

# **The Malaysian Bond Market - Challenges and Opportunities in 2003 and Beyond**

**Securities Commission**

**16 April 2003**

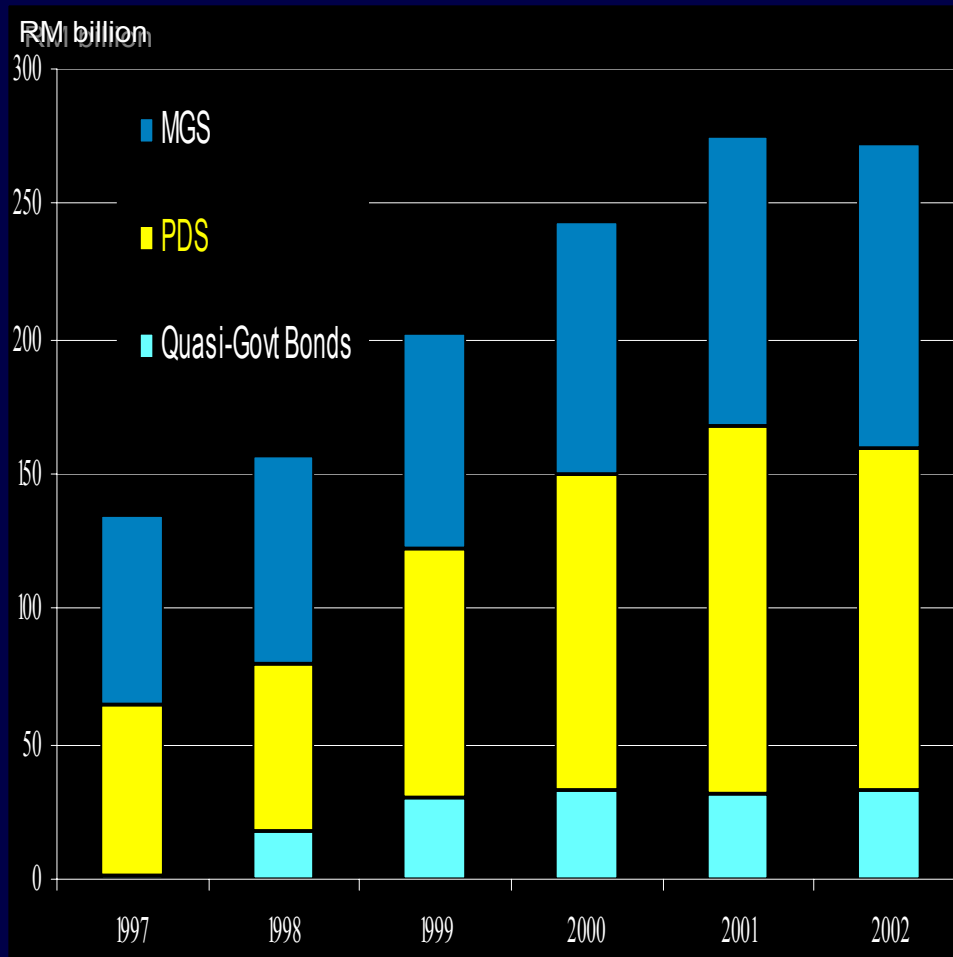


**Suruhanjaya Sekuriti**  
Securities Commission

# Outline

- ❖ **Overview of the bond market**
- ❖ **Developmental framework for domestic bond market**
- ❖ **Regulatory efforts undertaken to develop the bond market**
  - ❖ **Revised PDS and ABS Guidelines**
- ❖ **Moving forward**

# Overview of Malaysian bond market

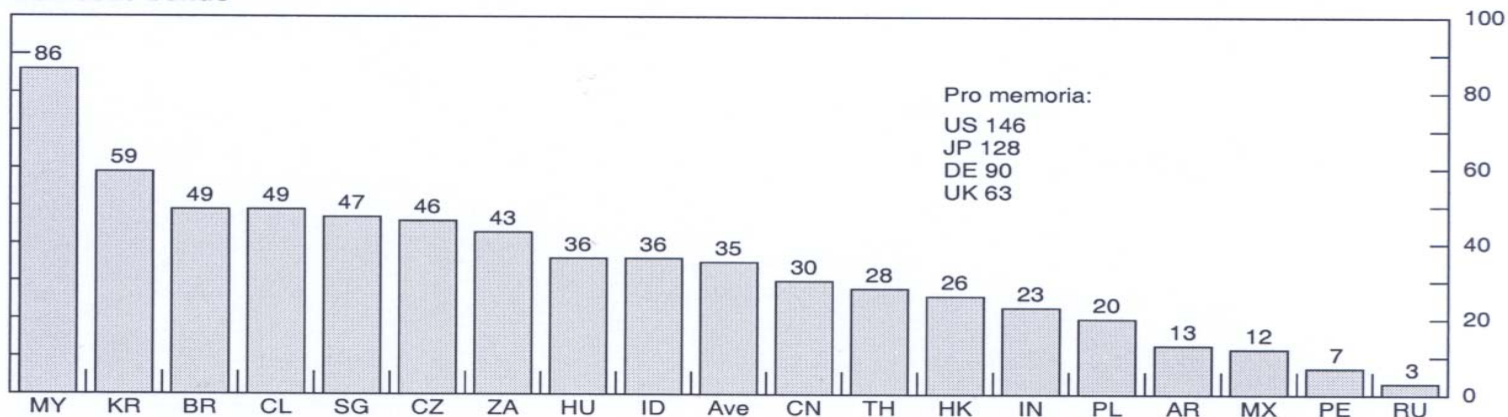


Source : BNM Annual Report

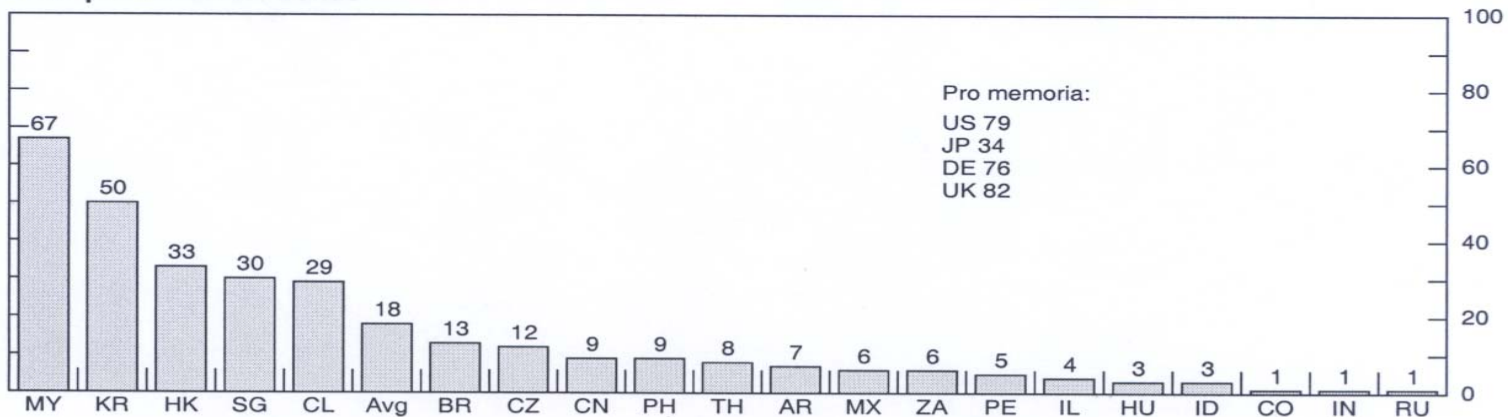
- Malaysia's bond market grew by 19.4% over the last 6 years to reach RM272.6 billion as at end-2002
- PDS grew at the faster rate of 18.9% as compared to 13.3% for MGS during the same period, underpinned by the strong demand on the higher-yield fixed income securities
- This amount represents 81% of GDP in 2002 which makes Malaysia one of the largest domestic bond markets in this region (ex-Japan)

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

Domestic bonds



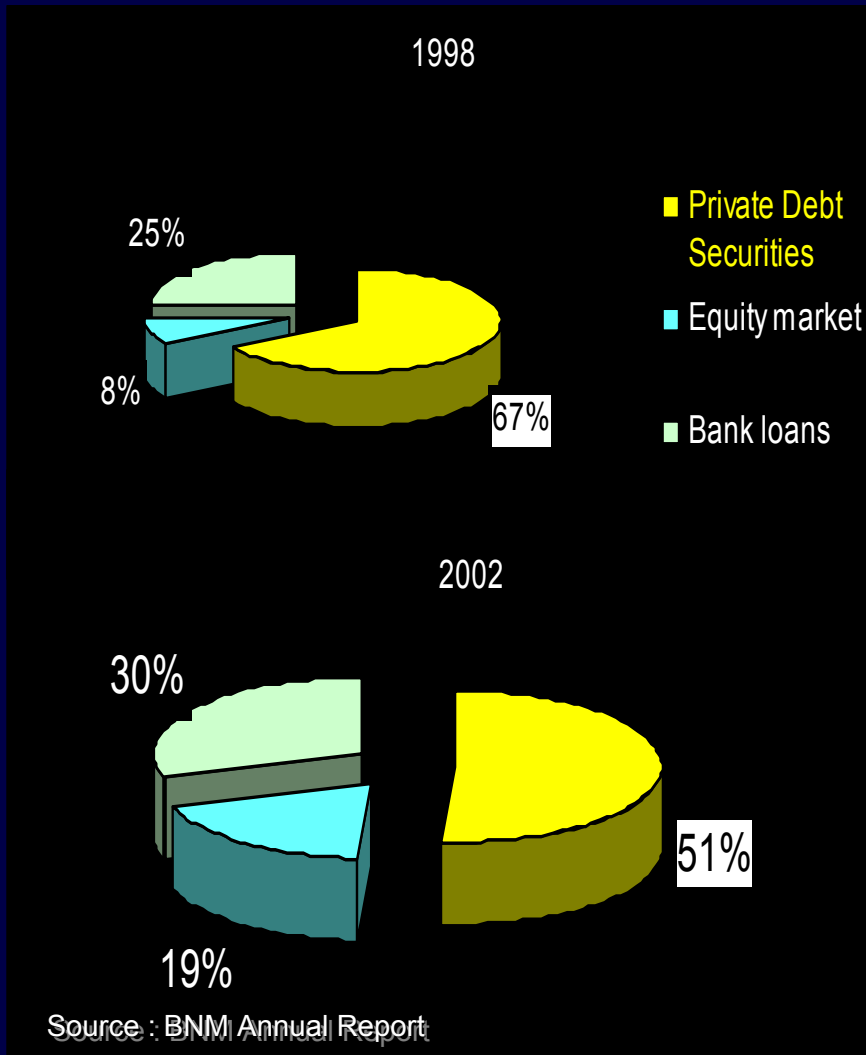
Total private sector bonds



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

Sources: IMF; national data; BIS.

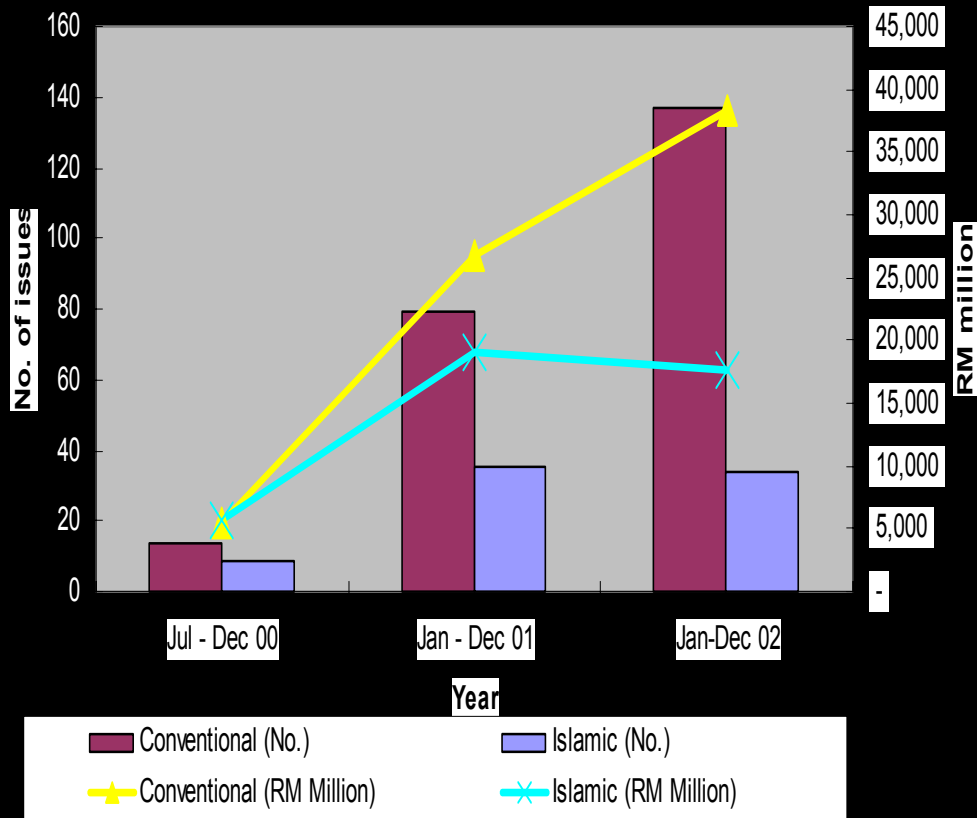
# Financing for private sector



- PDS emerged as the largest source of private sector financing in the aftermath of the 1997 financial crisis
- In 2002 it provided RM36.2 billion or 51% of total gross domestic funds raised by the private sector compared to 67% in 1998
- This reduction in 2002 was largely due to the active IPO market last year
- Going forward, PDS will remain as a dominant and competitive source of financing

# Approval of PDS issues by the SC

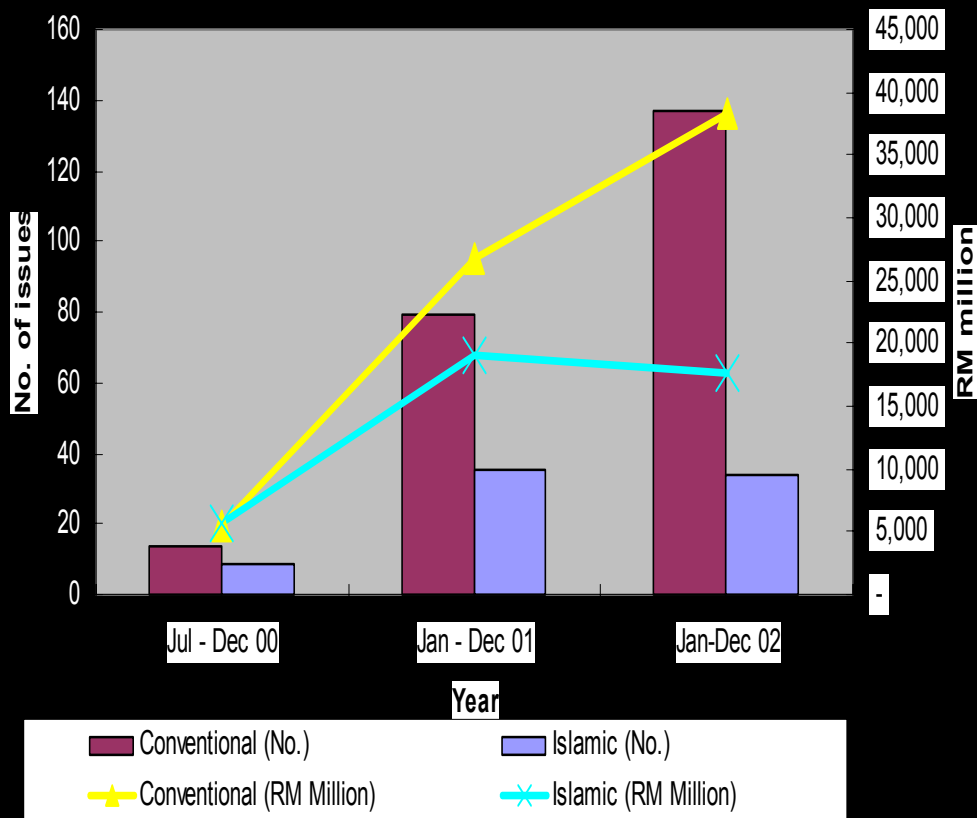
Total PDS issues approved by the SC (July 2000 - December 2002)



- Total PDS approvals from July 2000 to end-2002 have displayed an increasing trend
- Since 1 July 2000, the SC has approved 308 PDS proposals under the PDS and ABS Guidelines, with a total approved issuance limit of RM112.84 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 (contd.)

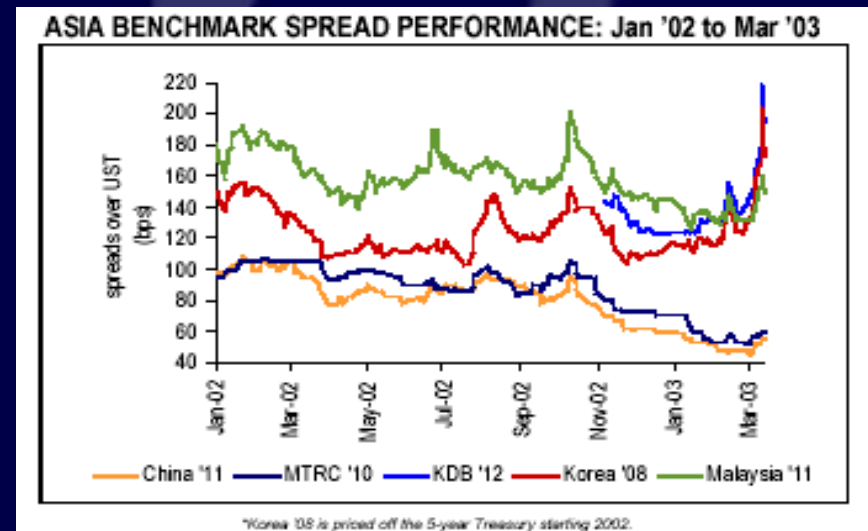
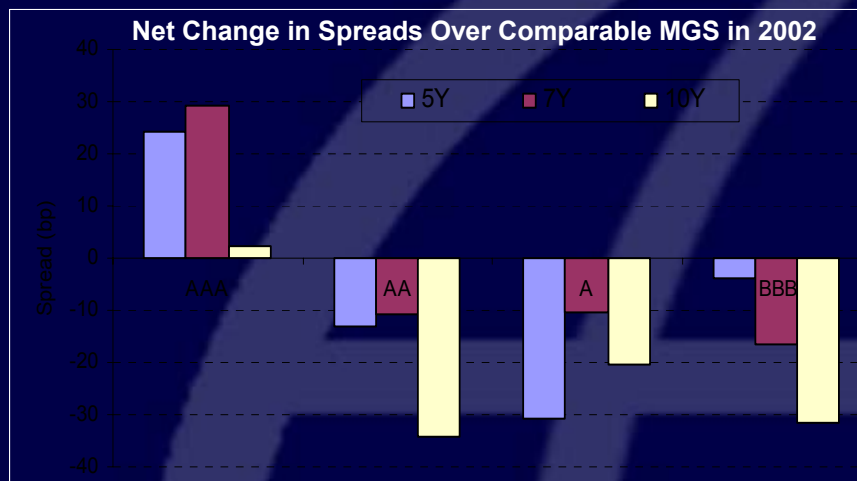
Total PDS issues approved by the SC (July 2000 - December 2002)



- A significant amount of bonds approved by the SC is rated A and above. Out of the total 169 rated PDS proposals approved by the SC thus far, only 28 proposals (mostly debt restructuring scheme) are initially rated at BBB and below
- 54% of value of approved PDS proposals thus far have maturity periods of more than 7 years

# Converging credit spreads

- Credit spreads for PDS over the MGS continue to converge in 2002, except for AAA-rated PDS
- The tightening of these credit spreads reflects gradual shift by domestic investors to PDS that are rated below AAA
- However, on an overall basis, the pace of tightening in credit spreads for PDS has decelerated as compared to those recorded in the last few years
- A small tightening of credit spreads over US Treasury is also observed in first quarter of 2003 for Malaysian sovereign bonds that are currently rated BBB+/Baa2

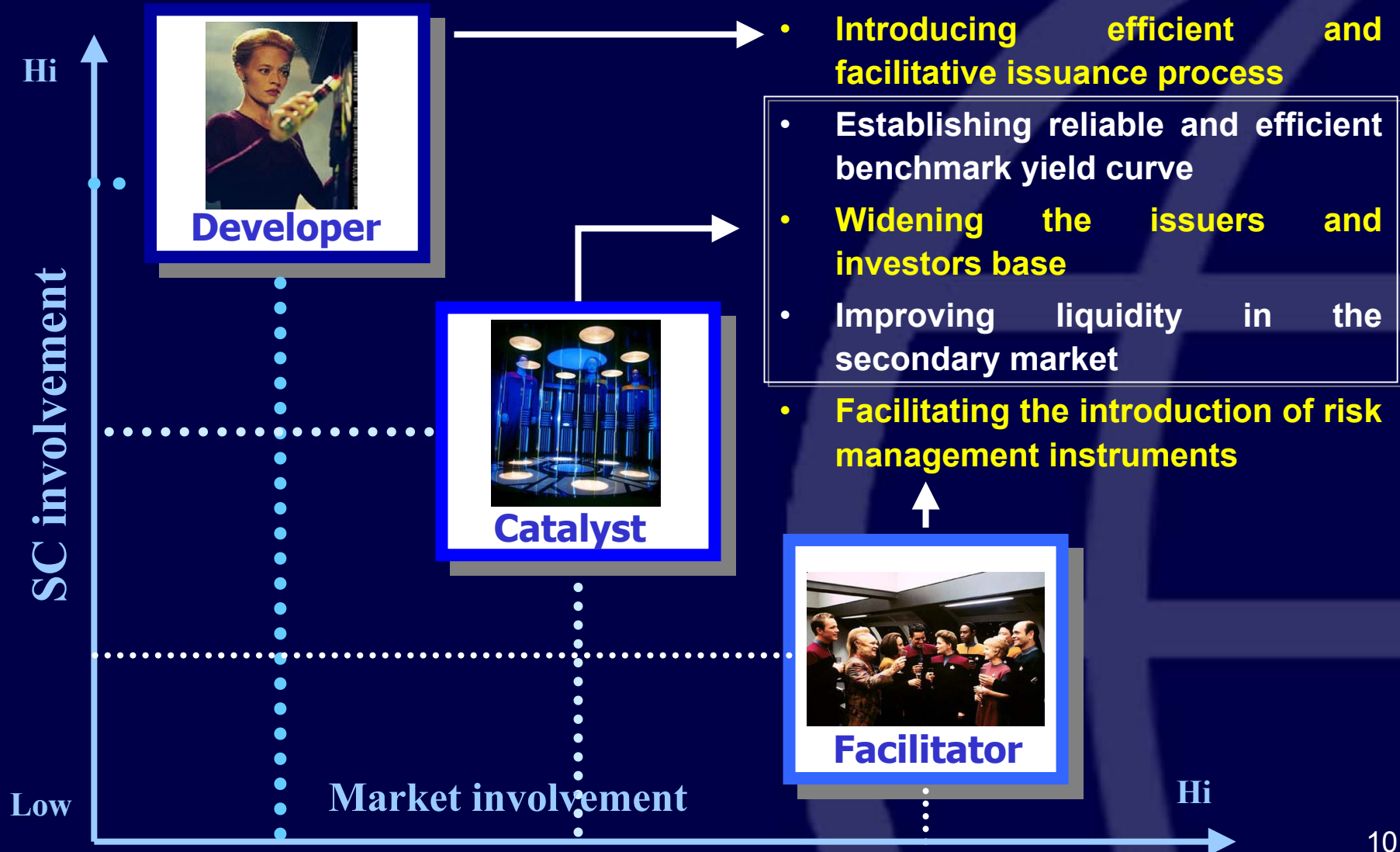




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# SC's developmental framework for domestic bond market



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# Regulatory efforts undertaken to develop the bond market

**Introducing efficient and facilitative issuance process**

**Establishing reliable and efficient benchmark yield curve**

**Widening issuers and investors base**

**Improving liquidity in the secondary market**

**Facilitating introduction of risk management instruments**

**Release of PDS and ABS Guidelines (revised on 30 March 2003)**

**Introduction of auction calendar for MGS**

**Broadening of investors base under the Schedule 2 and 3 of SCA for OTC market**

**Non-financial institutions are allowed to enter into repo transactions**

**Introduction of 5 years MGS Futures**

**Release of Asset Securitisation Report**

**Review of principal dealers system**

**UBs are allowed to trade in OTC market**

**Securities Borrowing and Lending Programme is introduced via the RENTAS system**

**Introduction of shelf regulation scheme**

**ABS is introduced together with tax neutral framework**

# Thrusts towards revision of PDS & ABS Guidelines

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- To make the issuance process more cost effective and practical for issuers
- To provide greater issuance flexibility & time-to-market
- To rationalise and enhance information disclosure

***SC aims to continuously review its requirements to be more facilitative of market needs***

# Key Changes to PDS and ABS Guidelines

- **Facilitative requirements for debt programmes**
  - 7 year restriction removed for scripless stand-alone MTN programmes
  - 2 year period given for first draw-down instead of 6 mths
  - New disclosure requirements at each draw-down to aid investors
- **Clarity and flexibility to issuers**
  - Minimum level of subscription is not required if utilisation is for working capital
  - Flexibility to issuers to adjust to market conditions by allowing for some types of information to be indicative, e.g. modes of issue
  - Some Syariah concepts and principles are further clarified

# Key Changes to PDS and ABS Guidelines ...

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- **More streamlined issuance process**
  - Overlaps with Issues Guidelines are clarified and there is convergence of documents required under both guidelines
  - Information required to be submitted is streamlined (e.g. term sheets, declarations, removal of summarised rating reports for ABS submissions)
  - For ABS, greater clarity in revised definitions for credit enhancement, circumstances where originators may re-purchase assets and circumstances where an SPV can be dissolved

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# Future development in the bond market and regulatory challenges

- **The SC is seeing greater product innovation in bond market to meet new demands of issuers and investors:**
  - ❖ **Structured products**
    - ✓ where existing bonds and/or equity instruments are repackaged as new investment product
  - ❖ **ABS**
    - ✓ where non-typical structure e.g. synthetic securitisation and wholesale securitisation may be introduced
  - ❖ **Islamic securities**
    - ✓ where principles such as ijarah and mudharabah may be employed
- **The SC will engage the industry soon to create an appropriate regulatory framework that accommodates these new instruments**

# Future development in the bond market and regulatory challenges ...

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- **There will be introduction of bond trading portals that would allow bonds to be traded electronically**
  - Benefits of price discovery and greater liquidity for the bond market
  - There are issues in linkages with existing bond market infrastructure, ensuring investors protection and resolving overlapping legal provisions that govern these portals
- **The SC is working closely with BNM to develop an efficient and facilitative regulatory framework governing these trading portals**



**Thank you**



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