

The Malaysian Debt Markets & Derivatives – What Next?

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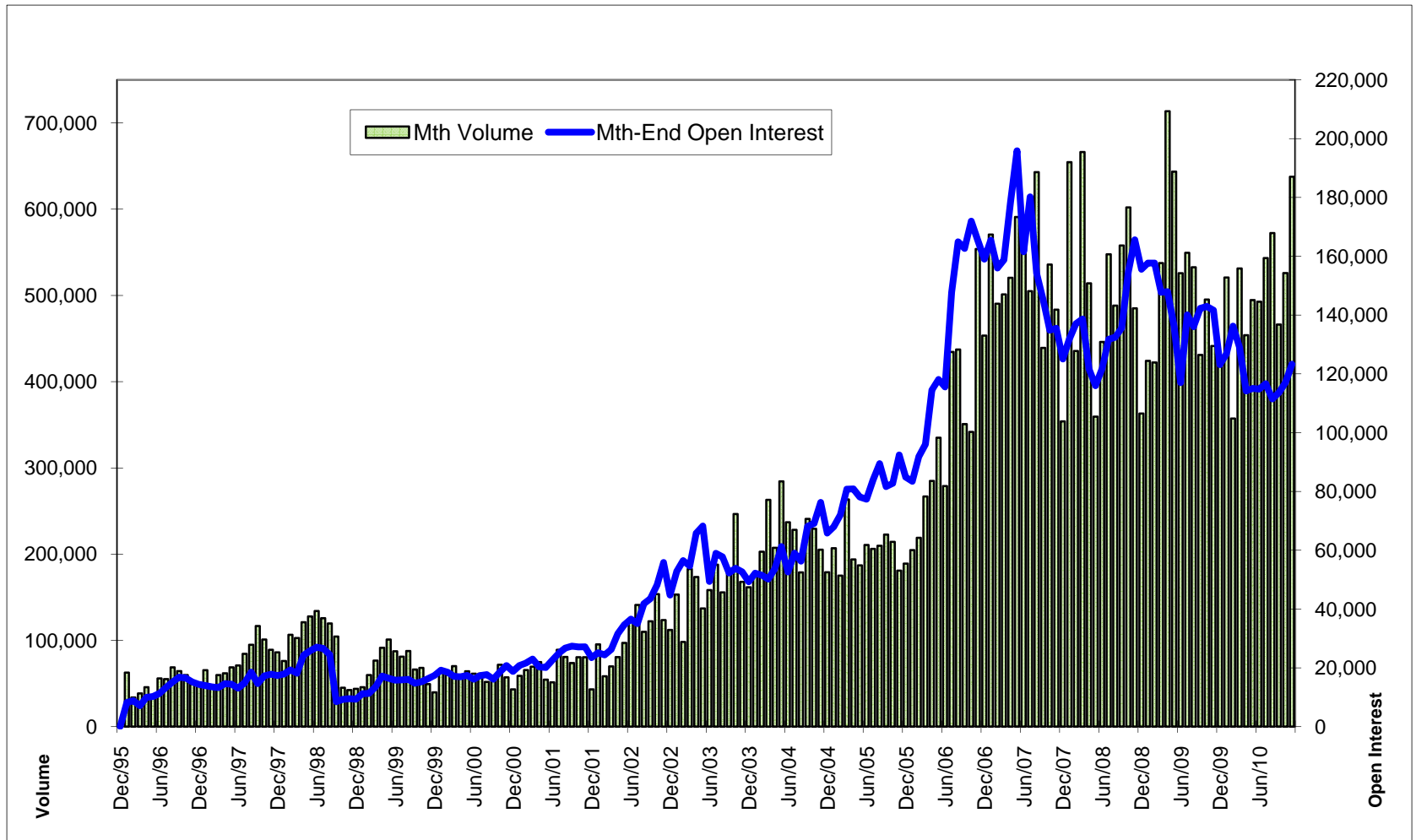
Overview of I.R./Debt Derivatives and Developments

- 3-month Klibor Futures launched on May 1996, 5-year MGS futures on March 2002 while 3-year MGS futures were launched on September 2003
- Chicago Mercantile Exchange Group became a 25% shareholder of Bursa Malaysia Derivatives from 2009
- All Bursa Malaysian contracts trades electronically on CME's Globex trading system since 20 Sep 2010. Globex is the world's first global electronic trading platform for futures contracts (80+ locations, a million user)
- Vision – provide a viable price discovery and risk management for short term interest rate and fixed income derivatives

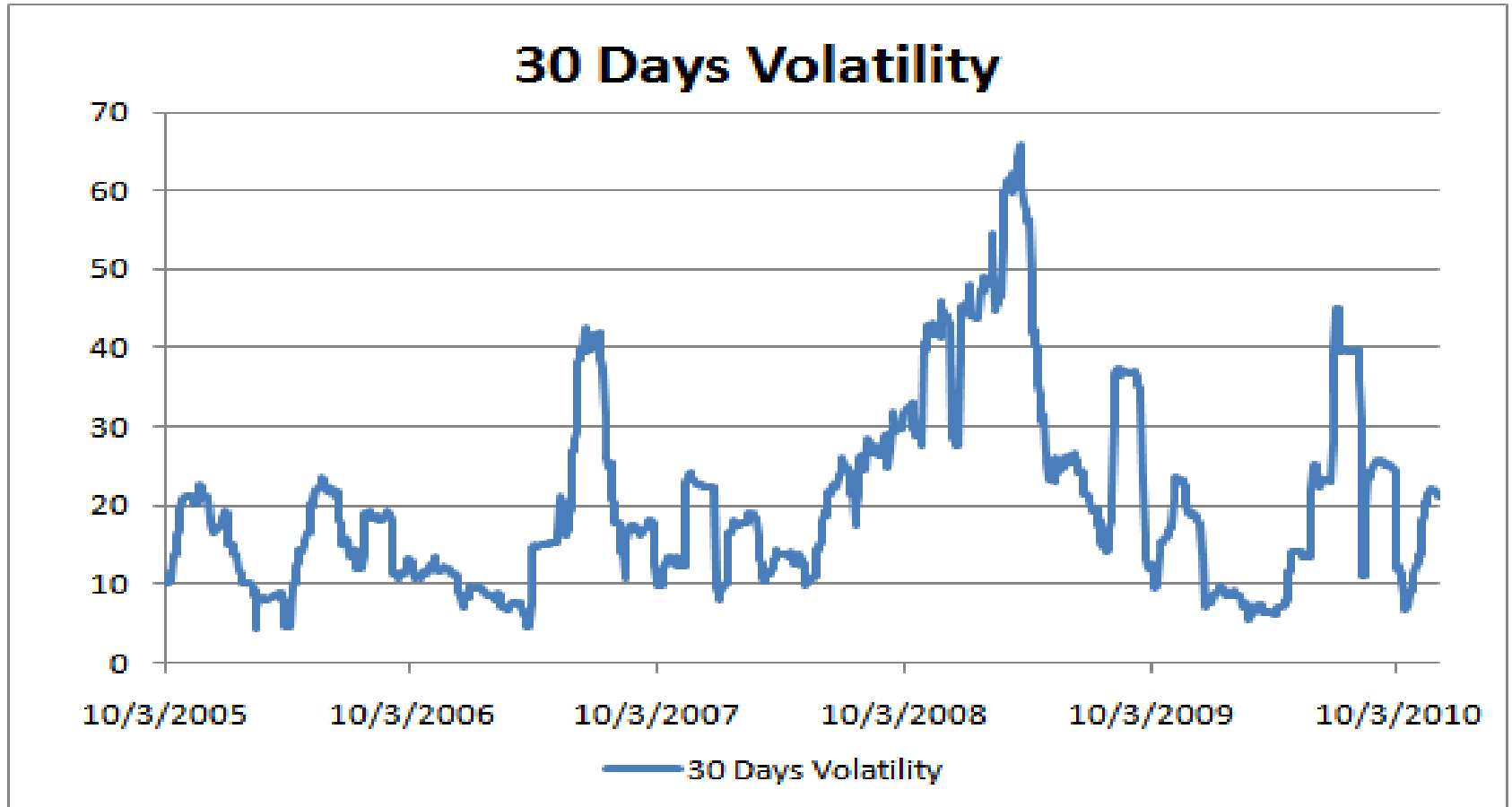
S.T.I.R. and Debt Derivatives Products Offered

- 3-Month KLIBOR Futures
- 3-Year Malaysian Government Bond Futures
- 5-Year Malaysian Government Bond Futures
- Kuala Lumpur Composite Index Futures
- Kuala Lumpur Composite Index Options
- Single Stock Futures
- Malaysian Ringgit-Denominated Crude Palm Oil Futures
- Crude Palm Kernel Oil Futures
- USD-Denominated Crude Palm Oil Futures

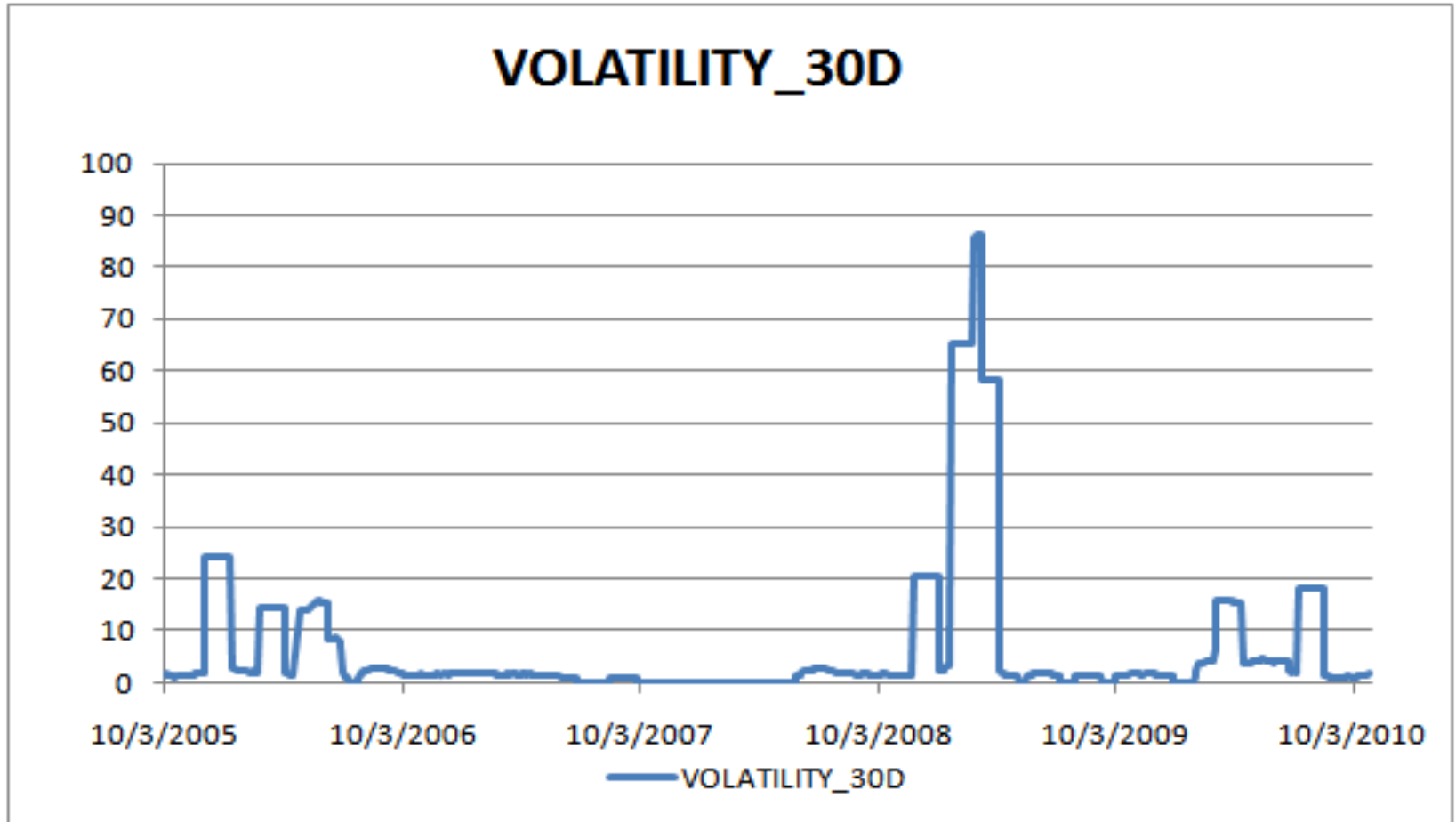
Derivative Monthly Volume & Open Interest



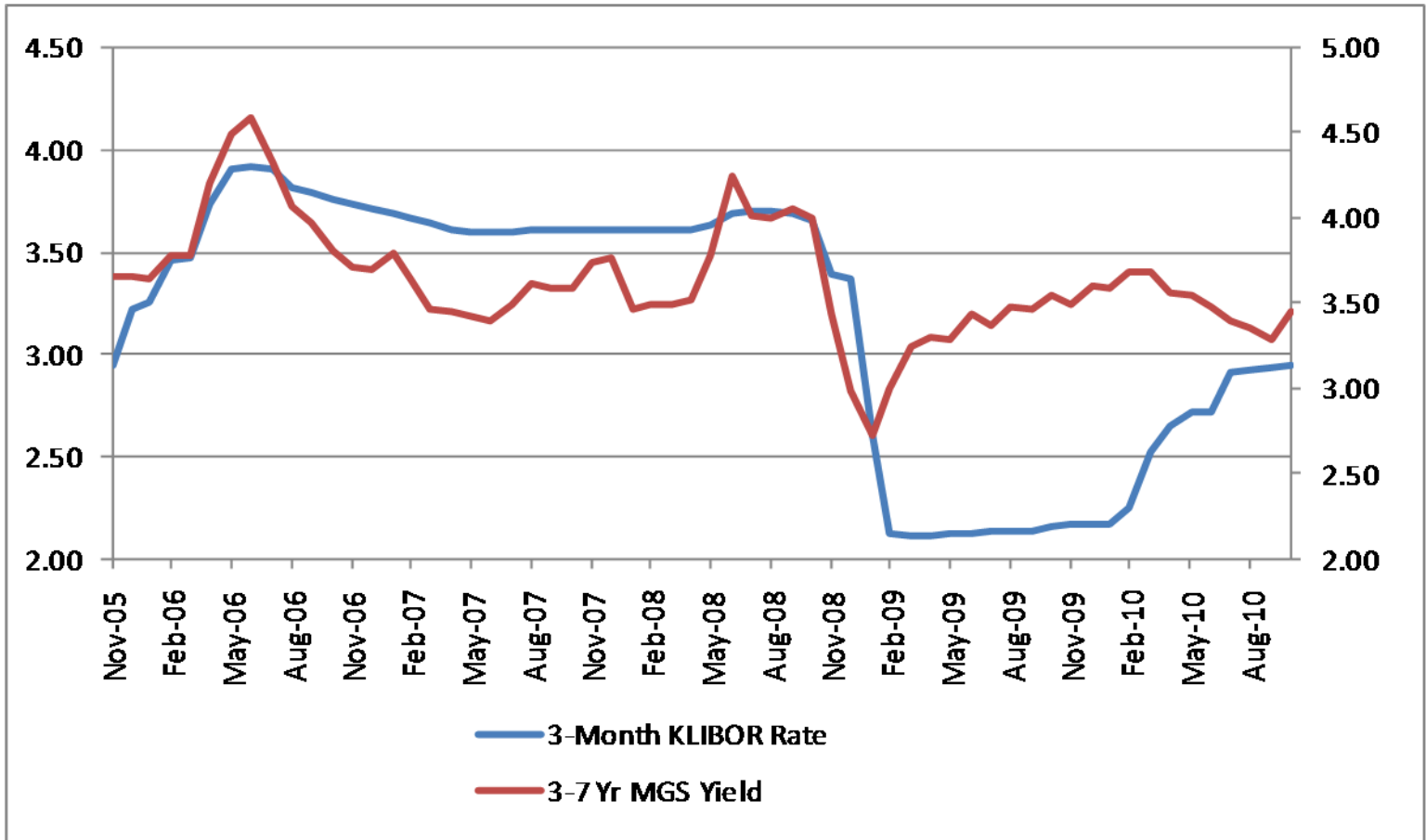
Historical 5 Years MGS Yield Volatility



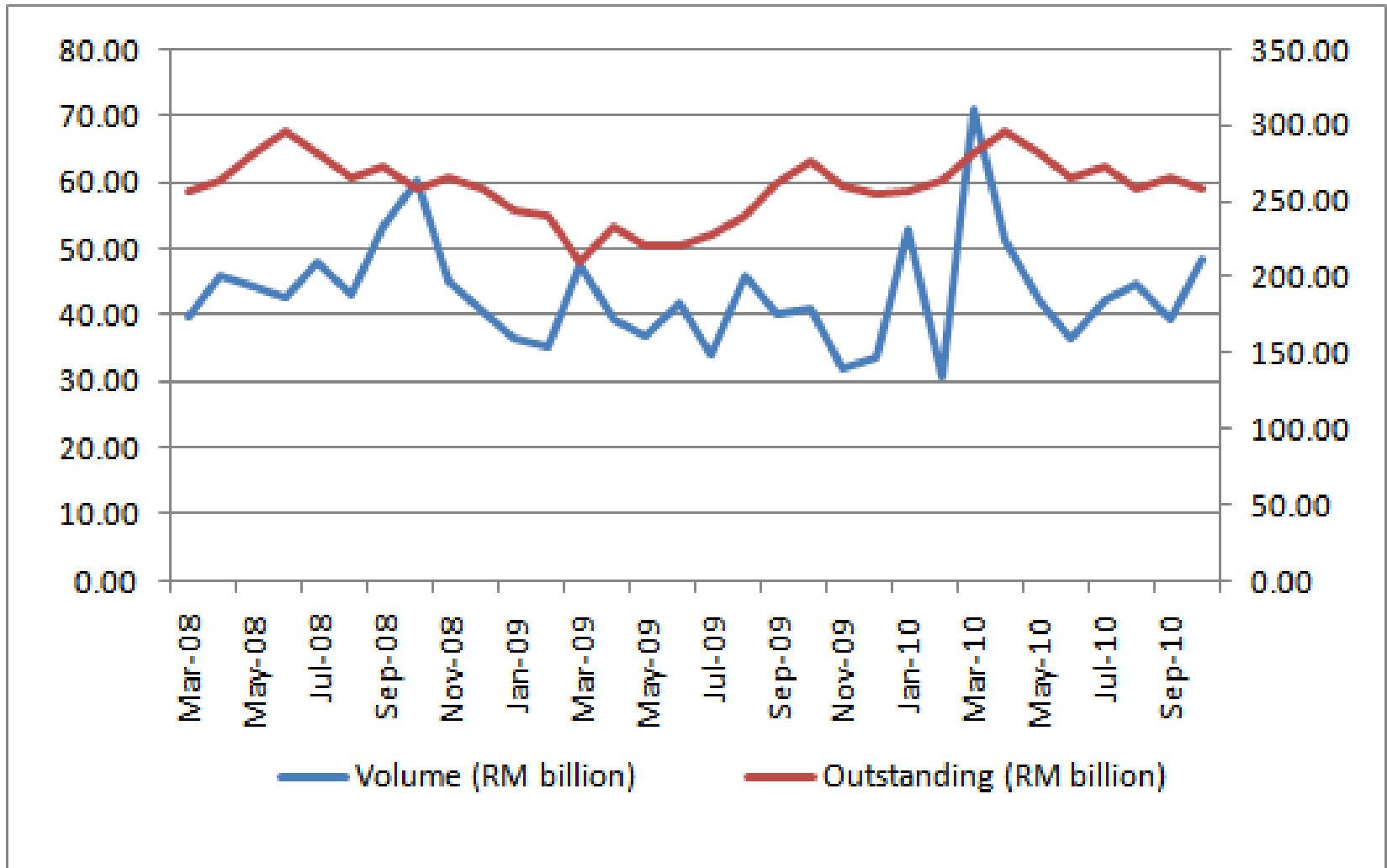
3-Month KLIBOR Historical Volatility



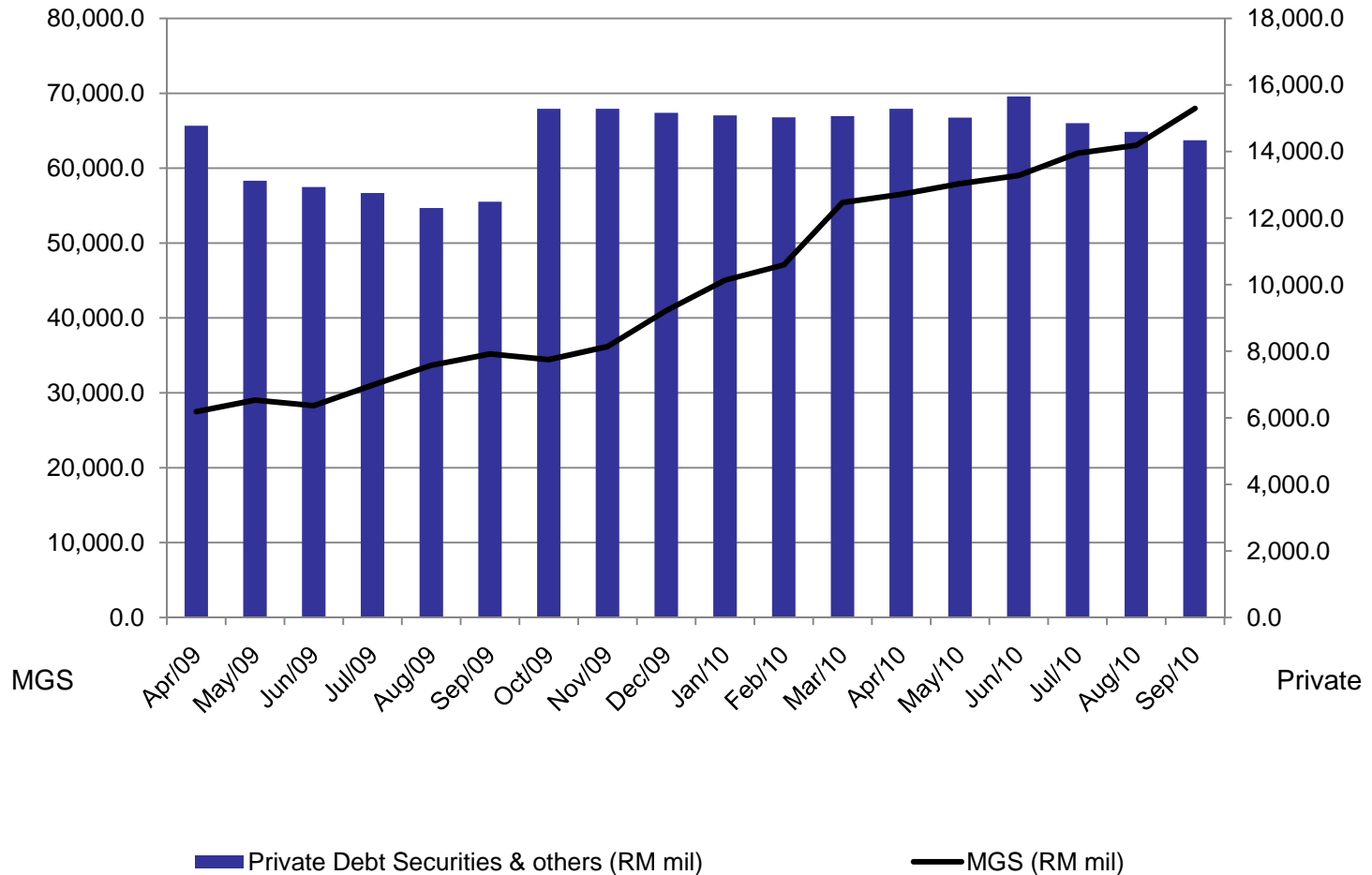
3-Month KLIBOR Rate vs. 3-7 Yr MGS Yield



Outstanding MGS vs Total MGS Trading Volume



Foreign Holdings in MGS Debt Securities



A Liquid Bursa Debt Derivatives Market would...

- Be a vital cog in the capital market ecosystem by increasing investment, trading and asset management opportunities
- Supports the ability to hold assets and provides a means for forward price discovery
- Liquidity is the primary driver. Translates into low transaction costs and tight spreads. Basis risks must not be high
- Essential pre-requisites for success – operational aspects like well-functioning clearing, trade matching, confirmation infrastructure and adequate legal regulatory framework

...Benefits Capital Market Development...

- Provide protection against minor changes such as in monetary policy from turning into systemic risks
- Reduces cost of issuing bonds and help lengthen yield curve
- Can help address lack of investible assets and provide more investment opportunities. Meets needs of institutional investors such as bond funds, provident fund and insurance companies
- Availability of reliable pricing benchmarks across the term structure helps avoid concentration of trading at certain maturities (usually short-term)

Essential for Fixed Income Managers...

- Reduce cost of borrowing and manage risks in portfolio, in particular interest rate re-fixing risk and refinancing risk
- Helps in developing a credible and well-functioning issuance program, deepening debt market and building diverse investor base
- Contribute to overall market efficiency and liquidity. Ability for market participants to hedge positions effectively, trade in and out at any time, continuous price updates and market intelligence
- Lower funding costs for government, more competitive participation in auctions by investors and intermediaries and better market-making in the secondary market

Constraints

- Pension fund and insurance companies are subject to stringent investment guidelines, requiring substantial holdings of government debt. Reduces the float and hence constrains cash market trading
- Consequently, investors seek to buy and hold cash market assets when the supply of assets is limited relative to the demand for them. Investors hold long assets and want to hedge their holdings. Policymakers need to allow participants in the market to sell derivatives, educate them so as not to view that activity as undesirable speculation, and encourage foreign participation since these often perform this function

Exchange-traded Derivatives and OTC Derivatives

- Have their respective benefits. ETD reduce counter-party and operational risk through centralized clearing mechanisms. More transparent, liquid and accessible to a broader range of participants
- OTC are easier to develop, grow organically, do not require underlying cash markets and are more customised

Proposed Initiatives and Development Plans

- Market Making – recruit market makers with appropriate incentive schemes
- Reviewing contract specs with industry – considering physical delivery to mitigate basis risks, cost structure
- Leveraging on Globex distribution – however, charity begins at home, we need to show some liquidity before foreign participation will come
- Internet access and direct market access made available
- Promoting dual licensing – equity brokers and remisiers another source

Summary

1. Liquid exchange traded debt derivatives is an integral part of a vibrant capital market
2. Our initiatives developed in close consultation with the industry will address some of our current constraints
3. Physically delivered contract, ensuring convergence with cash market
4. Favourable conditions
 - Increased activity in cash market
 - Increased foreign interest in MGS
 - Economic Transformation Program

List of Futures Brokers (www.bursamalaysia.com)

1. AmFutures Sdn Bhd
2. Innosabah Options Futures Sdn Bhd
3. Oriental Pacific Futures Sdn Bhd
4. JF Apex Securities Bhd
5. Inter-Pacific Securities Sdn Bhd
6. OSK Investment Bank Bhd
7. CIMB Futures Sdn Bhd
8. JPMorgan Securities (Malaysia) Sdn Bhd
9. Phillip Futures Sdn Bhd
10. ECM Libra Investment Bank Bhd
11. Kenanga Deutsche Futures Sdn Bhd
12. RHB Investment Bank Bhd
13. HDM Futures Sdn Bhd
14. LT International Futures (M) Sdn Bhd
15. Sunny Futures Sdn Bhd
16. HLG Futures Sdn Bhd
17. Okachi (M) Sdn Bhd
18. TA Futures Sdn Bhd
19. Interactive Futures Sdn Bhd

Thank You

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