

BPAM's service could price bonds cheaper

RPS aims a to give fair price for a proposed bond

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KUALA LUMPUR: Bond Pricing Agency Malaysia Sdn Bhd's (BPAM) Reference Pricing Service (RPS) could reduce price discrepancies between primary bond issues and secondary market trades, and provide an alternative to issuers for prices negotiated by investment bankers or bond arrangers.

BPAM chief executive officer Meor Amri Meor Ayob said the product was aimed at giving the fair price of a proposed bond issue, based on the current interest rate and economic environment.

He said market studies by BPAM of AAA-rated to A-rated bonds indicated "very high" price discrepancies between the coupon rate of new bonds and the yield on bonds in the secondary market, as indicated by Bank Negara Malaysia's (BNM) consolidated class curves.

A bond's pricing will indicate the yield investors receive for purchasing the bond. The yield is the rate of return for buying the bond, while the coupon rate is the bond's

interest fixed at its issuance.

"Our (pricing) methodology is the same, whether it is at the primary or secondary level. There should not be a change in price. What is the difference between the primary market and the secondary market?"

"The interest rate environment is the same, the credit rating is still the same, the risk is still the same, the asset you're selling is still the same. So there should not be a discrepancy in price," Meor Amri told *The Edge Financial Daily*.

He said there was not a large time difference between when a bond was issued and when it began trading in the secondary market.

"We assume the secondary pricing can be pushed inwards into the primary market. It doesn't make sense, if there is a large change in yields overnight, unless we're a country like Bolivia or Zimbabwe. In Malaysia, the market is quite stable. Theoretically it can happen, but it should not," he said.

Meanwhile, BPAM's market studies also indicated a descending trend in the traded yield of a bond within a month after its issue. The traded yield is the profit or loss made for the trade of a bond, which is done in the secondary market.

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Meor Amri

the fairest price, because that is the price which people at the secondary market are willing to buy and sell. We will give you all the information to justify the price," he said.

Meanwhile, Meor Amri said BPAM had priced a handful of corporate issuances, with further plans to "slowly approach the market" with its service. Its list of clients is, however, confidential.

He said the RPS could help issuers by providing the information required to make evaluated, informed decisions regarding the pricing of their bond issue, which could then be brought to the table when an issuer was in discussions with its investment bank or arranger.

He emphasised BPAM's role was restricted to advising its corporate clients on the bond reference price, adding it did not have a relationship with the bond arranger and did not negotiate with the bond arranger regarding the pricing on behalf of its client.

Incorporated in 2004, BPAM's main role is to provide fair valuations on bonds in the market, complying with regulations issued by the Securities Commission. It was appointed Malaysia's first bond pricing agency in 2006.

BPAM's market studies showed within one month of a bond's issue, its traded yield descended quickly, in comparison to BNM's consolidated indicative yield which remained stable.

BPAM's RPS could be used to reduce the spreads between a bond's yield at issuance and its yield in the secondary market.

Meor Amri said BPAM's pricing methodology, which it has been perfecting at the secondary level, could be used at the primary level.

"On our side, we tell you that is