

# IBOR TRANSITION SERIES: A LOCAL MARKET PERSPECTIVE

## MALAYSIA IBOR TRANSITION (IN COLLABORATION WITH MALAYSIA FINANCIAL MARKETS ASSOCIATION)

FRIDAY, 18 SEPTEMBER 2020  
10:00AM - 12:30PM HK/MYT

### ASIFMA Virtual Event: Malaysia IBOR Transition Q&A

1. **The transition issue being discussed here is in respect if LIBOR only? Has it got to do with KLIBOR?**
  - There is currently no immediate timeline announced for the discontinuation of KLIBOR.
2. **A large amount (almost 40%) of Malaysian banking assets & Malaysian Money Market comprise of Islamic. This is testimony to Malaysia's success and aspiration to be a leader in Islamic finance. Yet the current Malaysian rate benchmark, KLIBOR, excludes the Islamic market. Whilst, all the Islamic industry & clients use KLIBOR. As such, the Association of Islamic Banks (AIBIM) is proposing to include the Islamic market into the local Malaysian IBOR, which proposal has been approved by the Shariah Committee of AIBIM and been endorsed by majority of the AIBIM members & market players. What is the panelists view on the matter?**
  - The KLIBOR setting is governed under a BNM Policy Document ("PD") - an extract of the PD for easy reference: "The related market for transactions to substantiate a KLIBOR submission refers to Negotiable Instruments of Deposits (NIDs) issued to interbank institutions and NIDs traded in the interbank market which are issued to interbank institutions and corporates. For the avoidance of doubt, the NIDs exclude Islamic NIDs." I think we can certainly discuss this proposal with the Central Bank.
3. **As SORA is identified as a RFR for SGD SOR and SIBOR, is Bloomberg going to publish all the (1)-(3) for it?**
  - **Edmund Lee, Bloomberg:**  
Data for SORA OIS is on your Bloomberg at OTC SGD OIS<GO>
  - **Jing Gu, ISDA:**  
SORA is published on the Monetary Authority of Singapore's Website <https://www.mas.gov.sg/monetary-policy/sora>
4. **Would the same amendments to ISDA Supplement and protocol be applicable to ISDA & IIFM Tahawwut Master Agreement?**
  - **Jing Gu, ISDA:**  
The ISDA IBOR Fallback Protocol (which is a multilateral amendment agreement to amend legacy trades) does not cover the TMA.  
There is nothing in the pro forma TMA that references an IBOR. Nor does any pro forma confirmation under TMA incorporate any ISDA definitions. The ISDA IBOR Fallback Supplement will only apply to the OTC derivative transactions that incorporate the 2006 ISDA Definitions by reference and are entered into after the effective date of the Supplement.

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**5. Does ISDA IBOR Fallback protocol/supplement also cover Malaysia's KLIBOR (which is also a form of IBOR) in the event Malaysia transits from KLIBOR to an alternate risk free rate?**

● **Jing Gu, ISDA:**

No, the ISDA IBOR Fallback Protocol and Supplement do not cover KLIBOR. The IBOR Fallback Supplement and Protocol cover 13 floating rate options including the 11 floating rate options set out on page 2 of the slides, SOR and THBFX. ISDA expects to launch the ISDA IBOR Fallback Protocol and Supplement soon (please refer to for the timeline). If Malaysia were to decide to transit from KLIBOR to an alternative risk free rate in the future, ISDA will be happy to work with the Malaysian regulator and market participants on a documentation solution to facilitate the transition.

**6. For swaption entered prior to adherence to ISDA benchmark supplement protocol and exercised prior to adhering to ISDA IBOR fallback protocol - what is the stance of libor treatment in such case?**

● **Jing Gu, ISDA:**

The ISDA IBOR Fallback Supplement and Protocol will apply to all types of derivative transactions including non-linear derivatives that reference a floating rate option covered in the Supplement and the Protocol. Once a swaption is exercised, the resulting underlying swap will typically function like a vanilla interest rate swap.

As to the effect of IBOR fallback on swaptions, ISDA expects to publish information regarding how non-linear products (e.g. caps, floors and swaption) would function upon application of the fallbacks. Please refer to <https://www.isda.org/2020/05/11/benchmark-reform-and-transition-from-libor/> for any updates.

**7. In Malaysia, will there be any working group to assist to standardize the fallback language approach for loans contracts which re generally bilateral in nature for adoption so that the transition is smoother or it is recommended but still subject to bilateral nego if necessary?**

- I believe AG Aznan message was clear that BNM does not intend to use legislation to standardize this and expects participants to proactively handle this. Apart from bilateral negotiation, your organization may consider approaching trade association (e.g. ABM / AIBIM) if there are common issues for efficiency purpose.

**8. What is the KLIBOR replacement? is there a publish source by Bloomberg or Reuter?**

● **Jacob Abraham, Maybank:**

Currently there is no definite plan to replace KLIBOR yet. The industry is engaging with BNM on this topic.

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**9. If the current ISDA fallback protocol/supplement does not cover KLIBOR, does this mean that ISDA will create another fallback arrangement to address KLIBOR transition?**

● **Jing Gu, ISDA:**

Please refer to the answer to question 5 on KLIBOR. Before ISDA includes a fallback rate of any benchmark in the ISDA definitions, a decision needs to be made regarding the fallback rate and applicable spread adjustment. In the LIBOR jurisdictions, the decision on fallback rate was made by the public-private sector working group in each jurisdiction and the spread adjustment methodology was decided by market participants through ISDA's market consultations. Currently, ISDA has no plan to create a fallback arrangement for KLIBOR as Malaysia has not considered KLIBOR transition or contractual fallback issue. If there were such a plan in the future, this would require the central bank or the national RFR working group in Malaysia to raise a request with ISDA to include the fallback rate into the ISDA definitions. The national RFR would also need to conduct a market consultation regarding the fallback spread adjustment methodology.

**10. Ans spreads ?**

● **Edmund Lee, Bloomberg:**

Fallback spreads. FBAK<GO> on your Bloomberg. Or can be retrieved on a delayed basis on bloomberg.com and ISDA's website

**11. Thank you, Edmund. I haven't got an access to Bloomberg now, but they clients are asking: "Unlike other IBOR currencies, we understand that Bloomberg doesn't have a plan to publish spread adjustments between SOR(or Fallback(SOR)) and SORA, and adjusted SORA(SORA compounding + SP)" - is this not correct ?**

● **Edmund, Bloomberg:**

SOR fallback - ie Modified SOR. will be published by the administrator, ABS. It will be displayed on vendor systems along with on ABS website. SORA basis; ie SORA vs 6M SOR - let your clients know its on OTC SGD TRN<GO>

**12. Reference is made to Jing Gu's answer re the TMA, there are some transactions i.e. Islamic Cross-Currency Swaps that reference LIBOR in the FLPR benchmark, will we be able to rely on the ISDA Supplement/Protocol for those transactions?**

● **Jing Gu, ISDA:**

For legacy derivative transactions documented under TMA, given the ISDA IBOR Fallback Protocol does not cover TMA, you will need to amend your legacy trades bilaterally to add in any fallback language. Although you could use the templates ISDA publishes to incorporate part or all of the Protocol language into your trades bilaterally, you should consider the Shariah compliance issue before you do so.

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**13. How hard is the deadline of the demise of LIBOR on the 31st Dec 2021\* given that the fallback language is not clear if there's an automatic trigger post the deadline or it remains dependent on the prescribed cessation or pre-cessation trigger well beyond Dec 2021?**

- Every indication at this point is that it is a hard deadline.

**14. The adherence to ISDA protocol is "completely voluntary and will amend contracts only between two adhering parties". Does ISDA publish a list of adhering institutions for ease of reference? Or each FI is required to query its counterparty?**

- **Jing Gu, ISDA:**

Similar to all other ISDA Protocols, the list of adherents of the IBOR Fallback Protocol will be published on ISDA website and updated regularly. ISDA acts, for certain purposes, as an agent for participating parties and posts the Protocol on its website, receives Adherence Letters and updates the web site with participant information during the Adherence Period. You can find more information on ISDA protocols [here](#).

**15. Are there any regulations governing the communication of Libor changes in terms of customer communications and contracts? For example, translation of content into relevant languages, content, to draw relevance to communications, contracts and RFPs, etc?**

- **Rebecca, ASIFMA:**

No, this juncture this is being left to industry.

**16. Will there be any "temporary exemptions" under IFRS, MFRS etc for 1-yr or any defined period is allowable due to the transition which impacted to hedging effectiveness? Just for clarity on my earlier "temporary exemptions", what we meant has IFRS etc provide such temporary exceptions like in Malaysia to specific hedge accounting requirements to apply the new RFR rates as if no change in benchmark rate is not altered as a result of the transition?**

- **Hooi Lam, EY:**

As a result of the amendments into IFRS/MFRS for IBOR transition purposes, the previously applied hedges will continue when an IBOR referred to in a hedge is replaced. Specifically, these amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation under both IFRS 9/MFRS 9 and IAS 39/MFRS 139 without the hedging relationship being discontinued. The permitted changes include redefining the hedged risk to reference an RFR and redefining the description of the hedging instruments and/or the hedged items to reflect the RFR. These amendments allow entities until the end of the reporting period during which a modification required by IBOR reform is made, to complete the changes. The amendments may be applied at different times for different IBORs as applicable and as and when they are replaced from 2021.

**\*\*\*Thank you for submitting your questions. We did our best to answer most of the questions posted.  
We appreciate your understanding.\*\*\***