

# Room to widen retail participation in bond market

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**KUALA LUMPUR:** The pool of retail investors in the bond market can be widened by allowing the man-on-the-street greater access to government securities.

Currently, retail investor participation in the domestic bond market is minimal compared to institutional investors and high net worth individuals who make up the bulk of demand for government and corporate bonds. Retail investors' only exposure into the bond market is via bond funds managed by unit trusts.

Bondweb Malaysia Sdn Bhd chief operating officer Meor Amri Meor Ayob said retail participation in trading of bonds was definitely possible, however, market education was important, as retail investors in Malaysia were less exposed to workings of the bond market than the more established equities market.

With the current uncertain conditions in the equities and corporate bond markets, the safer avenue for retail investors was government securities, he said.

"Currently, government bonds are only open to professional investors. To allow retail investors to participate, a separate retail issue could be created," Meor Amri said in a recent interview with *The Edge Financial Daily*.

However, the retail issues needed to be traded at a different platform than those open to institutional and higher net worth investors. This is because at present, trading of government and corporate bonds was done over the counter at inter-bank level with a minimum trade amount of RM5 million.

Currently, only licensed inter-bank players under the Banking and Financial Institutions Act and universal brokers approved by the Securities Commission are permitted to trade government securities.

However, as it wouldn't be cost effective for banks to trade retail issues in the same way as they did larger denominated ones, a better alternative would be for the central bank to allow retail investors to purchase government bonds at their



**Meor Amri.** Photo by Suhaimi Yusof

branches or via appointed banks, Meor suggested.

These avenues currently don't exist and neither do processes that facilitate retail trading in bonds.

"A separate clearing house, payment gateway and central depository system need to be created the same way as for equities. Some banks can be appointed to quote at the retail level," he said.

Meor Amri added that retail participation in government bonds had already been implemented with some success in Indonesia, via its Indonesian retail bonds (ORI).

The ORI bonds are attractive to retail investors as they offer better yields and lower credit risk than corporate bonds and other fixed income instruments, Meor Amri said. The recent ORI004 issue for instance had a coupon rate of 9.5%.

He added that the government of Indonesia had created a separate exchange, payment gateway and central depository to give retail investors access to these bonds. The bonds were issued by the government to help fund economic growth activities, he said.

Indonesia's Ministry of Finance kick started the sale of government retail bonds in the primary market in 2006 to encourage demand for smaller denomination bonds and hence increase the investor base and market liquidity.