

*Malaysian Capital Market Summit 2000*

**Developing an Efficient  
Bond Market  
The Regulatory Perspective**

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# Outline

- **Background**
- **Key requirements of an efficient bond market**
- **Current measures taken to develop the bond market**
- **Q & A**



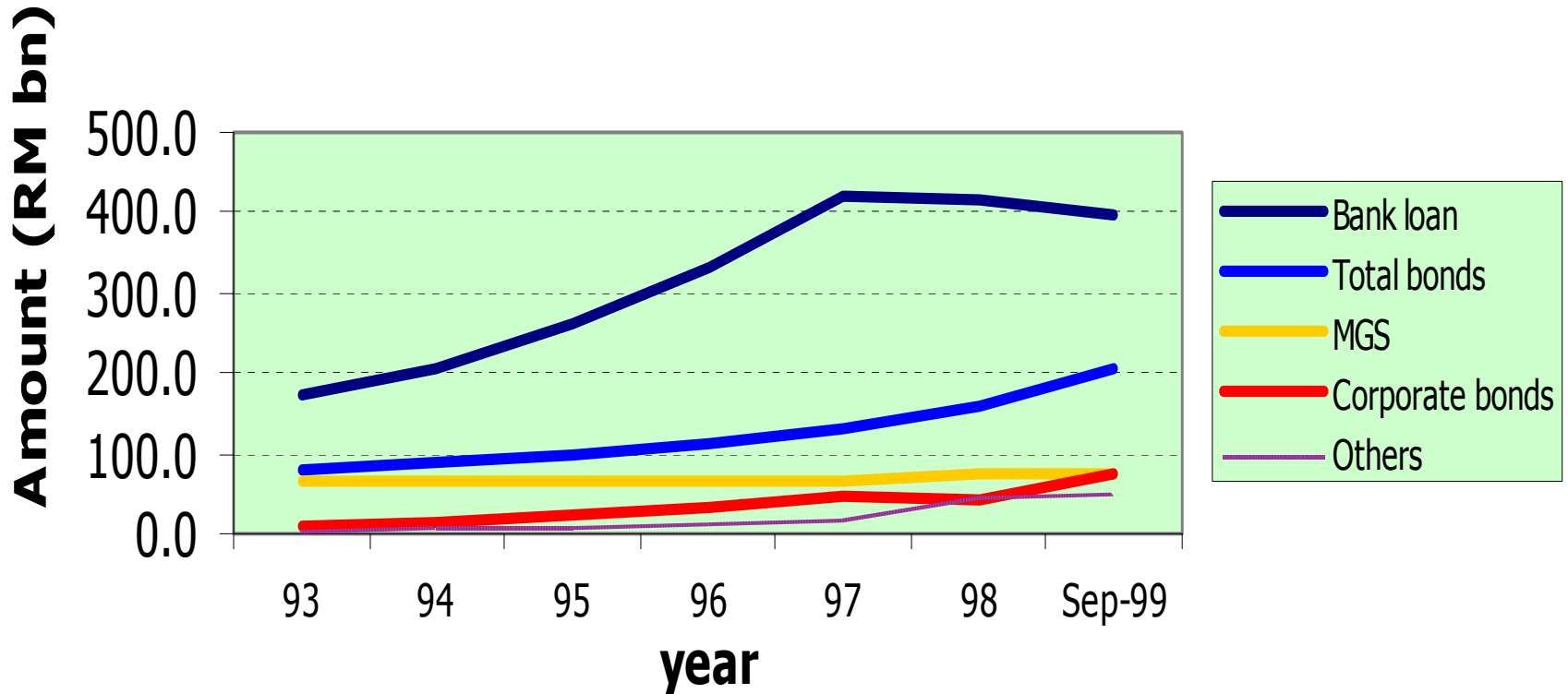
# Background

- **Optimal balance between bond financing and bank borrowing is paramount to achieving financial stability**
- **Imbalances between bond financing and bank borrowing currently exist in the financial system**



# Imbalance between bond financing and bank borrowing

## Relative size of bond market vs bank loans



# Importance of an efficient bond market

- Eases over-concentration of credit risk and funding mismatch in the banking system;
- Provides efficient means of allocating funds
  - Alternative sources of finance for borrowers;
  - Market-initiated signal on overpricing of assets
- Meets long-term investment and savings needs of the economy



# Key Requirements of an Efficient Bond Market

- **Conducive regulatory framework**
- **Active participation from a wide range of issuers and investors**
- **Establishment of a reliable benchmark yield curve**
- **Enhancing secondary market liquidity**



# **Creation of a facilitative and efficient regulatory framework**

- **Rationalisation of the fragmented regulatory framework for corporate bond market**
  - **Involved amendments to the Companies Act 1965, the Securities Commission Act 1993 and the Banking and Financial Institutions Act 1989;**
  - **To effect SC's appointment as the single regulatory and supervisory body over the corporate bond market;**
  - **Essential step to enhance efficiency and expedite the bond issuance and approval process**



# **Creation of a facilitative and efficient regulatory framework ...**

- **Accelerated transition towards disclosure- based regime (DBR) and market friendly regulatory regime:**
  - **New facilitative approval scheme in relation to straight debt issues under new PDS guidelines;**
  - **Introduction of a shelf-registration system;**
  - **Full DBR to cover other regulatory approvals of bond issue (e.g. controller of foreign exchange); and**
  - **Liberalisation of issuing requirements to allow greater flexibility**





# **Creation of a facilitative and efficient regulatory framework**

- **Investor protection will be enhanced to promote market confidence:**
  - **New statutory requirements for trustees, trust deeds, borrower and guarantor's obligations for debenture issues**
  - **Trust deeds must comply with SC's Guidelines on Minimum Content Requirements**



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# Widening the issuer & investor base

- **Attract diverse group of issuers**
  - **Quasi-Government enterprises, infrastructure companies and multinational companies to tap local funds**
- **Promote asset securitisation**
  - **Asset Securitisation Consultative Committee has been established to identify and resolve impediments to securitisation transactions**
  - **Report will be submitted to NBMC as blueprint for future development of asset securitisation**



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# **Establishment of a reliable benchmark yield curve**

- **Lack of benchmark yield curve**
  - Due to absence of sizable and regular supply of Government papers
  - Negative impacts on bond issuance, investment and trading activities
- **Government commitment to activate MGS issuance program**
  - Introduction of auction calendar
  - Issuance of large and regular issues
  - Explore conversion of off-the-run issues



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# Enhancing Secondary Market Liquidity

- Review the existing regulatory investment parameters for pension and insurance funds to encourage active portfolio management
- Facilitate introduction of hedging and risk management instruments for market participants
- Improve infrastructure for bond trading and investment activities
- Other incentives to enhance secondary market trading will be explored



# Q & A

