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Communicating Climate Resilience through TCFD

at-mia.my/2020/10/02/communicating-climate-resilience-through-tcfd

October 2, 2020

By Joanne Lee

The Covid-19 pandemic has disrupted businesses and economies at a magnitude we have not previously seen and exposed the vulnerability of our economic systems. Given the enormous weight of the pandemic on the corporate psyche, one would think that longer-term sustainability issues would take a backseat in the boardroom. On the contrary, the pandemic has illuminated the importance of planning ahead to manage systemic risks; the largest of which is climate change.

Climate change and its related environmental risks ranked among the top five risks in terms of likelihood in the World Economic Forum's Global Risks Report. The report explores the biggest concerns of over 800 global experts and decision makers for business in the next decade. It revealed that climate risk was deemed more significant and pressing than economic risks, which traditionally dominated the rankings.

Regulatory trends on climate risk reporting

Recognising the urgency of climate action, regulators and governments worldwide have turned their focus to climate risk reporting. In July 2019, the UK government released their Green Finance Strategy with the expectation that all listed companies and large asset owners make climate disclosures by 2022. Shortly after, New Zealand and Malaysia announced that it will require its major financial institutions to report their exposure to climate risk. Bank Negara Malaysia has also said that it would set regulatory standards for corporate Malaysia based on the experience of the financial institutions. All three countries recommend or require the adoption of the Task Force for Climate-related Financial Disclosures' (TCFD) recommendations.

TCFD, a framework for financial governance

TCFD was established in 2015 to develop a new reporting framework that would promote more transparent disclosure on organisational climate related issues. It aims to provide insight into an organisation's exposure to and management of climate risk and opportunities, helping stakeholders such as investors and lenders to make better informed decisions. In turn, the visibility on climate issues will help organisations to better track and manage the risks or opportunities arising.

Disclosing in line with TCFD recommendations

The TCFD reporting framework is made up of four core elements, namely, Governance, Strategy, Risk Management and Metrics & Targets. For each of these elements, the TCFD recommends the following disclosures:

- **Governance:** Describe the Board's role in overseeing climate-related risks and opportunities; and the management's role in assessing and managing climate-related risks and opportunities.
- **Strategy:** Describe the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning, where such information is material. In describing the resilience of the organisation's strategy, climate-related scenarios including a 2°C or lower scenario should be considered.
- **Risk Management:** Describe how climate-related risks are identified, assessed and managed.
- **Metrics & Targets:** Describe the metrics and targets used to assess and manage relevant climate-related risks and opportunities, where such information is material.

Current trends on climate reporting in Malaysia

As part of a yearly analysis of the corporate reporting trends in Malaysia, Singapore and the UK, Black Sun examines the quality of disclosures based on the TCFD recommendations. As the regulatory developments in Malaysia focused on financial institutions, the analysis looked into the disclosures of Malaysian-listed banks.

The research showed that commitments to implementing the TCFD recommendations have not necessarily translated into meaningful disclosures – yet. Companies in their nascent stages of reporting climate risk tend to make disclosures in a siloed fashion, where climate strategy is separate from the broader corporate strategy, possibly indicating that these companies have yet to consider climate issues as a strategic matter. A mere 10% of Malaysian-listed banks were observed to have successfully integrated sustainability considerations into the overarching organisational strategy.

At the other end of the spectrum, we observe companies with integrated management approaches to climate risk, demonstrating the role climate related issues play in the development of strategy and in the creation of long-term value. Companies in this category provide clearly defined metrics and targets, as well as a clear explanation on the different roles the Board and management play in overseeing and managing climate issues. We found that 60% of Malaysian-listed banks disclosed the metrics they use to assess climate-related risks and opportunities and 40% described the role of the Board in overseeing climate-related issues. As the focus on climate related issues intensify in Malaysia, we expect to see companies managing climate risk more holistically, rather than as an isolated sustainability challenge.

Most challenging of all is providing disclosures on the resilience of the company's strategy through scenario analysis. None of the Malaysian-listed banks observed had integrated scenario analysis into its disclosures. This observation is unsurprising, as scenario analysis has been cited as the most challenging aspect of implementing the TCFD recommendations. Among the FTSE 100 companies, 15% have made reference to a climate scenario and only 5% reported its outcomes.

Towards meaningful climate communications

Like any reporting process, meaningful disclosures aren't achieved overnight. Each company is at a different stage of the reporting journey with unique challenges and unique stakeholder needs. But how does one get started?

- **Think Integrated**
  As you embark on your climate reporting journey, develop an integrated approach to all your communications and across all media. Key to making progress on climate-risk disclosure is the collaboration across corporate functions. Strengthen inter-departmental links and identify an internal champion to put climate issues on the agenda.
- **Be Authentic**
  Authenticity is the key to effective engagement. Ensure that all your communications are based on credible and real aspects of your business. Focus on what matters most to your relevant stakeholders and reflect their interests.
- **Build Your Story**
  Build, report and reinforce key themes and messages. Tell your company's story and reinforce what makes it unique, establishing the link between your climate initiatives with the organisation's wider purpose.

This article was contributed by Joanne Lee, Director, Research & Strategy, Black Sun Asia Pacific. To learn more about the TCFD framework and recommendations, please visit https://www.fsb-tcfd.org/

Fit for the Future

at-mia.my/2020/09/07/fit-for-the-future

September 7, 2020

COVID-19 hasn't just ravaged lives, but livelihoods, leaving uncertainty and unpredictability in its wake.

Yet even as this pandemic brought lives and communities to a standstill, it has also served as a wake-up call. Across a vastly changed world, individuals, organisations and entire sectors are re-evaluating their future prospects, relevance and purpose.

The accountancy profession is no exception. This is the time for accountants to step up and leverage on their financial expertise and skillsets to guide organisations of all shapes and sizes from volatility to business continuity and stability.

Even in times of crisis, accountancy leaders remain steadfast in the principles that they espouse to manage change and ensure future fitness. In late 2019, before the pandemic emerged as Public Enemy No. 1 in the first quarter of 2020, Andrew Conway, Chief Executive Officer, Institute of Public Accountants, Australia and member of the International Federation of Accountants (IFAC) Professional Accountancy Organization Development Committee spoke to MIA Deputy Executive Director Rasmimi Ramli on preparing the profession for the future. Then, as now, his advice is valid and sound.

In brief, Conway urged the profession to reframe risks as opportunities, claim the technology space, and articulate the social value and purpose of accountancy to attract and retain young talent who will spearhead future growth.

Below are highlights from their conversation:

Current and Future Challenges faced by the Accountancy Profession

The accountancy profession faces many challenges, but it is vital to subdue our fears and spin these into opportunities that can inspire hope and intelligent action. Conway singled out trust, technology and purpose as the drivers of value that can help the profession to remain on trend and in demand.

One, as the profession is predicated on trust and protecting the public interest, it is critical to surmount the global trust deficit affecting institutions and the profession in order to be relevant, authentic and in touch with public sentiment.

Two, leverage on technology disruption by embracing the benefits of technology and managing the associated threats, or risk obsolescing in a digital world.

Three, ponder and communicate the purpose and social value of the profession, or suffer reputational and trust risks among skeptical and wary stakeholders as well as the erosion of the talent pipeline.

Watch Video At: https://youtu.be/PRxSD12OW9c

Building Trust, Becoming Future Ready

It is important for accountants and the profession to strategise how to take on these challenges with wisdom and empathy, while always remaining mindful of the barriers of inertia and fear.

Trust. With regards to building trust, Conway referenced his experience in the Australian government. Educating stakeholders on the critical role of the profession and reinforcing strong and effective relationships with key government stakeholders, from heads of government down, are critical in preserving trust.

“How we actually address the notion of the role that our profession plays in boosting public financial management accountability and transparency is key to ensure that we maintain a position of trust. In Australia, accountants are the most trusted finance professionals in the country, and this doesn’t happen by accident but over many years of experience. However, trust can be lost in an instant,” he warned.

Technology. Being trend-conscious and engaged are vital to leveraging on technology disruption. “Through hundreds of years of perfecting our profession, accountants have proven that we can evolve. Now, the profession needs to adapt and respond in the current evolutionary cycle of the technological revolution,” said Conway.

Conway urged accountants to seize the technological space by hybridising skillsets. “We can turn our role as trusted business advisors into being trusted technology and data advisors. This is a gap in our market, and accountants have a role to play in addressing that gap.”

Hybridising and hyphenating skills and roles will help dispel fears that accountants and the profession will be made redundant by increasing job automation. Conway also reminded accountants that professionals endowed with natural and emotional intelligence have an advantage over machines.

“Artificial intelligence (AI) is good, but it gets beaten by emotional intelligence (EI). AI will help get and crunch the data much faster, but ultimately the client wants to engage with human professionals to benefit from the human interface.”

“We need to encourage students to understand the human interface and to understand that their ability to communicate will be one of their strongest assets,” stressed Conway.

Attracting Young Talent

To be human is to question your purpose, and people of all ages are increasingly asking this fundamental question. Finding your why is a critical aspect to long-term career satisfaction and personal fulfilment, said Conway. “To the young accountants and people wanting to advance their careers, my advice is to have a very strong focus on why you’re doing what you’re doing. Ask yourself: what is the ultimate social purpose of the work that you’re doing?”

Conway said that defining the social value of the accountancy profession is essential to recruiting and retaining young talent. “Statistics from the World Economic Forum suggest that young people want to know that their work has social value. We have to help draw the connection between their motivations and the opportunities in accountancy. If we start speaking about our social value as accountants, then I think we’ll be in a much better position to attract and retain talent.”

Young people can be fervent activists for sustainability. To draw talent, the profession can strengthen its connection to the UN’s Sustainable Development Goals (SDGs) which is the template for balanced development towards economic, social and environmental wellbeing. However, the profession which is skewed to financial profit needs to be recalibrated in terms of education and work – to embed the SDGs and lay the foundations for a sustainable tomorrow.

In a real-world example, accountants already play an important role in supporting the mental health and wellbeing of small business owners in Australia. "They see how their profession helps boost the quality of life. It's about having a true connection and not just about numbers, or technology, or our systems and processes. Ultimately, our profession is about people, and the social impact our work has. We have to ask ourselves: what we can do as a profession to boost transparency and the capacity of financial systems to ultimately help eradicate poverty?"

Andrew Conway*, Chief Executive Officer, Institute of Public Accountants, Australia and member of the International Federation of Accountants (IFAC) Professional Accountancy Organization Development Committee was speaking to MIA Deputy Executive Director Rasmimi Ramli at the IFAC Conference on Developing Accountancy Capacity in Emerging Economies co-hosted by MIA.*

Governance Symposium 2020

October 9, 2020

As we grapple with the fallout of COVID-19, it is clear that we live today in a VUCA world where we are surrounded by Volatility, Uncertainty, Complexity and Ambiguity.

This is perhaps the most challenging time ever to be a governance professional, a Board member or those charged with governance (TCWG). Other than the impacts of COVID-19 and its containment measures that have stymied growth, governance professionals must manage disruptions and risks that range from digital to legislative to talent, reputation and culture.

Thankfully, unceasing innovation that responds to risks has surfaced tools and technologies that can help Boards and TCWG to better manage and derive value from these risks.

To be held virtually over two days, the **Governance Symposium 2020** jointly organised by MIA and the Malaysian Institute of Corporate Governance (MICG) focuses on how Boards and TCWG can instil robust ethics and compliance, while leveraging on these technologies to enhance good governance and trust.

At the Symposium, you will hear from expert speakers on:

STRENGTHENING CORPORATE GOVERNANCE AND ECONOMIC GROWTH DURING THE COVID-19 PANDEMIC

For 2020, most organisations have recognised COVID-19 and pandemic risk as their prime challenges. This session will discuss, among others:

- the Corporate Governance Outlook for the remainder of 2020 and beyond
- how companies are advised to align their financial strategy to manage costs, prioritise revenue generation and focus on corporate liability
- how Boards in playing their fiduciary roles must ensure that sound and relevant corporate governance policies are in place for the new normal
- how regulators need to balance effective regulation and market needs for sustainable growth in this new normal.

GOVERNANCE IN A DYNAMIC BUSINESS ENVIRONMENT: A GUIDE FOR 21ST CENTURY BOARDS

Boards in the 21st century must navigate an increasingly complex business environment rife with risks that threaten sustainability and long-term value creation such as the COVID-19 pandemic, technological disruption, talent crunch and climate change. This session offers a playbook for Boards in adopting new technologies and adapting sustainable strategies to become more agile, resilient and relevant 21st century organisations.

BUILDING A NATION OF HIGH INTEGRITY AND FREE OF CORRUPTION

This session highlights the Malaysian anti-corruption journey and the direction of the nation as it strives to embed a zero-corruption culture as highlighted in the ***National Anti-Corruption Plan (NACP) 2019-2023*** and in alignment with the ***UN Sustainable Development Goal (SDG) No 16 –Target 16.5: Substantially Reduce Corruption and Bribery.*** This session discusses the vital decisions and actions that organisations can take to build values-based governance systems against corruption that are stronger, agile and able to pre-empt risks.

THE IMPACTS OF NEXT GENERATION TECHNOLOGIES

Faced with a vast array of technologies such as blockchain, big data analytics, artificial intelligence (AI) and machine learning, blockchain, cloud services and cybersecurity, Boards, TCWG and governance professionals need to embrace a digital mindset and gain skills to ensure they are able to formulate and apply the relevant governance framework and strategies. This session sheds light on how governance professionals can leverage on next generation technologies to respond to the opportunities and risks of technological disruption.

CASE STUDY – FROM WORST TO BEST AND BEST TO WORST IN GOVERNANCE

This session derives and shares key takeaways from case studies of companies that have gone from being the worst to the best in corporate governance and vice versa. Get insights into best practices that can improve your organisation's corporate governance practices.

DEALING WITH AN UNKNOWN FUTURE BUT WITH GOOD GOVERNANCE

The Symposium begins with a session on strengthening organisations against pandemic risk, and ends with how Boards and TCWG must lead with courage in this unprecedented crisis. Most important is for Boards to respond with insights and strategies that are aligned with the organisation's purpose, values and ethics. This session advises Boards and TCWG on managing panic and refraining from cutting costs aggressively, while emphasising the importance of investing in talent, technologies and efficient merging of functions to drive productivity and sustainable growth.

The Governance Symposium 2020 is jointly organised by MIA and the Malaysian Institute of Corporate Governance (MICG). For more information, please click HERE.

How to Be Future Relevant – From Accountants to Partners in Business Intelligence

at-mia.my/2020/09/07/how-to-be-future-relevant-from-accountants-to-partners-in-business-intelligence

September 7, 2020

By Anis Ramli

Like it or not, the terrain of the accountancy profession is being irrevocably altered by digital technologies. No accountant is immune to the perils of digital obsolescence – and each has opportunities to employ these technologies to grow and advance. Whether it's artificial intelligence (AI), robotic process automation, big data analytics, the Internet of Things or geospatial technologies – at some point in time, if not now, accountants will have to interact with these tools in the workplace.

So how should accountants respond to these sweeping digital changes? And what are the new competencies that need to be in their wheelhouse?

MIA Deputy Executive Director Rasmimi Ramli caught up with Khuram Farooq, Senior Financial Management Specialist at The World Bank, during a conference on capacity building co-hosted by the International Federation of Accountants and MIA, on how accountants can thrive by harnessing digital change. Following are highlights from their conversation:

Be Strategic Partners

"Accountants should be able to bring strategic actionable insights and become strategic partners of the business, rather than confining themselves to the narrow domains of accounting," said Khuram. For example, by combining accounting, which is financial information, with geospatial information or location data relating to procurement information – they can create compelling business insights to expand service delivery and the organisation's footprint.

Deliver Strategic Business Intelligence

Mindset change is the challenge in persuading accountants to think about delivering strategic business intelligence, rather than confining themselves to accounting and managing accounting transactions.

The bottom line is that accountants need to rethink their roles. “Instead of thinking that we are just managing the financial transaction, we need to think about the business. Ask what the business is trying to do. Think about its mandate and mission and then try to give ideas using the data available and cross-cut across other departments. Only then can you create business and strategic impact,” advised Khuram.

Accountants’ impacts and roles will differ from sector to sector, he noted. As strategic business partners, accountants should give ideas to drive the business forward and in a sustainable manner. In the public sector, they can help increase transparency, efficiency and trust. They can advocate for technologies to facilitate citizen engagement. “By giving a voice to citizens, governments become more accountable,” said Khuram.

Holistic embedding of technologies

Technology adoption isn’t a standalone but entails looking holistically at the policy, the people and the technology. “Technology alone will not deliver. Without managing the policy and the people – its economy, capacity, skills and incentives – the impact of these technologies will be suboptimal,” cautioned Khuram.

It is also necessary to reform education as the foundation of critical thinking and the deployment of digital tools. “The curriculum in accounting professional bodies should also embrace these technologies, promote their strategic qualities and the emerging opportunities for creating efficiencies with these technologies.”

Watch Video At: https://youtu.be/jb6RzY1DVYc

The World Bank as Role Model

To ensure the public sector is abreast of and optimises technology, in 2019 the World Bank Group launched the GovTech Global Initiative. GovTech is a whole-of-government approach to public sector modernisation that promotes simple, accessible, and efficient government. It aims to promote the use of technology to transform the public sector, improve service delivery to citizens and businesses, and increase efficiency, transparency and accountability.

“We focus on creating efficiencies within a government through the core systems. For example, the public should not have to go from one building to another to get city services. There should be an online or mobile channel available through which they can get the service, preferably through one transaction. This helps achieve the ultimate goal of public service which is delivery,” explained Khuram.

The World Bank and GovTech also focus on citizen engagement, specifically giving voice to citizens whether in policy, feedback on public services or corruption, which in turn drives accountability and transparency in government.

Technology improves transparency, accountability and good governance

Technologies have immense potential to increase transparency and hence accountability and good governance. “Transparency can be at the level of the government where they can publish their budget, for instance, and citizens can give their feedback. When governments give opportunities and channels for citizen feedback, then all these efforts can kickstart accountability,” concluded Khuram.

For more information on Data Intelligence & Analytics 2.0 Conference please click HERE

Message from the New MIA President: “Let’s Focus on our Most Important Priorities”

at-mia.my/2020/10/15/message-from-the-new-mia-president-lets-focus-on-our-most-important-priorities

October 15, 2020

We are all navigating through the new normal arising from the COVID-19 pandemic as well as the disruptions from the emerging digital economy. Nevertheless, we must all remain committed to MIA’s nation building objective while embracing the enhanced use of technology in our daily lives and work, if the accountancy profession is to serve as a key component in the sustainable development of the economy, society and environment.

In order to progress on the nation building objective, it is imperative that the Institute and the profession focus on our most important priorities. As the new MIA President elected by Council on 26 September 2020 to lead the Institute for the next two years, I look forward to working with our stakeholders to prioritise the following initiatives.

Protection of the public interest is paramount. MIA is mandated to uphold the public interest as the regulator and developer of the accountancy profession, under the Accountants Act 1967. We will continue to engage closely with the Ministry of Finance and all relevant stakeholders to move soonest possible on the reforms needed to the Act. This will strengthen MIA’s regulatory powers and enhance the effectiveness of our surveillance and enforcement role, to ensure that our members behave ethically in discharging their services to their clients. To deliver effective regulation and governance, MIA cannot remain a “toothless tiger” imposing minor penalties or fines on members who have not discharged their duties ethically in accordance with the professional standards.

Watch Video At: https://youtu.be/g5JPZgWlljs

MIA will also continue to emphasise further on competency development and upskilling capabilities in order to build a future-relevant accountancy profession and produce quality professionals who create value while upholding the profession's ethics, professional standards and practices. To do this, we will focus on the implementation of the Institute's Competency Framework and Digital Technology Blueprint to ensure that accountants are upskilled in line with international accountancy education standards and prepared for the IR4.0 economy. We will continue to engage with and provide support to MIA members in all four sectors:

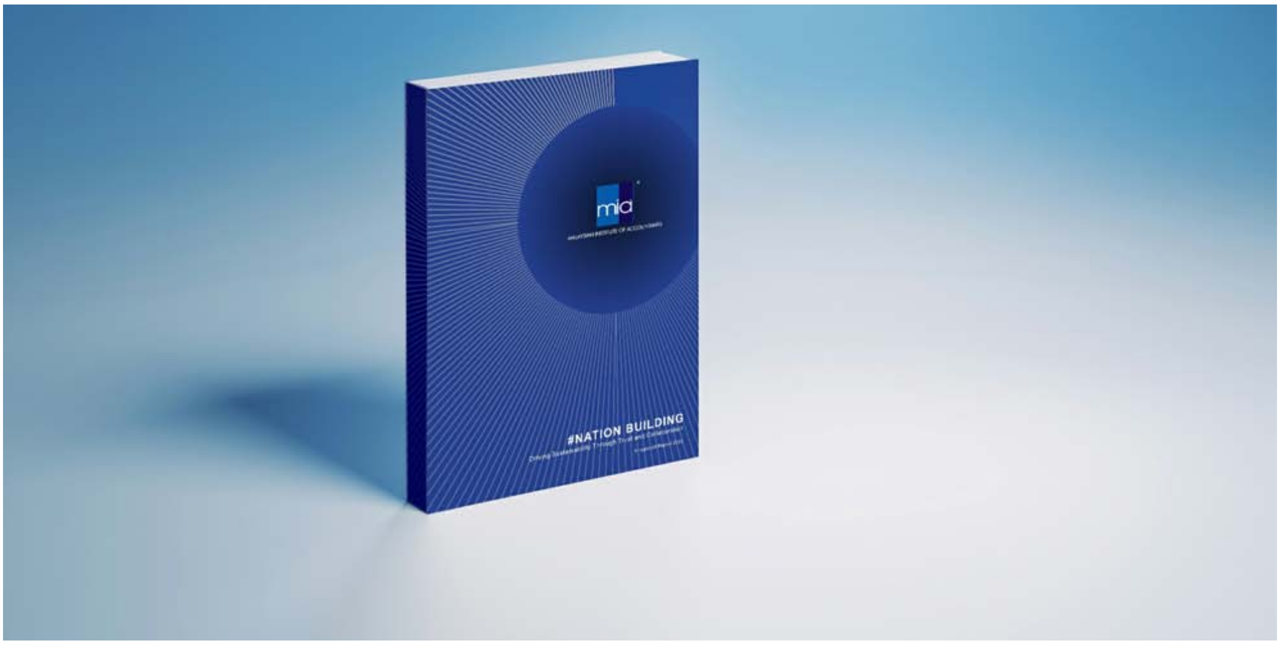
- **Commerce & Industry (Professional Accountants in Business)** – upskilling for CFOs and the finance function in accordance with MIA's Competency Frameworks for CFOs and Finance Functions in Public Interest Entities (PIEs)
- **Practitioners** – upskilling on International Standard on Quality Management (ISQM) and audit quality to bridge expectation gaps
- **Public Sector** – upskilling on accrual accounting, International Public Sector Accounting Standards (IPSAS) and other relevant areas such as digital disruption, risk management and internal audit
- **Academia** – engaging closely with the universities as well as the public sector in arriving at an appropriate way forward, as well as upskilling on future relevant teaching and accountancy education.

Equally important is to ensure the sustainability of the Institute – in its operations, financials, talent and technology deployment – so it can deliver on these targeted outcomes. In addition to core areas such as financial reporting, auditing and taxation, the Institute will also continue to enhance its brand recognition and articulate its stance on various advocacy initiatives, including digital transformation, upskilling of our members, sustainable development goals relevant to the profession, governance & trust, risk management, integrated reporting and so forth. This will strengthen the Institute's visibility as the voice of the profession and communicate the value proposition of the accountancy profession to various stakeholders. I would also remind all stakeholders that MIA has limited resources. Therefore, we must focus and prioritise our initiatives so that Malaysian accountants see value in having a national regulatory body.

As we forge ahead, I will work closely with the Council and Management to future-proof the Institute and the profession. On behalf of the Council and the Institute, I thank all members for your ongoing support, and I want all of you to work with us to uphold the profession's nation building agenda.

MIA’s Integrated Report 2020: Driving Sustainability Through Trust and Collaboration

October 23, 2020



***Click Here* to download MIA’s Integrated Report 2020**

Prepared in accordance with the International Integrated Reporting Council (IIRC) Framework and corporate reporting best practices, the IR narrates MIA’s journey of creating value in the short, medium and long-term. Our value creation is directed towards increasing the accountancy profession’s relevance, trustworthiness and sustainability to support nation-building.

Covering the year under review from 1 July 2019 to 30 June 2020 and backed by extensive data, the report shares material information relating to MIA’s purpose and values, strategy and business model, capitals and enablers, operating environment, material factors and risks, stakeholder interests, performance as measured against our strategic objectives, our governance processes according to the Accountants Act 1967 (the Act) and the profession’s outlook and prospects.

Readers will be able to grasp MIA's purpose and its efforts to drive the profession's sustainability by strengthening trust and collaboration among our many stakeholders, with the bigger aim of protecting the public interest.

As the national advocate for IR adoption and the voice of the accountancy profession, MIA looks forward in having this IR to be a useful model for those embarking on IR adoption as well as early adopters. To further strengthen the IR implementation among preparers, MIA encourages our members to participate in our extensive IR competency development programmes.

IR Education

As the International Integrated Reporting Council's (IIRC) Training Foundation Partner, MIA is licensed to provide approved Integrated Reporting training courses in Malaysia and regional markets. For 2019, MIA successfully delivered a series of IR workshops that comprised a one-day course on Introduction to IR and a three-day course on Practical Guide on Implementing IR. We also successfully conducted our inaugural in-house IR training with a large listed company. These workshops prepared new adopters for the IR journey and enabled early adopters to identify and address the gaps in their integrated thinking and reporting.

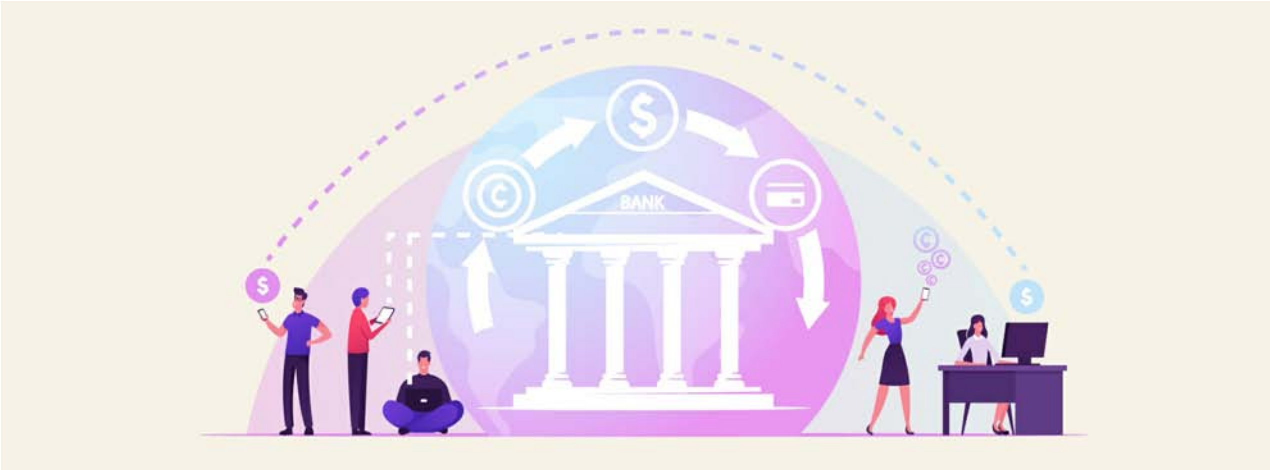
Additional IR workshops and webinars are planned for 2020 and beyond to sustain the momentum of IR adoption in Malaysia.

For more information on our IR trainings, please click here.

The Retirement of LIBOR

at-mia.my/2020/09/17/the-retirement-of-libor

September 17, 2020



By Sukh Deve Singh Riar

Since the inception of the London Interbank Offered Rate (LIBOR) in the 1980s, the benchmark rate has widened from being basically a London-only money market rate into a global reference rate to price financial derivatives, bilateral and syndicated loans, repos and many other financial products.

Initially, the British Bankers Association (BBA) was tasked to publish LIBOR term rates for a set of currencies but as unethical behaviour affected its compiling mechanism, change was then suggested by the Wheatley Recommendations in 2012. Now, LIBOR is compiled and distributed by the Intercontinental Exchange in five currencies and seven maturities under the watchful eyes of the UK's Financial Conduct Authority (FCA).

Nevertheless, LIBOR's reputational damage was never fully restored, which then led FCA to announce the retirement of LIBOR by end-2021. After this, the panel of banks is no longer obliged to submit its borrowing cost following LIBOR set of rules.

A soup of new benchmark rates has emerged now, and banks are scrambling to ensure their borrowings and lending tied to LIBOR correspond with these benchmark rates. Any mismatch can cause loss of income and set forth bad fits between assets and liabilities. This is a serious matter for banks and the overall business community exposed to LIBOR.

The Relevance of LIBOR

LIBOR is widely used as a benchmark rate by banks all over the globe, with the Economist calling it the world's most important number as hundreds of trillions of dollars in financial contracts are tied to it. It also represents the unsecured borrowing rate between banks. The spread between Risk Free Rates (RFRs) and LIBOR reflects credit risk and is frequently used as a proxy to measure financial stress in the markets.

In our Malaysian scenario, this spread can be measured by the difference between MYR 3-Month KLIBOR and 3-Month Malaysian Treasury Bills (MTB), similar to the Treasury Eurodollar (TED) spread. Financial managers frequently benchmark financial instruments to Interbank Offered Rates (IBOR) since it is a forward-looking rate and delivers certainty of interest pay-out at the end of the setting period. In the case of floating rate notes, it is common for interest pay-out calculations to be benchmarked against relevant IBOR term rates at the beginning of the coupon period.

However, it must be pointed out that this important number is not obtained from actual trades but estimates of borrowing cost submitted by a handful of panel banks. This is because the unsecured wholesale term lending between banks is not sufficiently active especially in the case of longer tenors. This means that it is an inferred number instead of one observed from transactions in the interbank lending market.

What comes after LIBOR?

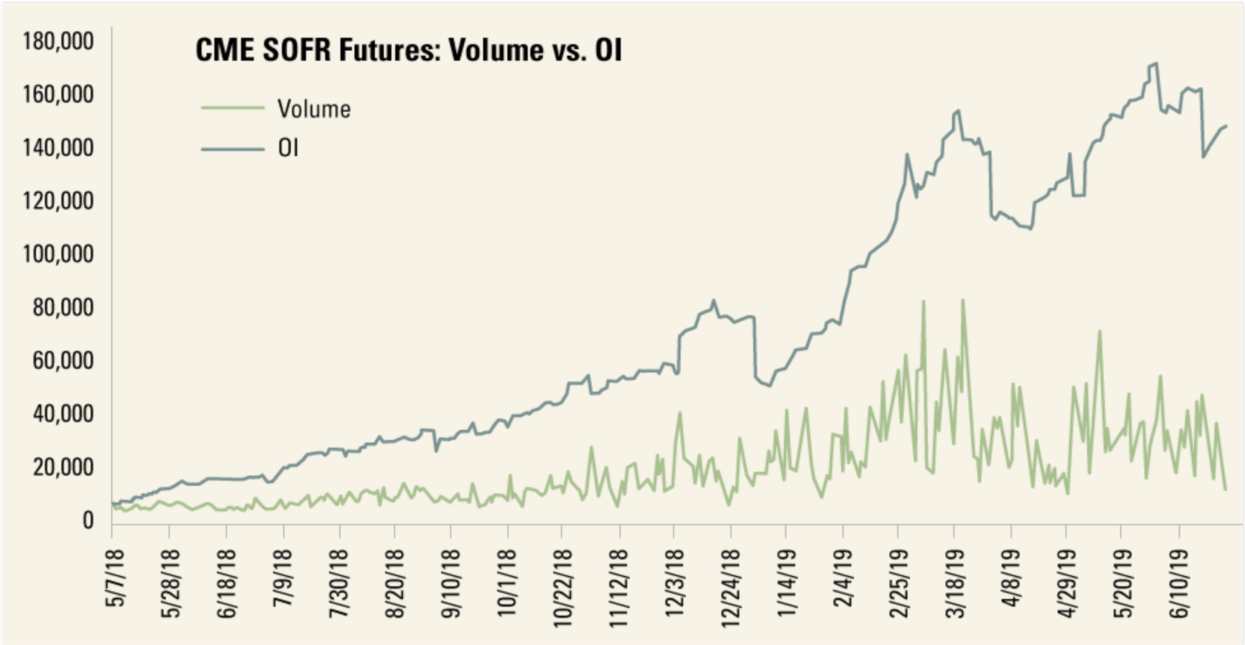
Thus far there is a lack of definitive direction in the long run. However, there is a barrage of benchmark rates available depending on the term currency used for the financial contracts (see **Table 1** and **Table 2**). While the tussle continues between regulators who prefer RFRs based on overnight rates and banks with their deep love for forward-looking unsecured borrowing rates like IBOR, the adoption of benchmark rates must meet the International Organisation of Securities Commission's (IOSCO) principles for financial benchmarks.

Currency Area	United States USD	United Kingdom GDP	Euro Area EUR	Switzerland CHF	Japan JPY	Australia AUD	Singapore SGD
Alternative Reference Rate	SOFR Secured Overnight Financing Rate	SONIA Sterling Overnight Index Average	ESTER Euro Short Term Rate	SARON Swiss Average Rate Overnight	TONAR Tokyo Overnight Average Rate	AONIA Australian Interbank Overnight Cash Rate	SORA Singapore Overnight Rate Average
Administrator	Fed Res NY	BOE	ECB	SIX Swiss	BOJ	RBA	MAS
Secured	Yes	No	No	Yes	No	Yes	Yes
Overnight	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Available Now	Yes	Yes	Yes	Yes	Yes	Yes	Yes
IOSCO Compliant	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Sources: Schrimpf & Sushko (2019), Fed Reserve, BOE, ECB, RBA, MAS

Table 1: *RFR in Selected Countries*

Steady albeit time-consuming improvements are being made to develop forward-looking RFR rates aimed to meet IOSCO's principles. Nevertheless, the major issue with such RFR futures at present is its low liquidity. In addition, a robust transaction-based forward-looking RFR benchmark must be anchored to an active liquid market (see **Figure 1** which shows the relative low volume of Secured Overnight Financing Rate (SOFR) futures traded on the Chicago Mercantile Exchange (CME)#). Perhaps this will improve as we get closer to 2022 with more banks adopting alternative benchmarks.



Source: Kolchin (2019)

Figure 1: *Trading Volume of CME SOFR Futures*

 # CME has one and three-month SOFR futures contracts with each having an underlying value of US$2500. A daily total trade volume amounting to 100,000 contracts will represent US$250 million of debt – which is relatively miniscule to the SOFR daily transaction value of approximately US$1 trillion.

Considering RFRs are devoid of credit risk and the given importance of credit-sensitive benchmarks, regulators have adopted a two-benchmark approach where an improved local IBOR-type rate will coexist alongside as a forward term rate. This is the case with Australia, where the Reserve Bank of Australia (RBA) has taken this route with Australian Interbank Overnight Cash Rate (AONIA) and Bank Bill Swap Rate (BBSW) complementing one another. Both AONIA and BBSW are supported by liquid markets to produce robust benchmarks consistent with IOSCO's requirements.

In cases where there is a lack of liquidity in the IBOR market as is the case with KLIBOR in Malaysia, administrators can resort to the observed best bid and offer rates to compute the benchmark reference rate. A list of RFRs and IBORs (each at a different stage of readiness) that will coexist side by side post-2021 in the Asia-Pacific region is shown in **Table 2** below.

Country	Existing Benchmark Rate	RFR	Improved IBOR Benchmarks ##	Administrator
United States	LIBOR – USD	SOFR	AMERIBOR	American Financial Exchange (AFX)
Japan	LIBOR – JPY	TONAR	TIBOR	JBA TIBOR Administration (JBATA)
Australia	BBSW	AONIA	BBSW	Australian Securities Exchange (ASX)
Hong Kong	HIBOR	HONIA	HIBOR	Treasury Market Association (TMA)
Singapore	SIBOR	SORA	SIBOR	Association of Banks Singapore (ABS)
Malaysia	KLIBOR	AIOR	KLIBOR	Bank Negara Malaysia (BNM)
Indonesia	JIBOR	IndoNIA	JIBOR	Bank Indonesia (BI)

Each of the improved IBORs are at a different phase of improvement.
Sources: KPMG (2019), EMEAP (2019), Baker McKenzie (2020)

Table 2: *List of Improved IBOR Benchmarks*

LIBOR Transition Challenges

The ramifications of LIBOR discontinuance can be chaotic and extremely challenging if not managed diligently. In Malaysia, the exposure to LIBOR risk amounts to roughly US$200 billion. Some of the common issues and challenges that financial or business institutions will face in managing the LIBOR transition are:

- to address the sufficiency of fallback language in legacy contracts on LIBOR dissolution, where cases may arise for floating rate instruments deemed as fixed post 2021;
- to deal with timing problems as the fallback provision may trigger a new benchmark rate at different times for different contracts with consequences to asset liability management (ALM);
- the fallback provisions or proposed variations are viewed by one party as neither lawful nor fair for being worse off than one would have been under LIBOR and this could skew into a legal minefield;
- to agree on the acceptable spread adjustment on adopting RFR as the benchmark rate to account for credit risk, as credit spreads are dynamic and will vary according to prevailing market conditions;
- the selection of a suitable replacement benchmark rate, whether should it be a RFR + spread or IBOR-like benchmark rate and matching it to ALM to fit within the balance sheet;
- to address conduct risk in engaging with customers to curtail erosion of trust in dealing with legacy contracts;
- to complete the readiness of corporate infrastructure and resources to facilitate the transition and to accelerate suitable corrective actions where weaknesses are identified;
- the vulnerability to regulatory and compliance risk that may arise as a result of new rules of engagement for legacy contracts that could trigger additional disclosures or compel the use of new benchmark rates;
- to deal with hedge accounting matters as a change of reference rate will affect the valuation of financial instruments / products and have aftereffects on the income statement and balance sheet; and
- subject to the nature of business and jurisdiction, it may give rise to tax implications that need to be accounted and well-planned for.

It is obvious that there will be deep and wide ripple effects as a result of LIBOR's cessation. Hence, awareness must be widened so that the affected parties can plan and critically examine the consequences of the inevitable disruptive change of reference rates. A recent survey by the EMEAP### Working Group on Financial Markets revealed that the awareness and readiness in the East Asia region is poor among institutional investors, corporates and retail investors. This needs to be reversed and engagement must commence forthwith so parties have plenty of time to develop amicable solutions.

Conclusion

Though LIBOR's end is certain, it will not go without rumpus and there will be tears. Regulators globally are coordinating closely to contain systemic risk with the transition and firms must take diligent actions without delay to ensure this uncertain trajectory does not slip off course. Doing nothing or not enough is not an option and would be a sure bet for financial tragedy, whilst the current coronavirus pandemic is not helping the financial markets with the transition.

In addition, over-reliance on fallback language in managing the LIBOR transition can be disastrous without connecting the dots to the ALM ecosystem. Both qualitative and quantitative issues must be addressed holistically. There will be no "one size fits all" solution and the solution itself must be flexible, robust and resilient. Much desired progress on LIBOR's transition has been made to date but more is required to hop over the remaining hurdles.

The reality is that businesses with substantial LIBOR exposure will be subjected to significant financial risk, and this may present as a material risk if an orderly transition to a suitable benchmark rate is not undertaken in an orderly and timely manner.

Executives' Meeting of East Asia Pacific Central Banks

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