

## **25-01-2006: Bond-pricing agencies must have RM10m insurance cover**

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Bond-rating agencies must have a minimum RM10 million in indemnity insurance to cover the risk of its operations, according to the Securities Commission's guidelines on the registration of bond-rating agencies.

The SC guidelines, which came into effect on Jan 25, stated applicants must also provide daily fair prices for at least all ringgit-denominated bonds, excluding irredeemable convertible unsecured loan stocks, which are tradable in the over-the-counter market.

The SC said the "bonds" include securities issued or guaranteed by the federal and state governments, Bank Negara as well as corporate bonds and Islamic securities approved by the SC.

The SC guidelines were a result of the government's intervention to provide better safeguard and boost confidence in the debt market, which had been lacking minimum standards as well as any fair and credible bond-pricing agency.

It said applicants must also use relevant data obtained from reliable sources in determining the fair prices of bonds.

"In particular, the data on transaction price must be obtained directly or indirectly from a centralised trade reporting system that is recognised by the SC," the regulatory body said.

According to the SC guidelines, in cases where a credit-rating agency is also a shareholder in the applicant, the applicant must only use publicly available credit information in arriving at the fair prices for bond issues rated by that credit-rating agency.

"The applicant must formulate sound and well-established pricing methodologies for bond-pricing and apply these methodologies consistent," it said.

It said applicants must at all times employ at least two qualified bond-pricing specialists with at least five years of relevant working experience each in either bond trading or in areas related to bond-pricing.

On the fee structure, the SC said the applicant must impose a reasonable amount of fees for its bond-pricing services. The quantum shall be proportionate to the costs involved in setting up and operating its bond-pricing services.

"The applicant must develop a clear and consistent fee structure for its pricing services which must be duly disclosed to its customers upon their request. The applicant must distinguish the fee chargeable on bond-pricing services from its other auxiliary services," the SC said.