

**2<sup>nd</sup> Meeting of the Derivatives Working Group (DWG) for the KLIBOR Transition**  
**24<sup>th</sup> November 2025**  
**Bank Negara Malaysia**

## **Summary**

The meeting discussed the scope of exceptions for the new use of KLIBOR post general prohibition date, reviewed the Financial Markets Association of Malaysia's (FMAM) recommended market conventions for Malaysia Overnight Rate (MYOR) derivatives, refined the DWG workplan and assessed strategies to develop a liquid MYOR derivatives market.

### **1. Latest developments**

1.1 The meeting was apprised of the developments since the last DWG meeting, including the publication of the national KLIBOR Transition Roadmap<sup>1</sup>, fixing of the spread adjustment for KLIBOR derivatives fallbacks<sup>2</sup> and the launch of the dedicated transition subpage on the Financial Markets Investor Portal (FMIP).

### **2. Scope of exceptions for new use of KLIBOR post general prohibition date**

2.1 The meeting reviewed survey feedback on the following four proposed exceptions:

- (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 (CCP) auction procedure in the case of a member default
- (iv) Novation of KLIBOR transactions

2.2 Members were supportive of maintaining all four exceptions with the following suggestions:

- Exception (i): Some members suggested to include the directionality of trade (i.e. paying or receiving the floating rate) into the reporting requirements for KLIBOR exposures to facilitate better monitoring of risk-reducing transactions, subject to a survey on feasibility. Members also recommended for exposure monitoring to be done on an aggregate basis instead of a per-trade basis to avoid unnecessary operational burden.
- Exception (ii): Members recommended for the validation of a client's risk-reducing intent to be conducted on a principles-based approach and best-efforts basis, given the practical challenges of ascertaining a client's intent on every occasion. On the scope of "clients", members viewed that banks should be allowed to act as clients to other banks for valid risk management purposes, which would allow banks to hedge exposures obtained in the course of facilitating corporate clients' risk management activities. Members viewed that this would

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<sup>1</sup> <https://financialmarkets.bnm.gov.my/transition-roadmap>

<sup>2</sup> 1 month: 0.21799%, 3 months: 0.49066%, 6 months: 0.57663%. Please refer to the relevant publications by Bloomberg ([https://assets.bbhub.io/professional/sites/27/IBOR\\_Fallbacks\\_MYR\\_KLIBOR\\_Cessation\\_Technical-Note\\_251024.pdf](https://assets.bbhub.io/professional/sites/27/IBOR_Fallbacks_MYR_KLIBOR_Cessation_Technical-Note_251024.pdf)) and ISDA ([https://www.isda.org/a/rzBqE/ISDA-KLIBOR\\_cessation-guidance\\_final\\_102325.pdf](https://www.isda.org/a/rzBqE/ISDA-KLIBOR_cessation-guidance_final_102325.pdf)) for more details

not risk a material increase in net exposures on an industry-wide basis, given strict internal compliance functions to ensure adherence to the risk management objective.

- Exception (iii): While members viewed that this exception was relatively less significant given the absence of a domestic central clearing counterparty, it would still be beneficial for clarity on LCH's default management processes for cleared KLIBOR non-deliverable interest rate swaps (NDIRS).
- Exception (iv): Members viewed that the scope of novations should be aligned with exceptions (i) and (ii), where at least one party would need to be reducing risk.

2.3 Members highlighted the importance of an active KLIBOR-MYOR basis swap market, which would support risk management activities, valuation of legacy contracts and the development of a liquid MYOR overnight index swap (OIS) market. While some members suggested that basis swap trades should be booked as two separate transactions of KLIBOR IRS and MYOR OIS to simplify the future unwinding of KLIBOR exposures, others viewed that this would be less capital efficient and could also slow the development of the basis swap market.

### **3. Market Conventions**

- 3.1 The meeting reviewed survey feedback on the FMAM's recommended market conventions for three MYOR derivatives (MYOR OIS, KLIBOR-MYOR basis swaps and SOFR-MYOR basis swaps) and suggested minor updates for consistency, including updated references to the 2021 ISDA Interest Rate Derivatives Definitions.
- 3.2 Members were supportive of further dissemination of the conventions to the public and suggested for the inclusion of a disclaimer to clarify that the conventions are primarily intended as a guidance for interbank transactions, while wholesale and retail transaction terms may differ. The meeting requested for the Secretariat to engage FMAM to provide feedback on the market conventions and seek FMAM's view on the necessity of legal vetting prior to dissemination.
- 3.3 The meeting also discussed the development of market conventions for Malaysia Islamic Overnight Rate (MYOR-i) derivatives and agreed to engage the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM) to lead the effort.

### **4. DWG Workplan**

- 4.1 The meeting reviewed the updated DWG workplan which incorporated feedback from members. Members agreed with the proposed timelines for deliverables and noted that the workplan should be a living document with adjustments made as necessary along the transition.
- 4.2 The meeting discussed additional suggestions for the DWG Workplan, including feasible alternatives to KLIBOR for callable range accruals, issuance of MYOR-linked floating rate bills and KLIBOR-MYOR spread adjustments for loan products. As these

suggestions were related to cash products, the meeting agreed for the Secretariat to share them with the Cash Products Working Group for further consideration.

- 4.3 The meeting was also briefed on the Shariah Working Group's plans related to MYOR-i, including increasing adoption of the Tahawwut Master Agreement (TMA) to facilitate trading of MYOR-i derivatives and assessing fallbacks based on MYOR-i for Islamic products.

## **5. Strategies to develop a liquid MYOR derivatives market**

- 5.1 The meeting discussed strategies to enhance liquidity and price discovery in the MYOR derivatives market, drawing reference from successful approaches in other jurisdictions.
- 5.2 The meeting agreed for a survey to be conducted among members on potential initiatives involving structured mechanisms for derivatives quote submission and matching, which would improve price discovery and facilitate trading between participants.