

Malaysian Capital Market Summit 2000

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

Wong Sau Ngan

Securities Commission

13 June 2000



Outline

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



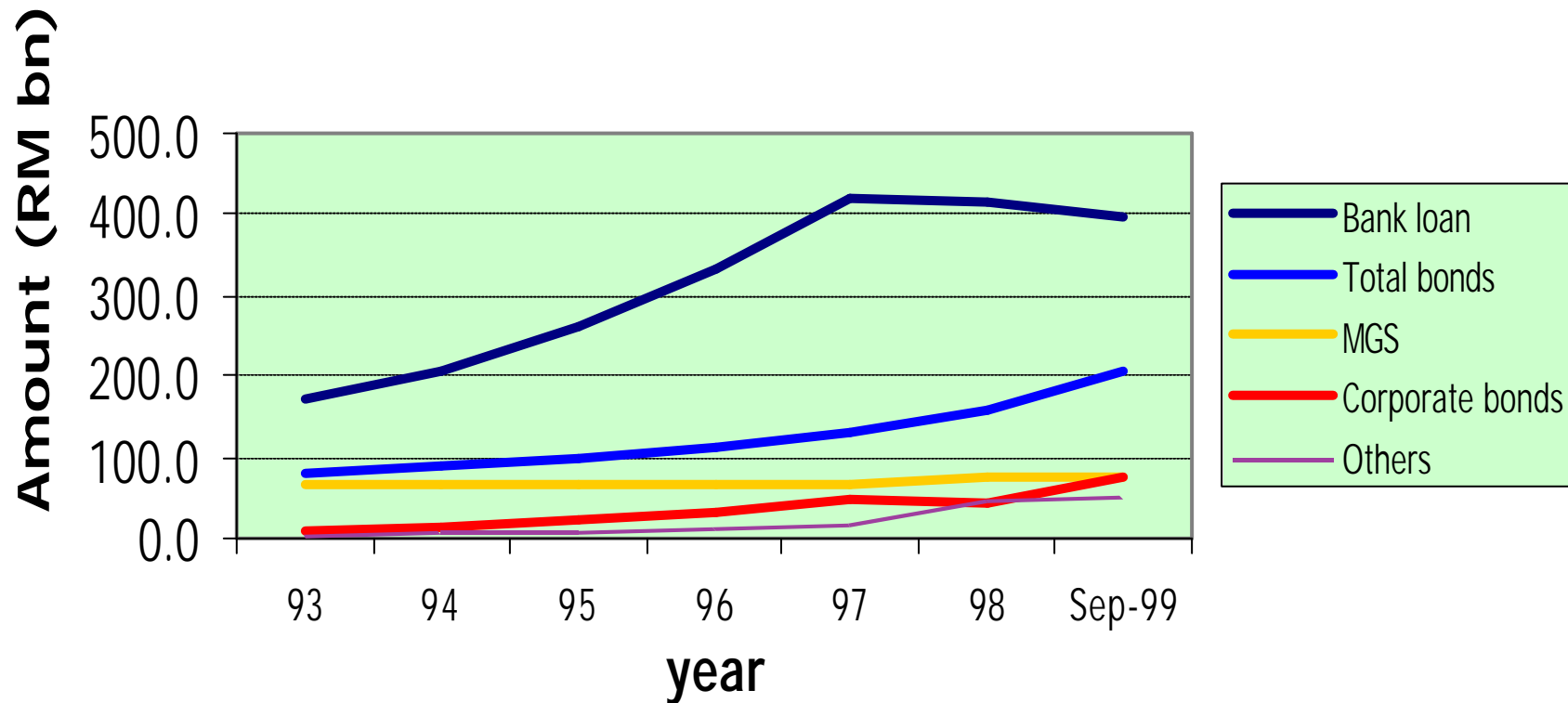
Background

- **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



Key Requirements of an Efficient Bond Market

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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

