

1st Meeting of the Derivatives Working Group (DWG) for the KLIBOR Transition
19th August 2025
Bank Negara Malaysia

Summary

The meeting reviewed the DWG's membership and objective, followed by the proposed national transition roadmap from KLIBOR to the Malaysia Overnight Rate (MYOR)/Malaysia Islamic Overnight Rate (MYOR-i). Subsequently, the meeting discussed the scope of exceptions for the use of KLIBOR in risk management trades and topics for the DWG Workplan.

1. Housekeeping

- 1.1 The meeting was briefed on the composition of the DWG, which comprised experienced financial market participants from 16 member institutions, with Bank Negara Malaysia (BNM) serving as the Secretariat.
- 1.2 Members acknowledged the DWG's Terms of Reference (ToR) and Letter of Undertaking on Confidentiality (LoU). The DWG's broad objective is to support an orderly transition from KLIBOR to MYOR/MYOR-i in the domestic derivatives market, which may include recommending best practices and market conventions for MYOR/MYOR-i derivatives, identifying strategies to promote the trading of MYOR/MYOR-i derivatives and participating in awareness and education events.

2. National KLIBOR Transition Roadmap

- 2.1 The meeting reviewed the proposed National KLIBOR Transition Roadmap and key milestones on the market's readiness to offer MYOR/MYOR-i products, prohibition of use of KLIBOR in new trades and the permanent cessation of all KLIBOR tenors.
- 2.2 Members had no objections to the proposed roadmap and viewed that it would provide sufficient time and flexibility for the DWG to deliver on its objectives.

3. Overview of KLIBOR derivatives exposures and transition strategies

- 3.1 The meeting noted the substantial KLIBOR derivatives exposures, with a significant portion (estimated at around 21,000 contracts with a total value of RM1.3 trillion) remaining outstanding past the target KLIBOR cessation date. These contracts are commonly referred to as legacy contracts and would require effective management to avoid legal and operational risks.
- 3.2 Members acknowledged potential challenges which may require additional time and effort, including the lack of public awareness and understanding, complexity of certain products such as non-linear derivatives as well as liquidity issues, particularly in the Islamic derivatives market.
- 3.3 Members agreed that a coordinated, industry-wide effort was required to ensure a smooth transition for the domestic derivatives market, where firms would need to identify their KLIBOR exposures and risks, develop an internal transition plan and ensure infrastructure and personnel readiness. Client-facing firms (e.g. banks) would also be expected to actively contribute to client education, legacy contract management and MYOR/MYOR-i market development efforts.

4. Scope of exceptions for new use of KLIBOR

- 4.1 The meeting discussed the scope of exceptions for the use of KLIBOR in new derivatives contracts past the general prohibition date as outlined in the roadmap. Based on observations from other jurisdictions' transition journeys, these exceptions were usually limited to risk management transactions to avoid continued reliance on the outgoing benchmark and hindering adoption of the alternative reference rate. Accordingly, the following exceptions were proposed for the domestic market:
- (i) Transactions that reduce or hedge the firm's or client's KLIBOR exposure
 - (ii) Market-making in support of client activity related to existing KLIBOR contracts.
 - (iii) Central counterparty auction procedure in the case of a member default
 - (iv) Novation of KLIBOR transactions
- 4.2 Members were generally supportive of the proposed exceptions. While some questioned the necessity of exception (ii), the majority agreed that it would provide flexibility by eliminating the need to confirm a risk-reducing trade on the client's end. Members acknowledged the difficulties that banks face in validating a client's intent for a trade request and agreed for this to be conducted on a best-effort basis.
- 4.3 Members also recommended for further clarity on the types of firms that could be considered as a "client", given that certain banks may be transacting with other banks on a client basis as opposed to an interbank counterparty. This would be crucial for preventing loopholes for interbank trades which were intended to be solely risk-reducing under exception (i).
- 4.4 The meeting viewed that further discussions were necessary to refine the scope of exceptions and agreed for members to provide feedback to the Secretariat.

5. DWG Workplan

- 5.1 The meeting reviewed the list of potential topics for inclusion in the DWG Workplan, with a focus on identifying the near-term deliverables for 2025.
- 5.2 Members recommended to prioritize laying the groundwork for financial market participants to begin trading MYOR/MYOR-i derivatives, including the issuance of market conventions, construction of swap curves and ensuring systems readiness. This would facilitate the future identification of market makers to support an active derivatives market.
- 5.3 On market conventions, members highlighted a past proposal for selected MYOR derivatives by the Financial Markets Association Malaysia (FMAM) and requested the Secretariat to engage FMAM to share the conventions with DWG members for review and subsequent circulation to the industry.
- 5.4 Members also suggested for the establishment of a dedicated public webpage to disseminate updates on the KLIBOR Transition and noted the Secretariat's update on its development and expected launch by Q4 2025.
- 5.5 Given the concurrent timelines of certain deliverables, the meeting was consulted on the necessity of subgroups or task forces; however, members viewed that they were not required at this juncture and to revisit this discussion in the future for particularly complex or technical issues.
- 5.6 The meeting agreed to continue reviewing the Workplan at subsequent meetings and for members to provide feedback to the Secretariat.