

Launch of retail bond market delayed

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KUALA LUMPUR: The proposed participation of retail investors in the local bond market will be delayed due to issues in developing a framework to facilitate the offering of corporate bonds to retail investors, says Bond Pricing Agency Malaysia (BPAM) CEO Meor Amri Meor Ayob.

According to the Securities Commission's (SC) Capital Market Master Plan 2 (CMP2), unveiled

last April, the bond market was due to be liberalised for retail participation in the first quarter of this year. But since then there has been a lack of updates on the matter.

"But... I do understand where [the regulators] are coming from," said Meor at a media workshop on the Malaysian bond and sukuk markets yesterday.

He explained that the local bond market has traditionally been the domain of institutional investors such as the Employees Provident Fund (EPF), Kumpulan Wang Per-

saraan (KWAP) and major banks and financial institutions.

As such, private debt securities (PDS) would usually be sold at RM5 million per lot and Malaysian Government Securities (MGS) at RM10 million per lot. While this is not an issue for institutional investors as they have the capacity to buy such lots, it would be a problem for retail investors, he said.

Regulators also have to figure out a pricing mechanism for the cost of transaction as well as the brokerage fees per lot for retail

investors, added Meor. "It has to be affordable enough for the man on the street, without compromising on the returns for the retail investor."

In addition, the SC will have to decide on what institution would be most suitable to act as an agent or broker to these investors.

"The natural choice would be banks as they have the network, cash and the payment systems. However from an operational point of view, would they want to do that at the cost of cannibalising their

income from fixed deposits (FD)?" he continued.

Meor said even if there is a 20 basis point discrepancy in coupon rates and FD rates, assuming the coupon rate is higher, the retail investor would be attracted to the higher rate and this would compromise the position of a bank's FDs.

Above all, Meor said the public must be educated for the successful implementation of the retail bond market as it is very different from the stock market.

Clarification

WITH reference to the article published yesterday entitled "Launch of retail bond market delayed", the views expressed by Bond Pricing Agency Malaysia CEO Meor Amri Meor Ayob were his own and did not indicate any timeline or problems faced by the relevant authority. The error is regretted.