

## **3<sup>rd</sup> Meeting of the Derivatives Working Group (DWG) for the KLIBOR Transition**

**28<sup>th</sup> January 2026**

**Bank Negara Malaysia**

### **Summary**

The meeting reviewed enhancements to the KLIBOR exposure reporting requirements, discussed the scope and design of the Malaysia Overnight Rate (MYOR) Derivatives Auction, and was briefed on updates from the Secretariat's engagement with LCH.

#### **1. Latest developments and near-term deliverables**

- 1.1 The meeting was briefed on the launch of the Compounded MYOR/MYOR-i and Index on the Financial Markets Investor Portal (FMIP)<sup>1</sup> as part of efforts to improve market education on the calculation and use of compounded overnight rates.
- 1.2 The meeting acknowledged near-term deliverables, including the formulation of strategies to develop a liquid MYOR derivatives market, identification of legal, tax and accounting issues as well as the assessment of additional considerations for Islamic derivatives.

#### **2. Enhancements to the KLIBOR exposure reporting requirements**

- 2.1 The meeting reviewed the survey results on the enhancements to the KLIBOR exposure reporting requirements to include the direction of exposures, which would support monitoring of continued risk reduction as the transition progresses.
- 2.2 The majority of members were agreeable with the enhancement and did not view that it would be operationally difficult, though members recommended for clarity on the categorisation of complex products (e.g. range accrual swaps) and products involving multiple floating rates (e.g. single currency basis swaps).

#### **3. MYOR Derivatives Auction**

- 3.1 The meeting reviewed the survey results on the scope and design of a potential MYOR Derivatives Auction, which is a quote-matching initiative to improve price discovery and facilitate trading in the nascent MYOR derivatives market. Similar initiatives were also implemented in regional countries as part of their domestic IBOR transition.
- 3.2 Members emphasized the importance of clearly defining the auction's objectives and success criteria, which would determine the level of trading that results from the auction as well as the duration that the auction would be required. In this regard, members viewed that the narrowing of bid-ask spreads in the MYOR OIS market to 5 bps or lower could be considered as a measure of success.

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<sup>1</sup> MYOR: <https://financialmarkets.bnm.gov.my/data-download-myor>; MYOR-i: <https://financialmarkets.bnm.gov.my/data-download-myori>

- 3.3 Based on the survey results, the meeting discussed and recommended the following auction parameters:
- (i) Instrument: MYOR overnight index swaps (OIS)
    - Some members queried if KLIBOR-MYOR basis swaps should also be included, however the majority agreed that it would be preferable to focus on MYOR OIS for simplicity, given that both instruments support the same objective of facilitating price discovery for MYOR OIS.
  - (ii) Tenor: Three and six months; one, two, three and five years
  - (iii) Maximum bid-ask spread: Starting with 10 bps with subsequent tightening to 5 bps
    - Members noted that the 10 bps spread would provide flexibility in the early stages of the auction, while subsequent tightening to 5 bps would be conditional on clear evidence of improvements in price discovery.
  - (iv) Frequency: Once a week at 11 a.m. on Wednesday, with adjustment to the next business day should the MYOR Derivatives Auction coincide with a government bond auction
    - Members viewed that simultaneous submissions for all tenors once per week would be less burdensome than the alternative of staggering the tenors across the week.
  - (v) Quorum: Seven participants
  - (vi) Preferred auction organiser: Bank Negara Malaysia
- 3.4 Members expressed mixed views on other parameters, particularly on the matching mechanism. Some members viewed that the mechanism should target a minimum trading volume, which would generate further trades in the OTC market as participants seek to hedge exposures obtained from the auction. Other members preferred for trading to only result from genuine matches (where the bid is equal to or higher than the ask), viewing that OTC trading would develop naturally after the auction improves price discovery.
- 3.5 The meeting discussed whether participation should be on a voluntary or mandatory basis. Some members preferred a voluntary approach considering varying levels of readiness among banks, while others felt that mandatory participation, such as for Principal Dealers, would ensure a core participant base to consistently meet the quorum. Nonetheless, the meeting positively noted that a majority of members had indicated their interest to participate.
- 3.6 The meeting discussed the scope of dissemination of the auction results, weighing the benefit of public dissemination against the potential for a free-rider problem. Members' views were mixed, with some members supported public dissemination to expedite price discovery in the broader market, while others preferred limiting dissemination to participating banks to incentivize greater participation and prevent the categorisation of the auction results as a financial benchmark, which may result in additional frictions on participation, particularly for foreign banks. Members noted a potential solution from other jurisdictions, where participants were encouraged to

contribute prices to financial platforms or brokers post auction to aid in the computation of composite prices.

- 3.7 The meeting concluded that further discussions were necessary to refine the MYOR Derivatives Auction and requested for the Secretariat to conduct a follow-up survey.

#### **4. Updates from LCH**

- 4.1 The meeting was briefed on LCH's plans to create clearing eligibility for MYOR NDOIS towards the end of 2026, contingent on sufficient market support and liquidity. To support the management of legacy KLIBOR NDIRS contracts, LCH is also likely to propose an event for the automatic conversion of KLIBOR contracts to MYOR equivalents, accompanied by the withdrawal of KLIBOR clearing eligibility, towards the end of 2028.

#### **5. Other Matters**

- 5.1 The meeting requested for the Secretariat to engage Bloomberg to expedite the development of a compounded MYOR-i calculator, which members viewed as beneficial for internal system development efforts.
- 5.2 The meeting also assessed the necessity for a 'MYOR first' initiative to coordinate a concerted industry-wide switch in quoting conventions from KLIBOR to MYOR but viewed that it was unnecessary as market makers would naturally switch to MYOR based on readiness.