

## DJ: Malaysia to Set Up Bond Pricing Agencies

Details of the bond-pricing agencies and tighter rules for credit rating agencies, will be unveiled by the end of this week by the industry regulator Securities Commission, Nor Mohamed said later at a press conference.

The Commission is currently in negotiations with "one or two" parties to set up the bond-pricing agencies before the year end, he said.

The bond-pricing agencies are expected to develop fair value prices for all tradable bonds, taking into account the structure of bonds, prevailing market conditions and the industry of the issuer.

The availability of independently derived bond prices daily is essential, especially to unit trust firms, said Nor Mohamed. The unit trust firms are among the country's largest bond investors.

There are currently two credit rating agencies in the country, Rating Agency Malaysia, or RAM and Malaysian Rating Corporation or MARC.

RAM is gearing up for the launch of the country's first bond pricing agency via its associate company BondwebMalaysia Sdn. Bhd.

Bond trading in the domestic market is thin with analysts estimating that only 2%-3% of the more than MYR300 billion outstanding corporate and government bonds, traded daily.

The lack of interest in the illiquid bond market has been largely attributed to the absence of good quality bonds and the lack of a daily, independent pricing mechanism.

A regulated bond pricing service would help provide credible, reliable and independent pricing to investors.

For 2005, the Securities Commission had approved MYR63.2 billion worth of corporate bond issues, of which 70% is Islamic debt, Nor Mohamed said.

Islamic bonds are structured along religious principles, with the requirement that the issuer must be involved in activities deemed legitimate under Islam. Since Islam forbids interest payments, bonds may either carry a zero coupon or pay a profit rate, effectively a coupon. Islamic bonds paying a profit rate are usually sold at a premium while zero coupon bonds are sold at a discount.

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