

**1<sup>st</sup> Meeting of the Shariah Working Group (SWG) for the KLIBOR Transition**  
**18<sup>th</sup> August 2025**  
**Bank Negara Malaysia**

## **Summary**

The meeting reviewed the SWG'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 fallback language for Shariah contracts, strategies to deepen the Islamic financial market, expected basis risks between MYOR and MYOR-i, the SWG's workplan, and other operational matters related to the transition.

### **1. Housekeeping**

- 1.1 The meeting was briefed on the composition of the SWG, which comprised experienced financial market participants from 8 member institutions, with Bank Negara Malaysia (BNM) serving as the Secretariat.
- 1.2 Members acknowledged the SWG's Terms of Reference (ToR) and Letter of Undertaking on Confidentiality (LoU). The SWG's broad objective is to support an orderly transition from KLIBOR to MYOR/MYOR-i. The group is tasked with determining an appropriate workplan to achieve this objective. It was noted that guidance will be sought from relevant parties throughout the process.
- 1.3 It was agreed that periodic updates will be coordinated with the main working group or FMC to ensure alignment. Updates from working groups will be reported to the Steering Committee, which will escalate key matters to the FMC.

### **2. National KLIBOR Transition Roadmap**

- 2.1 The meeting was presented with the national roadmap for the transition from KLIBOR to MYOR/MYOR-i. The working group is expected to operate from the second half of 2025 until the permanent cessation of KLIBOR in the second half of 2028.
- 2.2 The SWG members expressed support for the proposed timeline, noting that while it is tentative, it provides a workable framework. Potential challenges were acknowledged, but it was conveyed that these are expected to be manageable without significantly derailing progress.

### **3. Fallback Language for Shariah Contracts**

- 3.1 A member shared that Maybank has already incorporated fallback language into its documentation since last year and is on track with the transition. BNM inquired whether Maybank is using ISDA or IIFM fallback language. In response, it was clarified that both had been studied but ultimately, Maybank developed its own version tailored to the bank's needs, which was then approved by its Shariah Committee.
- 3.2 BNM opened the floor to discuss whether a standardised fallback language should be adopted across institutions. The members expressed support for standardisation, noting that it would promote consistency and reduce friction for clients dealing with multiple banks. BNM acknowledged the feedback and noted that no members proposed extending the timeline, indicating general agreement to proceed as planned.

#### **4. Deepening the Islamic Financial Market and Fallback Strategy**

- 4.1 The members were presented with data on KLIBOR-linked exposure and financial contracts. The proposal is for existing Islamic contracts to fallback to MYOR to minimize disruption, while new Islamic contracts are expected to reference MYOR-i.
- 4.2 A concern has been raised that defaulting to MYOR for existing contracts may place MYOR-i on a weaker footing as MYOR-i would be utilised later, especially if only new contracts are expected to reference a benchmark that potentially lacks depth and familiarity.
- 4.3 It was shared that given the current low volume of the exposure (less than 10%), MYOR is preferred until the market develops to simplify the mechanism and to reduce complication. A member also added that Shariah compliance is not compromised by referencing conventional benchmarks and as the market develops, perhaps MYOR-i can be developed into a more reliable rate to be adopted in the future.
- 4.4 It was suggested to explore the possibility of developing a two-way pricing market for Islamic Profit Rate Swaps (IPRS), which currently are often executed bilaterally, with a note that it could help deepen the Islamic market and support MYOR-i adoption.
- 4.5 The challenge of initiating new contracts on MYOR-i was highlighted, especially when the market is not yet familiar or active, which may potentially result in its delayed adoption. A member suggested to keep the fallback option open to both MYOR and MYOR-i, rather than only MYOR, to which BNM acknowledged and agreed.

#### **5. Expected Basis Risk**

- 5.1 A member raised concerns about the basis differential between MYOR and MYOR-i, noting that a significant gap could impact IPRS transactions for instance, especially when squaring positions. The decision to use MYOR or MYOR-i in client transactions could become complex if the basis widens.
- 5.2 It was also highlighted that clients are commercially driven and will choose the most cost-effective option. If conventional instruments remain cheaper, it could hinder MYOR-i adoption and discourage Islamic financing. A member agreed, noting that while seamless transition is important, the working group must also ensure active usage and adoption of MYOR-i. Defaulting to MYOR for all contracts may undermine efforts to build a robust Islamic benchmark.
- 5.3 BNM asked members whether they have considered issuing MYOR/MYOR-i-linked papers, noting that uptake has been limited since the launch. One example from Cagamas referencing MYOR was cited, to which the members were inquired whether future issuance is being considered. It was suggested that BNM could be the first to issue MYOR-i-linked papers to encourage market adoption.

#### **6. Shariah Working Group Workplan**

- 6.1 The SWG was presented with the draft workplan, which includes alignment with the National Transition Roadmap goals and outlines potential deliverables.
- 6.2 Feedback included:
  - The communication plan should extend beyond IFIs to the broader market.
  - The feasibility study on allowing market making for derivatives (item b) should commence in Q1 2026 (instead of Q2) to allow sufficient time for SAC engagement. It was suggested that AIBIM could lead this effort.

- Item d (strategies to increase *Tahawwut* Master Agreement signings) should also include industry-wide communication and be brought forward to Q1 2026.

6.3 BNM reiterated that the ultimate goal is for Islamic market participants to adopt MYOR-i. Members agreed to the workplan, noting it may evolve as needed.

6.4 On meeting format, members preferred virtual meetings for flexibility, with suggestions for quarterly or semi-annual physical meetings. The secretariat will confirm the meeting frequency. It was also requested that the SAC meeting schedule be aligned with the SWG workplan.

## 7. Other matters

7.1 A member requested for the feedback by Islamic banks on Discussion Paper on the proposed full transition from the Kuala Lumpur Interbank Offered Rate (KLIBOR) to the Malaysian Overnight Rate (MYOR) and Malaysian Islamic Overnight Rate (MYOR-i), and the cessation of KLIBOR to be presented at the next meeting.

7.2 It was also suggested that BNM could potentially provide a workshop covering the whole industry closer to the transition to build familiarity to MYOR-i.