

# **Opportunities for Development : Bond Market**

Emerging Markets Programme 2003

**Securities Commission**  
**14 October 2003**

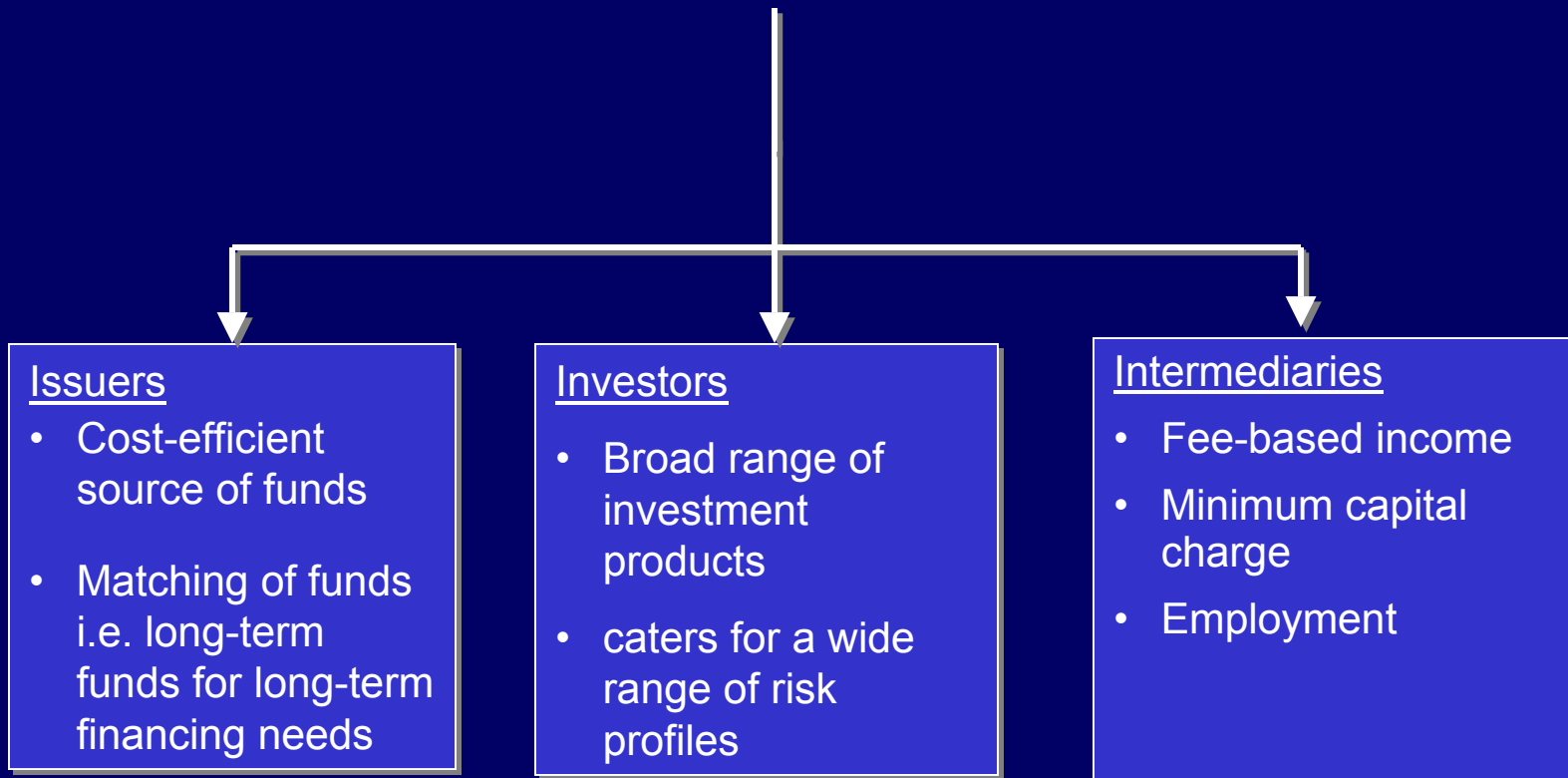




- ❖ **The Need for a Vibrant Bond Market**
- ❖ **Domestic Bond Markets of Emerging Countries**
- ❖ **The Malaysian Experience**
  - **Overview of bond market**
  - **Developing a sound regulatory framework**
- ❖ **Future challenges**



## Robust & Liquid Domestic Bond Markets



# Development Stages of Financial Market Structure



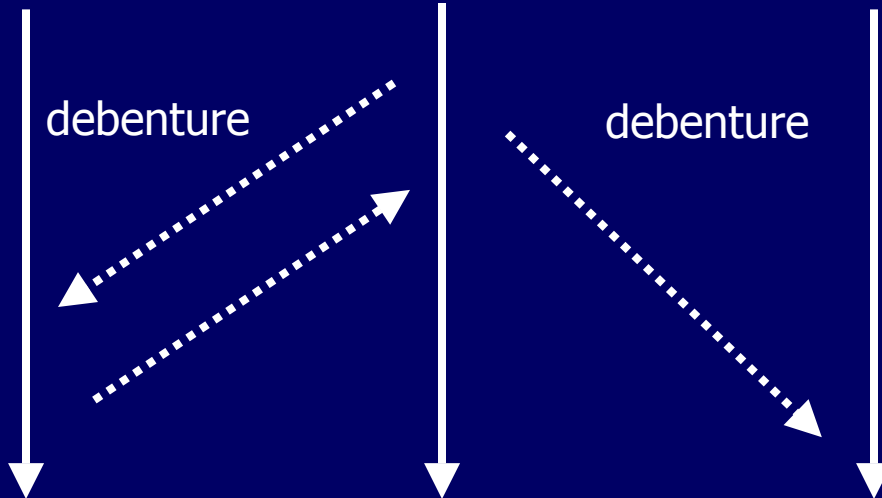
**Loans**  
SMEs

**Banks**

**Depositors**

**STAGE I**

Bank Dominant



**Corporate Bonds**  
Large, reputable  
issuers

**Investment Firms**

**Public Investors**

**STAGE II**

Intermediate

**STAGE III**

Full-fledged  
Capital Market  
Based

# Strategies to mitigate risk characteristics of bank borrowers and corporate bond issuers



| <b>BANKING SYSTEM</b>  | <b>BOND MARKET</b>   |
|--|--|
| <ul style="list-style-type: none"><li>• Inside information</li><li>• Repetitive transactions</li><li>• Monitoring with expertise and economies of scale</li><li>• Collateral</li><li>• Diversification of bank loans</li></ul> | <ul style="list-style-type: none"><li>• Provision of timely, credible to public with laws and institutions</li><li>• Credit rating agencies to evaluate credit risks and encourage flows of information</li><li>• Investment banks to help bonds to be marketable and standardized</li><li>• Diversification of risks through increased number of public investors</li></ul> |



# Features of a Vibrant Bond Market

## Efficient market infrastructure



- Reliable clearing & settlement systems; rating agencies; intermediaries; benchmark yield curve

## Sound & facilitative regulatory framework



- Transparent approval scheme, disclosure requirements, investor protection, market integrity

## Liquidity



- Active secondary market trading

## Demand & supply



- Wide investor and issuer base

## Product Innovation



- Varied products and tenors to suit different financing, investment and risk management needs



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# Outstanding bonds as a % of GDP has increased globally



| Region         | 1994 | 2000 |
|----------------|------|------|
| Asia           | 26   | 39   |
| Latin America  | 22   | 37   |
| Central Europe | 24   | 24   |
| Total          | 24   | 36   |

- Emerging market debt securities have significantly increased
- Asian financial crisis in 1997 has provided impetus for rapid growth of domestic bond markets, particularly corporate bond
- Conversely, the financial crisis affecting Latin American countries in 1999 slowed the growth of their sizeable public bond market

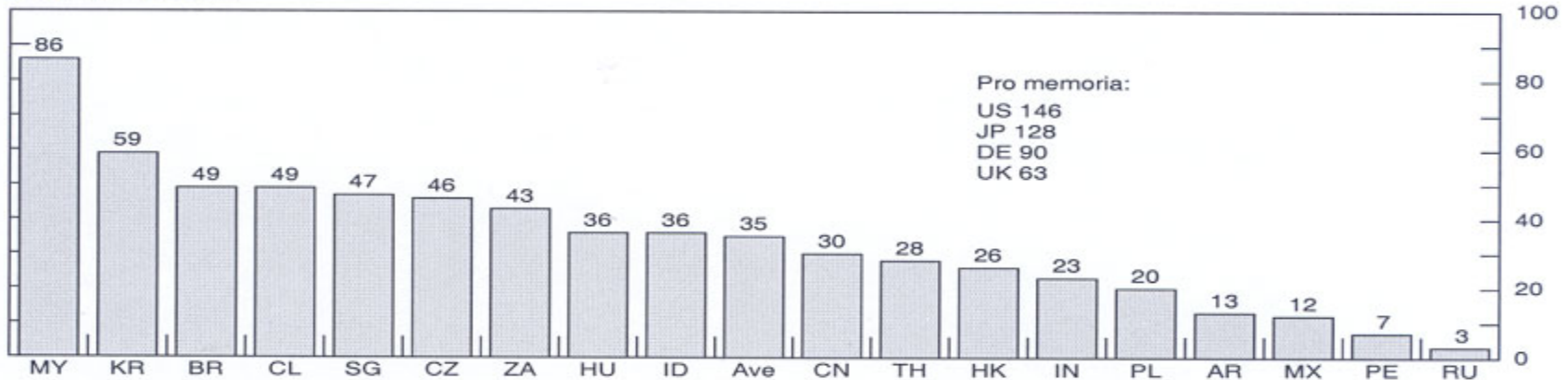
Source: Bank for International Settlements (BIS)



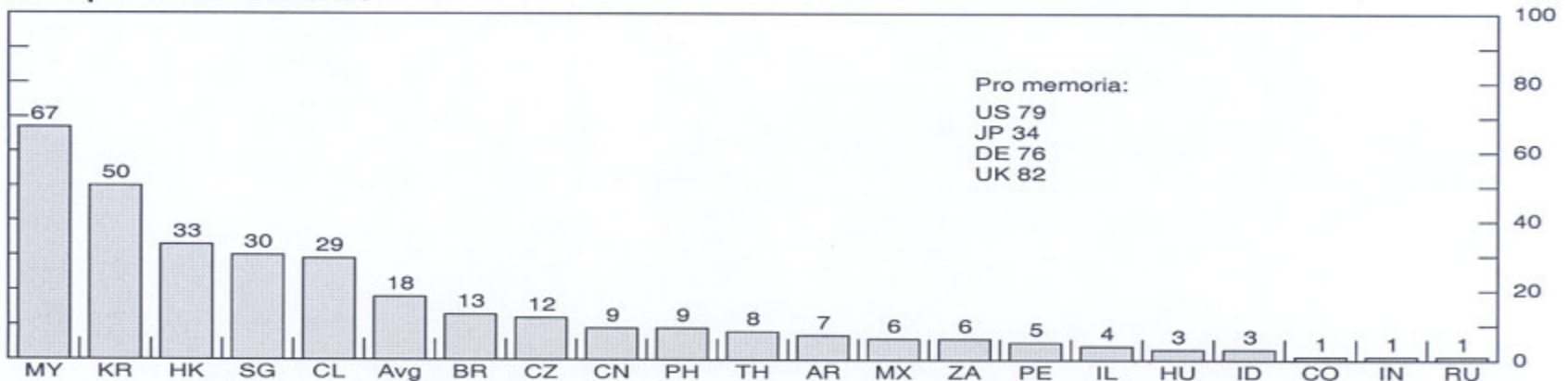
# Regional comparison for domestic bond market (as a percentage of GDP at end-2000)



Domestic bonds



Total private sector bonds



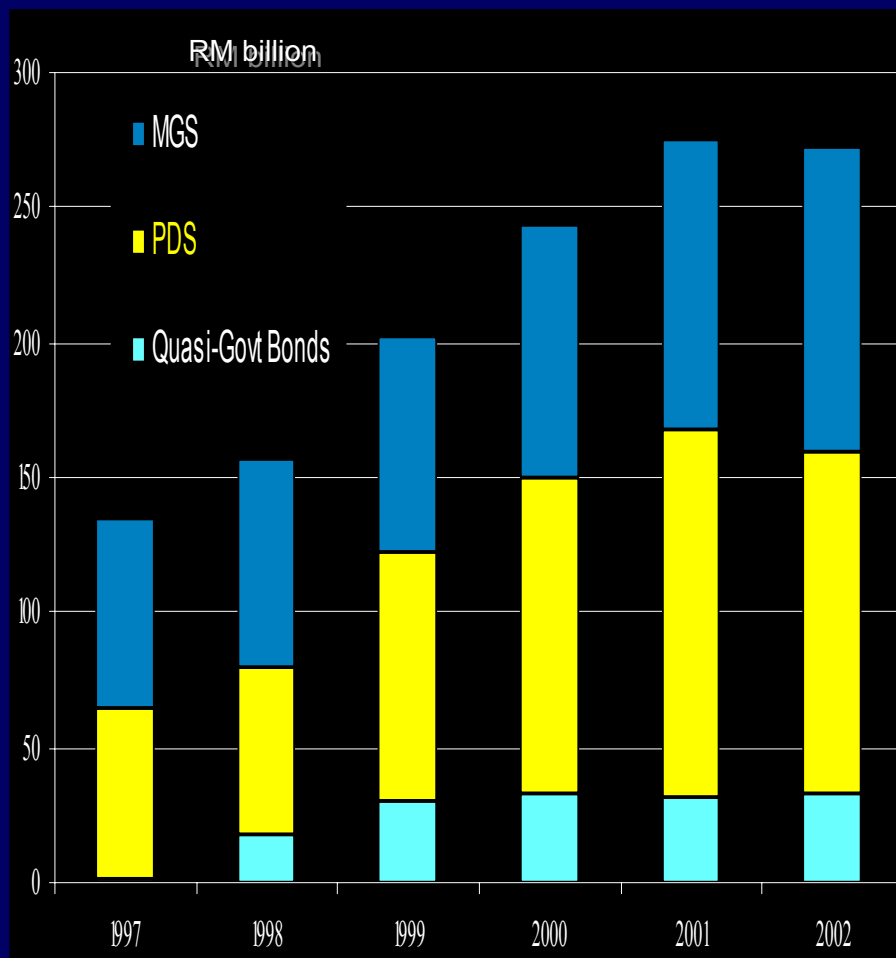
<sup>1</sup> As a percentage of GDP.

Sources: IMF; national data; BIS.



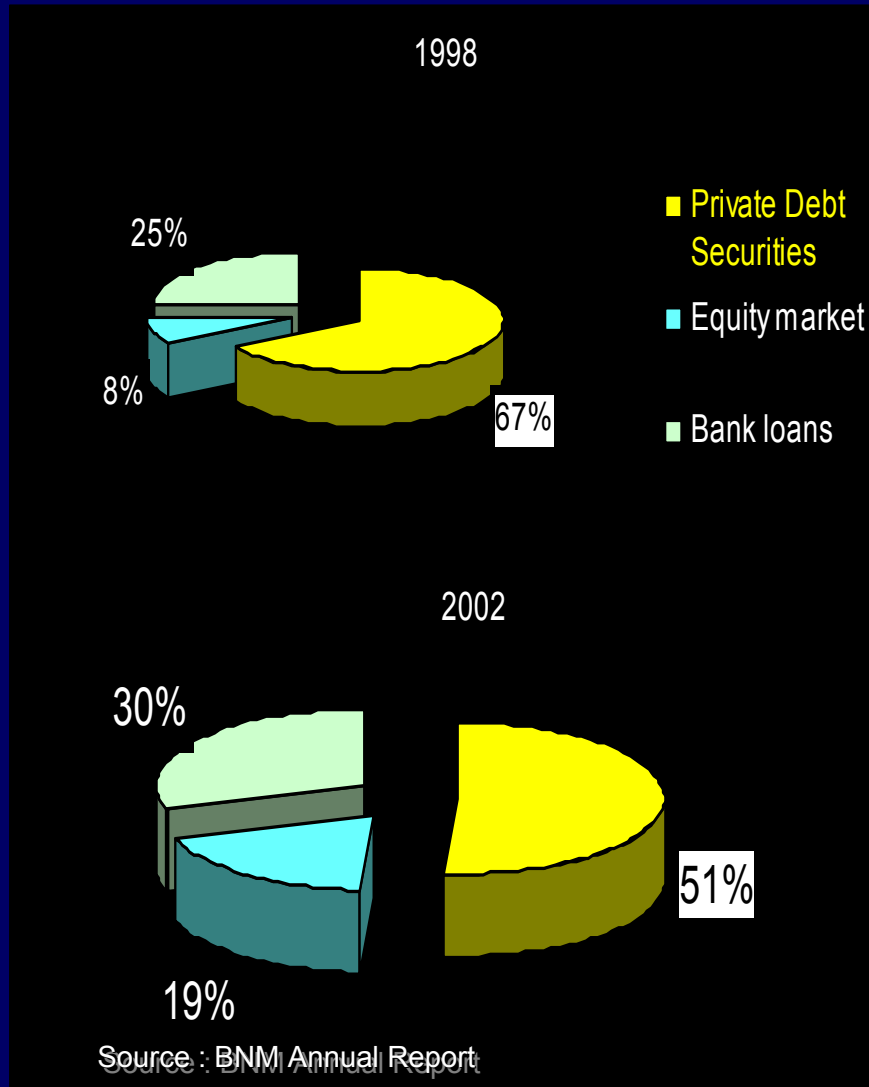
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# Overview of Malaysian bond market



- Malaysia's bond market grew by 19.4% over the last 6 years to reach RM272.6 billion as at end-2002
- This represents more than 80% of GDP in 2002, making Malaysia one of the largest domestic bond markets in this region (ex-Japan and Korea)
- PDS grew faster (at 18.9%) than MGS (at 13.3%) during the same period, underpinned by strong demand on higher-yield fixed income securities

# Financing for private sector

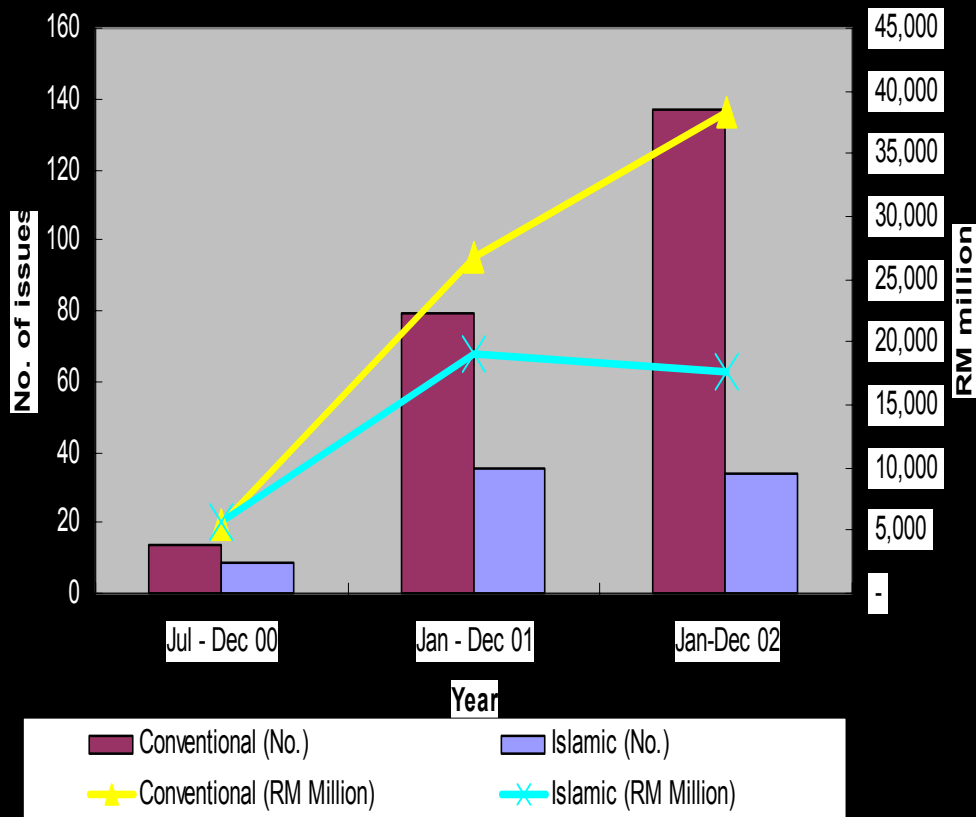


- PDS emerged as the largest source of private sector financing in the aftermath of the 1997 financial crisis
- Bond financing accounted for about a third of total financing of the economy from 1998-2002
- In 2002 it provided RM36.2 billion or 51% of total gross domestic funds raised by the private sector compared to 67% in 1998
- Going forward, PDS will remain as a dominant and competitive source of financing

# Approval of PDS issues by the SC



Total PDS issues approved by the SC (July 2000 - December 2002)

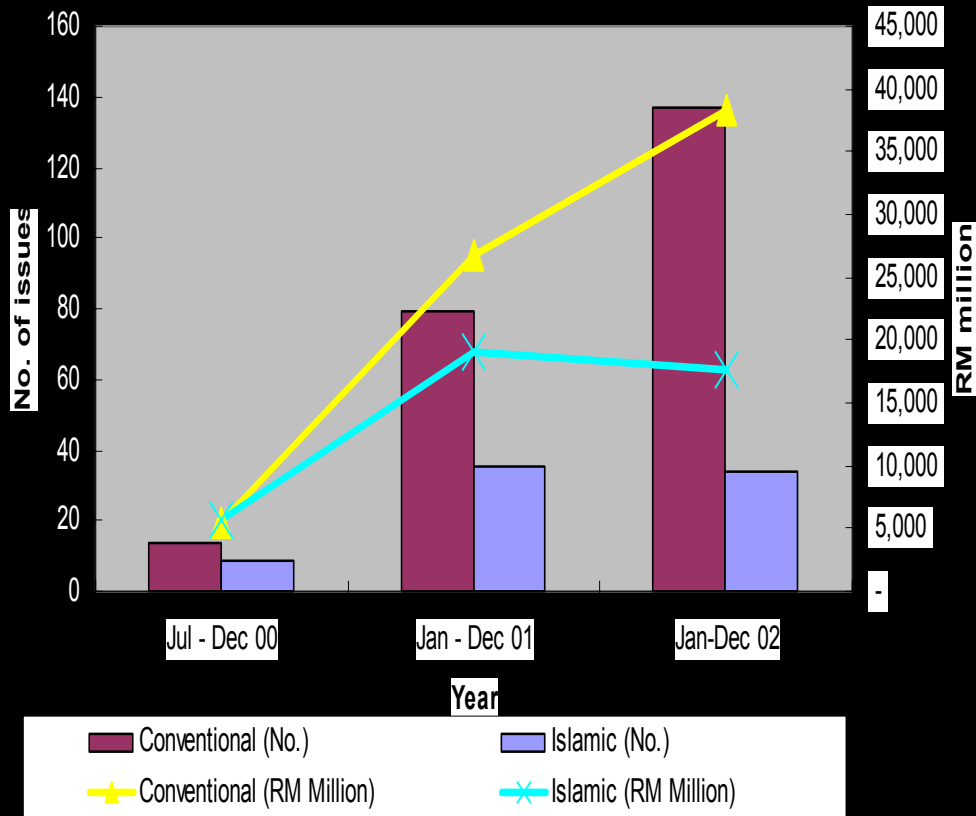


- Total PDS approvals from July 2000 to end-2002 have displayed an increasing trend
- Since 1 July 2000, the SC has approved 338 PDS proposals under the PDS and ABS Guidelines, with a total approved issuance limit of RM128.92 billion
- In 2002, the SC approved 171 PDS proposals, including 7 ABS proposals, which amounted to RM56.0 billion. 34 of these approvals were IPDS issues valued at RM17.6 billion or 31% of the total approved size of PDS issues

# Approval of PDS issues by the SC (cont.)

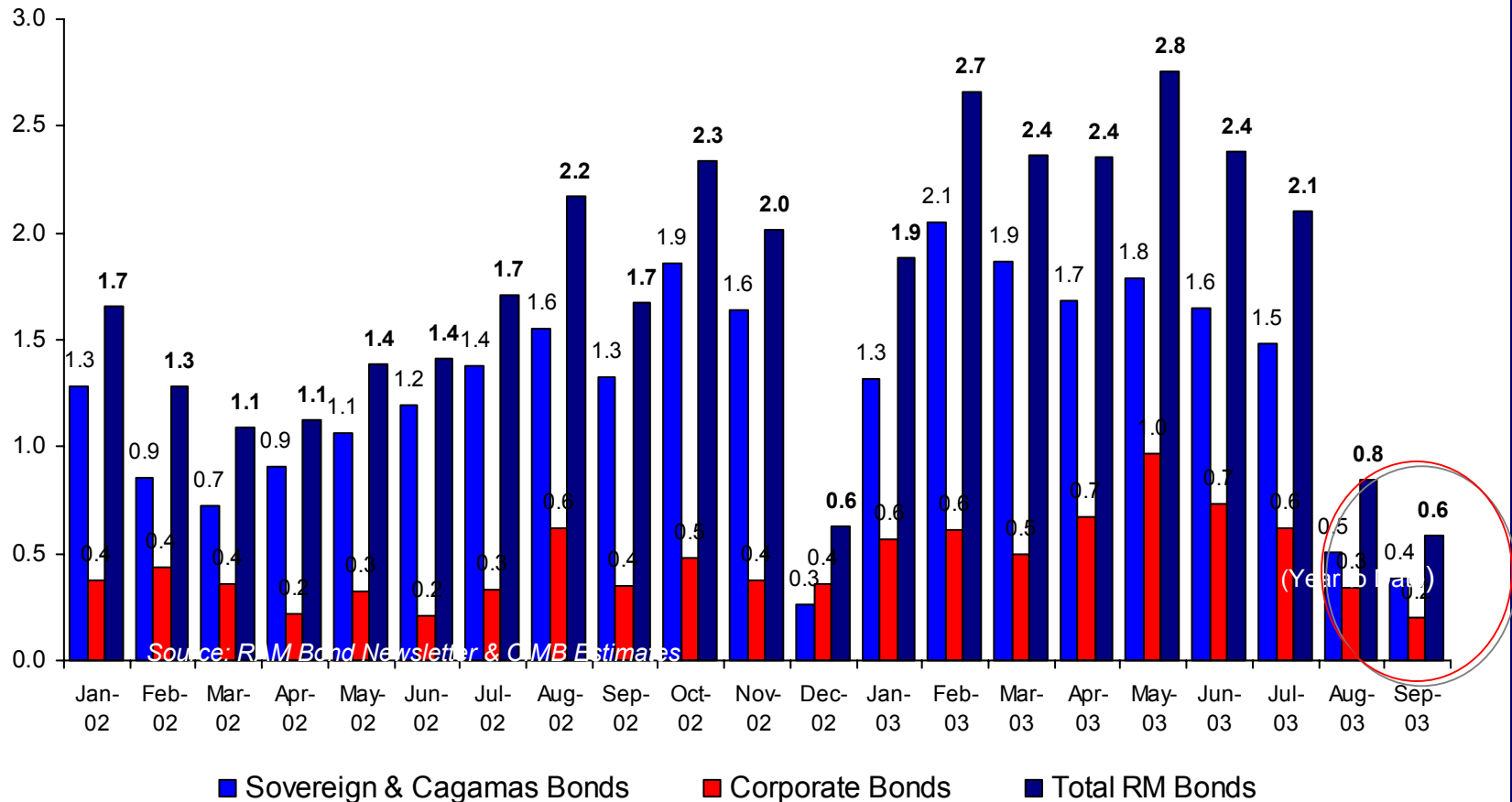


Total PDS issues approved by the SC (July 2000 - December 2002)

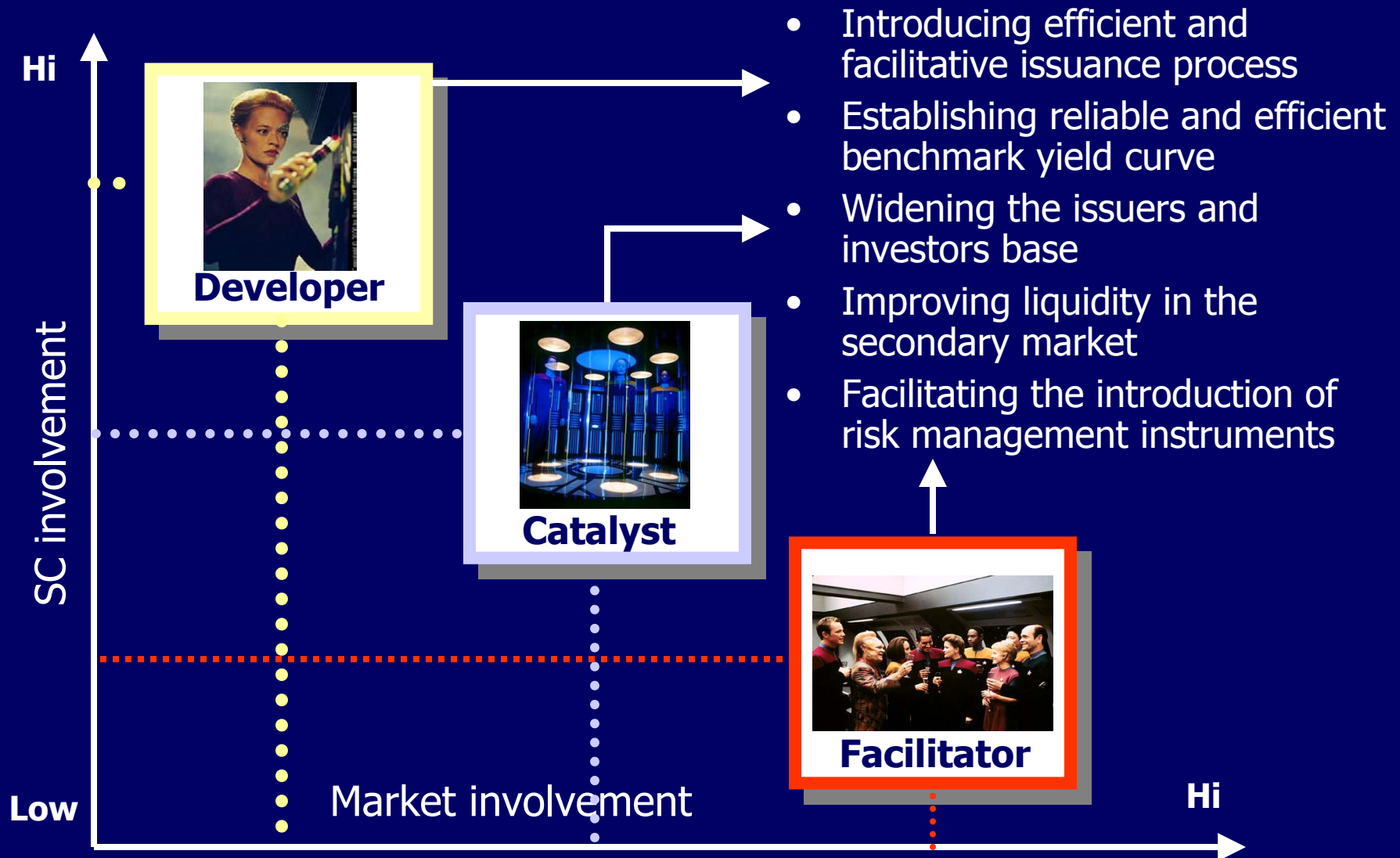


- A significant amount of bonds approved by the SC is rated A and above. Out of the total 182 rated PDS proposals approved by the SC thus far, only 28 proposals (mostly debt restructuring scheme) are initially rated at BBB and below
- 49.4% of value of approved PDS proposals thus far have maturity periods of more than 7 years

# Secondary Market Trading Volume - Daily Average



# SC's developmental framework





# Developing a facilitative regulatory framework for bonds (effective 1 July 2000)



SC became SINGLE REGULATOR of the corporate bond market

Migration from merit assessment to disclosure-based regime

## OBJECTIVES

Transparent and facilitative approval process



**Guidelines on Offering of Private Debt Securities & Regulations on Shelf Registration**

Greater disclosure requirement to investors



**Guidelines on Minimum Contents Requirements for Trust Deeds**

Enhancement of legal protection to investors



**Guidelines on Prospectus Contents for Debentures**

# Dynamic approach to facilitate bond issuance



## Thrusts of recent revisions to PDS & ABS Guidelines - effective 1 May 2003

To make the  
issuance  
process more  
efficient

To provide  
greater issuance  
flexibility & time-  
to-market

To rationalise  
and enhance  
information  
disclosure

### Enhanced practicality of Debt Programmes

- removal of 7 yr tenor restrictions for standalone MTN
- greater ability to match funding needs
- enhancement to disclosure requirement at each drawdown

Streamlining the issuance process for PDS and ABS

INDUSTRY DRIVEN INITIATIVE

# Guidelines on the Offering of Asset-Backed Debt Securities (11 April 2001)

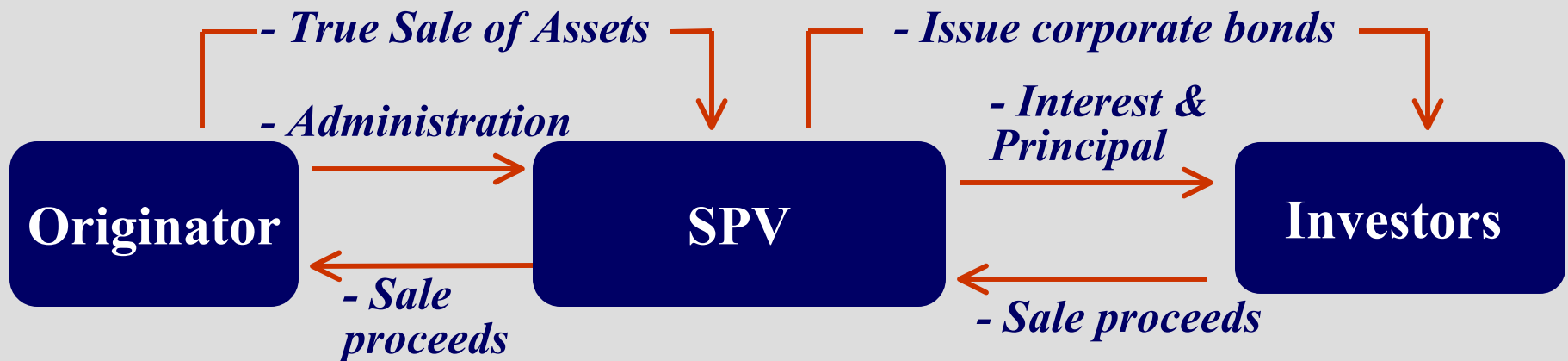


**Applies any arrangement which involves the transfer of assets or risks to a third party**



## **Scope of the Guidelines:**

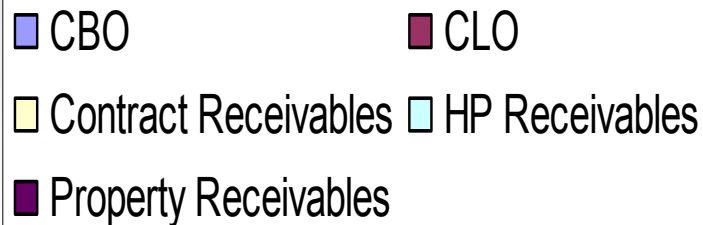
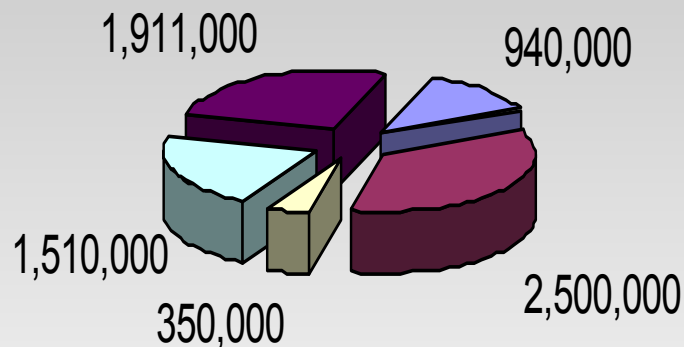
- ✓ **Criteria for securitisable assets**
- ✓ **Criteria on true sale**
- ✓ **Criteria for special purpose vehicle**
- ✓ **Disclosure requirements**



# Approval of ABS issues by the SC



**ABS Applications Approved by SC  
in RM'000 (up to 30 June 2003)**



- Since introduction of the ABS Guidelines in April 2001, SC approved 13 ABS issues valued at RM 7.2 billion.
- Type and % size of ABS approved by the SC:
  - ✓ CLO – 35%
  - ✓ Property receivables– 26%
  - ✓ HP receivables – 21%
  - ✓ CBO – 13%
  - ✓ Contract receivables– 5%



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# Future Challenges – to facilitate market innovation



**Create single guidelines on Islamic Securities**

**To encourage issuance of Islamic Securities that are acceptable internationally, e.g. Musyarakah & Mudarabah**

**Release new guidelines on structured products**

**Basket of assets are repackaged as new investment products**

**Facilitate issuance of Synthetic ABS**

**“Whole business” securitisation may be introduced**

# Future Challenges – to ensure market integrity



Improving liquidity in the secondary market & enhancement of market surveillance



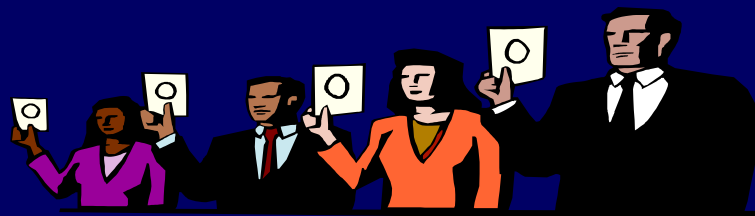
Enhancing the standards of Trustees and Credit Rating Agencies



Enhancement of prudential standards imposed on bond market constituents



Promoting professional investment management standards





**Thank you**