

Opening Remarks at PPKM Annual Dinner
Deputy Governor Muhammad bin Ibrahim
28 November 2014

Pertama sekali, saya ingin merakamkan ucapan terima kasih kepada pihak penganjur, Persatuan Pasaran Kewangan Malaysia, kerana telah menjemput saya sekali lagi untuk menghadiri majlis makan malam tahunan PPKM pada malam ini dan seterusnya menyampaikan sepatah dua kata. Sesungguhnya PPKM telah memainkan peranan yang penting dalam membangunkan pasaran kewangan di Malaysia.

Good evening, distinguished guests, ladies and gentlemen. I am delighted for the opportunity to be speaking to all of you again this year. My appreciation goes to the organiser for their kind invitation and efforts in organizing this yearly event.

Another great year has passed, and it has certainly been a year with full of excitement. The Malaysian economy has been resilient this year and performed better than earlier expected despite the uncertainties surrounding world growth and financial market. As the year draws to an end, it is opportune for us to ponder over events that have transpired and visualise our path into 2015 and beyond. So where should our next destination be? What challenges might we foresee along the way? And how should we equip ourselves for the journey ahead?

The global and domestic economic landscape

The global economic landscape remains challenging. Its future is fraught with uncertainty.

Monetary policy in developed economies continues to diverge. The U.S. has ended its bond buying programme as part of its path towards monetary policy normalisation.

Japan and Euro Area are expected to continue with their monetary easing policy to stimulate their economies, with China recently joining the bandwagon. Looking ahead, while the overall growth momentum is expected to improve, the growth forecast has been revised downwards due to weakening economic activity in a number of major economies. Recently, the IMF had recently revised downward their projected global growth rate for 2015 (from 4.0% to 3.8%). Recent news that the Japanese economy slipped into recession has also surprised the market. Who would have predicted that oil prices would plunge the way it did? With these factors combined the pace of recovery in the global economy, including in emerging market economies remains uneven.

On the domestic front, we expect the economy to remain on a steady growth path with domestic demand remaining the key driver of growth. The economic recovery in the advanced economies, especially the U.S, could be beneficial for Malaysia through stronger external demand but in the more immediate term, could potentially result in periods of capital reversals and heightened volatility as markets position for policy rate increases.

Achievement of Malaysian Financial Market

Despite the challenges faced during the year, the Malaysian financial market continued to thrive and accomplished several milestones. Allow me to share with you some of these key achievements.

The Malaysian financial system remains robust especially when measured in terms of the depth of our financial market. With the outstanding bond issuance amounted to RM1.1 trillion, Malaysia remains the largest fixed income market in ASEAN with market share of around 30% of total outstanding bonds issuance in ASEAN. Our FX market is also vibrant with an average daily turnover volume of USD11.1 billion. This daily turnover volume represents an increase of more than five folds within a period of eight years. The growth in the bond and FX markets was accomplished through various initiatives from both the policymakers and market players.

One which I would highlight here is the inclusion of the Malaysian Government Investment Issues or MGII, into the Barclays Global and Emerging Market Indices in March next year. I should thank the industry players for their cooperation and support in this. It is a significant success in particular as sukuk gains wider international recognition and acceptance.

Despite these achievements in our bond and FX markets, there are a few areas which require significant improvements. For example, participation of ASEAN investors in our bond market remains limited, despite the sizable share of non-resident holding. In the FX market, our daily turnover only accounts for 0.2% of the global FX turnover which is USD5.3 trillion a day. Hence, we need to intensify our collective efforts in deepen our market further and position ourselves to offer the services required by both foreign and domestic investors.

During the year, we had also made progress on other fronts as well to further develop the domestic financial market.

In August 2014, we revised our guideline on short-selling to accord more flexibility to short-sell MGS. A longer timeframe is now given to market participants, before they are required to cover their short position. In addition, the scope of eligible securities for short-selling activities has been expanded. With this greater flexibility, market-making activities are more effective and efficient, and hence creating greater liquidity in the securities market.

Similarly, as market participants move to adopt technology to improve price discovery and trading efficiency, Bank Negara has granted electronic money broking license in Malaysia. This introduction of electronic money broking services through an electronic FX matching platform is in line with the developments in international markets. Through the adoption of this new technology, we aspire for increased transparency, efficiency and competitiveness in our FX market. This will ultimately enhance the level of onshore foreign currency liquidity. The ability to adapt and survive in a more challenging and fast changing operating environment is key to further developing our financial market.

To further enhance market integrity, Bank Negara will be revising the KLIBOR Rate Setting Framework to ensure the quality, integrity and reliability of our financial benchmark. One notable enhancement is the proposed establishment of the KLIBOR Committee to serve as an advisory and consultative role to Bank Negara. This is to ensure the robustness of the KLIBOR rate-setting process. These enhancements are aligned with the IOSCO Principles on Financial Benchmarks and we strongly urge the industry to provide constructive feedback to a Concept Paper that we shall issue in due course.

To diversify our market and expand into new activities, we have also undertaken efforts to position Malaysia as one of the key centres for RMB business in the ASEAN region. The increased internationalisation of RMB is beginning to change the dynamics of the global financial markets, and creating an opportunity that was previously unavailable or untapped. In support of this development, the industry and Bank Negara have continuously endeavored to promote RMB businesses in Malaysia. So far, we have seen RMB trade settlement tripled the amount since 2010 at MYR3 billion, while RMB deposits have also expanded more than tenfold since 2010 at RMB10.7 billion.

Our efforts began to bear fruit as we witnessed in August 2014, the issuance of the largest RMB bond by a Malaysian issuer settled through RENTAS. The RMB infrastructure continues to be strengthened with the designation of a RMB clearing bank in Malaysia following the signing of a historic agreement between Malaysia and China. The presence of such a clearing bank will allow Malaysian financial institutions to tap into greater RMB liquidity and offer more competitive RMB financial products, not only to Malaysian businesses but to the ASEAN region as well. We hope the market will take this opportunity to grow the RMB business in Malaysia and strengthen Malaysia's position as a gateway for RMB business in this region.

Significant strides were also achieved in the Islamic finance industry. There is an expanded range of Islamic trade finance solutions for the real sector. We have also witnessed an improvement in Islamic liquidity management in non-OIC countries intermediated by Malaysia's Islamic finance institutions and fund management companies. Malaysia remains a key marketplace for global sukuk issuance in third quarter of 2014 with a 64.9% market share.

We have also seen our banks being appointed as lead managers in foreign sovereign sukuk issuances, an achievement we should be proud of. In mid 2014, we witnessed the first Turkish issuer issuing sukuk in Malaysia. This marks a significant milestone in the Malaysian debt capital market. Moving forward, greater effort should be channeled towards increasing the participation of the Fortune 500 companies in Islamic finance, including through the issuance of sukuk.

When opportunity knocks - where should our next destination be?

While we can be proud of our achievements thus far, there remains enormous potential yet to be unlocked. As the saying goes "when opportunity knocks, open the door and embrace it".

So what are the opportunities that lie ahead? Let me attempt to unlock some of the opportunities.

Firstly, reinforcement of regional economic integration in support of the ASEAN Economic Community (AEC) Blueprint. We need to enhance regional collaborative efforts in order to expand the growth potential of our region. The expected regional growth exceeding 5% in 2015, provides an effective platform for Malaysia to enhance ASEAN participation in trade and investment including in the fixed income market. With increased regional presence of Malaysian banks, greater efforts and innovation should be focused on supporting domestic entities' growth and to leverage on the growing influence of the ASEAN integration.

Secondly, the financial institutions' ability to serve the financing requirements of the corporates. The introduction of a new incentive package for the establishment of the "Principal Hub" in Malaysia was announced in the Budget 2015. The initiative, which is spearheaded by the Malaysian Investment Development Authority, will create more business opportunities for banks. Under the new incentive package, companies are required to increase the utilisation of domestic ancillary services including financial services.

With further achievements made in the domestic financial market during the year, financial institutions should be better able to accommodate the "Principal Hub".

During the 2013 PPKM dinner, one of the areas I highlighted was the opportunity for you to begin offering structured trade finance products. I am pleased to hear that some of you have been responsive in doing so and took the initiative to develop products such as warehouse, prepayment and pre-export financing, which go beyond traditional trade financing. For those who have not, I would encourage you to do the same. The capacity and capability in providing such products is essential in meeting the needs of the domestic and international MNCs that we wish to attract under the "Principal Hub" programme.

Thirdly, the financial institutions' innovation in offering derivative products for hedging purposes. The volume of OTC derivatives traded in 2013 only totalled to RM2.83 trillion. Majority of the products are still in the form of plain vanilla FX and interest rate derivatives. To further support the development of the derivative market, Bank Negara continues to provide the necessary infrastructure and create the enabling environment where business transactions can thrive.

In this respect, I am pleased to inform you that the lower house of Parliament had just passed the Netting Bill. Now, we can reclaim our status as a netting friendly jurisdiction. The implementation of this Netting Act which is expected to take place in 2015 will enable the market to benefit from reduction in transaction costs.

With the ability to net, financial institutions will be able to take a more active approach in managing and conducting their business, trade in financial instruments more efficiently and further develop the capacity to provide new and innovative financial products to customers. We should expect that Malaysia would become the marketplace of choice for financial market transactions, especially for the ASEAN region.

We also anticipate that the Netting Act legislation the proliferation of derivative and risk management tools and this could include the development of a credit default swap market. Such a market will further complete the financial market's ability to dissect and manage risks. Our market will become whole.

One area that I thought I should raise is for the market to adopt the international convention of pricing PDS, as a spread over the MGS. This practice however was limited, to a few primary offerings. We should modernise our market practice. We must make this practice a convention in our market. We urge market players to adopt this international norm. From a trading or investment perspective, it simplifies the pricing of credit risks of a particular corporation and is a more transparent way in terms of pricing a credit. It would also ease the process of hedging or transacting in the credit default swap market. This convention also enables an easier and very visible comparisons across different issuers, which will open new opportunities in trading. I am surprised at the market's inertia, despite our numerous invocation to adopt this best market practice. I hope 2015 would show a better performance on this issues.

Market discipline and the importance of market integrity

As we all know, many prominent international financial institutions have been in the limelight this year for the wrong reasons, having been found guilty of market misconduct. Manipulation of financial benchmarks by dealers in advanced markets had undermined market credibility and cast doubts on others as well.

In just over two years, penalties related to benchmark and market misconduct has exceeded USD10 billion. The cost in terms of the damage done to the public's trust and perception towards the financial markets is equally significant.

We should learn the lessons from the other markets. As a pre-emptive move to preserve the integrity of the FX market in Malaysia, we have reminded Heads of Treasury to exercise due diligence in their hiring process to avoid recruiting staff with tainted or questionable records. Treasury personnel should be people of impeccable integrity. This is our first line of defence. We should place more attention to this. We do not want a few black sheeps to taint the integrity of our community.

As an industry, we should be united in having a zero tolerance for any misconduct perpetrated by individuals within our mist. Any wrongdoing should result in severe penalty to both the individual and the institution. Bank Negara will work together with PPKM to introduce a revised market code of conduct that will further strengthen the governance framework.

Success only comes when opportunity meets preparation. I urge you to be prepared in the following areas.

(1) Talent Development

For the financial markets in Malaysia to sustain and reinforce the strong foundations that have been built, we need to take the industry to a new level of depth and maturity. A key to this is the development of a talent pool, equipped with a broad set of skills encompassing not only technical and quantitative skills, but also the ability to collaborate across different cultures and regulatory landscapes. The industry needs to nurture more skills and talents in order to prepare our people for the challenges posed by the rapidly changing financial world. Hence it is our responsibility to breed talents that are able to identify and solve increasingly complex problem in a creative manner. Another critical area where talents need to be further nurtured is in the understanding and application of market technology, to ensure we are able to position ourselves ahead of the curve.

In this regard, I would like to commend PPKM for administrating one of the most important certification for financial market participants, the PKMC examinations, which have produced many capable financial market dealers, many of which are present here today. I was also informed that PKMC examination is now recognised by the Finance Accreditation Agency. I hope this would further motivate the PKMC to reach greater heights, and gain international recognition for the quality of its entrance examination.

(2) Corporate risk management

Financial market players should be more proactive in offering new risk management solutions. In support of this, PPKM could enhance its role by increasing collaborations with corporate treasurers to address risk management issues, particularly cross border exposures.

The recent assessment by international organisations highlighted concerns on the rising corporate debt and the ability of the corporates to manage their foreign exchange exposures. Although the domestic corporate external debt is still within manageable level, we should always be mindful of the possible downside risks.

(3) The move towards self-regulation

As part of our continuous effort in ensuring orderly functioning of our financial market, we envisage that the industry will need to play a bigger role in promoting self-regulation in the market. While the governance framework concerning the self-regulated industry is yet to be determined, we are hoping for greater collaboration and coordination among all market participants in realising our vision for an effective self-regulation in the industry. PPKM's prominent role in establishing the necessary standards as part of the governance framework is needed to ensure effective enforcement of such framework.

Conclusion

Ladies and gentlemen,

Malaysia's financial sector has remained steadfast in facing the ever more challenging global economic landscape. Our fundamentals have strengthened through structural and financial reforms. These efforts have translated into a more diversified and resilient financial system that we have today. Despite this, we should all remain vigilant and focused in ensuring a vibrant and sustainable financial system.

Sebelum mengakhiri ucapan, saya ingin mengucapkan tahniah kepada PPKM di atas kejayaan yang telah dicapai pada tahun ini dan jutaan terima kasih kepada pihak penganjur di atas undangan ke majlis ini.

Saya berharap PPKM dan Bank Negara Malaysia akan terus bekerjasama dengan lebih erat supaya hasrat bersama kita untuk menjadikan pasaran kewangan Malaysia lebih dinamik dan teguh dapat dicapai.

Sekian, Terima kasih.

Bank Negara Malaysia

28 November 2014