Saturday and Sunday. Friday's MYOR / MYOR-i rate will be multiplied by a day count of three (3) and compounded once across the entire weekend (refer to Appendix II).
- 6.3 In line with broader ringgit money market conventions, interest will be calculated based on the actual number of calendar days, while assuming a 365-day year.
- 6.4 **Calculation methodology for compounded MYOR / MYOR-i:**
- (a) Compounded MYOR / MYOR-i for a period can be calculated from daily MYOR / MYOR-i rates using the following formula (rounded to 5 decimal places):

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{MYOR_i \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

' d_0 ', for any computation period, is the number of business days in the relevant computation period;

' i ' is a series of whole numbers from one to d_0 , each representing the relevant business days in chronological order from, and including, the first business day in the computation period;

' $MYOR_i$ ', for any day ' i ' in the relevant computation period, is a reference rate equal to MYOR / MYOR-i in respect of that day as published on or about 10.00am and 12.00noon Kuala Lumpur time respectively, on the following business day;

' n_i ' is the number of calendar days in the computation period for which $MYOR_i$ applies; and

' d ' is the number of calendar days in the relevant computation period.

- (b) For publication of compounded MYOR / MYOR-i⁹ for tenors of 1-month, 3-month and 6-month, the start dates of the periods are determined as follows:
- (i) **Start dates determination:** Start dates are calculated by referring the dates exactly 1 month, 3 months and 6 months prior to the publication date. For example, for a publication date of 15 December, the start dates would be 15 November, 15 September and 15 June respectively.
 - (ii) **Adjustment for non-existent calendar dates:** If a start date falls on a non-existent calendar date, it is adjusted to the last calendar day of that month. For instance, since 31 November does not exist, the adjusted start date would be 30 November for the 1-month rate published on 31 December.
 - (iii) **Adjustment for non-business days:** If the start date falls on a non-business day, the MYOR / MYOR-i rate from the preceding business day is used. The rate is then applied to the start date with a day count to the next business day. For instance, for calculating the 1-month compounded MYOR / MYOR-i on 19 December 2023, since 19 November 2023 is a Sunday, the MYOR / MYOR-i rate from 17 November 2023 is applied.
 - (iv) **Variation in number of days:** Due to the above adjustments, the compounded MYOR / MYOR-i for each tenor may vary in the number of days, depending on the reference period.
- (c) The use of months instead of days in the day count convention is aligned with the existing practice in the KLIBOR market.

6.5 Calculation methodology for MYOR / MYOR-i index:

- (a) MYOR / MYOR-i index aims to simplify the calculation of compounded interest rates/rates of return. The calculation formula is as follow (rounded to 10 decimal

⁹ For ease of computation, BNM will use the formula referring to the MYOR / MYOR-i index (in 10 decimal places) for the computation of compounded MYOR / MYOR-i. This formula will be used for the 1-month, 3-month and 6-month compounded MYOR / MYOR-i.

places):

$$MYOR\ Index_i = MYOR\ Index_{i-1} \times \left(1 + \frac{MYOR_{i-1} \times n_{i-1}}{365}\right)$$

where:

' $MYOR\ Index_i$ ' is the index for date i , rounded to 10 decimal places ($MYOR\ Index_1 = 1.0000000000$ on 24 September 2021¹⁰; $MYOR - i\ Index_1 = 1.0000000000$ on 25 March 2022¹¹).

' $MYOR_{i-1}$ ' is the MYOR / MYOR-i rate for business day $i - 1$; and

' n_{i-1} ' is the number of calendar days for which $MYOR_{i-1}$ applies. This is equal to the number of calendar days between business day $i - 1$ and business day i .

(b) An illustration of the MYOR / MYOR-i index data is appended in Appendix II.

Questions

18. What is your view on BNM publishing compounded MYOR / MYOR-i and MYOR / MYOR-i index? If you believe another publisher might be more appropriate, please provide your suggestions, supported by appropriate rationale.
19. Do you agree with the proposed calculation methodology appropriate for calculating compounded MYOR / MYOR-i and MYOR / MYOR-i index? If not, please provide your suggestions, supported by appropriate rationale.
20. Are the proposed 1-month, 3-month and 6-month tenors for the compounded MYOR / MYOR-i appropriate, or should the published compounded MYOR / MYOR-i follow a fixed day count convention (e.g. 30-day, 90-day and 180-day) or some other convention? Does the MYOR / MYOR-i index appropriately address the need for calculating flexible period compounded rates?
21. Alongside the proposed tenors for the compounded MYOR / MYOR-i, are there other tenors that should be considered for publication? Please outline the potential uses for these additional tenors.
22. Do you agree with the proposed decimal precision for the compounded MYOR / MYOR-i and MYOR / MYOR-i index? If not, please provide your suggestions, supported by appropriate rationale.

7. Publication Details

7.1 The proposed publication details of compounded MYOR / MYOR-i and MYOR / MYOR-i index are outlined below:

(a) **Publication time:** Similar to MYOR / MYOR-i¹², the compounded MYOR /

¹⁰ Coinciding with the day where MYOR was first introduced.

¹¹ Coinciding with the day where MYOR-i was first introduced.

¹² MYOR / MYOR-i publications shall continue to adhere to the policy documents on 'MYOR' and 'MYOR-i' issued by BNM on 24 September 2021 and 25 March 2022 respectively, as may be amended from time to time.

MYOR-i and MYOR / MYOR-i index will be published on the following business day, shortly after the publication of MYOR / MYOR-i at 10.00am and 12.00noon Kuala Lumpur time respectively.

- (b) **Republication:** The compounded MYOR / MYOR-i and MYOR / MYOR-i index will be republished in the event of a republication of MYOR / MYOR-i, or error(s) in the calculation of the compounded MYOR / MYOR-i and MYOR / MYOR-i index. Any republication will be made by approximately 4.00pm on the same day, after which no further amendments will be made.
- (c) **Data collection:** The calculation of the compounded MYOR / MYOR-i and MYOR / MYOR-i index would rely solely on the published MYOR / MYOR-i rates. No new data collection will be necessary.

7.2 The compounded MYOR / MYOR-i and MYOR / MYOR-i index are provided on an 'as is' basis without any warranties of any kind. BNM shall not be liable for any damage or loss that may arise from reliance on the data obtained from BNM's website.

Questions

- 23. Please indicate whether you support the proposed publication arrangements, including the publication dates and times, which are appropriate to facilitate use of compounded MYOR / MYOR-i and MYOR / MYOR-i index. If you do not agree, kindly provide alternative suggestions with appropriate rationale.
- 24. In the event of a republication of compounded MYOR / MYOR-i and MYOR / MYOR-i index on BNM's website, what implications would this have to your institution? Additionally, how will your institution treat transactions that occurred prior to the republication?

PART E LEGACY CONTRACTS

8. Background

- 8.1 Legacy IBOR contracts are contracts that reference an IBOR which extend past the IBOR's cessation date. As these contracts may not have envisaged a potential cessation of the IBOR, they may not contain the necessary provisions to ensure an orderly transition to an ARR. Effective management of these contracts are thus crucial to mitigate market disruption in the event of the IBOR's cessation.
- 8.2 As observed from the LIBOR cessation, two main approaches were adopted by authorities worldwide:¹³
- (a) **Active Transition:** This approach involves amending legacy contracts to switch the reference away from an IBOR to an ARR, well ahead of the cessation date. This has the advantage of reducing the bunching of risks at the point of cessation, which is beneficial for market stability, while providing parties full control over the terms and timing of the amendment.
 - (b) **Fallback Provisions:** Where an active transition is difficult to implement, robust fallbacks can be incorporated into legacy contracts. Fallbacks refers to provisions in financial contracts that cater to scenarios where the IBOR is permanently ceased (or becomes non-representative of the market it is meant to measure). The fallbacks specify the trigger event, replacement rate and spread adjustment needed to address structural differences (e.g. credit risk, liquidity and term premiums) between the replacement rate (which is generally an overnight, nearly risk-free rate) and the IBOR. As opposed to an active transition, these fallbacks will only apply following the actual cessation (or loss of representativeness) of the IBOR.
- 8.3 Regardless of the approach taken which would be market-driven, a key takeaway from the LIBOR cessation was the importance of sufficient and timely efforts by market participants to manage the risk relating to their legacy contracts. As contract amendment is generally a lengthy and operationally intensive task, market participants should allocate adequate time and resources commensurate with their level of IBOR exposure. The early involvement of an institution's legal department is critical in preventing disputes by ensuring all terms are clear and compliant with regulatory standards.

¹³ FSB, the UK's Working Group on Sterling Risk-Free Reference Rates and the US's ARRC have recommended the active transition of contracts ahead of the IBOR's cessation date where possible and to ensure robust fallbacks are incorporated for any remaining legacy contracts:

FSB: <https://www.fsb.org/2023/04/fsb-statement-to-encourage-final-preparations-for-the-usd-libor-transition/>

UK: <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/active-transition-of-legacy-gbp-libor-contracts.pdf?la=en&hash=5C57DDC7087BE34D4F92A6E2D973DC6FF9A4E60E>

US: <https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2023/arrc-readout-for-jan-19-2023-meeting-final-012523>

9. Management of Legacy KLIBOR Contracts

- 9.1 To ensure a smooth and orderly cessation of KLIBOR, all legacy KLIBOR-linked contracts must either actively transition away from KLIBOR prior to its cessation or contain robust fallbacks to a suitable ARR. In this regard, MYOR / MYOR-i are ARRs that are grounded in a large pool of transactions from an active and liquid overnight interbank market, ensuring continuity and resiliency against manipulation.
- 9.2 In 2021, the FMC identified the derivatives market as the largest market referencing KLIBOR and engaged ISDA on the development of fallbacks for KLIBOR-linked derivatives. This resulted in KLIBOR being included in the December 2021 Benchmark Module of the ISDA 2021 Fallbacks Protocol (the Module)¹⁴, which provides an efficient, standardised and multilateral method for adhering parties to incorporate fallbacks to MYOR into their legacy KLIBOR-linked conventional derivative contracts. Given the substantial benefits to contractual robustness and financial stability, the FMC and the Financial Markets Association Malaysia (FMAM) have recommended for adherence to the Module. For Islamic contracts, the International Islamic Financial Market (IIFM) and ISDA have published the ISDA/IIFM Shari'ah-Compliant Bilateral Amendment Agreement (Bilateral Amendment Agreement) to enable institutions to incorporate fallback provisions for existing Islamic contracts. The Bilateral Amendment Agreement is a standardised template for market participants to amend transactions under the ISDA/IIFM Tahawwut Master Agreement.
- 9.3 In relation to the transition of legacy KLIBOR-linked contracts to MYOR¹⁵, there may be a need for an adjustment spread to be added to MYOR to facilitate its replacement of KLIBOR in existing contracts due to different characteristics between the two financial benchmark rates as set out in paragraph 3.1 and 3.2. The difference between KLIBOR and MYOR is evident in their historical pricing, with KLIBOR generally being higher than MYOR. Incorporating an adjustment spread ensures that the eventual interest exchanged on a contract remains broadly comparable and minimises value transfer over the tenor of the contract.

With the solution for derivatives mostly in place, the focus now shifts to Islamic derivatives as well as cash products such as floating-rate notes or loans. Further assessments, drawing upon feedback from public consultations as well as engagements with key stakeholders (e.g. relevant trade associations), are required to determine the optimal approach given the greater heterogeneity in terms of counterparties and their level of financial sophistication.

Questions

25. Do you prefer an active transition or fallbacks approach to manage legacy contracts? Please describe the reasons for your preference, including any operational issues or considerations. If your preferences differ by product (i.e. derivatives vs cash products), please also describe why.
26. With respect to question 25, what is your view on establishing guidance to support the industry's transition?
27. Do you prefer a standardised recommendation for setting adjustment spreads for the transition of legacy KLIBOR-linked contracts, taking into

¹⁴ <https://www.isda.org/protocol/december-2021-benchmark-module-of-the-isda-2021-fallbacks-protocol/>

¹⁵ KLIBOR-linked Islamic financial products are subject to SAC's advice / rulings.

account all relevant KLIBOR-linked financial products? If yes, please provide your suggestion, if any.

28. In most jurisdictions, a market-led working group comprising a diverse range of market participants is established to address existing legacy contracts in preparation for the cessation of IBORs. To facilitate an orderly transition from KLIBOR to MYOR / MYOR-i, what is your view on establishing a similar market-led working group? Participations from banks and non-banks are welcomed in the working group. Please indicate your interest.

These questions are intended for market participants who have exposures to KLIBOR-linked conventional derivatives (e.g. interest rate swaps):

29. Do all your KLIBOR-linked derivative contracts¹⁶ contain robust fallbacks (i.e. trigger events, replacement rate, spread adjustment) that provides for a transition to MYOR upon KLIBOR's cessation?
30. Have you adhered or plan to adhere to the Module? If no, please explain why.
31. Do you agree that adherence to the Module should be made mandatory for all parties with exposures to KLIBOR-linked conventional derivatives (except for parties whose contracts have already incorporated robust fallbacks)? Please explain your answer.
32. Please provide your institution's exposure amount to KLIBOR-linked conventional financial products without robust fallback provisions in Appendix III.

This question is intended for market participants who have exposures to KLIBOR-linked conventional cash products (e.g. bonds, loans):

33. Do you require the development of standardised fallbacks for your KLIBOR-linked conventional cash products?

These questions are intended for market participants who have exposures to KLIBOR-linked Islamic financial products (derivatives and cash products):

34. To facilitate the transition, it is proposed that existing KLIBOR-linked Islamic financial contracts be transitioned to MYOR, while new contracts entered into from 2027 onwards will reference MYOR-i.¹⁷ In the event of KLIBOR cessation:
- do you foresee any challenges in transitioning existing KLIBOR-linked Islamic financial contracts to MYOR? Please provide appropriate rationale and identify the main Shariah contracts used for the Islamic financial products affected by this transition; and
 - do you foresee any challenges in mandating the adoption of MYOR-i for new Islamic financial contracts? Please provide appropriate rationale.
35. Do you require the development of standardised fallbacks for your KLIBOR-linked Islamic financial products?

¹⁶ These are generally legacy derivative contracts transacted prior to 2021, as newer transactions which incorporate the 2021 ISDA Interest Rate Derivatives Definitions will already have incorporated robust fallbacks.

¹⁷ Subject to SAC's advice / rulings.

36. What is the method for incorporating the fallback provisions into the legacy contracts? Do you require the use of deemed consent approach? If yes, how would you operationalise this approach into your transition strategy?
37. Please provide your institution's exposure amount to KLIBOR-linked Islamic financial products without robust fallback provisions in Appendix III.

10. Tough Legacy Contracts

- 10.1 Tough legacy contracts refer to contracts that are either impossible or unrealistically difficult to amend (e.g. floating-rate bonds with diverse and numerous bondholders and amendments that require the consent of 100% of bondholders). These contracts, while expected to be rare, pose a much higher risk of disputes and litigation.
- 10.2 In the case of LIBOR, legislative amendments and the temporary publication of a 'synthetic', non-representative LIBOR were the main approaches to manage tough legacy contracts. However, these solutions should only be treated as a last resort given significant drawbacks and associated issues. Legislative amendments rely on a 'one-size-fits-all' approach that may not be optimal for all parties, while a 'synthetic' KLIBOR may differ significantly from the LIBOR versions due to their usage of a forward-looking term ARR, which may be challenging to develop domestically. As such, the optimal approach for Malaysia will be based on a careful assessment of the risk posed by these contracts.

Questions

38. Do you expect any issues with tough legacy contracts? If yes, please identify the type of products and explain why they are difficult to amend.
39. Please provide your views and recommend strategies to manage tough legacy contracts in Malaysia.
40. For market participants with exposure to KLIBOR-linked Islamic financial products, do you expect any specific Shariah issues associated with the management of tough legacy contracts that may require SAC's deliberation? If yes, please elaborate on these issues.
41. Please provide your institution's exposure amount to tough legacy contracts in Appendix III.

PART F RISK MANAGEMENT

11. Management of Transition Risks

- 11.1 Market participants should implement risk management processes to identify and mitigate risks associated with the transition away from KLIBOR, commensurate with the size and complexity of their exposures. By proactively identifying risks early, market participants will be better prepared to manage potential challenges that may arise during the full transition to MYOR / MYOR-i.
- 11.2 Market participants should identify and quantify their KLIBOR exposures, which include the size of activities and the number of counterparties with KLIBOR-linked financial contracts across all products. This will enable a better understanding of the legal, operational, and other risks associated with the KLIBOR transition and enable market participants to plan appropriate mitigation strategies.
- 11.3 Market participants are encouraged to transition away from usage of KLIBOR as soon as possible to reduce reliance on a potentially ceased financial benchmark and to support the development of MYOR / MYOR-i markets.

Questions

42. What are the potential risks and challenges (e.g. operational, liquidity, market) that could arise in transitioning away from KLIBOR to MYOR / MYOR-i?
43. What are your suggestions to mitigate and manage the potential risks and challenges?
44. Please suggest potential market-led initiatives to manage the potential risks and challenges in a more coordinated manner.

APPENDICES

Appendix I: KLIBOR-linked Financial Products Exposure

KLIBOR-linked Conventional Financial Products

No.	KLIBOR-linked Conventional Financial Product Name	KLIBOR-linked Conventional Financial Products Maturing Before 31 December 2027		KLIBOR-linked Conventional Financial Products Maturing Beyond 31 December 2027	
		No. of Contracts	Total Outstanding Amount (RM) ¹⁸	No. of Contracts	Total Outstanding Amount (RM)
1.	Interest rate swaps				
2.	Cross-currency swaps				
3.	Interbank borrowing/lending				
4.	Non-retail loans				
5.	Debt securities (e.g. floating rate bonds/bills)				
6.	Others: <i>(Please specify the financial products)</i>				

KLIBOR-linked Islamic Financial Products

No.	KLIBOR-linked Islamic Financial Product Name	KLIBOR-linked Islamic Financial Products Maturing Before 31 December 2027			KLIBOR-linked Islamic Financial Products Maturing Beyond 31 December 2027		
		Type of Shariah Contracts	No. of Contracts	Total Outstanding Amount (RM)	Type of Shariah Contracts	No. of Contracts	Total Outstanding Amount (RM)
1.	Profit rate swaps						
2.	Cross-currency swaps						
3.	Interbank acceptances/placements						
4.	Non-retail loans						
5.	Debt securities (e.g. floating rate sukuk)						
6.	Others: <i>(Please specify the financial products)</i>						

Do you have any upcoming issuance for **KLIBOR-linked Islamic Financial Products** in the pipeline? If yes, what is the **expected date of issuance** and the **tenor** for the products?

¹⁸ Total outstanding amount includes both assets and liabilities of your firm.

Appendix II: Illustration of MYOR / MYOR-i Index Calculation

The MYOR / MYOR-i index value for each day is calculated using the previous business day's MYOR / MYOR-i rate which is published on the same day. The table below contains the MYOR / MYOR-i rates and illustrative MYOR / MYOR-i index data for a period from Monday, 24 June 2024 to Monday, 1 July 2024.

MYOR Publication date	MYOR value date	MYOR rate	Calendar days applicable	MYOR index value date	MYOR index
Mon 24/06/2024	Fri 21/06/2024	3.00	-	Mon 24/06/2024	1.0719940864
Tue 25/06/2024	Mon 24/06/2024	3.00	1	Tue 25/06/2024	1.0720821955
Wed 26/06/2024	Tue 25/06/2024	3.00	1	Wed 26/06/2024	1.0721703118
Thu 27/06/2024	Wed 26/06/2024	3.01	1	Thu 27/06/2024	1.0722587291
Fri 28/06/2024	Thu 27/06/2024	3.01	1	Fri 28/06/2024	1.0723471537
Mon 01/07/2024	Fri 28/06/2024	3.01	3	Mon 01/07/2024	1.0726124494

MYOR-i Publication date	MYOR-i value date	MYOR-i rate	Calendar days applicable	MYOR-i index value date	MYOR-i index
Mon 24/06/2024	Fri 21/06/2024	3.01	-	Mon 24/06/2024	1.0639487271
Tue 25/06/2024	Mon 24/06/2024	3.02	1	Tue 25/06/2024	1.0640367579
Wed 26/06/2024	Tue 25/06/2024	3.00	1	Wed 26/06/2024	1.0641242130
Thu 27/06/2024	Wed 26/06/2024	3.00	1	Thu 27/06/2024	1.0642116753
Fri 28/06/2024	Thu 27/06/2024	3.00	1	Fri 28/06/2024	1.0642991448
Mon 01/07/2024	Fri 28/06/2024	3.00	3	Mon 01/07/2024	1.0645615747

Appendix III: Legacy Contracts**KLIBOR-linked Conventional Financial Products Without Robust Fallback Provision**

No.	KLIBOR-linked Conventional Financial Product Name	KLIBOR-linked Conventional Financial Products Maturing Before 31 December 2027		KLIBOR-linked Conventional Financial Products Maturing Beyond 31 December 2027	
		No. of Contracts	Total Outstanding Amount (RM)	No. of Contracts	Total Outstanding Amount (RM)
1.	Interest rate swaps				
2.	Cross-currency swaps				
3.	Interbank borrowing/lending				
4.	Non-retail loans				
5.	Debt securities (e.g. floating rate bonds/bills)				
6.	Others: <i>(Please specify the financial products)</i>				

KLIBOR-linked Islamic Financial Products Without Robust Fallback Provision

No.	KLIBOR - linked Islamic Financial Product Name	KLIBOR-linked Islamic Financial Products Maturing Before 31 December 2027			KLIBOR-linked Islamic Financial Products Maturing Beyond 31 December 2027		
		Type of Shariah Contracts	No. of Contracts	Total Outstanding Amount (RM)	Type of Shariah Contracts	No. of Contracts	Total Outstanding Amount (RM)
1.	Profit rate swaps						
2.	Cross-currency swaps						
3.	Interbank acceptances/placements						
4.	Non-retail loans						
5.	Debt securities (e.g. floating rate sukuk)						
6.	Others: <i>(Please specify the financial products)</i>						

Tough Legacy Conventional Contracts (contracts that are impossible or unrealistically difficult to amend)¹⁹

No.	KLIBOR-linked Conventional Financial Product Name	KLIBOR-linked Conventional Financial Products Maturing Before 31 December 2027		KLIBOR-linked Conventional Financial Products Maturing Beyond 31 December 2027	
		No. of Contracts	Total Outstanding Amount (RM)	No. of Contracts	Total Outstanding Amount (RM)
1.	Interest rate swaps				
2.	Cross-currency swaps				
3.	Interbank borrowing/lending				
4.	Non-retail loans				
5.	Debt securities (e.g. floating rate bonds/bills)				
6.	Others: <i>(Please specify the financial products)</i>				

Tough Legacy Islamic Contracts (contracts that are impossible or unrealistically difficult to amend)

No.	KLIBOR-linked Islamic Financial Product Name	KLIBOR-linked Islamic Financial Products Maturing Before 31 December 2027		KLIBOR-linked Islamic Financial Products Maturing Beyond 31 December 2027	
		No. of Contracts	Total Outstanding Amount (RM)	No. of Contracts	Total Outstanding Amount (RM)
1.	Profit rate swaps				
2.	Cross-currency swaps				
3.	Interbank acceptances/placements				
4.	Non-retail loans				
5.	Debt securities (e.g. floating rate sukuk)				
6.	Others: <i>(Please specify the financial products)</i>				

¹⁹ Refer to paragraph 10 for a primer on tough legacy contracts.