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Singapore stands out as an eye-catching example of growth even in a region that has, as a whole, made impressive strides forward in bond market development. While its ASEAN neighbours have gradually increased the number of issuers and investors in their markets, Singapore's regulators have managed to add whole new asset classes, sharply increase secondary liquidity, and attract foreign issuers in droves to a market that is starting to offer serious competition to offshore dollar bonds. But deal sizes in the city-state remain relatively small, and – to the dismay of ASEAN policymakers elsewhere – Singapore's investor base rarely strays offshore. ASIAMONEY looks back at how the market has got where it is, and takes a hard look at where it's heading.

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# Tracking the path of a tiger

Thailand is in many ways typical of bond markets across the ASEAN region. Its corporate bond market, though growing quickly, is still a fraction of government bond volumes. Secondary liquidity is still a problem. Cross-border participation is still a huge opportunity. But in other ways, Thailand stands out from the crowd. The willingness of investors to accept lower-rated credits in the country is one thing that issuers in many other Southeast Asian markets can only dream of - and the relatively small foreign holdings of government bonds provides an interesting data point for a region that is still struggling to find the right balance when it comes to foreign inflows. ASIAMONEY talks to a variety of senior market participants to find out what Thailand can learn from its neighbours, and what lessons it can offer them.

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**LEE KOK KWAN**, DEPUTY GROUP CHIEF EXECUTIVE, CIMB GROUP

**SIEW SUET MING**, HEAD OF STRUCTURED FINANCE, RAM RATING SERVICES

**ASIAMONEY [AM]:** *One of the things we've found in previous events concerning the Asean (Association of Southeast Asian Nations) market is that corporate bond markets cannot really be discussed in isolation. Instead, you need to see the development of corporate bond issuance in the context of the government bond market. How do we push flows from government bonds to corporate bonds?*

**LEE KOK KWAN, CIMB GROUP:** Thailand's government has a big capacity to borrow at the moment. Today, government debt is only around 47% of GDP (gross domestic product), compared to 105% for the US and 87% for the UK. This is making us bullish on the chances of the government bond market growing further, but it is not the only reason. Thailand's savings rate is very high, similar to other Asean+3 nations. That means there is always built-up liquidity that can be unleashed. It also helps that Thailand's debt is overwhelmingly denominated in local currency.

We have learned previously that a reliance on foreign currency financing is toxic; there is always the chance of lending lines being suddenly frozen by credit committees sitting many time zones away.

The focus for all of us is on the continued development of both the local government and corporate bond markets. There is certainly

room for both of these markets to grow together. I don't see any crowding out of corporate bonds by the government bonds. Bear in mind, the market is so self-sufficient that Thailand is able to impose a withholding tax which deters hot money investors from outside of the country from coming into the market. The growth of both is going to be strong, and sustainable.

**TOM BYRNE, MOODY'S INVESTORS SERVICE:** I'd just like to qualify something. Foreign currency funding can be toxic - although it is often driven by a basic need from shallow domestic capital markets - but if we just focus on the Asian financial crisis, it is true that there was an over-reliance on foreign currency funding and too many maturity mismatches, but that was just a symptom of the problem. The problem was that there was an excess of leverage in the system, poor corporate governance, moral hazard: all of these factors led to the crisis that occurred.

The countries that did the best after the crisis went through immense restructuring in response to the crisis, and the industrial and banking landscapes are completely different now. We shouldn't just focus on where the funding is coming from, but we should look at the structure of Asian economies. The country where we see the most

problems right now is Vietnam, which has some of those same problems: poor corporate governance and too much leverage.

**AM: What is your outlook for government borrowing in Thailand at the moment?**

**BYRNE, MOODY'S:** The government deficits themselves aren't all that large, but the government does have a large infrastructure programme that it needs to fund over the next five years or so. There will certainly be more government bond issuance in Thailand over the next few years.

The debt levels in Thailand are relatively low, although the debt level doesn't tell the full story. The more important factor is that the government has a full faith and credit reputation. It's true that the US government has more debt as a percentage of GDP than, say, Thailand, but the US government has a much lower cost of funding.

**KWAN, CIMB:** On the corporate governance front, we are not perfect. But governance is a problem that occurs everywhere in the world, not just in Asia, which is clear when you look at Enron, or the blow-up in the US, or the problems in the European banking system. There were a lot of lessons learned from the Asian financial crisis, but it is clear that Asia has vastly improved since 1997 and 1998 when it comes to maturity and currency mismatches as well as governance problems, and yet ratings have not followed suit with these drastic improvements.

A lot of European sovereigns and banks were rated much higher than even Asian sovereigns today. If we were to rely on ratings entirely we would have allocated a lot of our assets into European banks and sovereigns going into 2011. We would have been hurt by the problems there and would have completely missed the performance in the Asean region.

The savings rate here [in Thailand] is very high, the country is so self-reliant, the current account and fiscal account are very attractive to foreign investors, yet the country is still rated below many European sovereigns. This is very tricky because it caps the ratings of all corporations in the country.

**BYRNE, MOODY'S:** We have foreign currency and local currency ceilings which, for most countries, are actually higher than the government bond rating. In Thailand, for example, based on its intrinsic credit fundamentals, a corporation can be rated 'A2' in foreign currency, and 'A1' in local currency, whereas the sovereign is rated 'Baa1' in both local and foreign currency.

But I would like to stress that a rating is an opinion and we hope the opinion is informed and objective.

**SIEW SUET MING, RAM RATING SERVICES:** As a Malaysian based rating agency, we are close to the region and we do see the differences. We probably take a more favourable view of the growth prospects this region has. We are very optimistic about the Asean region. We have recently launched ratings across the region, and we hope to take advantage of this need for alternative opinions. Thailand is a good example: we actually rate the country higher than Moody's, Fitch and Standard & Poor's.

**AM: Yingyong, around 70% of GPF's holding is in fixed income. How much of that is held in government bonds? Do you want to see more corporate bond issuance?**

**YINGYONG NILASENA, GOVERNMENT PENSION FUND:** We hold almost 50% of our portfolio in government bonds, and even though the government issues almost exclusively in Thai baht some investors still question whether there is enough supply. The PDMO (Public Debt Management Office) has been trying to develop the debt market lately, and has com-



mitted to supply benchmark bonds into the market, so hopefully government bonds will pick up.

There is still very strong demand for corporate bonds. There is simply not enough supply at the moment. The figure alone is misleading. When you look at the numbers, you see that last year there was about THB500 billion (US\$15.56 billion) of issuance. But of that amount, THB200 billion came from bank capital bonds, which were targeted mostly to individuals, so only THB300 billion was earmarked to institutional investors. There is more than enough demand to absorb an increase in corporate bonds.

Some corporations do not want to come to the corporate bond market. They realise they can borrow from banks, which for small corporations is much easier and less costly.

**AM: How developed is the corporate bond market right now – and what steps do we need to take to get it to the next stage?**

**NIWAT KANJANAPHOONIN, THAI BOND MARKET ASSOCIATION:** I believe that most corporates in Thailand still rely on bank lending, and if





**SANJAY AHUJA**  
INDORAMA VENTURES

We not only need to make it easier for investors to access the primary market, we also need to improve liquidity in the secondary market.

**SANJAY AHUJA, INDORAMA VENTURES:** I agree with most of those points. There is certainly ample banking liquidity, and that has made a lot of corporates rely on the bank market rather than coming to the debt capital market. But in the last few years we have seen a lot of companies in the retail, property, chemicals and leasing sectors, for instance, entering the bond market. That is something we didn't see before. I would compliment the Thai BMA and the local ratings agencies on this, because I know they have done a lot of work.

I can vouch for what Niwat is saying. Since 2011 we have tapped the bond market four times, and I agree that it is not a very cumbersome process. We realised that we needed to diversify because we were making a lot of investments. We would like to remain a regular player in this market. We improved our maturity profile, there were lower covenants, and there was less of a reporting need when it came to covenants than we find on our bank loans.

We certainly need to develop in the direction of getting lower-rated corporations to issue bonds, and secondary liquidity needs to improve as well.

we're going to develop the corporate bond market in Thailand we need to consider how we encourage these borrowers to move away from bank loans and move towards bond investors.

A key factor is lowering the funding cost, but the other factor is stressing the diversification benefit of the bond market. Most banks will only provide short-term funding to their clients, and for most companies that means long-term funding is only available in the bond market.

In the last two years, we have seen the strong growth of Thai corporate bond [issuance]. The SEC has already done a lot of work in making the market easier to access, and trying to make some medium-sized corporations able to access the market without ratings, as long as they are only selling to professional investors. That is a good idea. We need to make it simpler and less costly for companies to come to the market.

But to encourage buyers to come to the market in greater numbers, we also need to focus now on making the market more liquid.

**WASUKARN VISANSAWATDI, THAI AIRWAYS:** We have been issuing in the domestic bond market for the last 10 years, and we think the direction the market is developing in is very good. We are different from many other corporations in the country because our net cash flow is not denominated in Thai baht. We make use of aircraft finance, which needs to be in foreign currency, but we also make use of the Thai baht market for debt repayments. That comes from a mix of bonds and bank loans.

The balance sheets of banks have become limited, so the Thai baht bond market has become a lot more important to us. It feels as if we can borrow as much as we want in the bond market at the moment. Moreover, we can enjoy good swap rates from Thai baht into euros. That helps us to decrease the cost of our euro-denominated debt.

There is still a lot of interest in Thai baht bonds from investors. We still get very good pricing, so for us right now the market is very convenient.



**TOM BYRNE**  
MOODY'S INVESTORS  
SERVICE

**SIEW, RAM:** The corporate bond markets in Thailand, Indonesia and Malaysia have all shown very rapid growth in the last few years. But when you look at these bond markets as a percentage of GDP, in Malaysia that's currently standing at around 45% and in Thailand it is only around 20%. There's still a lot of room for further development from that perspective.

When we look at access for corporate credit, Thailand stands out once again. The level of access to the bond market is spread across a much wider credit spectrum than we see elsewhere in the Asean region. The recent decision of the government to allow individuals to buy high yield bonds is another positive move in this direction. The market is developing very nicely. There is, of course, still work to be done but when you look at other markets, there is much less access to corporate credit. In Malaysia, there is little demand for [corporate bonds with a credit rating of] anything less than double-A. In Indonesia, anything less than single-A is very difficult to sell.

**KWAN, CIMB:** The acid test of any financing avenue is whether it's reliable or not. For many Thai corporations today, the bond market has become a very reliable source of fixed rate funding. We are in a hyper-competitive credit market where spreads are probably lower than anywhere in the region, apart from maybe Singapore.

**NILASENA, GPF:** The proportion of corporate bonds in other Asian countries is a lot larger than in Thailand, and one key reason is that most of these other markets are benefitting from big supply from state-owned enterprises. But in Thailand most of these state-owned enterprises do not have credit ratings, so an easy way to expand supply would be for these companies to be encouraged to get ratings and start funding more in the bond market.

We do, however need to improve the structure of products, because the market is still very plain vanilla. The more investors got used to pricing in credit enhancement or other structural features, the more attractive the market would look to issuers.

**AM: What are the key areas of growth you are expecting in the Thai baht bond market?**

**KWAN, CIMB:** We think the property and energy sectors will continue to be among the main components of bond volumes. Retail participation in property companies has been quite strong, because they benefit from strong name recognition. The one factor that will hold volumes back a bit is that these developers tend to only tap the market in relatively small size, but that is no doubt a prudent decision on their part.

Issuance from the banking sector is likely to moderate significantly with Basel III [bank capital regulations] coming in. In 2012, we saw a lot of subordinated debentures being issued, and since January 2013, the Basel implementation has made things more challenging for banks, due to the loss absorption features. But there are plenty of opportunities for growth from corporate issuance which will help to make up for this fall in bank issuance.

**KIYOSHI NISHIMURA, CGIF:** Thailand is quite a unique case. The main objective of the CGIF is to facilitate access to the corporate bond market for credit-worthy corporations and to diversify the issuer base. Thailand has become a really interesting market. As a few people have already mentioned, most other Asean markets have ratings cliffs, but here over 40% of issuers that come are single-A rated and about 10% are triple-B. That actually means the Thai market is quite a challenging market for CGIF, because the credit enhancement is not as essential as it is elsewhere.

There is still, going forward, a need for relatively small companies to tap the market, and the regulators still need to introduce a mechanism to allow these small corporations to enjoy the benefit of capital market funding by pooling loans to these small companies through securitisation. I think you really need to develop a securitised type of product, but there is certainly room for that in Thailand.

**AM: Based on what you've said about the lack of a ratings cliff in Thailand, it seems that – in the long-term, at least – the likely role of the CGIF would be to guarantee Thai companies that want to go to overseas markets, rather than offshore companies that want to raise baht. You have already guaranteed a THB2.85 billion bond from Noble Group in this market, but do you agree that is likely to be the main direction?**

**NISHIMURA, CGIF:** That's another very important area we want to look into. Promoting cross-border issuance from Asean companies is one of our clear aims. We are rated 'AA+' by Standard & Poor's, which can be translated into a triple-A rating by local rating agencies in most of Asean markets, so Thai companies that issued in other markets with a CGIF guarantee would be able to get that same rating as CGIF's in these markets.

Many Thai companies are now expanding their businesses to neighbouring countries and they need to diversify their funding sources. They may face difficulty in tapping other regional financial markets,



especially because their ratings may be constrained by the Thai government's rating in these markets.

**BYRNE, MOODY'S:** The rating of a corporation in most cases will be constrained by its own fundamentals, not by a sovereign rating. We do have a ceiling that is determined by the rating of a sovereign, but you can pierce that ceiling if the structure of the company allows it – for instance, holding most of its assets offshore.

**KANJANAPHOOMIN, THAI BMA:** Going back for a moment to the comparison between Thailand and elsewhere, one thing that we haven't done in Thailand is to improve liquidity, and therefore narrow credit spreads. Retail investors hold more than 50% of corporate bonds, but what we don't have that Malaysia does have is a tax exemption for the capital gain. That makes it very expensive for investors to trade corporate bonds, so if the government wants to make the market more liquid a capital gains tax exemption would clearly help.





YINGYONG NILASENA  
GOVERNMENT PENSION  
FUND

**CHUNG CHEE LEONG, CAGAMAS:** One thing we have been exploring in Malaysia is to promote more investor participation in single-A debt paper by introducing a hedging mechanism for investors to manage risks associated with investing in lower-rated bonds. The company is currently working to establish a structured and regulated platform to offer an institutionalised credit protection mechanism to investors in exchange for a premium. It is envisaged that with a proper hedging mechanism in place, investors' aversion towards lower-rated bonds would be alleviated and over time issuers could benefit from competitively priced liquidity and help promote more issuance from lower-rated issuers. At present, there are only 30 single-A issuers against 128 in 2007 and this lack of diversity has compounded investors low risk tolerance.

The phenomena may not be relevant in Thailand since single-A bonds constitute 47% of corporate debt issued, but in Malaysia where single-A bonds only account for 5% of total corporate debt securities outstanding the initiative could provide a much needed help for the bond market.



WASUKARN  
VISANSAWATDI  
THAI AIRWAYS  
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**KWAN, CIMB:** The only way we are going to increase liquidity is by banks taking a bigger role in the bond market as market-makers and providers of liquidity. This is critical to make sure that there are fair prices for buyers and sellers day in, day out. But for banks to be long on inventory they need a hedging capacity; otherwise, if interest rates go up, there can be severe mark-to-market losses.

**AM: One of the things that will surely have sparked interest among the investors in attendance is the presence of Cagamas on this roundtable, since the company has not tapped the Thai baht market – at least not yet. What are your plans?**

**CHUNG, CAGAMAS:** We have been a domestically-focused organisation issuing ringgit bonds and buying ringgit assets for the last 25 years. We are currently exploring opportunities within the Asean region, including Thailand, and that complements the regional expansion of Malaysian financial institutions. We hope that by expanding abroad we can get better pricing, as well as diversifying our investor base. Appreciating the value-added potentials by going offshore, the company is currently in the midst of setting up its first multi-currency programme.

As frequent issuer in the domestic market we are widely regarded as proxy for the Malaysian corporate credit and pricing of our bonds is often used as benchmark to determine the credit spread of other corporate issuers. Therefore it is paramount for Cagamas to safeguard its current 'AAA' domestic rating to uphold investors' confidence in the corporate bond market. To this end, Cagamas practices a strict match-funding policy whereby all bond issuances are backed by asset purchases of closely matched size and duration therefore creating a self-sufficient cash flow structure.

As such for our business model to really work, we would need to purchase mortgage loans from the region and that is something we are still working on.

Besides the prospect of achieving lower funding costs and greater diversification of investor base, the company's regionalisation initiative would help promote other Malaysian corporates to international investors and hopefully increase demand for Malaysian private debt securities, especially from regional investors.

**AM: How can market participants, or the government, encourage other foreign issuers to come to the Thai baht market?**

**KANJANAPHOONIN, THAI BMA:** There is now around THB120 billion of baht debt issued by foreign issuers outstanding, which has grown from THB100 billion last year. There are still some foreign issuers eligible to issue before the end of the year, so the figure is going to grow even further. But the problem is that we have relatively strong restrictions on foreign issuers coming into the market, even though foreign issuers in Thailand usually sell private placements.

**NISHIMURA, CGIF:** Most foreign issuers coming to the Thai baht market over the last few years have been very highly rated, and a big chunk of the issuance has come from financial institutions. It is good for the market to diversify and bring in more foreign issuers.

We guaranteed the deal for Noble Group in April, and that was a very interesting case because, according to current guidelines, only companies that are single-A rated or above by international rating agencies could access the Thai market. Noble is a very good company, and has access to the international bond market, but it's 'BBB-' rated. They decided to use our guarantee, and the Ministry of Finance gave an exemption to Noble Group as long as they came to the market with a CGIF guarantee.

We would like to see more corporations come to the market, not just financial institutions. There are many companies in neighboring countries in the Mekong region that are interested in coming to this market because of their strong ties to the Thai economy and I think we can play a role in bringing these issuers to the market.

**AM: What about Thai issuers going overseas? What are the key factors holding that back?**

**AHUJA, INDORAMA:** One of the reasons why there has not been much dollar issuance from Thai companies is because there has been enough liquidity in the banking system. Banks can swap to dollars themselves and offer their clients dollar loans directly. That is what we have experienced.

We have been invested in North America and Europe for more than a decade and we found that when we went overseas most of our Thai banks followed us, and were able to give us good pricing. But right now, pricing has gone up. We are looking at various options outside of the country, whether in North America or in Singapore. But up to this point, we've always had the opportunity to obtain dollar loans from our banks.

**VISANSAWATDI, THAI AIRWAYS:** We do not have an international credit rating; we just have a local one. We are different from other Thai corporations in that we have a huge need for foreign currencies, but we are short US dollars. That is why we have diversified into other currencies, but right now we are sourcing our euros from Thai baht bonds that are swapped.

**SIEW, RAM:** It is good timing for companies in this region to fund overseas, because there is so much liquidity built up within the Asean region. There is no reason why more Thai companies cannot take advantage of that as much as companies elsewhere, but to really facilitate this growth we need to make sure capital markets across the region grow hand in hand. That is the trend we hope to see across the region over the next few years.

**KWAN, CIMB:** The liquidity in this part of the world is very real, but one reason we don't see more cross-border issuance is simply that companies have learned that in order to eliminate risks they should raise a lot of their funding in the domestic market.

The central banks in this part of the world are now very experienced at managing hot money flows. They have had a real stress test from the 1997/1998 Asian financial crisis and they have come out of it now with a lot of very useful knowledge. They have become much more reluctant to encourage too much US dollar funding, and one can ask: why do you need to rely on foreign investors when there is so much money offshore?

**AM: Foreign holdings of government bonds right now are about 16%, which is a lot less than other big Asean economies. Is the government being too strict in deterring foreign investors?**

**SIEW, RAM:** There's a very delicate balance in terms of foreign participation. You want to protect your own market, but you also want to keep the market open and liberal enough that there is enough liquidity. Foreign participation clearly helps boost liquidity. It is difficult to say whether 16% is the right number today, but even if it is it may not be the right number tomorrow. There is so much economic uncertainty surrounding the Federal Reserve's intentions, and it's unclear how that will play on foreign holdings.

**BYRNE, MOODY'S:** Foreign participation increases liquidity in the market and lowers the cost of funding for the government. Going back to the point I made before, one of the symptoms of the Asian financial crisis was an over-reliance on foreign currency funding. But we've since had



the US financial crisis and the European financial crisis which were not precipitated by foreign currency funding. The fundamentals, more than the funding, is what we really need to look at.

There are several ways to look at the issue as to whether you should have a lot of non-residents holding your debt. The percentage itself only matters if there is a lot of debt, and it needs to be refinanced. Thailand has had small deficits, and general government debt is relatively low too, so the exact percentage that foreign investors hold doesn't seem to matter so much.

The country that should be at the biggest risk from foreign investors is the US, because about 50% of its debt is held offshore. But because the government has not defaulted in its 224 years, the full faith and credit in the government is rock solid. A government that has a good reputation and a good track record can borrow offshore without facing a financial crisis because investors will have confidence in the government. That confidence might ebb and flow a little, but it will not be changed fundamentally.

**NILASENA, GPF:** The government is right to slow down hot money but in my opinion they should welcome more foreign investors into the market. I would be happy to see foreign participation in the bond market increase, as long as the money came from long-term investors.

**NISHIMURA, CGIF:** One thing that is clear is that when you look at the corporate bond market, foreign investors' participation is very low. One of the interesting things about the Noble Group deal was that about a quarter of the deal was bought by foreign investors. That is very rare for corporate issuances in the Thai baht market. These investors said that want to invest in the Thai baht market, but they have really only had government bonds available to them before due to their credit criteria.

**KWAN, CIMB:** There are two parts to questions of foreign participation. It is clear when you look at trade flows that inter-Asian trade is growing exponentially, and that makes it important to be able to fund in the currency you are doing business in. But the other part has to do with the macro-problem: Asean+3 is one of the major global suppliers of capital. The region is very good at manufacturing, very good at savings, but hopeless at investing. Too much of the money goes outside of the region, achieving very low returns. We need to develop the local currency markets to ensure that investments can be kept within the region. ▲

# Getting bigger, getting better

Singapore stands out as an eye-catching example of growth even in a region that has, as a whole, made impressive strides forward in bond market development. While its ASEAN neighbours have gradually increased the number of issuers and investors in their markets, Singapore's regulators have managed to add whole new asset classes, sharply increase secondary liquidity, and attract foreign issuers in droves to a market that is starting to offer serious competition to offshore dollar bonds. But deal sizes in the city-state remain relatively small, and – to the dismay of ASEAN policymakers elsewhere – Singapore's investor base rarely strays offshore. ASIAMONEY looks back at how the market has got where it is, and takes a hard look at where it's heading.

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**BOO HOCK KHOO**, VICE PRESIDENT, CREDIT GUARANTEE AND INVESTMENT FACILITY

**THOMAS MEOW**, HEAD OF CREDIT MARKETS, CIMB

**ASIAMONEY [AM]:** Singapore's bond market has grown significantly over the last few years. But at the same time as increasing new issuance volumes, the market has made strides forward in terms of secondary volumes, product flexibility and funding opportunities for unrated issuers. What have been the key drivers of this development?

**THOMAS MEOW, CIMB:** The quantitative easing in the US over the last few years have certainly helped, pushing a lot of liquidity into Asian markets as investors looked for a way to increase their yields. Interest rates hit an all-time low, and issuers had an incentive to issue as much as possible in maturities as long as possible, selling not just straight bonds but hybrids, *sukuks*, and other structures that were not really an option a few years ago.

The regulatory environment in Singapore has helped a lot too. The rules here are definitely more conducive to bond issuance than jurisdictions like Malaysia or Thailand. There is no approval required to issue, there is no rating required, and foreign issuers find it easy to come into the market. These things have certainly helped the growth of the [bond] market and, moreover, this presence of foreign issuers has helped develop the swap markets.

There are a lot of lessons that other Asean [Association of Southeast Asian Nations] markets can learn from Singapore's experience but, in particular, the key lesson seems to be making things straight forward for both issuers and investors. It is not just an issuer-side question. You need to attract a variety of investors to really develop a bond market.

**TOM BYRNE, MOODY'S:** Singapore is a very open economy, very dependent on global financial services and trade. That means it will move in tandem with the global economy, but from a credit perspective we don't see any strains on Singapore. The country's strengths remain a good infrastructure, a strong rule of law, a competitive investment environment, and still-prudent fiscal policy. The performance of the economy has not changed significantly since the global financial crisis – we have not seen the stellar performance we've seen elsewhere in Asia – but the fundamentals remain strong.

**PROMOD DASS, RAM:** Comparing the 'Asean five' [Singapore, Malaysia, Thailand, the Philippines, and Indonesia] against South Korea it is clear that the Singaporean and Malaysian local currency corporate

bond markets are relatively more advanced. Malaysia and Singapore have about a 60:40 mix between government and corporate bonds – in South Korea the numbers are reversed – and looking at the local currency corporate bond market, Malaysia and Singapore are again in their own league with the corporate bond market representing about 40% of GDP, compared to around 75% in South Korea. That is a stark contrast to Thailand's 17%, the Philippines' 5% and Indonesia's 2%.

**AM:** *Does the strong credit standing of Singapore compared to other ASEAN markets make it difficult for these other markets to apply lessons from Singapore's growth? Attracting foreign investors, for example, would seem a lot easier – and a lot more reliable – in a triple-A rated economy.*

**DASS, RAM:** You certainly can't apply a one-size-fits-all approach in the Asean markets. You need to look at each market in isolation to a certain degree. Singapore, of course, is a developed market but the rest of the Asean region is at a developing stage so the growth is coming from different areas. In Malaysia, for example, there were a lot of infrastructure projects that helped drive the bond market, aided by government privatisation. The trick is connecting the dots between savings in different Asean nations, and the need for those savings to be utilised to help the region grow. That is where the Asian Bond Market Initiative is heading. We are still at a point where not enough Asean investors are moving across borders.

**AM:** *Let's bring the issuers in for a moment. Can you tell us a bit about your experience of the Singapore dollar bond market, and what sort of comparisons you made between bonds and the bank lending market?*

**ALVIN CHENG, LMIR TRUST:** We looked at various types of funding sources. We had previously relied on bank funding, but some of our bankers came to us and suggested we tap the bond market. We considered the market, and the thing that really attracted us was the pricing and more flexible covenants. To our surprise, the volume we could achieve was being driven not only by the institutional investors but by private banks too. The private banks were the main contributor to Singapore's bond market growth last year, and it is because of all that demand that the average bond size rose about 20%-30% last year compared to what it was in 2011.

This year could well be different. Average bond issue sizes have come down quite a lot. In recent months, you see bond sizes of SGD50 million from companies that last year could issue more than SGD100 million without any problems. We're going through a period where we will see some pullback by investors, but there are still a lot of savings around the region. The money is still there, the appetite is still there, but for now investors are taking a cautious view. We are very positive that Singapore's bond market will continue to prosper for the next few years, and perhaps for the next decade.

**BOO HOCK KHOO, CGIF:** One of the key objectives of governments in the Asean region, plus China, Japan and South Korea, is this key point that Alvin mentioned – trying to mobilise savings, moving from countries where they are in abundance to places where they are still needed. The Singapore bond market acts as a very efficient funding avenue for companies not just based in Singapore, but throughout the region. But although foreign issuers have had some success in coming to Singapore, Singapore-based bond investors rarely move their money into the other Asean local currency markets.

CGIF, by guaranteeing the bonds of Asean+3 companies when they go into other markets in the region, can really help here. We look forward to helping the region's companies tap the funding opportunities here in Singapore, as well as helping investors like those in the audi-



**CHUNG CHEE LEONG**  
CAGAMAS

ence to better tap opportunities in other neighboring markets. We are trying to match investors with issuers throughout the region. Equity investments are pretty free-flowing in this region – Singaporean investors buying Philippine equity, for instance – but bond investments remain relatively siloed in each jurisdiction. We'd like to see greater flows between all of the fixed income markets in the region. That is a key step for the Asean region, and it is something we are working hard to encourage.

**DASS, RAM:** There is already some cross-border activity on the corporate bond side, but it is definitely important to create more activity. But it will involve a lot of work.

We have come out with an Asean rating scale for the sovereigns and for corporations and banks within the region, and we hope that will help develop the market. A lot of investors are used to names that they see tapping the global market, but where they can possibly improve their yields is by going down the credit curve in different countries. This is not happening enough at the moment, and even



**PROMOD DASS**  
RAM RATINGS



**THOMAS MEOW**  
CIMB

when you look at something like infrastructure projects or power projects in Malaysia – which are rated AA on our national scale – there is just not enough foreign investment. The cash flows for this type of credit are very strong, the credit rating is good, the relative yields are good: why are we not getting more regional flows into deals like this? There is clearly a lot of work for us all to do on this point.

**MOHD IZANI GHANI, KHAZANAH NASIONAL:** We had a good experience issuing a Singapore dollar *sukuk* here. Our issuance is driven by investment opportunities and we had an investment proposition in early 2010 that we planned to use the Singapore dollar market to fund. We were considering issuing *sukuk* anyway, but it was going to be on a small scale because we knew Singapore has never really experienced a big, long duration *sukuk*. But when our investment colleagues called me about the funding requirement, they said that instead of SGD500 million, they wanted SGD1.5 billion. At the time, I thought they must be joking. None of our bankers believed at first that this was really an option. We



**BOO HOCK KHOO**  
CREDIT GUARANTEE  
INVESTMENT FACILITY

then talked to investors, and some of them gave us a 50:50 chance, as long as we had a good financing structure and reasonable time for approval process. We had a brief roadshow here, and the outcome was good, so we decided to proceed.

The Monetary Authority of Singapore (MAS) is very supportive of *sukuk* issuance, and our deal helped fast-track their plan. We introduced the *sukuk* structure to the market and I must say, the approval was very fast. I was told the approval came in record time. It was a good experience for us, because in the end we ended up achieving SGD 1.5 billion, with a multiple-times covered book and with good pricing. Cross-border issuance is a good way to expand the *sukuk* market, and from our point of view this was definitely a good start.

The MAS called us once or twice afterwards to ask when our next issuance would be. The truth is that our issuance is driven by investment opportunities, so the next time we have a good investment coming up in Singapore we will definitely consider *sukuk* issuance to help fund it.

**CHUNG CHEE LEONG, CAGAMAS:** We have not issued any Singapore dollar bonds, although we are looking to do so in the future if the after-swap, all-in pricing makes commercial sense to us. We have had some experience, however, in bringing Singapore and other offshore investors into our Malaysian ringgit issuance. Demand for both our straight bonds and our mortgage-backed securities from these investors have been very encouraging, reaching as much as 30% of order book size at one point.

However, as a frequent issuer Cagamas is widely regarded as proxy for Malaysian corporate credit. Since we benefit from high domestic liquidity, the yields on our bonds are very competitively priced, especially by domestic investors – and that can cause the offshore investors, who are generally more price sensitive, to be outbid from the order book.

But we are a frequent issuer, as I mentioned, so we continue to monitor the comparative funding cost and distribution advantage in the international markets, including Singapore, against our domestic bond issues. We do look forward to Singapore dollar issuance in the future. We believe [it] will be a mutually beneficial venture as it allows us to enhance our funding source and enables investors to achieve greater diversification in their credit portfolios.

**CHAN KOK PENG, GREAT EASTERN ASSURANCE:** We tend to buy more bonds in the secondary market rather than in the primary market, so for us one of the important things is to improve secondary liquidity. There is scope to do that. The size of the insurance industry is only going to increase, which means our liabilities will only increase, so that is certainly going to help increase liquidity.

**AM: What steps has the Monetary Authority of Singapore taken to develop the Islamic bond market? How successful do you think this attempt has been?**

**MEOW, CIMB:** Singapore's regulators took a very pragmatic approach to the development of the *sukuk* market. Singapore is a very open market in terms of instruments, probably the widest in this part of the world. That means there is a lot of competition for new products, so in order for Singapore dollar *sukuk* to attract good demand they needed to learn something from other markets. The regulators started by relying on time-tested structures such as *ijarah* and *wakala*, for example. Investors do not ask about how the structure works anymore; they are now used to these structures.

But the other clearly important part of developing a market is getting the right pricing. At the moment, pricing is on par between the two markets, but when new markets are opening, you tend to find

*sukuk* issues pay a bit of a premium and that helps bring in investors that would not otherwise look at the product. The key is not so much attracting *shariah*-compliant funds. The key is making sure conventional investors are comfortable. That is going to help you grow your issuance size dramatically.

**GHANI, KHAZANAH NASIONAL:** That is definitely the advantage of issuing *sukuk*: you open your books to both sets of investors, Islamic and conventional. That is certainly going to help you increase the size of your issuance. But when you have to pay more for *sukuk*, there is little attraction from the issuer's point of view. In certain markets, there is still a premium, but one day, when the structure becomes very common, our experience in Malaysia and Singapore will apply elsewhere. We had a large proportion of conventional investors in our Singapore dollar deal.

**CHUNG, CAGAMAS:** We have always issued a mix of conventional and *sukuk* bonds, and right now conventional issuance makes up around 40% of our total bond issuance. From our domestic experience, the pricing of *sukuk* is at par if not better than the conventional bonds due to the acceptance from a wider investor base which includes both conventional and Islamic funds.

Malaysia achieved its position as the global leader in the *sukuk* market by developing a fully integrated Islamic financial centre that offers a whole range of Islamic financial services. This initiative has been very effective in promoting liquidity in the Islamic capital market, which translates into better pricing for *sukuk*. In terms of next steps, the development and introduction of Islamic structures that are acceptable to the GCC (Gulf Cooperation Council) investors will widen the pool of investors for *sukuk* and offer competitive funding cost to issuers, for example Cagamas *sukuk ALLm* and *sukuk wakala* structures.

**AM: Lippo Malls Trust considered a *sukuk* deal. Why did you opt for a conventional deal instead?**

**CHENG, LMIR TRUST:** We did consider a *sukuk* deal at one point, but we decided to shelve the idea for the time being. The problem we faced was that we would only get favourable pricing if we got the right credit rating at that point. That made it far more cumbersome because if we were to do a conventional issue in Singapore, we would not need a rating. That is not only more convenient for us, it also removes the cost of getting a rating. That was the key issue in terms of developing the *sukuk* market in Singapore, and that has been one of the drawbacks of the *sukuk* proposal for us.

**DASS, RAM:** I can certainly understand that view for a new issuer, but when you have already established yourself among conventional investors, why not win the hearts of the Islamic bond investors?

The global financial crisis was something that worked out well for Malaysian investors, because when the US dollar market tightened, we had a mix of high quality foreign issuers coming to Malaysia in search of funding. A lot of them came in and tapped the *sukuk* market. The Asean region has a lot to offer in terms of *sukuk* demand. Indonesia is a clear source of demand, there are huge pension funds in Malaysia, and Middle Eastern investors have already shown an appetite for moving into the Asean markets.

**AM: At this point, you cannot talk about financial markets for long without someone bringing up the Federal Reserve's plan to taper its quantitative easing. What has the impact been of this tapering on Asian domestic markets?**



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**CHUNG, CAGAMAS:** Obviously, bond yields have gone up. That has definitely made things more challenging because we are on a matched funded model, meaning we purchase mortgages or loans from financial institutions and issue conventional bonds or *sukuk* to fund those purchases. But unlike in 2007 and 2008, when bond yields were pushed higher due to the credit crisis, the recent global bond rout was really a process of normalisation in interest rates as market responded to signs of economic recovery in the U.S.

Due to uncertainty in the interest rate outlook, we are actually seeing banks holding back from selling part of their mortgage portfolios at this point. But the positive economic outlook and moderate inflation has made investors more likely to expect a compression in credit spreads, and an increase in bond market volatility will revive investors' preference for higher rated bonds. As such, we should be able to alleviate the funding risk for asset sellers even in spite of the challenging and volatile market conditions.



MOHD IZANI GHANI  
KHAZANAH NASIONAL



**TOM BYRNE**  
MOODY'S INVESTORS  
SERVICE

The cost for Cagamas funding is naturally realigned with a general market movement, but for our model, we have to issue when a mortgage lender wants to sell us something. We cannot shy away from our role as the provider of liquidity to the secondary mortgage market, especially during adverse market conditions. We proved that during the Asia financial crisis in 1997/1998 and again during the global financial crisis in 2007/2008.

**MEOW, CIMB:** The biggest impact [of the tapering announcement] has been reversing flows from emerging markets back to more developed markets. We were so used to one-way flows over the last few years, but the tapering announcement in May has started things moving in the other direction. That has obviously created a bit of a demand issue, in particular causing an adjustment in sovereign yield curves across the region. But the fundamentals of Asia are very strong. The local pools of liquidity are still there. The demand for local deals is still intact. The QE



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tapering announcement led to a widening of local bond markets across Asia by around 50bp, but without that local demand, the impact would have been a lot bigger. Some investors were hit by the mark-to-market, but by and large, the market is still intact.

The challenge today is to convince investors that the good old days are long gone, and that if they want to access the bond market they are going to have to pay as much as 50bp more than they would have done six months ago. Many issuers are still hoping to get pricing levels that are no longer possible. Many investors have also moved to shorter tenors as a result of the interest rate volatility.

**AM:** *From an issuer's point of view, it is easy to look at QE tapering in the short-term and consider it bad news. But in the long-term – from a rating point of view, from a macro point of view – this is actually a consequence of good news, isn't it?*

**BYRNE, MOODY'S:** Well, it's inevitable news to begin with, because interest rates have been exceptionally low for a long time following the global financial crisis. We knew before the financial crisis that when interest rates are too low you get asset bubbles in certain markets. That's bad for the long run health of any economy, and for the global economy. In that sense, the normalisation is something that a healthy economy can absorb. Those economies that we see as being over-leveraged will find the current volatility just imposes more burdens on the balance sheet process. And in those economies that don't have enough incentives in place to get supply-side led economic growth, there will also be challenges with higher interest rates. But what we see here in Singapore is that government bond yields have widened more or less in line with US Treasuries, and it can probably absorb the interest rate rises.

**CHAN, GREAT EASTERN ASSURANCE:** I would agree with that. The one thing you see absent from all of this debate about QE tapering is that people may have conveniently forgotten that one of the preconditions for tapering is that the US sees sustained recovery. Growth has been quite anemic for the last year or so, but tapering implies the Federal Reserve is more confident about growth going forward. When combined with the stabilisation of the Chinese economy, Abenomics in Japan, and Europe showing signs of recovery, this is actually positive for Asia as a whole. The precondition for tapering must be the sustained recovery of the US economy, and that can only be good news for Asia, since exports will be poised for a pick-up.

**DASS, RAM:** There is a knee-jerk reaction to what is happening, and markets are going to be jittery for a while. But if you look at the Asean market, in particular, investors are quite happy with the credits they are seeing. Corporations have a lot less gearing than they did before the Asian financial crisis, the banking systems in Asean are far stronger than some of the developed nations, there are growing populations, and growing middle-classes. This is where growth is going to come from over the next decade, and if we look beyond the current market conditions, things look pretty good.

**CHENG, LMIR TRUST:** Tapering could be good for us, and good for other issuers that already have bonds in the market. Because some investors want to take a pause before they take on new investments, it is going to cost more for new issuers to raise funds right now, and covenants will probably be more stringent. But for an existing issuer, you have a pricing benchmark in terms of your current issues, so that it will be easier to re-tap. New issuers will probably hesitate before using the bond market, however: bank loans could prove a better option for them.

**AM: Has the biggest impact of QE tapering been on the dollar market, and the appetite for Asian issuers to go overseas?**

**MEOW, CIMB:** In a way, this all goes back to the Asian financial crisis. The mismatches that all the Asean countries tried to remove resulted in the growth of domestic bond markets across the region. Today, we have not seen much reliance on offshore bond markets by Asean issuers, apart from a few Indonesian issuers who find their domestic market too small. These issuers have choices away from the dollar market now, and today we're even seeing issuers tap the local market and swap into dollars. The swap market today is deep enough to support that kind of issuance.

These choices have meant that the volatility we've seen in the dollar market has not had a terrible impact on the funding viability of many Asean companies. There may be additional costs involved for them now, but they have plenty of opportunities to hit their funding targets.

**AM: Boo Hock, CGIF is expressly designed to help develop cross-border opportunities for Asian issuers. What are the biggest hurdles you see at the moment?**

**KHOO, CGIF:** CGIF was conceived in the aftermath of the Asian financial crisis, and the markets have grown a lot since that crisis. Credit-worthy issuers have a lot of access to domestic markets when compared to the crisis years. But the next challenge is taking these markets forward, making the markets within the region more seamless.

There is a real challenge to the rating industry to come up with a framework that actually works for a company that is keen on tapping multiple currencies and multiple markets within the Asean region. A corporation that wants to tap five markets is unlikely to want to get five ratings. Today, the markets are still fragmented but the Asian Bond Market Initiative is working to break down these barriers. One of the key points is how we make things easier for issuers as well as investors.

**AM: Do you think capital market rules across the Asean region should be harmonised, or should we settle for mutual recognition, still allowing different rules in different markets?**

**KHOO, CGIF:** This is a very difficult question. It depends on each market, and each set of regulators and investors. For example, today, there is no clear rating solution: you either look at international ratings or you look at the respective local ratings, and depending on the markets, you have a focus on one or the other. However to move forward, regulators in the markets need to work towards a practical solution for issuers that want to go into a number of different bond markets in the most efficient manner.

**DASS, RAM:** This is one of the interesting areas of development, but there is a lot of information out there already. Take the example of an investor in Singapore looking to buy part of Noble's deal in Thai baht: they have the opportunity of looking at the information in the RAM's rating rationale produced on Noble, as well as in the rating rationale that we produced on CGIF. We have progressed from local to regional to global.

**MEOW, CIMB:** It is no longer a taboo to get your bond wrapped. We have seen interest from pragmatic issuers that want to compare costs between rated, unrated and credit-wrapped deals. This new development is good for the market, especially in terms of cross-border issuance and investment.

**AM: The one Asian currency that has proved the biggest draw to foreign issuers is, of course, the offshore renminbi. The market has become a real funding option over the last few years, but growth has clearly slowed down. How much more demand is there for increasing offshore renminbi bond supply?**

**MEOW, CIMB:** I'm optimistic. The growth of the offshore renminbi market is really driven by fundamentals at this point. It used to be largely driven by currency speculators, but nowadays, investors are not investing blindly. They ask a lot of questions about the credit. They look at the covenants. They want to understand what they're buying before they place an order, which was not always true before. That bodes well for the long-term growth of the market.

Singapore has launched its own renminbi market this year, and if you look at the amount of trade denominated in renminbi, you can see that there is a lot of opportunity for the offshore renminbi bond market to grow. There is a real need to give clients options when it comes to managing their cash.

**CHAN, GREAT EASTERN ASSURANCE:** The Singapore government is always behind the key developments in the bond market. They are very active when it comes to promoting the development of the market, and given the trade relationship between Singapore and China it is natural that they would want to see that area of the market developed. But to what extent this really happens remains to be seen.

**GHANI, KHAZANAH NASIONAL:** It is interesting that the idea for our first offshore renminbi bond – which was a *sukuk* – was first mooted when we were in Jakarta in July 2011. We were there as part of a delegation with Bank Negara, the central bank of Malaysia, meeting our Indonesian counterparts, and during lunch we were talking about ways to develop the *sukuk* market. I didn't really believe rupiah was an option, but I mentioned to my CEO that we should consider the renminbi market.

We were cautious because it was the first time for any issuer to sell a *sukuk* [in offshore renminbi], and we thought that for the first deal we should be careful. We decided just to aim for Rmb300 million initially. The *sukuk* structure had not been tested so we were very careful in picking our bankers. It was not an easy roadshow, because many of the investors in Hong Kong had not even heard the word *sukuk* before! We decided to give them a few weeks, and told them they could come back to us with any questions they had. But the clincher, in the end, was Khazanah as an obligor. That was something that investors respected.

The market was not initially convenient and we waited for a few months for pricing to be where we wanted. Demand started to build very quickly and we increased it from Rmb300 million to Rmb500 million. Some Singapore-based investors expressed an interest in the deal, and in the end they ended up taking 30%, the same amount that was sold into Hong Kong, and into Malaysia. That was good for us, because it was a great way to diversify our investor base. The following year in 2012, our investee company, Axiata, successfully issued Rmb1 billion. We were indeed very pleased to have created the pathway for other issuers to tap from this market.

**CHUNG, CAGAMAS:** We would explore opportunities in terms of each currency, but we must have the need for that currency – meaning assets to be funded – or we would have to do a swap. I don't see, at this point, the rationale for us to go into the renminbi market for swap reasons, nor do I see us purchasing mortgage assets in renminbi.

But this may be something that will change in the future. Whether it is the inherent funding needs for a particular currency or favourable movement in the swap market, we feel the deciding factor hinges on the key element and that is competitively-priced liquidity. We have predominantly only issued in ringgit, but we are looking carefully at opportunities in other currencies, making use of our multi-currency funding programme. ▲

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