



Credit Guarantee &
Investment Facility

An Asian Bond Markets Initiative

CORPORATE BOND MARKET REPORT

MALAYSIA



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Data Description

The information used in this report came from available primary and secondary data sources. Market interviews with key market participants were conducted in 2021. Secondary sources include publicly available information, data from Bloomberg, and data from the Bond Pricing Agency of Malaysia (BPAM). Data from Bloomberg are used primarily to compare Malaysia with other ASEAN countries. On the other hand, data from BPAM are used to show the local context of corporate bonds and sukuk in Malaysia.

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This paper is part of the ASEAN corporate bond market research under the Finance Department of CGIF. Led by Dong Woo Rhee, Chief Financial Officer of CGIF, with assistance from Soleil Corpuz, Research Analyst of CGIF, this research effort aims to show the characteristics of corporate bond markets in the ASEAN region. For any questions or comments on the contents of this report, please contact research@cgif-abmi.org.

Abbreviations

AAOPFI	accounting and auditing organization for Islamic financial institutions
ALM	asset liability management
ASEAN	Association of Southeast Asian Nations
ASEAN6	ASEAN member states Indonesia, Malaysia, Philippines, Singapore, Thailand, and Viet Nam
BNM	Bank Negara Malaysia
BIX	Bond and Sukuk Information Exchange
BPAM	Bond Pricing Agency of Malaysia
CMSA	Capital Markets and Services Act
CGIF	Credit Guarantee and Investment Facility
CGC	Credit Guarantee Corporation of Malaysia
EPF	Employee Provident Fund
ETB	exchange traded bond
FCY	foreign currency
GRE	government related entity
GLC	government-linked company
GLIC	government-linked investment company
GDP	gross domestic product
KWAP	Kumpulan Wang Persaraan
LTAT	Lembaga Tabung Angkatan Tentera
LCY	local currency
MARC	Malaysian Rating Corporation Berhad
MGS	Malaysian government securities
MYR	Malaysian ringgit
MDB	multilateral development bank
PSE	public sector entities
RBC	risk-based capital
REIT	real estate investment trust
S&P	Standard & Poor's
SAC	Shariah Advisory Council
SC Malaysia	Securities Commission Malaysia
SJPP	Syarikat Jaminan Pembiayaan Perniagaan
SME	small and medium enterprise
SPV	special purpose vehicle
SOE	state owned enterprise
SAA	strategic asset allocation
SRI	sustainable and responsible investment
USD	United States dollar
YTM	yield to maturity

Report Summary

1. Characteristics of Malaysian Corporate Bond Market

- Malaysia's corporate bond market is considered advanced compared to other ASEAN neighbors. In 2020, the total outstanding local currency corporate bonds in Malaysia amounted to USD187 billion equivalent, which was approximately 56% of GDP of the country. The total outstanding corporate bonds in Malaysia occupy 88% of the total outstanding government bonds of the country, the highest ratio in ASEAN. This implies that corporate bonds play significant roles as fixed income assets in Malaysia.
- Project bonds are very strong in Malaysia, which influences the overall characteristics of the corporate bond market of the country. A project bond can be structured with different tranches having different amounts and different tenors. These tranches can have very small sizes and can be of short tenor.
- The rating cliff in Malaysia is perceived to be at A. It is possible that the bond market is not easily accessible to small- and medium-sized companies in Malaysia for their financing requirements. This is despite the bonds are being utilized as much as bank loans in the country for corporate financing on an aggregate basis.
- In 2017, Malaysia relaxed its credit rating requirements. Based on available data, the number and the outstanding amount of unrated bonds significantly increased from 2014 to the present. Most of these issuances came from state-owned enterprises or government-linked companies. The local market has a good perception of bonds that are issued by these companies.

2. Investors of Corporate Bonds in Malaysia

- Key institutional investor groups in Malaysia include banks, insurance companies, fund management companies, and pension funds. Banks belong to the active investor group in Malaysia, that it is not uncommon for banks to place sizeable orders on bond offerings. The appetite of banks for corporate bonds is strongly influenced by the corresponding risk weights.
- The main consideration of life insurance companies in investing in long term bonds is asset liability matching. As the corporate bond market in Malaysia has considerably longer term compared to other ASEAN markets, there is a relatively good supply of long-term corporate bonds for insurers. Insurance companies, like banks, must comply with the mandated risk charges on investments, thus affecting the general investment appetite of the companies.
- Pension funds, such as the Kumpulan Wang Persaraan (KWAP) and Employee Provident Fund, belong to another significant institutional investor group for corporate bonds in Malaysia. In 2018, the asset size of KWAP reached MYR127 billion in 2018, while the Employee Provident Fund has an asset size of MYR925 billion. Both these groups can invest the longest corporate bonds in the market and receive a credit risk that can be as low as A.
- The fund management industry in Malaysia is a developed market. Fund management companies have diverse investment appetite due to the nature of their businesses. As such, fund management companies can invest in unrated and A-rated bonds for yield. Fund management companies implement strict evaluation of the credit strength of issuers.

3. Other Market Participants in Malaysian Corporate Bond Market

- As of end-2020, the issuers from the Financials industry took up 42% of the total amount of outstanding bonds in Malaysia. This was followed by infrastructure at 26%, and property and real estate at 9%. In terms of ownership, about 24% of issuers are government related entities, which contributed to 50% of the total outstanding corporate bonds in Malaysia in 2020. This implies that the average issue size of government-related entities (GREs) is bigger than that of private entities.

- The Bond Pricing Agency of Malaysia (BPAM) is instrumental to the development of the bond market in Malaysia. BPAM provided up-to-date information about yields and prices of Malaysian bonds, which helped implement overall market transparency.
- Malaysia has two local credit rating agencies – RAM Ratings and MARC. These two credit rating agencies have extensive experience in providing credit ratings to issuers and various financial instruments. The expertise of these two institutions contributed to developing the corporate bond market of the country.

4. Credit Spreads

- Credit spreads of corporate bonds in Malaysia reflect the general credit appetite of Malaysian investors. The credit spreads jump significantly from AA3 to lower ratings. This gives an indication of the investors' reluctance to invest in A1 or lower rated bonds unless significant yield incentives are provided. In addition, among A1 and lower rated bonds, credit spreads increase as maturity gets longer.

5. Guaranteed Corporate Bonds

- There are three government agencies in Malaysia that provide guarantee: the Credit Guarantee Corporation of Malaysia (CGC), the Syarikat Jaminan Pembiayaan Perniagaan (SJPP), and Danajamin Nasional Berhad. Of these three, Danajamin Nasional Berhad serves as a specialized guarantor for corporates, regardless of the size or ownership, who would want to issue corporate bonds and sukuk in Malaysia.
- Based on matrices for the available yield to maturity (YTM) of corporate bonds in Malaysia, guaranteed bonds are priced to be at least as competitive as ordinary bonds in Malaysia. One of the reasons behind the competitive guaranteed bond price is the easily observed guaranteed bonds in Malaysia in which 42% of total outstanding corporate bonds are guaranteed bonds.

6. Cross Border Bonds

- The analysis on cross border bonds in Malaysia shows that the reliance of Malaysia entities on offshore bond market is approximately 16% of their total reliance on the bond market for fund raising. One possible reason for this is that Malaysian entities have less incentive to tap the offshore bond market as their domestic market is sufficient to accommodate their funding needs.

7. Sukuk Market

- Malaysia has the most active sukuk market in the world. Based on Bloomberg data, total outstanding sukuk as of end of December 2020 is USD619 billion equivalent, which is composed of USD346 billion equivalent of government sukuk and USD273 billion equivalent of corporate sukuk. Total outstanding sukuk in Malaysia is USD271 billion equivalent, occupying 43% of total sukuk in the world.
- According to BPAM data, Sukuk Murabahah takes 32% of total outstanding sukuk in Malaysia. Sukuk Murabahah is known for its simple structure, which makes investors attracted to it. The less complex structure also implies that the cost of issuing Sukuk Murabahah will also be less compared to other sukuk structures.

1. Characteristics of Malaysian Corporate Bond Market

1.1. Overall Characteristics

Malaysia has a relatively developed corporate bond market in ASEAN¹. The bond market in Malaysia is known to have both conventional bonds and sukuk. Corporate bonds and sukuk in Malaysia are previously called “private debt securities”. One of the highlights of the Malaysia corporate bond market is its large sukuk market. Malaysia is the forerunner in the global sukuk market, which has become an integral part of the Malaysian capital market. The sukuk market of Malaysia reached MYR142.10 billion (or USD35.1 billion). The amount is 53.9% of the global corporate sukuk market.²

In addition, the Securities Commission Malaysia (SC Malaysia) promotes sustainable and responsible investment (SRI) in the capital market. The SC Malaysia introduced the SRI sukuk framework to facilitate the financing of projects that can benefit the environment and society. To promote this initiative, tax incentives are provided to qualified SRI sukuk. There is also the Green SRI Sukuk Grant Scheme. More information about these initiatives for the development of the sukuk market is discussed in the later part of this research.

1.2. Corporate Bond Market Size

In 2020, Malaysia has the biggest corporate bond market in ASEAN in terms of the absolute size and the relative size. The relative size is based on the economy size of each country. In Table 1.1, the total outstanding local currency (LCY) corporate bonds in Malaysia amount to USD187 billion equivalent, which is 56% of GDP of the country. With the corporate bond market being part of the capital market, it is observed that the country that has an active stock market is likely to have an active corporate bond market. In Table 1.1 and Figure 1.1, the developed corporate bond market in Malaysia is seen to be significantly correlated with the well-developed capital market of the country.

Table 1.1: Corporate Bond Market, Market Capitalization, and Gross Domestic Product of ASEAN, 2020

Country	GDP (A)	Market Capitalization (B)	LCY Corporate Bond Market (C)	B/A	C/A
Brunei	12.02	-	-	0%	0%
Cambodia	25.29	2.42	0.14	9.6%	0.6%
Indonesia	1,098.52	492.64	30.30	45%	3%
Lao PDR	19.14	0.89	-	4.6%	0%
Malaysia	333.81	432.85	187.01	130%	56%
Myanmar	76.19	0.49	-	0.6%	0%
Philippines	374.27	267.18	33.57	71%	9%
Singapore	354.81	445.64	131.19	126%	37%
Thailand	524.15	522.40	123.23	100%	24%
Viet Nam	272.45	229.46	12.23	84%	4%

ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product, LCY = local currency

Notes:

1. GDP and market capitalization figures are reported in USD current values. GDP figures for Cambodia, Lao People's Democratic Republic (PDR), and Myanmar are sourced from World Bank. GDP figures for the rest of the countries in the table are sourced from Asian Bonds Online.

2. Brunei, Lao PDR, and Myanmar do not have LCY corporate bond markets yet.

¹ ASEAN = Association of Southeast Asian Nations.

² RAM Ratings. Global sukuk issuance in 2020 fueled by sovereign stimulus packages. Published on 1 April 2021. <https://www.ram.com.my/pressrelease/?prviewid=5636> (accessed 19 August 2021).

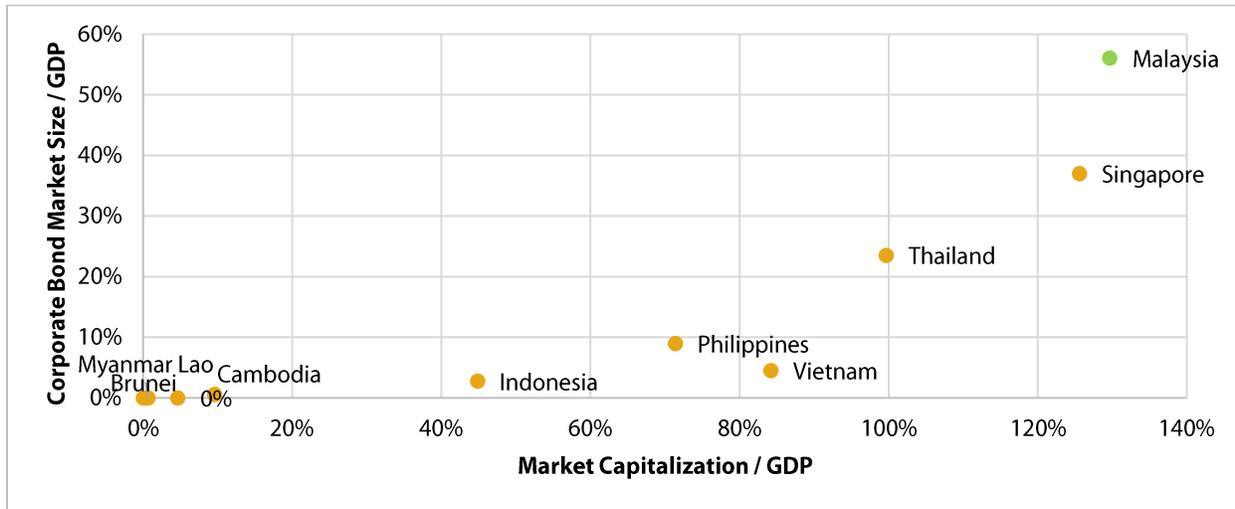
3. Market capitalization figures are retrieved in local exchanges in each country. These are reported in local currencies. Exchange rates used are: USD1 = KHR4,062; USD1 = LAK8,885; and USD1 = MMK1,493. Market capitalization for the rest of the countries in the table are sourced from Bloomberg.

4. LCY corporate bond market figure from Cambodia is sourced from Cambodia Stock Exchange. There is no LCY corporate bond market yet in Lao PDR and Myanmar. LCY corporate bond market figures for the rest of the countries in the table are sourced from Asian Bonds Online.

5. Figures are rounded off. Values are in USD billions.

Source: World Bank for GDP, GDP growth, and market capitalization of Viet Nam and Thailand; Local exchanges of Cambodia, Lao People’s Democratic Republic, and Myanmar for market capitalization.

Figure 1.1: Relationship Between Market Capitalization to GDP and Corporate Bond Market Size to GDP in ASEAN, 2020



Source: Author’s Illustration using data in Table 1.1.

The comparison of the corporate bond market size and the government bond market size of one country shows how significant corporate bonds are treated as fixed income assets by investors. The total outstanding corporate bonds in Malaysia occupy 88% of the total outstanding government bonds of the country, which is the highest ratio in ASEAN. This implies that corporate bonds play a significant role as fixed income assets in Malaysia. On the other hand, the comparison of the corporate bond market size and the corporate loan market size of one country shows how companies in each country rely on bond issuances for their funding in comparison with bank loans. The fact that the ratio of the corporate bond market size to the corporate loan market size in Malaysia is the highest (100%) among ASEAN implies that companies in Malaysia consider bond issuances more actively when they need funding than other ASEAN countries. However, this does not mean that small companies in Malaysia can easily access the bond market for their funding. Credit rating distribution in Chapter 2 shows the implications on this issue.

Table 1.2: Corporate Bond Market, Government Bond Market, and Corporate Loan Market of ASEAN, 2020

Country	LCY Corporate Bond Market (A)	LCY Government Bond Market (B)	Corporate Loan Market (C)	A/B	A/C
Malaysia	187.01	211.58	186.24	88%	100%
Philippines	33.57	140.24	179.47	24%	19%
Viet Nam	12.23	58.81	n/a	21%	n/a
Indonesia	30.3	287.87	229.63	11%	13%
Thailand	123.23	229.18	359.75	54%	34%
Singapore	131.19	148.48	317.03	88%	41%
Brunei	n/a	n/a	1.81	n/a	n/a
Cambodia	0.14	n/a	n/a	n/a	n/a
Lao PDR	n/a	0.27	n/a	n/a	n/a
Myanmar	n/a	n/a	n/a	n/a	n/a

ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic, LCY = local currency
Notes:

1. Brunei, Lao PDR, and Myanmar do not have LCY corporate bond markets yet.
 2. Corporate loan market data are calculated from the loan data that are disclosed by the central banks of each country. For Myanmar and Cambodia, data on corporate loan markets for end of 2020 are not yet available as of time of writing. For Brunei, the data reflects loans and advances to the non-household sector in the domestic market and reported in Brunei Dollar. For Lao PDR, although credit per sector is identified, household credit is not segmented.
 3. LCY Government bond market data for Malaysia, Singapore, Philippines, Thailand, Indonesia, and Viet Nam are sourced from Asian Bonds Online. LCY government bond market data for Myanmar as of December 2020 is not available. LCY government bond market data for Lao PDR is from the LAK government bonds that are listed in Lao Stock Exchange. Exchange rate to USD1: LAK9,289. Brunei and Cambodia do not have government bond markets yet.
 4. Exchange rates to USD1: BND = 1.33.
 5. Figures of the LCY corporate bond market and government bond market for the rest of the countries in the table are sourced from Asian Bonds Online.
 6. Figures are rounded off. Values in USD billions.
- Source: Asian Bonds Online; Central Banks of each country

2. Specific Characteristics of Malaysian Corporate Bond Market

2.1. Issuance Size

The average issue size of corporate bonds in Malaysia is USD54.35 million, with the maximum issue size of approximately USD3,542.61 million. The spread of the range of issue sizes in Malaysia indicates that the corporate bond market in the country can accommodate various sizes of funding requirements from issuers. Based on data available in Bloomberg, the lowest issuance size is approximately MYR2,000. This issuance size is labeled as Sukuk Al Murabahah. The largest issuance size is also a Sukuk Al Murabahah.

Some bonds are issued in small amounts. These bonds may be part of a bond facility program, in which the total bond issuance cost may have already been imposed. These bonds may have been issued to single bondholders who would be more inclined to hold these bonds to maturity.

Table 2.1: Issuance Size of Outstanding Corporate Bonds in ASEAN6, 2020 (USD millions)

Country	Average	Minimum	Maximum
Malaysia	54.35	>0.01	3,542.61
Singapore	161.86	0.08	2,628.67
Thailand	72.44	0.17	1,454.92
Philippines	139.53	2.08	834.55
Indonesia	32.90	0.03	597.47
Viet Nam	51.30	0.05	172.96

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam, USD = United States dollar

Note: Exchange Rates to USD1: MYR4.05, SGD = 1.33, THB = 30.17, PHP = 48.05, IDR = 14,155, VND = 23,127 (as of 31 December 2020).

Source: Bloomberg; Author's calculations.

The information from Bloomberg includes conventional bonds and sukuk. Investigating the overall market based on this dichotomy would be beneficial in understanding the characteristics of the Malaysian corporate bond market. In Table 2.2, the average size and the maximum size of sukuk are larger than that of conventional bonds. For details about the sukuk market in Malaysia, see Chapter 8 of this report.

The information in the succeeding sub-sections under this chapter represents the corporate bonds and sukuk, although the terminology used is "corporate bonds".

Table 2.2: Issuance Size of Conventional Bonds and Sukuk in Malaysia, 2020

	Average	Minimum	Maximum
Conventional Bonds	36.32	0.01	716.30
Sukuk	61.79	>0.01	3,542.61

Note: Exchange rate used is USD1 = MYR4.0203.

Source: Bloomberg; Author's calculations and illustration.

2.2. Maturity Distribution

Comparing the ASEAN6 countries³, maturity distribution in Malaysia is seen as leaning towards the longer tenor – 5 years and more. This may mean that local corporates in Malaysia turn to the bond market for long-term financing. This marks one of the characteristics of the Malaysian corporate bond market– to be relatively developed than other ASEAN countries in terms of maturity distribution.

Table 2.3: Comparison of Maturity Distribution in ASEAN6, 2020

	Up to 3 years	> 3 to 5 years	> 5 to 10 years	Over 10 years	Perpetual
Malaysia	8%	10%	40%	38%	4%
Singapore	4%	18%	44%	15%	19%
Thailand	26%	26%	34%	10%	3%
Philippines	30%	11%	51%	8%	0%
Indonesia	37%	34%	24%	5%	0%
Viet Nam	33%	23%	38%	6%	0%

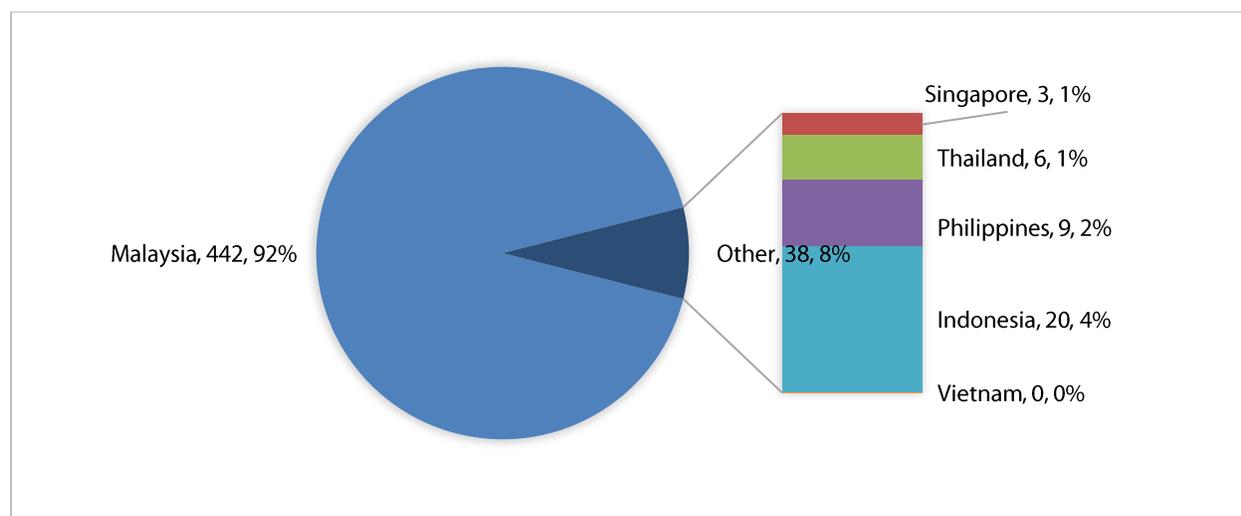
ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam

Source: Bloomberg; Author's calculations.

³ ASEAN6 refers to Malaysia, Singapore, Thailand, Indonesia, the Philippines and Viet Nam.

One possible reason why Malaysia’s corporate bond market has a longer tenor than those of peer countries is that these bonds are widely used for project related financing in the country. It is important to note that project related bonds are generally long tenor in nature. According to Bloomberg, there are 480 outstanding bonds in the ASEAN6 countries as of 31 December 2020, whose use of proceeds are related to project finance.⁴ Out of the number of outstanding bonds, 442 issuances or 92% of total issuances are from Malaysia.

Figure 2.1: Number of Issues for Project Finance in ASEAN6



ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam

Source: Bloomberg; Author’s calculations.

2.3. Maturity Type

Straight corporate bonds dominate the maturity type profile in Malaysia, which is around 84% of issued corporate bonds. One characteristic of Malaysia’s corporate bond market is the presence of project bonds, which are generally composed of serial straight bonds. The serial straight bonds have a portfolio that is similar to amortizing bonds. As maturity type is investigated by bond level and not by program level, each bond of project finance program is classified as a straight bond unless the bond is issued as an amortizing bond. Callable bonds take up approximately 9% of the market, while convertible bonds are approximately 1% of the market.

Table 2.4: Composition of Maturity Type of Corporate Bonds in ASEAN6, 2020

	Straight	Callable	Sinkable	Convertible	Others
Malaysia	84%	9%	0%	1%	5%
Singapore	62%	8%	0%	2%	28%
Thailand	80%	15%	1%	0%	4%
Philippines	50%	48%	0%	0%	1%
Indonesia	97%	0%	0%	3%	0%
Vietnam	85%	10%	2%	3%	0%

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam

Source: Bloomberg; Author’s calculations.

⁴ Upon investigation, information that is available from Bloomberg may not capture all project finance related bonds. Nevertheless, data from Bloomberg can still be used since it may indicate the relative popularity of project finance related bonds among ASEAN countries.

Based on data from BPAM, approximately 92% of callable bonds are from the Financial sector. Banks would commonly issue callable bonds for Tier 2 capital. The typical structure of Tier 2 bonds of banks is 10-year, non-call five. This aligns with the capital adequacy framework of Bank Negara Malaysia (BNM), which amortizes the capital treatment on Tier 2 debt for 5 years from the contractual legal maturity. In effect, straight bonds would be deemed inefficient and expensive for banks to fulfill this requirement.

2.4. Coupon Type

In Malaysia, approximately 81% of the outstanding bonds are fixed coupon type. Only 4% of the bonds have floating rate structure. Nevertheless, 10% of the outstanding bonds are zero coupon type.

Table 2.5: Comparison of Coupon Type of Corporate Bonds in ASEAN6, 2020

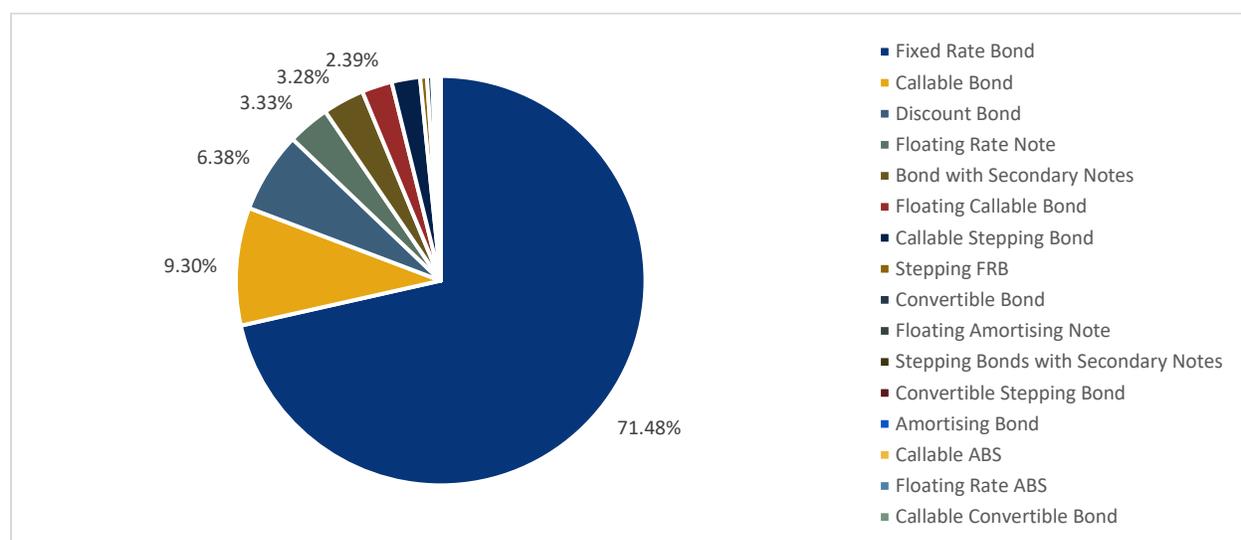
	Fixed	Floating	Step	Variable	Zero	Others
Malaysia	81%	4%	1%	3%	10%	1%
Singapore	70%	0%	2%	24%	5%	0%
Thailand	94%	0%	1%	3%	1%	0%
Philippines	97%	1%	0%	2%	0%	0%
Indonesia	98%	0%	0%	0%	1%	0%
Vietnam	46%	51%	1%	3%	0%	0%

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam

Source: Bloomberg; Author's calculations.

On local context, BPAM records the type of bonds that are issued in the country. The classification includes the maturity type and coupon type. Based on the outstanding bonds as of December 2020, 16 bond types are recorded in BPAM, as shown in Figure 2.2. Fixed rate bonds in Figure 2.2 occupy 71% of the total corporate bonds in Malaysia because they are defined as fixed coupon bonds and straight bonds at the same time. This is lower than the 81% presented in Table 2.5.

Figure 2.2: Bond Types of MYR-denominated Bonds According to Local Context, December 2020



MYR = Malaysian ringgit

Source: Bond Pricing Agency of Malaysia (BPAM); Author's Calculations.

2.5. Payment Rank

One of the distinguishing characteristics of the Malaysian corporate bond market is a high level of secured corporate bonds in the market. Among the ASEAN6 markets, Malaysia has the highest in terms of the secured bond ratio, with 25% of the total outstanding amount of corporate bonds.

Table 2.6: Comparison of Payment Rank of Corporate Bonds in ASEAN6, 2020

	Secured	Unsecured	Subordinated
Malaysia	25%	63%	12%
Singapore	3%	74%	23%
Thailand	2%	89%	8%
Philippines	2%	93%	5%
Indonesia	12%	83%	5%
Vietnam	11%	88%	1%

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam

Source: Bloomberg; Author's calculations

It seems that a high level of secured bonds in Malaysia is linked to developed project-related bonds in the country because project bonds are structured similar to project finance loans in which security is a common characteristic, to ring-fence project cashflow and assets. Table 2.7 shares an interesting implication in relation to secured bonds in Malaysia. Overall, while secured bonds occupy 25% of total corporate bonds in terms of the amount issued, the secured bonds occupy 57% in terms of the number of issues. If analyzed in terms of the issue sizes, secured bonds would have some divergences. For issue sizes of less than MYR100 million, approximately 69% of corporate bonds in terms of the amount issued, or 76% in terms of the number of issues, are secured bonds. However, secured bonds occupy only 15% in terms of values or 18% in terms of number of issues among the corporate bonds whose issue sizes are MYR1 billion or higher.

This trend may create an impression that secured bonds would tend to be smaller sized bonds or would be requested by smaller companies. On the other hand, it may be more plausible to see this trend in light of the local context. It is also possible that these small issues of secured bonds reflect the structure of a project bond in Malaysia, wherein the tranches can be of smaller issues across different tenors.

Table 2.7: Distribution of Payment Rank of Corporate Bonds in Malaysia

	Secured	Unsecured	Subordinated
Based on amount issued	25%	63%	12%
Based on number of issues	57%	38%	5%

Source: Bloomberg; Author's calculations

2.6. Credit Ratings

Among the outstanding corporate bonds in Malaysia, 56% are rated. The ratio of rated bonds is calculated based on the bonds that are rated by local credit rating agencies in each country, except Singapore in which S&P, Moody's and Fitch's international ratings are observed. While it is not mandatory for corporate bonds to be rated in Malaysia, a majority of corporate bonds are rated. When the issuers of unrated corporate bonds were checked, some of them are state-owned enterprises (SOEs) and government guaranteed. These issuers have established their creditworthiness to investors in Malaysia. Therefore, it is not a priority for these issuers to have some of their bonds rated. For non-SOEs, the investment of unrated bonds may come from banks from whom they have established relationships. These banks are familiar with the credit standing of their clients. The banks may also have sufficient internal resources to perform their own credit evaluation.

Table 2.8: Comparison of Ratios of Rated Bonds in ASEAN6, 2020

Malaysia	Singapore	Thailand	Philippines	Indonesia
56%	28%	45%	20%	73%

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam

Source: Bloomberg; Author's calculations.

In Table 2.9, the credit rating distribution of each country is based on the rating agency that has the most number of clients in the country. In Malaysia, the bonds that are rated by RAM Ratings are used. Approximately 90% of corporate bonds rated by RAM Ratings are AA or higher. If A-rated bonds would be included, the ratio reaches to 99%. In terms of the local context, market participants in Malaysia regard AAA and AA ratings as the investment grade ratings. This is different from the standard definition of investment grade, which includes ratings of up to BBB.

This credit rating distribution, together with the 100% ratio of corporate bond market size to corporate loan market size in Malaysia, implies that small- to medium-sized companies in the country may not easily access the bond market for their financing even if bonds are utilized as much as bank loans for corporate financing in the country on an aggregate basis.

Table 2.9: Comparison of Credit Ratings Distribution in ASEAN6, 2020

	AAA	AA	A	BBB	Below BBB
Malaysia	45%	45%	9%	0.1%	1%
Singapore	0%	7%	17%	76%	0%
Thailand	7%	24%	52%	17%	1%
Philippines	100%	0%	0%	0%	0%
Indonesia	51%	21%	24%	3%	1%

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam

Notes: Figures are computed based on the issued amount of bonds with credit ratings. Figures may not add up to 100% due to rounding off.

Source: Bloomberg; Author's calculations.

Credit ratings for corporate bonds are not mandatory in Malaysia. The relaxation of credit rating requirements was suggested back in 2014. In 2015 when the rule was gradually relaxed, unrated bonds that had been outstanding for at least 2 years could be traded and sold to sophisticated investors.⁵ In January 2017, the SC Malaysia removed the mandatory bond rating as part of the measures to liberalize the financial sector and broaden the corporate bond market in the country.

The removal of credit rating requirements has a two-fold effect. First, investors should have stringent assessment of the credit standing of the issuer and its instrument. As there are more supply of unrated bonds in the market, there is also a growing acceptance for such bonds among investors. However, investors seem to be more comfortable with unrated bonds of established or listed companies in Malaysia. Investors can access the business information about the company, as annual reports and financial statements are released publicly. Second, this might expand the number of issuers, which may lead to issuers without high credit ratings able to access the corporate bond market.

⁵ World Bank. Malaysia's Domestic Bond Market: A Success Story.

<https://openknowledge.worldbank.org/bitstream/handle/10986/34538/Malaysia-s-Domestic-Bond-Market-A-Success-Story.pdf?sequence=1&isAllowed=y> (accessed 1 February 2021).

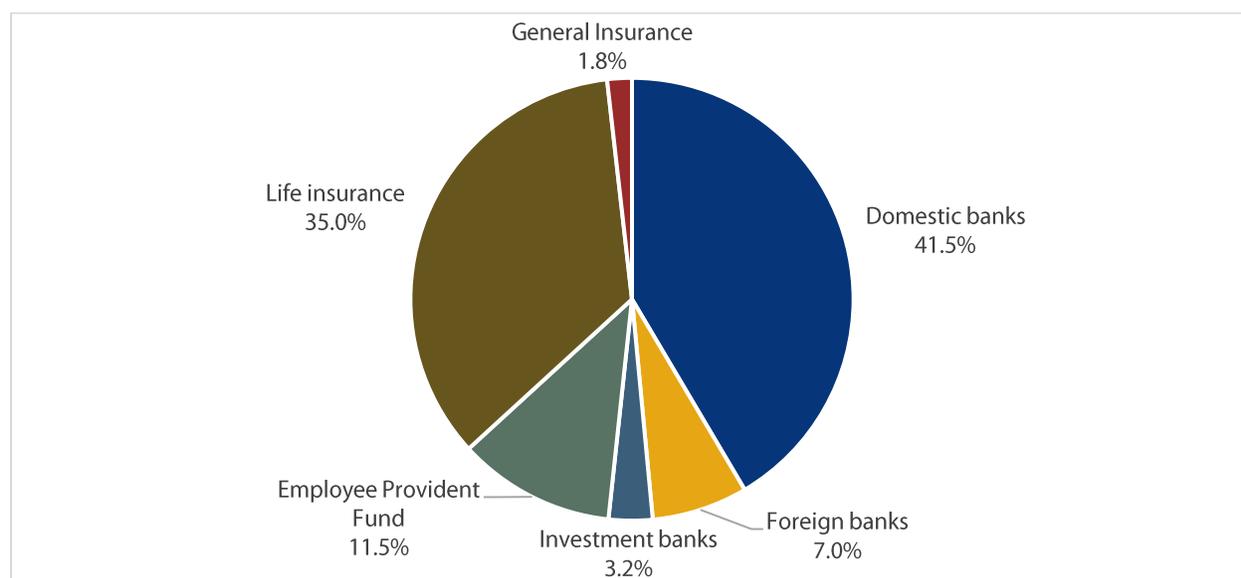
Based on available data, the number of unrated bonds significantly increased from 2014 to the present. In terms of amounts that are outstanding, unrated bonds more than doubled from MYR61 billion in 2015 to MYR120 billion in April 2021. These were issuances from SOEs and supranational. Some unrated issuances are also coming from the private sector. However, in terms of the overall profile, the share of SOE issuances in unrated bonds are still 80%-90%. This range indicates that the market is more inclined toward SOE bonds.

3. Investors

Institutional investors in Malaysia include commercial and Islamic banks, insurance companies, investment banks or management companies, and the Employee Provident Fund (EPF).

In the November 2018 publication of Asian Bonds Online’s Market Summary for Malaysia, the local currency corporate bonds investor profile consisted of commercial and Islamic banks, insurance companies, investment banks, and the Employee Provident Fund. Figure 3.1 shows that more than 50% of MYR-denominated corporate bonds were invested by banks, of which a major share came from domestic banks. In addition, more than 35% were invested by insurance companies. The remaining share was contributed by the Employee Provident Fund.⁶ Figure 3.1 does not show the share of fund management companies. It is possible that the holdings of fund management companies had been accounted under banks or insurance companies, which are the ultimate investors of the corporate bonds.

Figure 3.1: Investor Profile in Corporate Bond Market of Malaysia, June 2018



Source: Asian Bond Online. https://asianbondsonline.adb.org/malaysia/market_summary/my_market_summary_201811.pdf

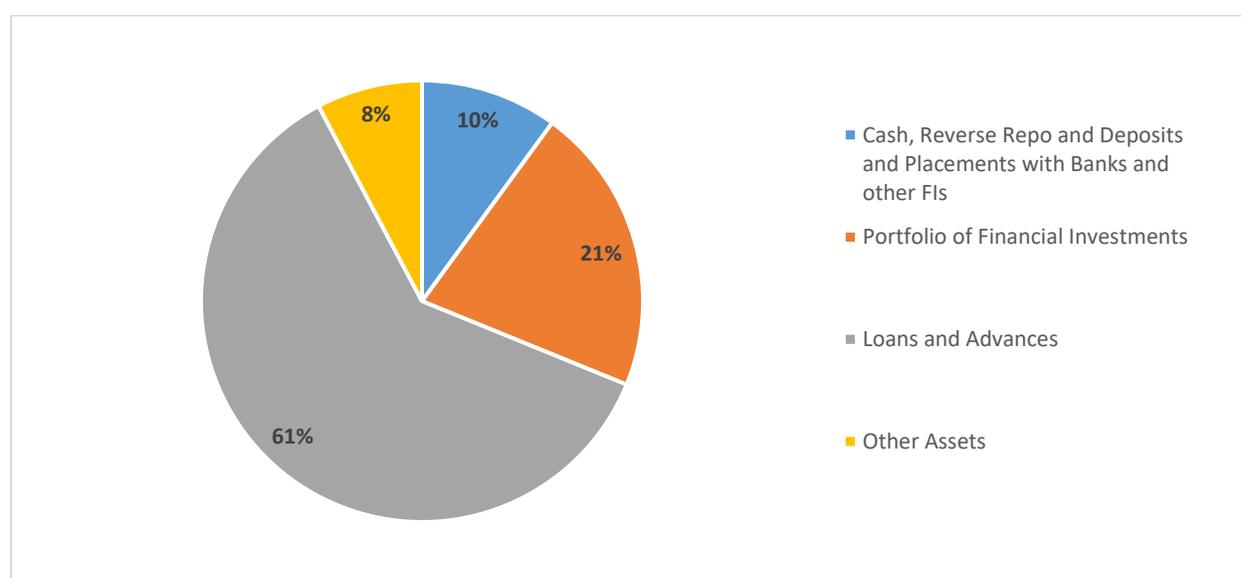
⁶ Asian Bonds Online. Malaysia Market Summary, November 2018. https://asianbondsonline.adb.org/malaysia/market_summary/my_market_summary_201811.pdf (accessed 1 February 2021).

Malaysia has a professional investors concept, which is more commonly referred to as sophisticated investors. Sophisticated investors include the accredited investors, high net worth entities, and high net worth individuals.⁷ Investors in Malaysia are mostly institutional investors. Participation of retail investors, who are mainly high net worth individuals, is very minimal in the country.

3.1. Banks

There are 26 commercial banks and 16 Islamic banks that have licenses from Bank Negara Malaysia (BNM).⁸ There is also one international Islamic bank based on the list from BNM. In December 2020, the banking sector of Malaysia holds MYR509 billion worth of portfolio of financial investments as part of their assets, which occupy 21% of the total assets of all domestic banks in Malaysia.⁹ Corporate bonds holding is part of the MYR243 billion of “other securities”, an item under the portfolio of financial investments. As BNM data does not show a breakdown of the “other securities”, the exact amount of corporate bonds holding is not available.

Figure 3.2: Asset Composition of Aggregate Banks in Malaysia, December 2020



Source: Bank Negara Malaysia. Monthly Banking Statistics in December 2020.

The current regulatory environment influences the possible investment appetite of banks on different financial instruments. Table 3.1 shows that the risk weights for exposures of banks to other banking institutions are generally the same for A1 to A3, BBB1 to BBB3, and unrated. In fact, unrated exposures have lower risk weights compared to lower rated securities such as BB1 to BB3 and C1 to D. Bank exposures to financial securities of corporates also depend on the credit ratings. There is a parity in risk weights between BBB1 to BBB3 and unrated securities for exposures to corporates. However, unrated bonds that are issued by SOEs are treated in the same manner as those of the public sector entities. In particular, when unrated bonds are guaranteed by Government of Malaysia, the bonds are treated the same as those of sovereigns and the central bank.

⁷ Securities Commission Malaysia. Guidelines on Sales Practices of Unlisted Capital Market Products.

<https://www.sc.com.my/api/documentms/download.ashx?id=50273e8d-0952-4485-bb51-68d5c6d5a301> (accessed 31 March 2021).

This Guideline provides the definitions of sophisticated investors.

⁸ Bank Negara Malaysia. List of licensed financial institutions. <https://www.bnm.gov.my/list-of-licensed-financial-institutions> (accessed 31 March 2021).

⁹ Bank Negara Malaysia. Monthly Banking Statistics in December 2020. <https://www.bnm.gov.my/mthly-highlights-statistics> (accessed 31 March 2021).

Table 3.1: Risk Weights and Rating Categories to Some Exposures of Banks in Malaysia

Exposures (to)	Type	Risk Weight
Sovereigns and Central Bank	Federal Government of Malaysia and BNM, denominated in MYR	0%
Non-Federal Government Public Sector Entities (PSEs)	Domestic PSEs, subject to certain criteria, which include administrative bodies of federal governments, local governments, and administrative bodies of these entities	20%
Multilateral Development Banks (MDBs)	Highly rated MDBs that meet certain criteria specified by the Basel Committee on Banking Supervision	0%
Banking institutions and development finance institutions	Long term ratings* <ul style="list-style-type: none"> • AAA to AA- • A1 to A3 • BBB1 to BBB3 • BB1 to BB3 • C1 to D • Unrated 	20% 50% 50% 100% 150% 50%
Corporates	Long term ratings <ul style="list-style-type: none"> • AAA to AA3 • A1 to A3 • BBB1 to BB3 • B1 to D • Unrated 	20% 50% 100% 150% 100%
Insurance companies, securities firms, and fund managers	Same as corporates	

BNM = Bank Negara Malaysia, MYR = Malaysian ringgit

*Risk weight will change depending on the original maturity, if less than 6 months or less than 3 months.

Source: Bank Negara Malaysia. *Capital Adequacy Framework (Basel II – Risk-Weighted Assets)*.

<https://www.bnm.gov.my/documents/20124/761679/PD+032-5+CAF+%28Basel+II-RWA%29+PD+20190503.pdf>

Banks are considered to be active investors for corporate bonds in Malaysia. It is not uncommon especially for larger domestic banks in Malaysia to put sizeable orders on bond offering. There is no generalization on the appetite of banks for the tenor of corporate bonds since this depends on the treasury position of the banks. Compared with life insurers and pension funds, banks are not long-term bond investors as the liabilities of banks are relatively short. Nevertheless, banks invest longer than 10 years' bonds, including project related corporate bonds. The credit appetite of banks on corporate bonds are concentrated on AAA and AA ratings. This can be influenced by the risk weights that are applied to bonds with AAA and AA ratings. While banks invest on A-rated bonds, they are selective on the names in this rating area. Careful approach on bonds that have A and below ratings are commonly observed not only from banks, but also from other institutional investors in Malaysia.

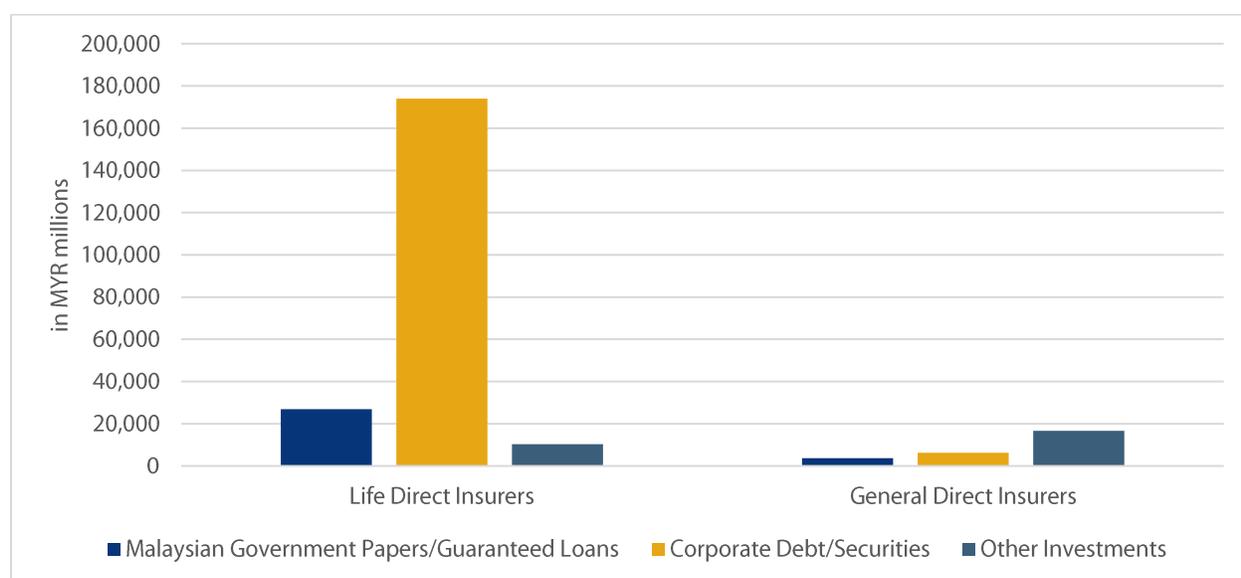
Banks that may have an appetite for FCY-denominated (usually in USD) corporate bonds include those banks that have overseas presence. The investments in USD-denominated bonds would be used to support the regional operations. This is supported by information found in financial statement of banks. Analyzing the available data from reports of select banks, corporate bonds – both issued in and outside Malaysia – are among the key investments of banks. In addition, larger banks seem to have sizeable investments in corporate bonds outside Malaysia.

3.2. Insurance Companies

Insurance companies are under the supervision of the BNM. The Insurance Act of 1996 is the main regulation for insurance companies and activities in the country.¹⁰ Insurance companies in Malaysia offer both conventional insurance and takaful (Islamic insurance). Based on the list of BNM, there is a total of 62 licensed life, general, reinsurance companies, and takaful and retakaful operators in the country.¹¹

The investments of Malaysian life insurance companies with business in the country reached MYR211.18 billion in the first half of 2020. On the other hand, investments of Malaysian general life insurance with business in the country reached MYR26.67 billion in the first half of 2020. The breakdown of investments is shown in Figure 3.3. Although the figures represent a collective data for corporate debt and securities, it implies that life insurance companies are strong investors for corporate bonds among investor groups in the country.

Figure 3.3: Investments of Malaysian Insurance Companies with Business in the Country, January to June 2020



Source: Bank Negara Malaysia (Monthly Highlights and Statistics, as of 31 December 2020); Author's illustration.

Table 3.2 shows the total in force premium breakdown by product in Malaysia. This information provides a rough idea on the maturity profiles of the bond investments of insurance companies in Malaysia. In general, long term bonds are required to be invested by insurers for traditional and annuity products sold by them to match the duration of asset and liability. However, investments in long term bonds are dependent on each product under investment-linked products, which are the policies that have life insurance coverage and investment components. Investment components depend on the asset types clients choose, which can be equity-type, fixed income-type, mixed type, and global equity type. The investment-linked products dominate the market in Malaysia, which is at 53% in 2020, in terms of the total in force premiums. This implies that insurance companies in the country may not invest on long term bonds as much as expected from the total investment.

¹⁰ Bank Negara Malaysia. Insurance Act 1996.

<https://www.bnm.gov.my/documents/20124/820862/Insurance+Act+1996.pdf/dbbd84e4-2242-3529-4cb2-532ba2e44650?t=1584637172271> (accessed 23 March 2021).

¹¹ Bank Negara Malaysia. Licensed insurance companies and takaful operators. <https://www.bnm.gov.my/list-of-licensed-financial-institutions> (accessed 23 March 2021).

Table 3.2: Total In-Force Premiums, According to Types of Life Insurance Products (MYR millions)

Types of Life Insurance Products	2019	2020	Growth (%)
Traditional	16,130	16,289	1.0
Investment-linked	21,012	23,064	9.8
Annuity	623	475	-23.7
Group	3,418	3,541	3.6
Total	41,183	43,369	5.3

Source: Life Insurance Association of Malaysia Annual Report, 2020.

https://www.liam.org.my/pdf/LIAM_Annual_Report_2020.pdf

Regardless of the size and market share of life insurance companies, these companies are concerned on the asset-liability management (ALM), which is the main reason for long term bond investments. As the corporate bond market in Malaysia is considerably long term compared to other ASEAN markets, there is a relatively good supply of long-term corporate bonds for insurers. Insurance companies can invest from 5Y to 30Y bonds, subject to the credit ratings of the bonds. Insurance companies would have more appetite for higher rated bonds with longer maturity. The bonds with lower rating would attract some attention from insurance companies if they have short-term maturity.

The risk-based capital (RBC) framework of BNM provides some guidelines for insurers to consider when they invest in various debt instruments. Those with lower risk weights may be good for the RBC ratios of the insurers. On the other hand, there has to be more caution for lower rated bonds or unrated bonds because they have higher risk weights. In some ways, the smaller insurance companies would look into rated bonds to be a more practical investment. This is because these companies can utilize information from credit rating agencies about their evaluation on the debt or the issuer. This may also benefit the smaller insurance companies in terms of compliance with RBC requirements. Larger insurance companies may be able to take more risks from unrated or lower rated bonds and take advantage of higher yields.

Table 3.3: Risk Charges for Counterparties and Debt Obligations of Insurers of Bank Negara Malaysia

Counterparty or debt obligations	Risk Charge
Federal Government of Malaysia, BNM, federal government or the central bank of a G10 country, and recognized multilateral development bank	0%
Cagamas in respect of its obligations or that issued by its subsidiaries prior to 4 Sep 2004, Cagamas covered bonds, and covered sukuk wakalah	0.8%
State government of Malaysia and the federal government or central bank of non-G10 countries	1.6%
Corporations and other organizations with the following rating categories: <ul style="list-style-type: none"> • AAA • AA • A • BBB • Unrated or lower rating 	1.6% 2.8% 4% 6% 12%
Debt facilities with original maturity of 1 year or less, and with the following rating categories: <ul style="list-style-type: none"> • A-1/P-1 • A-2/P-2 • A-3/P-3 • Unrated or with lower rating 	1.6% 4% 8% 12%

Counterparty or debt obligations	Risk Charge
Individual person: <ul style="list-style-type: none"> Staff of the licensed insurer Other individuals (except for policy loans) 	4% 12%
Policy Loans	0%

BNM = Bank Negara Malaysia

Source: "Risk-Based Capital Framework for Insurers" published by BNM, 2018.

<https://www.bnm.gov.my/documents/20124/948107/RBC+policy+document.pdf/9a7c4529-481e-aa3e-edae-41291e341b5f?t=1594083008094>

3.3. Pension Funds

There are three main bodies in the pension system of Malaysia. KWAP is the pension fund for government employees. KWSP, also known as the Employee Provident Fund (EPF), is the pension fund for private sector employees. The Armed Forces Fund, known as Lembaga Tabung Angkatan Tentera (LTAT), is the one for military personnel.¹²

EPF was established in 1951. Under the Employees Provident Act of 1991, EPF aims to help Malaysians save for retirement. It can invest in both domestic and overseas markets. As of end 2019, the asset size of EPF stood at MYR925 billion, or USD226 billion equivalent, making it the fourth largest pension fund in Asia and the seventh largest in the world. Table 3.4 summarizes the characteristics of the investments of EPF in terms of SAA, currency, and credit appetites. The information is based on the 2019 annual report of EPF.

Table 3.4: Strategic Asset Allocation and General Investment Appetite of the Employee Provident Fund, 2019

Item	Details
Strategic Asset Allocation (SAA)	<ul style="list-style-type: none"> 51% fixed income instruments 36% equities 10% real estate and infrastructure 3% Money Market Instruments
Credit appetite in fixed income instruments	<ul style="list-style-type: none"> Most investments in government bonds and corporate bonds have ratings of AA or higher. Minimal investments in A-rated and unrated corporate bonds
Currency appetite	<ul style="list-style-type: none"> 70% in assets denominated in MYR, 30% in overseas assets Under the internal policy, at minimum, 50% of the global fixed income investments are hedged, whereas global equities and other global exposures are hedged where appropriate.
Maturity appetite	<ul style="list-style-type: none"> Based on the interest rate sensitivity information from the FS, the average maturity of bonds accounted under FVOCI is around 7 years. This implies that the average maturity of these bonds at the time of investment is likely longer than 10 years.

FS = Financial Statement, FVOCI = fair value through other comprehensive income, MYR = Malaysian ringgit

Note: Composition of SAA totals to 100%.

Source: EPF Annual Report 2019.

¹² Hussein, Nurhisham. *The Malaysian Pension System*. <https://www.nomurafoundation.or.jp/en/wordpress/wp-content/uploads/2019/03/NJACM3-2SP19-04.pdf> (accessed 15 February 2021).

Established in 2007, KWAP manages the public pension fund in Malaysia. The public pension fund used to be managed by the Pensions Trust Fund. At the end of 2018, the asset size of KWAP stood at MYR137 billion. KWAP can invest in equities, fixed income and other assets, including international assets, as shown in Table 3.5. In the same period, approximately 88% of investments are domestic assets, with 20% allocated to domestic corporate bonds and loans.¹³

Table 3.5: Investment Portfolio Composition and General Investment Appetite of KWAP, 2018

Item	Details
Investment Portfolio Composition	<ul style="list-style-type: none"> • 20% domestic corporate bonds and loans • 39% domestic equities (including private equities) • 21% Malaysian sovereign bonds • 7% domestic deposits • 2% property • 12% international assets (1% of international fixed incomes)
Credit appetite for corporate bonds	<ul style="list-style-type: none"> • 32% AAA-rated, 25% AA-rated, 9% A-rated, and 34% unrated • Within corporate bonds, 32% is AAA, 25% is AA, 9% is A, and 34% of unrated bonds are held as of end of 2018.
Currency appetite	<ul style="list-style-type: none"> • KWAP is exposed to the currency risk from equities, fixed incomes, and alternative investments denominated in the following foreign currencies: USD, AUD, GBP, EUR, and HKD. • Cross currency swaps and FX forwards are used to hedge the firm commitments with highly probable future payments and net revenue denominated in foreign currencies.
Maturity appetite	<ul style="list-style-type: none"> • As of end of 2018, 63% of debt securities are classified as over 5 years.
Corporate debt securities	<ul style="list-style-type: none"> • 72% are sukuk. 28% are conventional bonds.

AUD = Australian dollar, EUR = Euro, GBP = British pound, HKD = , USD = US dollar; FX = foreign exchange

Note: Investment portfolio composition and credit appetite for corporate bonds total to 100%.

Source: KWAP Annual Report 2018.

A general corporate bond investment appetite of pension funds in Malaysia can be summarized based on the two major pension funds. First, credit rating can be accepted starting from A rating. While the investments of pension funds in A-rated corporate bonds are not significant, they may occupy a significant share of the total of A-rated bonds in Malaysia, considering their sizeable investment amount for these bonds and the relatively small issuances of A-rated corporate bonds compared to AAA- and AA-rated bonds in the country. Second, long term bonds are preferred by pension funds. This preference is in line with the nature of pension funds whose liabilities have long term profiles. Based on interviews with market participants, pension funds are key investors in Malaysia that absorb the longest end (15 years or longer) of corporate bond supplies. They are perceived to be longer than insurers in terms of the maturity appetite of corporate bonds. Third, foreign currency assets are invested by pension funds. However, foreign currency corporate bonds are marginal from their foreign currency investments. Once foreign currency bonds are invested, their currency risks are hedged.

3.4. Fund Management Companies

The fund management industry of Malaysia is also a developed market. Fund management companies are under the purview of the Securities Commission of Malaysia. The fund management industry of Malaysia can be structured according to products. Fund products are categorized as listed products and unlisted products. Listed products include the real estate investment trust (REIT), closed-ended funds, and exchange traded funds.

¹³ KWAP Annual Report 2018.

<https://www.kwap.gov.my/EN/Documents/Publication/KWAP%20Annual%20Report%202018.pdf> (accessed 31 March 2021).

Unlisted products include the sustainable and responsible investment (SRI) fund, unit trust funds, wholesale funds, and private retirement scheme funds.

The asset under management for overall fund management under local allocation reached MYR905.45 billion as of end of 2020.¹⁴ Table 3.6 shows the source of funds of the clients under management. Unit trust funds are mainly invested in by retail investors, while wholesale funds are intended for institutional investors. Most of the unit trust funds are invested in equities.

Table 3.6: Source of Funds of Clients Under Management, 2020

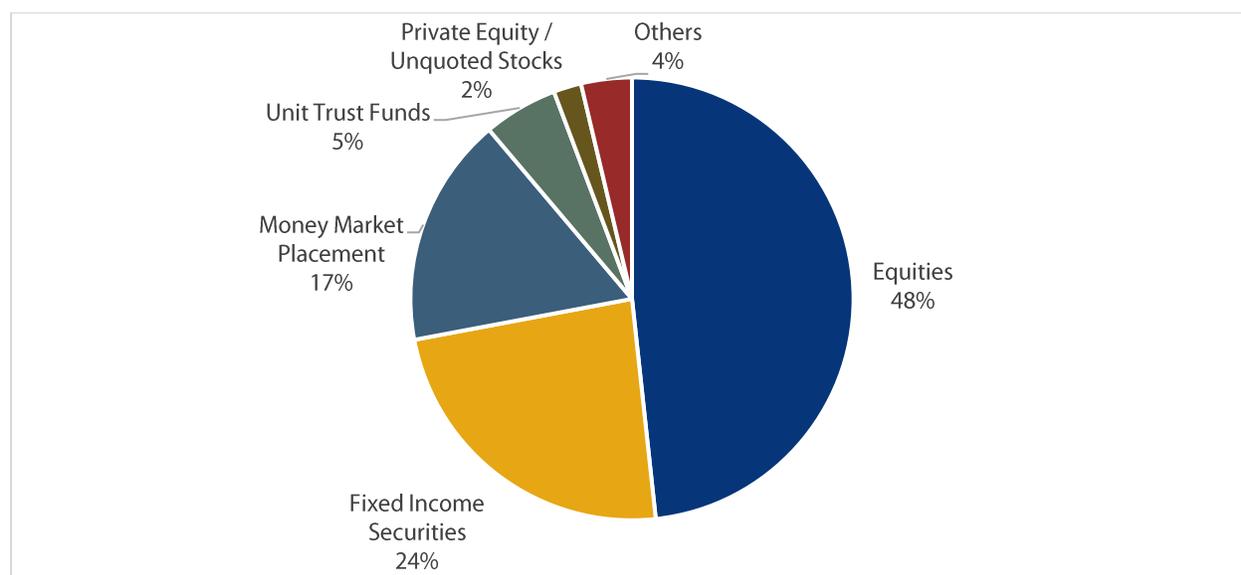
Source of funds	Amount (MYR billion)	Share (%)
Unit trust funds	519.53	57.4
Employees Provident Fund	150.77	16.7
Wholesale funds	67.65	7.5
Corporate bodies	86.49	9.6
Statutory bodies and government agencies	35.90	4.0
Others	24.38	2.7
Individuals	16.74	1.8
Private pension funds	4.00	0.4
Total	905.46	100.0

MYR = Malaysian ringgit

Source: Securities Commission Malaysia Annual Report 2020.

Figure 3.4 shows the asset allocation for overall fund management as of December 2020.

Figure 3.4: Asset Allocation for Overall Fund Management in Local Allocation, 31 December 2020



Source: Securities Commission, Malaysia (Fund Management Statistics as of 31 December 2020); Author's calculations.

¹⁴ Securities Commission Malaysia. Fund Management Statistics as of 31 December 2020. <https://www.sc.com.my/analytics/fund-management-products> (accessed 19 February 2021).

It can be said that the fund management companies have a diverse investment appetite due to the nature of their business. The funds of these companies have different risk mandates, which calls for different types of securities to invest in. The type of fund can also influence the extent of investments among fund management companies. For instance, Islamic funds are restricted to only sukuk investments, while conventional funds can take in both conventional securities and sukuk. Fund management companies may also be managing some funds that are outsourced by insurance companies on a bilateral contract basis. In this case, fund management companies should follow the investment mandates of the funds from insurance companies.

Since yields are important to fund management companies, fund management companies are able to invest in A-rated bonds and even unrated bonds, which may offer higher yields compared to higher rated bonds. Depending on the internal criteria of fund management companies, some A-rated bonds may be from issuers wherein credit strength is acceptable. For unrated bonds, some of them may be government-guaranteed bonds which already imply a high credit quality in the local context. Overall, fund management companies practice strict evaluation of the credit strength of the issuer regardless if the bond is rated or unrated. As long as the credit fundamentals of the issuers are good, fund management companies can invest in their bonds.

Liquidity is another consideration for fund management companies. The size of the issuance can be an indication of the liquidity of a bond. Fund management companies would try to invest in bonds that are large enough to be traded in the market, which is at least MYR200 million. Interestingly, the average issue size in the Malaysian corporate bond market is approximately MYR200 million.

3.5. Retail Investors

Retail investors can participate in the corporate bond market of Malaysia. The bonds or sukuk in which retail investors can invest in are called “retail bonds”. Indirectly, retail investors may participate as corporate bond investors through investing in collective investment schemes.

In 2018, SC Malaysia implemented regulations to invite more retail investors in the bond market.¹⁵ SC Malaysia passed the Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors.¹⁶ This is an effort of SC Malaysia to liberalize its regulatory framework for retail investors to have greater access to the bond market of the country. According to the guideline, corporate bonds and sukuk that are offered to retail investors should be issued by eligible entities namely, listed public companies, licensed banks, licensed investment banks, and licensed Islamic banks such as Cagamas Berhad, Danajamin Nasional Berhad, and Khazanah Nasional Berhad. Unlisted companies may still offer retail bonds and sukuk, given that these are irrevocably and unconditionally guaranteed by the entities in the preceding list of eligible guarantors or the Credit Guarantee and Investment Facility (CGIF). Among other required characteristics, retail bonds should be denominated in Malaysian ringgit and should have a maturity of more than 1 year.

¹⁵ BIX Malaysia. *SC Liberalises Framework for Retail Investment in Malaysia’s Corporate Bond and Sukuk Market*. <https://www.bixmalaysia.com/Learning-Center/Articles-Tutorials/SC-Liberalises-Framework-for-Retail-Investment-in> (accessed 11 Feb 2021).

¹⁶ Securities Commission Malaysia. *Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors*. <https://www.sc.com.my/api/documentms/download.ashx?id=7be24ad9-1846-4de9-8897-d5ed58ec0011> (accessed 17 February 2021)

This Guideline was first passed in 2015 and was later revised in 2019.

SC Malaysia also passed the Guidelines on Seasoned Corporate Bonds and Sukuk based on the same goal of providing greater access to retail investors. In the guideline, seasoned corporate bonds and sukuk are the bonds issued to sophisticated investors and are eligible to be distributed to retail investors after the seasoning period. The seasoning period refers two possible events: in the case of a one-off issuance, this is the period of 12 months from the date of corporate bonds or sukuk were issued to sophisticated investors. In the case of a tranche under a debt or sukuk program, this is the period of 12 months from the issuance of the tranche to sophisticated investors.

As of April 2019, there is one eligible distributor of retail bonds in the country.¹⁷ Retail investors that are interested to buy seasoned bonds can open an investment account with the eligible distributor.

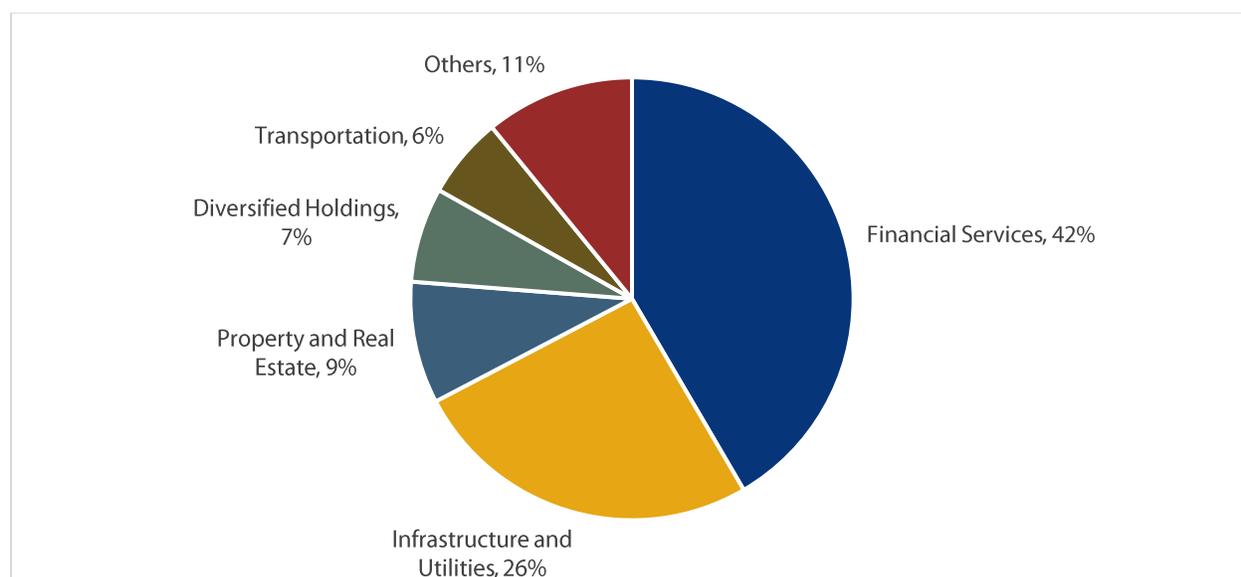
High net worth individuals can access corporate bond investment through private banking channels. In most cases, high yield bonds are more preferred in private banking. Exchange traded bonds (ETBs) for the general retail population are rare. There are only a handful of ETBs in Malaysia.

4. Other Market Participants

4.1. Issuers

The corporate bond market in Malaysia is relatively developed in the ASEAN region. Both resident and nonresident issuers can issue bonds, notes, or sukuk. In terms of MYR-denominated corporate bonds that are issued in the domestic market, there are two dominant industries that have high amount of outstanding corporate bonds, based on the classification of BPAM. These are Financials Services and Infrastructure. As of end of 2020, the Financials industry took up 42% of the total amount of outstanding bonds in Malaysia, followed by Infrastructure at 26%, and property and real estate at 9%.

Figure 4.1: Distribution of Outstanding Corporate Bonds Based on Amount Issued, by Industry, 2020

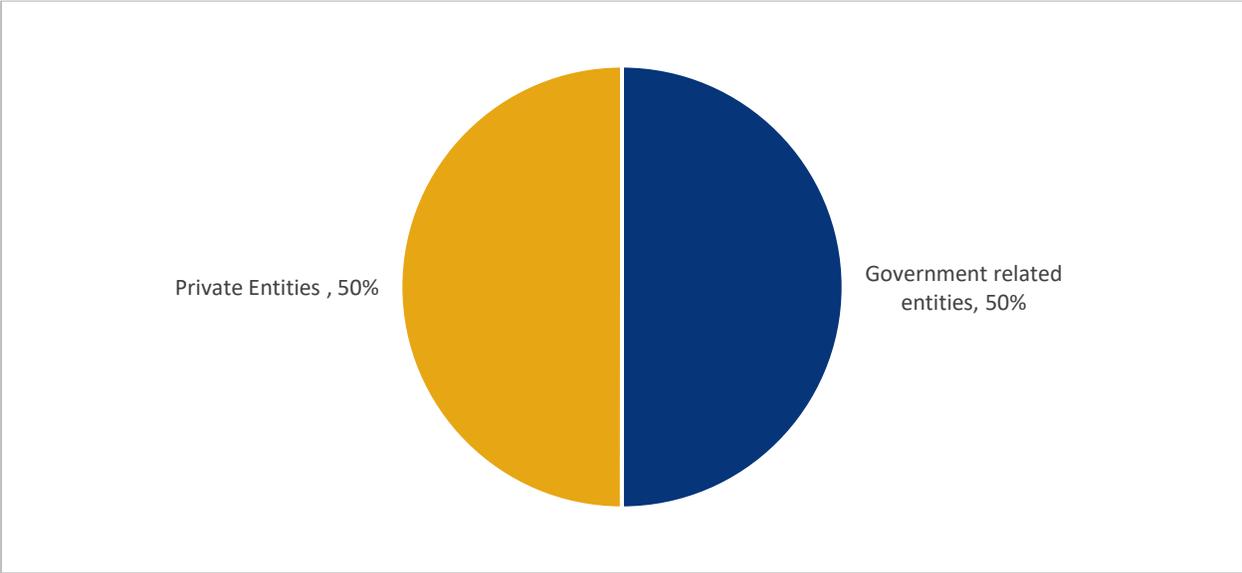


Source: BPAM; Author's calculations, 2021.

¹⁷ BIX Malaysia. *Eligible distributors list for transacting seasoned bonds*. <https://www.bixmalaysia.com/Announcement-Search/Eligible-Distributor> (accessed 20 February 2021). The eligible distributor is iFAST Capital Sdn. Bhd. <https://www.fsnone.com.my/about-us> (accessed 20 February 2021).

Some of the issuers are government-linked companies (GLC), which is defined as companies that have a primary commercial objective under the control of a government-linked investment company (GLIC). To further describe this structure, a GLIC has control over GLC when it is the majority shareholder or single largest shareholder. A GLIC has the ability to exercise and influence major decisions such as appointment of board members and senior management, awards of tenders and contracts, among others.¹⁸ Some of the GLICs include the Employees Provident Fund (EPF), Khazanah Nasional Berhad (Khazanah), Lembaga Tabung Angkatan Tentera (LTAT), Lembaga Tabung Haji (LTH), and Permodalan Nasional Berhad (PNB).

Figure 4.2: Distribution of Outstanding Corporate Bonds Based on Amount Issued, by Government Related Entities Versus Private Entities



Note: Government-related entities (GREs) include government-owned, guaranteed, and sponsored entities.
Source: Bloomberg; Author’s Illustration.

Figure 4.2 shows the breakdown of corporate bonds by government related entities and private entities. Based on the figure, the amounts issued by two groups are almost same. However, government related entities is only 24% of the total issuers, which implies that the average issue size of bonds issued by GREs is bigger than that of the private entities.

Using the available information from Bloomberg, the total issued amount of the top 15 corporate issuers took up 47% of the outstanding bonds as of 31 December 2020. Some of the names in the top 15 list are associated with the government.

¹⁸ Putrajaya Committee. 2015. *GLC Transformation Programme Graduation Report*. p. 3
<https://www.pcg.gov.my/media/1118/glctp-vol1-graduation-report.pdf> (accessed 23 March 2021).

Table 4.1: Top 15 Issuers in Malaysia, 31 December 2020

Issuer name	Share of issued amount to total outstanding bonds	Description of main business	Industry Classification (Sector)
Danainfra Nasional Bhd.	10%	100% owned by the Minister of Finance, Incorporated with the main objective of being the funding vehicle for specific infrastructure projects	Financial Services (Financials)
Prasarana Malaysia Bhd.	5%	Owns and operates urban rail services in Malaysia, including 3 LRT networks and the KL Monorail; Operates the MRT line	Railroad (Industrials)
Cagamas Bhd.	4%	The national mortgage corporation of Malaysia whose main objective is to promote home ownership and secondary mortgage market in the country	Consumer Finance (Financials)
Projek Lebuhraya Usahasama	4%	100% owned subsidiary of PLUS Malaysia Bhd. with the objective of consolidating all highway concessionaires that are acquired under a single entity	Transportation & Logistics (Industrials)
Urusharta Jamaah Sdn Bhd.	4%	100% owned by Minister of Finance, Incorporated and a special purpose vehicle established to take over the non-performing assets of Lembaga Tabung Haji, a government-linked investment company	Financial Services (Financials)
Perbadanan Tabung Pendidikan Tinggi Nasional	3%	Established under the National Higher Education Fund Corporation Act 1997, with the primary objectives of managing loans for higher education, collecting loan repayments, and providing savings schemes and managing deposits for higher education	Financial Services (Financials)
Pengurusan Air SPV Bhd.	3%	A special purpose vehicle established to undertake the proposed issuance of Islamic medium-term notes and Islamic commercial papers in connection with Pengurusan Aset Air Berhad ("PAAB") under the national water services industry restructuring initiatives	Utilities (Utilities)
CIMB Bank	2%	The commercial banking arm of the CIMB Group	Banks (Financials)
Khazanah Nasional Bhd.	2%	The sovereign wealth fund of Malaysia; majority owned by the Minister of Finance, Incorporated	Financial Services (Financials)
Maybank Islamic Bhd.	2%	A subsidiary of Malayan Banking Bhd. (Maybank), which provides Islamic financial products and services	Banks (Financials)
Sarawak Energy Bhd.	2%	An energy development company and a vertically integrated power utility	Power Generation (Utilities)
CIMB Group Holdings Bhd.	2%	Offers consumer banking, commercial banking, investment banking, Islamic banking, and asset management products and services	Banks (Financials)
Malayan Banking Bhd.	2%	A holding company for Maybank Group in Malaysia	Banks (Financials)
Tenaga Nasional Bhd.	1%	The largest electricity utility in Malaysia	Utilities (Utilities)
Jimah East Power Sdn.	1%	A power generation company	Power Generation (Utilities)

Notes: Industry classification is based on the recorded information from Bloomberg. Description of the issuers are sourced from their respective websites and other online articles, as of 8 March 2021. Outstanding bonds are as of 31 December 2020. Source: Bloomberg; Author's calculations. (Outstanding bonds are as of 31 December 2020)

4.2. Regulators

The debt and sukuk markets of Malaysia are governed by Securities Commission of Malaysia (SC Malaysia) and Bank Negara Malaysia (BNM). Both regulators play a dual role of supervising market intermediaries and activities. These two government authorities are also actively supporting the development of market infrastructure.

Securities Commission

SC Malaysia is the capital market regulator of the country. SC Malaysia has three main roles in the capital market of the country: 1) to regulate the market through the enforcement of relevant regulations for capital markets, 2) to further develop the market to ensure a sustainable, inclusive and innovative capital market to diverse market players, and 3) to protect investors of the capital market in the country.

SC Malaysia enforces the Capital Markets and Services Act of 2007 (CMSA), as the main capital market regulation in the country. The CMSA has been continually amended over the years to reflect the developments in the capital market of the country. In addition, SC Malaysia has a Shariah Advisory Council, which oversees all Shariah matters under its purview.

One key development that is implemented by SC Malaysia is the establishment of Bond and Sukuk Information Exchange (BIX), which caters to retail investors in the bond market. BIX has a repository of bond and sukuk information for public viewing, thus increasing market transparency. With BIX, investors can search for bonds and sukuk that they may want to invest in. The scope of information that is available at BIX includes the outstanding amount of bonds, the type of bond (conventional or sukuk), maturity, coupon rate, and other characteristics.

Bank Negara Malaysia

BNM is the central bank of Malaysia and acts as the issuing agent of government bonds of Malaysia. As such, BNM can purchase Malaysian government securities from the primary and secondary market for its open market operations.

In the bond market of the country, BNM regulates some of the key institutional investors such as banks, insurance companies, takaful operators, and development financial institutions. BNM also oversees the key infrastructure for the Malaysian bond market, such as FAST, RENTAS, and MyClear.

BNM has its own Shariah Advisory Council (SAC), which was established in May 1997. The SAC of BNM serves as the highest authority in Islamic finance in Malaysia.¹⁹ The role of the SAC as the sole authoritative body on Shariah matters pertaining to Islamic banking, takaful, and Islamic finance is reinforced in the Central Bank of Malaysia Act 2009.

Bursa Malaysia

Bursa Malaysia is the stock exchange of Malaysia. Bursa Malaysia operates and regulates a fully integrated exchange that offers a comprehensive range of exchange-related facilities, including listing, trading, clearing, settlement, and depository services.

¹⁹ BNM. About the Bank Shariah Advisory Council. <https://www.bnm.gov.my/web/guest/shariah-advisory-council>

4.3. Credit Rating Agencies

Malaysia has two local credit rating agencies: RAM Ratings Services Berhad (RAM Ratings) and Malaysian Rating Corporation Berhad (MARC).

Being the first credit rating agency in Malaysia, RAM Ratings has around 30 years of experience in credit ratings in the country. Back then, the establishment of RAM Ratings was to promote the development of the bond market of Malaysia. In addition, the expertise of RAM Ratings resulted in its global recognition for rating securities issued based on Islamic principles. RAM Ratings claims to be the leading and largest credit rating agency in ASEAN.²⁰

RAM Ratings was also the first credit rating agency to rate sukuk in 1994. Over the years, RAM Ratings became a globally acknowledged institution for rating securities issued based on Islamic principles. RAM Ratings also became part of the pioneer credit rating agencies signatories to the UN-supported Principles for Responsible Investments Statement on ESG in Credit Ratings²¹. This would push RAM Ratings to systematically and transparently incorporate ESG into its credit ratings and analysis.

Other notable achievements of RAM Ratings include its accreditation from Tokyo Stock Exchange for listings on the Japanese Pro-Bond Market. The purpose for this accreditation is to introduce the ASEAN/global rating of RAM Rating to Japanese investors and facilitate the listing of Malaysian issuers on the Tokyo Pro-Bond market. In addition, the accreditation would allow Japanese investors to be more familiar with RAM Ratings if they invest in debt issued by Malaysian issuers/Japanese issuers in the Malaysian market.

MARC was established in 1996, with key capabilities in providing ratings for infrastructure, project, and structured finance.²² As of end of February 2021, MARC had a total of 876 ratings. Their ratings services include issuer ratings, corporate debt ratings, project finance ratings, and structured finance ratings. MARC can also provide ratings for sukuk issuances.²³

S&P Global Asian Holdings has a business relationship with RAM Ratings, holding 19.2% of the shares of RAM Ratings. Similarly, Moody's Asia Pacific Ltd. has a business relationship with MARC, holding 19.45% of the shares of MARC.

Table 4.2: Key Information of Local Credit Rating Agencies in Malaysia

	RAM Ratings	MARC
Year of Establishment	1990 by BNM	1995
Shareholding structure	Wholly owned subsidiary of RAM holdings Berhad, which is held by major financial institutions in Malaysia and S&P Global Asian Holdings owning 19.2%	19.45% owned by Moody's Asia Pacific Ltd. and 10% owned by Care Ratings Limited; Other significant shareholders include several insurance companies, investment banks, and stockbrokers
Related Companies or Subsidiaries	BPAM (associate of RAM Holdings) RAM Sustainability Sdn Bhd RAM Solutions Bhd	MARC Learning Sdn Bhd MARC Solutions Sdn Bhd

Source: Corporate websites of RAM Ratings and MARC.

²⁰ RAM Rating Services Berhad. <https://www.ram.com.my/about-us/#Overview>

²¹ The Principles for Responsible Investments (PRI) was launched in 2006 with the support from the United Nations. The PRI aims to promote environmental and social responsibility among global investors. It has six main principles. More information about PRI is found in its website, <https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment>.

²² Malaysian Rating Corporation Berhad. *Introduction*. <https://www.marc.com.my/index.php/about-marc/overview/introduction> (accessed 31 March 2021).

²³ Malaysian Rating Corporation Berhad. *Notable MARC-rated Issuances*. <https://www.marc.com.my/index.php/about-marc/overview/notable-marc-rated-issuances> (accessed 31 March 2021).

As previously mentioned, the mandatory requirement for corporate bond credit ratings was removed. Additional developments for the structure of credit rating agencies in Malaysia include allowing international rating agencies with full foreign ownership to operate in the country in January 2017.

4.4. Bond Pricing Agency

The Bond Pricing Agency Malaysia (BPAM) was established in 2004. BPAM serves as the premier source of evaluated prices and data for Malaysia. BPAM also publishes market information about the pricing of bonds in the country, such as information about the most active bonds as well as upcoming bond issuances. Some information from the BPAM is available to members only.

As a testament of their commitment to provide comprehensive market information, BPAM publishes the Malaysia Bond and Sukuk Almanac. The publication is a compilation of essential market data, including list of outstanding bonds and sukuk for both the government bond and corporate bond markets in the country. In addition, BPAM also shows in this publication the list of domestic issuers and their profiles.

Aside from MYR-denominated bonds issued by Malaysian entities, BPAM provides the pricing of MYR-denominated bonds that are issued by foreign entities. BPAM can also provide pricing for unrated bonds. It started pricing these bonds in 2014, following the relaxation of the mandatory rating requirement by SC Malaysia. BPAM uses Malaysian government securities (MGS) as a benchmark for unrated bonds. Market participants are more open to using MGS as a benchmark due to its liquidity and availability in the market.

In terms of pricing, unit trust funds, exchange traded funds, and private retirement schemes should use BPAM's pricing as a source to provide the values for their bond portfolios according to their respective regulations. Other market participants may use alternative pricing sources.

5. Credit Spreads

The yield to maturity (YTM) matrix indicates the yields of bonds from specific ratings as well as government bonds across specific maturities. Both YTM matrix of conventional bonds and sukuk are available in Malaysia through BPAM. Sukuk used to be more competitively priced than conventional bonds as there are more investors on sukuk than conventional bonds in Malaysia. However, data from BPAM showed that there are no spreads between conventional bonds and sukuk now. Since February 2020, BPAM discontinued recognizing the differences on spreads between conventional bonds and sukuk.

One contributing reason for this is the increase in the supply of sukuk in Malaysia to meet the demand among investors. Based on available data from BPAM, the ratio of sukuk in the market in 2009 was 59.8%. However, this ratio has grown to 73.6% in 2019. These adjustments between the demand and supply of sukuk eventually brought about some level of parity between the yields of conventional bonds and sukuk.

Table 5.1 presents the yield to maturity (YTM) matrix of MYR bonds by BPAM as of 31 March 2021. BPAM segments the YTM matrix for conventional and sukuk according to Corporate, Financials, Corporate-Guaranteed, and ABS for sectors and 3-months to 30-years for maturities. As the full YTM matrix from BPAM is too comprehensive to be shown at a limited space without sacrificing font size, only government and corporate category of conventional bonds that have selective maturities are shown in Table 5.1.

Table 5.1: YTM Matrix of MYR-Denominated Conventional Corporate Bonds, 31 March 2021

	3Y	5Y	7Y	10Y	20Y	30Y
Government	2.37	2.76	3.09	3.24	4.23	4.38
AAA	2.95	3.39	3.78	4.16	4.83	5.06
AA1	3.07	3.50	3.91	4.28	4.93	5.21
AA2	3.20	3.61	4.00	4.37	5.04	5.39
AA3	3.28	3.69	4.09	4.49	5.19	5.64
A1	4.16	4.52	4.88	5.29	6.47	7.30
A2	4.97	5.46	5.93	6.45	7.84	8.83
A3	5.74	6.36	6.91	7.61	9.14	10.30
BBB1	6.21	6.90	7.53	8.25	10.01	11.43

Y = year, YTM = yield to maturity

Note: Data in the table represents YTM of Corporate in the database of BPAM.

Source: BPAM.

From the YTM matrices that are available, the spread matrices are calculated and presented in Table 5.2. The spread of each cell in the table is calculated as the YTM that corresponds to its maturity and credit rating minus the YTM of government that has the same maturity. The spread matrices have the following observations and implications.

- The average spread for one-notch difference between AAA and AA3 is approximately 10 basis points throughout the tenors. However, the spreads jump significantly from AA3 to lower ratings. This observation implies that investors are reluctant to invest in A1 or lower rated bonds unless significant yield incentives are given.
- Among AA3 or higher rated bonds, credit spreads increase as maturity becomes longer until 10 years, and drop in the maturities beyond 10 years. A possible reason behind this observation is that the demand for bonds with tenor of more than 10 years bonds is strong and investors accept credit ratings of up to AA3 for the long tenor bonds investments.
- Among A1 and lower rated bonds, credit spreads increase as maturity becomes longer. It is related to the general credit appetite of Malaysian investors who are much more careful on bonds with A1 or lower ratings than AA3 or higher ratings.

Table 5.2: Spread Matrix of Conventional Bonds, 31 March 2021

	3Y	5Y	7Y	10Y	20Y	30Y
AAA	0.58	0.63	0.69	0.92	0.60	0.68
AA1	0.70	0.74	0.82	1.04	0.70	0.83
AA2	0.83	0.85	0.91	1.13	0.81	1.01
AA3	0.91	0.93	1.00	1.25	0.96	1.26
A1	1.79	1.76	1.79	2.05	2.24	2.92
A2	2.60	2.70	2.84	3.21	3.61	4.45
A3	3.37	3.60	3.82	4.37	4.91	5.92
BBB1	3.84	4.14	4.44	5.01	5.78	7.05

Y = year

Note: The data in the table represents credit spreads that are calculated from yield to maturity (YTM) of Corporate versus Malaysian Government Securities (MGS) in the database of BPAM.

Source: BPAM.

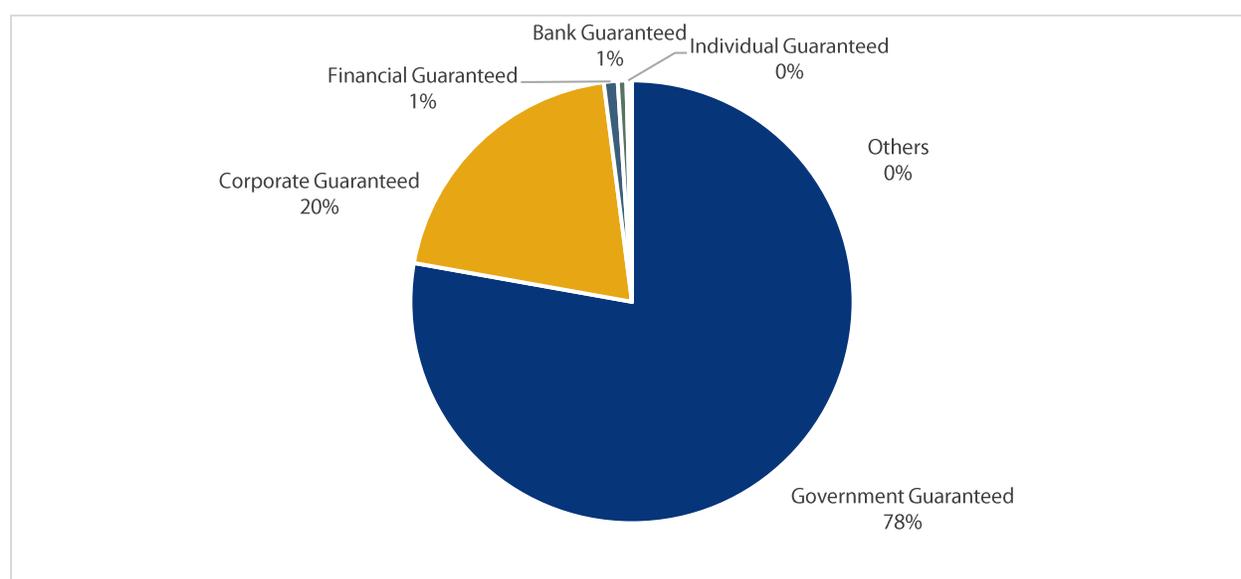
While the trends that are summarized in the bullet points above were analyzed by using conventional bonds data, the same trends are observed with sukuk data as yields between conventional bonds and sukuk have no discrepancies.

6. Guaranteed Corporate Bonds

6.1. Overall guaranteed bonds market in Malaysia

The data of BPAM showed that 42% of outstanding corporate bonds have guarantees. Guaranteed bonds have a total issue amount of MYR294.73 billion. Of these, about 78% are government guaranteed, while the remaining guaranteed bonds have corporate guarantees, financial guarantees, individual guarantees, and bank guarantees. In fact, 20% have corporate guarantees. Those with financial guarantees are only 1% of the market. Table 6.1 shows the definitions of guarantees according to BPAM.

Figure 6.1: Guaranteed Corporate Bonds Market in Malaysia, December 2020



Note: "Others" refer to bonds that have multiple types of guarantees (i.e., combinations of corporate guarantee, financial guarantee, and individual guarantee).

Source: BPAM; Author's calculations.

Table 6.1: Types of Credit Guarantees in Malaysia

Type	Definition
Government Guarantee	Guarantee provided by the government
Financial Guarantee	Guarantee provided by financial institutions other than banks, such as insurance companies, Danajamin Nasional Berhad, or leasing companies
Bank Guarantee	Guarantee provided by banks
Corporate Guarantee	Guarantee provided by corporates, such as holding companies and all other types of corporates
Individual Guarantee	Guarantee provided by individuals
Others	Other types of guarantee

Source: BPAM.

There are three government agencies in Malaysia that can provide guarantees: the Credit Guarantee Corporation of Malaysia (CGC), the Syarikat Jaminan Pembiayaan Perniagaan (SJPP), and Danajamin Nasional Berhad (Danajamin).

CGC was established in 1972. BNM owns 78.65% of CGC, while the rest are under the ownership of banks. The credit guarantees of CGC are specifically targeted to small and medium enterprises (SMEs) in Malaysia that may lack or have inadequate collateral to avail of credit facilities from existing financial institutions. According to the website of CGC, there are 14 commercial banks, 14 Islamic banks, and 6 development finance institutions that participate in the guarantee programs for clients of CGC.

SJPP also provides guarantee schemes for SMEs, in which the Government of Malaysia serves as the guarantor. The main role of SJPP is to manage the guarantee schemes on behalf of the government.

Lastly, Danajamin serves as a specialized guarantor for corporates, regardless of the size or ownership, that wants to issue corporate bonds and sukuk in Malaysia. Out of the three agencies, Danajamin is the only guarantor that can provide guarantees to both bonds and loans. CGC and SJPP are the guarantors that provide guarantees only to loans. Danajamin will be explained further in the following section.

Although the total issued amount is not the same as the amount in the data provided by BPAM, Bloomberg provides information about the specific names of guarantors in the Malaysian corporate bond market. Table 6.2 shows that the Malaysian government is the most active guarantor. About 19 entities that are guaranteed by the government are all SOEs. Reinforcing the information from BPAM, parent guarantees are apparent, which can be considered as corporate guarantees. While the cases are less than parent guarantees, there are guarantees from third parties in Malaysia, including Danajamin.

Table 6.2: Guarantors in Malaysian Corporate Bond Market, July 2021

Guarantor	Number of entities guaranteed	Number of bonds guaranteed	Total Value (MYR million)
Government of Malaysia	18	321	193,086
Parent or group companies	62	599	56,269
Danajamin Nasional Berhad	15	97	5,518
Banks	2	2	160
Multiple Guarantors	13	225	16,148
Individual Guarantor	2	8	1,000
Others	5	26	4,737

Notes:

1) Data for Danajamin Nasional Berhad (Danajamin) is from its list of active clients as of 31 July 2021. Data is available in the website of the company: <https://www.danajamin.com/success-stories/#clients>.

2) Data for Danajamin includes redeemed bonds from its active clients as of 31 July 2021. In addition, only bonds with FGI guarantee from Danajamin are included. Fronting arrangements of Danajamin are also excluded.

3) Data for other guarantors are based on Bloomberg.

Source: Danajamin Nasional Berhad; Bloomberg.

The data in Table 6.3 attests to the strength and market acknowledgement of credit guarantees in Malaysia. Comparing with other ASEAN countries, the guaranteed bonds ratio of Malaysia is the highest, as shown in Table 6.3.

Table 6.3: Ratio of Guaranteed Bonds in ASEAN6, 2020

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Guaranteed Bond Ratio	2.1%	37.7%	0.3%	36.8%	8.8%	22.6%

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam

Note: Ratios are calculated based on the issued amount of bonds.

Source: Bloomberg; Author's Calculations

6.2. Danajamin Nasional Berhad

As a recognized credit guarantor in the country, Danajamin Nasional Berhad (Danajamin) is the first financial guarantee insurer in Malaysia. The company was established in May 2009, with the aim of providing financial guarantee insurance for bonds and sukuk issuances that enabled the access of financially viable Malaysian companies to the corporate bond market. Danajamin helps raise the credit ratings of bond, note, and sukuk issuances that without a guarantee would normally be difficult to attract investors. Over the years, Danajamin's role has expanded beyond the Malaysian corporate bond market in terms of market needs, which now sees Danajamin offering credit enhancement product for financing facilities.

Jointly owned by the Minister of Finance, Incorporated and the Credit Guarantee Corporation Malaysia (50% ownership for each), Danajamin is rated AAA by both RAM Ratings and MARC. Danajamin has issued and paid-up capital of MYR1 billion and another MYR1 billion of callable capital. If there is a guarantee from Danajamin, then the issuance will get the rating of Danajamin.

Table 6.4: Summary of Information on Danajamin Nasional Berhad

Year of Establishment	2009
Products ¹	<ol style="list-style-type: none"> 1) Financial Guarantee Insurance (FGI) <ul style="list-style-type: none"> • Primary service of Danajamin, and a form of credit enhancement • Under this product, the bonds or sukuk that are guaranteed by Danajamin throughout its tenure will be rated AAA 2) Investor Guarantee (IG) <ul style="list-style-type: none"> • An alternative guarantee approach that is the opposite of FGI; An investor can purchase the FGI as a protection against risk of default or credit event • Investors can decide the amount and duration of the IG 3) Financial Facilities Guarantee (FFG) <ul style="list-style-type: none"> • The FFG is provided to loan/financing given by the financial institutions to the borrowers, against the risk of default. In the event of default of the borrower, Danajamin will pay the principal to the lending financial institution.
Guarantee key features	Unconditional and irrevocable Any claims made within 10 business days Guaranteed bonds/sukuk are accorded AAA rating by RAM Ratings and MARC

Year of Establishment	2009
Capital Funding	Paid-in capital: MYR1,000 million (50% from the Ministry of Finance and 50% from Credit Guarantee Corporation Malaysia) Callable capital: MYR1,000 million (from the Ministry of Finance) Subordinated Sukuk: MYR500 million (part of a Sukuk program of up to MYR2 billion for the issuance of Senior and Subordinated Sukuk)
Credit Rating	AAA from both RAM Ratings and MARC
Underwriting capacity	Based on the capital In 2016, the underwriting capacity was approximately MYR15 billion ²
Risk Sharing partner	Banks

¹ The corporate bond or sukuk should be denominated in MYR.

² ADB Bond Market Guide for Malaysia (2016)

Source: Corporate website of Danajamin; Financial Statement of Danajamin.

6.3. Pricing of Guaranteed bonds

Guaranteed bonds are generally required to pay more yields than comparable non-guaranteed bonds. This is because, compared ordinary bonds, investors request additional yields from guaranteed bonds to compensate for their liquidity weakness. However, such generality is not observed from all markets because guaranteed bonds can be as liquid as ordinary bonds in some markets and the name of the guarantor can be strong enough to offset the liquidity weakness.

As shown in Table 6.5, the yields of AAA-rated bonds are the same for the Financial institutions (labeled as "Financials"), Corporates, and Corporates with guarantees (labeled as "Corporate Guaranteed"). However, for bonds that are issued with a rating lower than AAA, it is noticeable that the yields in Corporates are marginally higher than those in Financials or Corporate Guaranteed. This YTM matrix implies that the pricing of guaranteed bonds is as competitive as ordinary bonds in Malaysia. One of the reasons behind the competitive guaranteed bond price can be observed from guaranteed bonds in Malaysia where 42% of the total outstanding corporate bonds are guaranteed bonds.

Table 6.5: YTM of Conventional Bonds, 31 March 2021

	3Y	5Y	7Y	10Y	15Y
Financial					
AAA	2.95	3.39	3.78	4.16	4.64
AA1	3.01	3.445	3.845	4.22	4.675
A1	3.72	4.105	4.485	4.89	5.38
BBB1	5.975	6.63	7.22	7.93	8.815
Corporate Guaranteed					
AAA	2.95	3.39	3.78	4.16	4.64
AA1	3.01	3.445	3.845	4.22	4.675
A1	3.72	4.105	4.485	4.89	5.38
BBB1	5.975	6.63	7.22	7.93	8.815
Corporate					
AAA	2.95	3.39	3.78	4.16	4.64
AA1	3.07	3.5	3.91	4.28	4.71
A1	4.16	4.52	4.88	5.29	5.9
BBB1	6.21	6.9	7.53	8.25	9.17

Y = year, YTM = yield to maturity

Source: BPAM.

7. Cross-Border Bonds

There are two types of cross-border bonds. The first type corresponds to the local currency bonds that are issued by foreign entities. The ratio of this type of bonds to total local currency bonds shows how much foreign entities are participating in the local currency bond market. Local currency bonds that are settled in major currencies like the United States dollar need to be excluded in the calculation of this ratio to know the real participation of foreign issuers because these bonds are neither issued nor traded in the local bond market. However, the bonds settled in major currencies are also investigated in this chapter.

The second type of cross-border bond corresponds to the foreign currency bonds that are issued by local entities. The ratio of this type of bonds to the total bonds issued by local entities shows how much local entities rely on offshore market for their bond financing.

Table 7.1: Cross-Border Corporate Bonds in ASEAN6, 2020

Country	Ratio of LCY bonds issued by foreign entities to total LCY bonds		Ratio of FCY bonds issued by local entities to total bonds issued by local entities
	Including major currency settled bonds	Excluding major currency settled bonds	
Malaysia	1%	1%	16%
Thailand	1%	1%	16%
Indonesia	30%	0.3%	60%
Philippines	2%	0.3%	34%
Singapore	26%	26%	67%
Viet Nam	1%	0%	0%

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam, FCY = foreign currency, LCY = local currency

Note: The ratios are based on the amount issued of the bonds.

Source: Bloomberg; Author's Calculations.

In Table 7.1, the participation of foreign issuers in the corporate bond market of Malaysia occupies 1% of the total corporate bond market of the country. While this ratio is very low, this is common in the ASEAN member states, except for Singapore. On the other hand, reliance of Malaysian entities on offshore bond market occupies 16% of their total reliance on the bond market for fund raising. This ratio is relatively low in Malaysia compared with other ASEAN peers probably because Malaysian entities have less incentive to tap offshore bond markets as their domestic market is big enough to accommodate their funding needs.

7.1. Malaysian Ringgit Bonds Issued by Foreign Entities

Based on the data found in Bloomberg, MYR-denominated bonds (MYR bonds) issued by foreign entities are quite few in Malaysia. While the number of samples is too small to generalize, the following section are some observations on MYR bonds issued by foreign entities.

- There are some MYR bonds issued by multilateral organizations and global banks. They are not the bonds participating in the corporate bond market in Malaysia as they are all issued and traded outside of Malaysia and settled in USD.
- Except CIMB Thai, all MYR-settled MYR bonds issued by foreign entities are sukuk. It seems that the issuers chose Malaysia as the place to issue the bonds since it is the biggest sukuk market in the world.
- It is interesting to note that two sukuk issuers are from Singapore where the Muslim population is minority. There are no sukuk issuers from Indonesia or Brunei where Muslims are the majority within ASEAN.

Table 7.2: Inbound Corporate Bonds in Malaysia, 2020

Issuer	Country	Conventional / Sukuk	Redemption Currency	Number of Issues	Amount Issued (MYR million)
IBRD	Supranational	Conventional	USD	2	225
HSBC	United Kingdom	Conventional	USD	1	26
JP Morgan Structured Pro	Netherlands	Conventional	USD	2	28
Morgan Stanley	United States	Conventional	USD	1	33
CIMB Thai	Thailand	Conventional	MYR	3	1,510
First Abu Dhabi Bank	UAE	Sukuk	MYR	1	500
Abu Dhabi National Energy	UAE	Sukuk	MYR	1	650
Bumitama Agri	Singapore	Sukuk	MYR	2	700
First Resources	Singapore	Sukuk	MYR	1	400
Gulf Investment	Kuwait	Sukuk	MYR	4	1,175

MYR = Malaysian ringgit, USD = United States dollar

Source: Bloomberg; Author's Calculations.

In September 2021, another notable MYR-denominated bond was issued by a foreign entity. Hanwha Q CELLS Malaysia issued bonds worth MYR150 million, which was under the ASEAN Green Bond Framework. This bond issuance was guaranteed by CGIF. In fact, this marks the first CGIF-guaranteed MYR-denominated bond.

Foreign banks sometimes issue MYR-denominated bonds when their after-swap USD funding costs are cheaper than those of USD bond issuances. In this case, the bonds are often settled in major currencies, mostly in USD. Back in 2000 and early 2010, there were issuances of the financial institutions from South Korea and other countries. These financial institutions did not need MYR for their operations, but they issued MYR bonds because their after-swap funding costs were favorable to them. Interestingly, most of MYR bonds issued by foreign financial institutions at that time were issued and traded in Malaysia with settlement in MYR.

7.2. Foreign Currency Bonds issued by Malaysian entities

Table 7.3 shows that foreign currency bonds issued by Malaysian entities were dominantly issued in United States dollar (91% of total amount issued), followed by the Japanese yen (4%), Hong Kong dollar (3%), and Chinese Yuan (1%). Based on the data found in Bloomberg, some bonds had descriptions on the use of proceeds. Most of the foreign currency bonds issued by Malaysian entities were issued for general corporate purposes or capital expenditures. Nevertheless, one notable bond is the Sustainable Development Goal Bond (SDG bond) of CIMB Bank Berhad. With an issue amount of USD680 million, this bond marked the first SDG bond to be issued by a Malaysian and ASEAN issuer in the Reg S international capital markets, and the first to be issued in the Formosa market.²⁴ The SDG bond of CIMB is a 5-year floating rate bond priced at a spread of 78 basis points above USD 3 months LIBOR.²⁵

Another notable bond is the THB-denominated bond of KNM Group Berhad. This bond is guaranteed by Credit Guarantee and Investment Facility (CGIF). This is the first Malaysian corporate issuer that was provided credit guarantee by CGIF. As of writing, KNM Group does not have MYR-denominated corporate bonds issued in the Malaysian market.

There are eight foreign currencies that are used for bond issuances by Malaysian entities. Except USD bonds, other foreign currency denominated bonds are mostly issued by Maybank.

²⁴ Formosa is a bond issued in Taipei, China, but denominated in a currency other than the Taiwan dollar.

²⁵ CIMB Malaysia. CIMB to issue USD680-million SDG bond, the first in international capital markets by an ASEAN issuer. <https://www.cimb.com/en/newsroom/2019/cimb-to-issue-us-680-million-sdg-bond-the-first-in-international-capital-markets.html> (accessed 23 March 2021).

Table 7.3: Outbound Bonds from Malaysia, 2020

Currency	Issuers	Number of Issues	Amount Issued (LCY million)	Amount Issued (USD million equivalent)
USD	Maybank, CIMB, Cagamas and 24 other issuers	91	31,629	31,629
AUD	Maybank	7	137	105
CHF	Maybank	1	100	113
CNY	Maybank	8	2,520	386
HKD	Maybank, CIMB and Cagamas	16	7,023	906
JPY	Maybank	8	139,700	1,355
SGD	Cagamas Global	1	130	98
THB	KNM Group	1	2,780	93

LCY = local currency, AUD= Australian dollar, CHF = Swiss franc, CNY = Chinese yuan, HKD = Hong Kong dollar, JPY = Japanese yen, SGD = Singapore dollar, THB = Thailand baht, USD = United States dollar

Note: USD million equivalent were calculated by using the FX rates as of 31 December 2020.

Source: Bloomberg; Author's Calculations.

Aside from banks, Cagamas is another active issuer of foreign currency denominated bonds in Malaysia. As shown in Table 7.3, Cagamas has outstanding issues denominated in USD, HKD, and SGD. Based on its financial statements and annual report, Cagamas can easily issue foreign currency denominated bonds with its A3 rating by Moody's, which is in line with the sovereign rating of Malaysia. The 2020 annual report of Cagamas highlighted in particular the SGD issuance, which marked the only SGD issuance from a Malaysian corporate issuer in 2020. This indicates the continued capability of Cagamas to raise funding from the international market at a competitive price via a private placement exercise. According to its financial statements, Cagamas uses cross currency swap to hedge foreign currency exposure arising from the issuance of foreign currency bonds or sukuk.

8. Sukuk Market

8.1. Overview of Sukuk Market in Malaysia

Definition of Sukuk

As an alternative to conventional bonds, sukuk are for those investors who are keen on Shariah-compliant investments. Sukuk complies with Sharia law by paying profit, not interest, and generally involves a tangible asset in the investment. Sukuk can be issued by an existing company or through a special purpose vehicle (SPV). One example of a sukuk structure involves partial ownership of a property of an investment company, which is held under an SPV. This structure is acceptable under Shariah law, since the sukuk holders can collect the profit as rent.

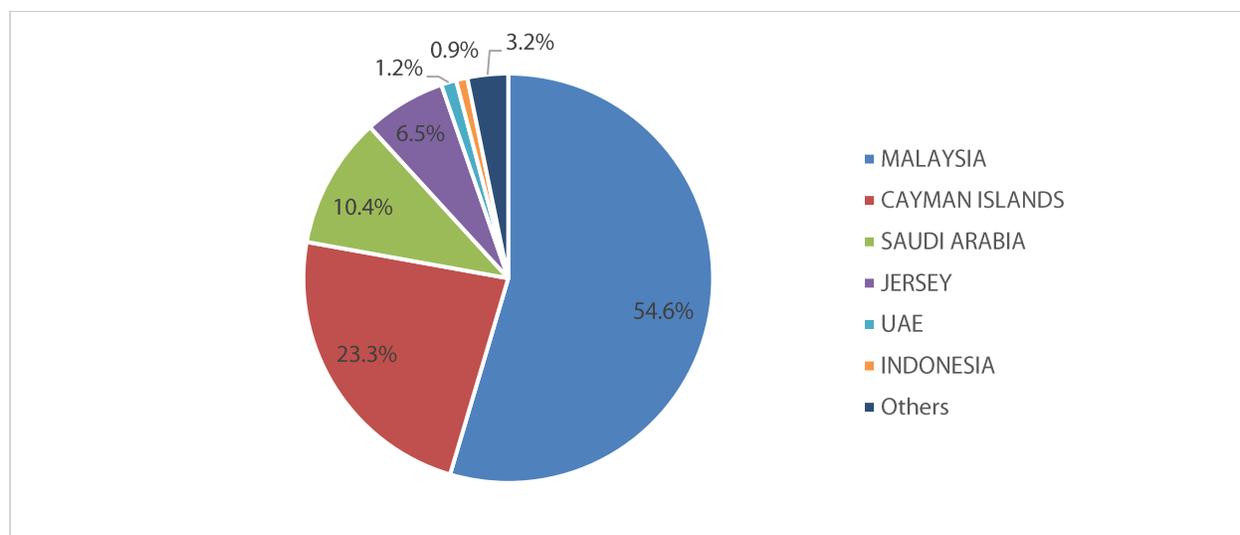
Sukuk shares some characteristics of equities and bonds. On one hand, sukuk is similar to equity since it represents ownership of real assets and does not guarantee repayment of initial investment. On the other hand, sukuk is similar to a bond since there are regular payments until maturity. Most sukuk are structured as asset-based because the assets are not truly owned by the SPV and the sukuk holders have recourse to the originator in cases where there are payment shortfalls.

Size of sukuk market in Malaysia

Malaysia has the most active sukuk market in the world. Based on Bloomberg data, the total outstanding sukuk as of end of December 2020 is USD619 billion equivalent, which is composed of USD346 billion equivalent of government sukuk and USD273 billion equivalent of corporate sukuk. The total outstanding sukuk in Malaysia is USD271 billion equivalent, which is 43% of the total sukuk in the world. This is followed by Saudi Arabia holding

17% of the global sukuk market, Cayman Islands at 14%, and Indonesia at 12%. Since Saudi Arabia and Indonesia have more government sukuk, Malaysia has more dominance on corporate sukuk as it occupies 55% of the total corporate sukuk in the world. Figure 8.1 shows the breakdown of world corporate sukuk by country.

Figure 8.1: Outstanding Corporate Sukuk by Country, 2020



Source: Bloomberg

Compared to other countries, the corporate bond market of Malaysia is occupied by sukuk than conventional bonds. Table 8.1 shows the dichotomy in the corporate bond market of Malaysia, based on information from BPAM, as of 31 December 2020. Based on this data, corporate sukuk is more widely issued than conventional bonds.

Table 8.1: Corporate Sukuk and Conventional Bonds in Malaysia, 2020

	Sukuk	Conventional Bonds
Number of Issues	2,187	929
Total amount issued	MYR568 billion	MYR131 billion

MYR = Malaysian ringgit

Source: BPAM; Author's Calculations.

As noted by the Malaysia International Islamic Finance Center, the Securities Commission Malaysia defines sukuk as certificates of equal value, which evidence undivided ownership or investment in the assets using Shariah principles and concepts endorsed by the Shariah Advisory Council Malaysia (SAC).²⁶ SC Malaysia reported that in 2020, the outstanding corporate sukuk reached MYR593.43 billion.²⁷ The new issuances of corporate sukuk reached MYR76.98 billion in 2020.

Sukuk versus Conventional Bonds

As sukuk are inherently asset based and structured to pay no interest but profit, it is possible that secured bonds or variable coupon bonds are more common in sukuk than conventional bonds. In addition, sukuk are known to be the financial instrument that is appropriate for project related financing due to the "asset based" structure. In this case, sukuk can have longer tenor than conventional bonds on average. As shown in Table 8.2, secured bonds are more observed from sukuk than conventional bonds and average maturity is longer in Sukuk than conventional bonds. These results are in line with the expectation implied by inherent characteristics of sukuk.

²⁶ Guidelines on Sukuk. <http://www.mifc.com/index.php?ch=39&pg=97&ac=247&bb=attachpdf> (accessed 17 February 2021).

²⁷ Securities Commission Malaysia. Bonds & Sukuk Market Overall Statistics. <https://www.sc.com.my/analytics/bonds-sukuk-market> (accessed 10 March 2021).

Some sukuk contracts lean towards having non-fixed coupon type. However, it is understood that sukuk in Malaysia is dominated by Sukuk Murabahah, which have fixed coupons in common due to their debt-oriented nature.

Table 8.2: Comparison of Corporate Sukuk and Conventional Bonds in Malaysia, 2020

	Sukuk	Conventional Bonds
Ratio of secured bonds	26%	20%
Ratio of floating and variable coupon bonds	5%	17%
Average Maturity	12.4 years	8.8 years

Note: Bloomberg is used since it readily shows information on payment rank of bonds.

Source: Bloomberg; Author's Calculations.

Structures of Sukuk in Malaysia

The accounting and auditing organization for Islamic financial institutions (AAOPFI), which issues standards on accounting, auditing, governance, ethical, and Sharia standards, have laid down 14 different types of sukuk. Out of these types, seven are used in the sukuk market in Malaysia in the order of the most widely used to the least used, as shown in Table 8.3.

Table 8.3: Types of Sukuk in Malaysia

Types of Sukuk	Description
Sukuk Murabahah (cost-plus sale / deferred payment)	<ul style="list-style-type: none"> From the term itself, it means a contractual arrangement in which the investor sells specified assets or commodities to the originator for spot delivery, under the expectation that the originator can meet its deferred payment obligations. Structure of deferred price: cost plus pre-agreed mark-up to represent the profit. This can be structured as periodic payments at the beginning of the contract.
Sukuk Musyarakah (profit and loss sharing)	<ul style="list-style-type: none"> A partnership agreement between two parties to share profits in pre-agreed proportions and share losses according to their initial capital investment. Structure of the contract: <ul style="list-style-type: none"> The sukuk issuer forms a committee from sukuk holders to participate in investment decisions. The assets in musyarakah are leased to the sukuk issuer for a period that is equal to the maturity of the sukuk at agreed fixed or floating rentals. It can be traded in the secondary market.
Sukuk Al Wakalah (agent)	<ul style="list-style-type: none"> An arrangement where the investor entrusts the wakeel or agent to act on its behalf. The wakeel uses its expertise to select and manage investments on behalf of the investors and ensure that the portfolio will generate the expected profit rate agreed by the principal. An investor only receives the profit return agreed at the outset. A wakeel takes any excess profit as incentive and does not share the risk of loss.
Sukuk Ijarah (leasing)	<ul style="list-style-type: none"> Structure of ijarah: SPV buys the asset from an originator with the sukuk proceeds from the investors, and then leases it back to the originator. The originator pays the SPV rental fees, which are provided to the investors.
Sukuk Mudharabah (profit sharing)	<ul style="list-style-type: none"> A certificate that represents projects or activities that are managed based on a mudharabah (partnership based on trust) contract. The profit from the investment activity is shared between both parties based on a pre-agreed ratio depending on the performance of the asset or the project. Acting as the "silent partners", sukuk holders do not participate in the management of the underlying asset, business, or project. The working partner is the sukuk obligator or issuer. It should not contain a guarantee from the issuer for the capital or a fixed profit.

Types of Sukuk	Description
Sukuk Istisna' (Islamic project bond)	<ul style="list-style-type: none"> • A contractual agreement where the obligator manufactures the project in the future and deliver it to the buyer through an SPV. • Investors are the buyers of the project. • Based on ijarah contract, the buyer leases the asset to another party for regular payments. The buyer can also sell the asset to another buyer. • Sukuk istisna' cannot have a secondary market.
Sukuk Salam (deferred delivery purchase)	<ul style="list-style-type: none"> • it is the purchase of assets by one party from another party on immediate payment and deferred delivery terms. • it is used to support a company's short-term liquidity requirements. • While it is introduced as one of the sukuk types used in Malaysia, there is no outstanding Sukuk Salam as of 31 December 2020, based on Bloomberg data.

SPV = special purpose vehicle

Note: Sukuk Salam was mentioned as another common sukuk type in Malaysia. However, there are no recorded outstanding amount in the search portal of BIX Malaysia.

Source: BIX Malaysia, <https://www.bixmalaysia.com/Learning-Center/Articles-Tutorials/Sukuk-Contracts-in-Malaysia>

According to BPAM data, Sukuk Murabahah takes 32% of the total outstanding sukuk in Malaysia. The ADB Bond Market Guide for Malaysia (2016) noted that in the Malaysian market, the majority of sukuk are debt-based instruments, which includes Murabahah.²⁸ Sukuk Murabahah is known for its simple structure, which makes investors attracted to it. The less complex structure also implies that the cost of issuing Sukuk Murabahah will also be less compared to other sukuk structures.

Table 8.4: Distribution of Types of Corporate Sukuk in Malaysia, 2020

Sukuk Type	Number of Issues	Total Issued Amount (MYR millions)	Share to Total Sukuk	Average Issue Size (MYR millions)
Murabahah	656	181,161	31.87%	276
Murabahah & Tawarruq	420	120,437	21.19%	287
Musarakah	256	99,382	17.49%	388
Bai Tawarruq & Murabahah	117	32,491	5.72%	278
Ijarah	103	23,929	4.21%	232
Others	635	110,974	19.52%	175
Total	2,187	568,374	100.00%	260

Note: "Others" include those sukuk that follow two or more Shariah principles.

Source: BPAM, 2021; Author's Calculations.

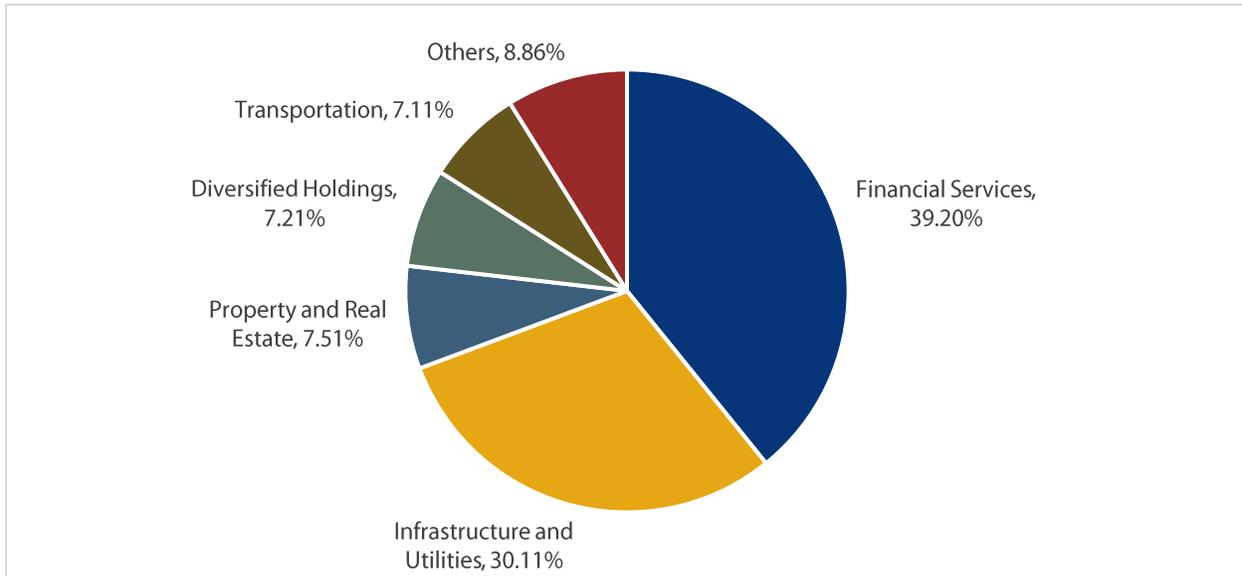
A hybrid structure of Murabahah and Tawarruq is also a popular structure for sukuk in Malaysia, which holds 21.19% of the total outstanding corporate sukuk. Sukuk Musarakah is approximately 17.49%, while Sukuk Ijarah takes 4.21% of the total outstanding corporate sukuk.

8.2. Issuers of Corporate Sukuk in Malaysia

In Figure 8.2, the issuer profile of corporate sukuk segment in Malaysia does not have any diversion from the overall issuer profile of the country. Using classification and data from BPAM, Financial services have the highest share in the sukuk market of Malaysia, with 39.2% share. This is followed by Infrastructure and Utilities having 30.11% share. Other considerable issuers are Property and Real Estate, Diversified Holdings and Transportation sectors. This is aligned with the overall issuer profile discussed in Chapter 4.

²⁸ ADB. Bond Market Guide Malaysia (2016). <https://www.adb.org/publications/asean3-bond-market-guide-2016-malaysia>

Figure 8.2: Distribution of Corporate Sukuk in Malaysia by Sector, 2020



Source: BPAM; Author's calculations.

When comparing sukuk and conventional bonds, one point of divergence is in the Infrastructure and Utilities sector. In fact, conventional bonds issued in this sector is only 6.16% of the total conventional bonds in Malaysia. This shows that sukuk is deemed as an instrumental instrument to raise funds for long-term projects in this sector.

8.3. Incentives for Sukuk

SC Malaysia previously provided incentives for issuers or originators of sukuk. Most of the incentives are related to the income tax of issuers or originators of sukuk.

Table 8.5: Select Incentives for Sukuk in Malaysia

Recipient	Incentives	Reference Legislation
Issuer	Tax deduction on expenditure incurred for the issuance of sukuk based on the principles of Ijarah or Wakalah (comprising a mixed component of asset and debt) and retail sukuk based on Wakalah principle, which is approved or authorized by SC Malaysia from year of assessment 2021 to year of assessment 2025.	Income Tax (Deduction for Expenditure on Issuance of Sukuk and Retail Sukuk Structured Pursuant to the Principle of Wakalah) Rules 2021– P.U. (A) 5
Issuer	Exemptions on taxes from any gains or profits received and expenses incurred pursuant to the disposal of an asset or a lease, by or to a person, pursuant to a scheme of financing approved by SC Malaysia, as long as the scheme is in accordance with the principles of Shariah and the disposal is required for the purpose of complying with those principles.	Income Tax Act 1967(Revised 1971) – Sections 2(7) and (8)
Issuer/ Originator	Exemptions on real property gains tax with respect to chargeable gains accruing on the disposal of any chargeable assets related to the issuance of private debt securities under Islamic principles.	Real Property Gains Tax (Exemption) (No.3) Order 2003

Recipient	Incentives	Reference Legislation
Issuer/ Originator	Exemptions on payment of real property gains tax with respect to chargeable gains due to the disposal of any chargeable assets for SPV or related to securitization transaction.	Real Property Gains Tax (Exemption) Order 2001 – P.U. (A) 227
Issuer / SPV	Any source and income of an SPV established solely for the purpose of issuing Islamic securities (excluding asset-backed securities) are treated as a source and income of the company/originator. Income derived by the SPV on the issuance of Islamic securities is exempted from income tax.	Income Tax Act 1967 (Revised 1971) –Section 60I Income Tax (Exemption) (No.14) Order 2007 – P.U. (A) 180
Issuer of Sustainable and Responsible Investment (SRI) sukuk	Tax deduction for the expenditure incurred on issuing or offering of SRI sukuk approved or authorized by, or lodged with, SC Malaysia for the year of assessment 2016 to the year of assessment 2023. The tax deduction is applicable to SRI sukuk, given that 90% of the proceeds coming from the issuance or offering of the SRI sukuk are used solely for the purpose of funding SRI projects as specified in SC Malaysia Guidelines.	Income Tax (Deduction for Expenditure on Issuance or Offering of Sustainable and Responsible Investment Sukuk) (Amendment) Rules 2021 P.U. (A) 2
Investor	Exemption from income tax for profits paid or credited to any individual, unit trust, and listed closed-end fund in respect of sukuk (other than convertible loan stock) approved by SC Malaysia.	Income Tax Act 1967 (Revised 1971) – Schedule 6 – Exemption from Tax: Section 35

SC Malaysia = Securities Commission Malaysia, SPV = special purpose vehicle

Source: SC Malaysia, <https://www.sc.com.my/development/icm/incentives>

Table 8.5 shows that there is incentive for the issuance of SRI sukuk. As defined by SC Malaysia, SRI sukuk is where the proceeds from the issuance of sukuk will be exclusively used for funding of any activities or transactions relating to eligible SRI projects. These issuances should follow the SRI Sukuk Framework developed by SC Malaysia. Based on this Framework, these SRI projects include green and social projects that are aligned with the United National Sustainable Development Goals.²⁹

In line with this, SC Malaysia established the SRI Sukuk and Bond Grant Scheme. This is administered by Capital Markets Malaysia. The goal of the scheme is to lower the cost of issuances as well as encourage further issuances of SRI sukuk and bonds. If eligible under this scheme, the issuer can claim up to 90% of the actual external review cost, subject to a maximum of MYR300,000. The following section provides the qualifications for eligibility for issuances under the SRI Sukuk and Bond Grant Scheme.

- Green SRI sukuk issuances made under the SRI Sukuk Framework of SC Malaysia from January 2018 onwards.
- Social, sustainability, or other SRI sukuk issuances developed under the SRI Sukuk Framework of SC Malaysia from 25 August 2020 onwards.
- Bond issuances made under the ASEAN Green Bond Standards, ASEAN Social Bond Standards, or ASEAN Sustainability Bond Standards from 29 October 2020 onwards.

²⁹ Securities Commission Malaysia. *Sustainable and Responsible Investment Sukuk Framework An Overview*. <https://www.sc.com.my/api/documentms/download.ashx?id=84491531-2b7e-4362-bafb-83bb33b07416> (accessed 6 April 2021).

Aside from the SRI sukuk and bond grant scheme, there is also tax deduction that can be applied for expenses from the issuance of all types of bonds and sukuk, which are aligned with the green, social, and sustainable standards in Malaysia that are approved by SC Malaysia until the year of assessment in 2025.³⁰

9. Outlook for Malaysian Corporate Bond Market

The level of development in the corporate bond market of Malaysia can be seen in the efforts of the country to liberalize the corporate bond market by removing the mandatory requirements for credit ratings for bond issuances. These push institutional investors to improve their own credit evaluation on bond investments. Another indication of its development is the presence of both conventional bonds and sukuk in the market. Malaysia is known to have a large sukuk market, wherein sukuk issuances have been dominating the local market.

These events could not have happened without a sound regulatory environment. The Bank Negara Malaysia (BNM) and Securities Commission Malaysia (SC Malaysia) – the main regulators in the industry – have passed regulations to support the development of the corporate bond market. Risk guidelines to institutional investors are also provided, which influences investments. Malaysia also has a sizeable institutional investor base, which was instrumental in channeling the savings to the debt market. For instance, having a large fund management industry and established pension funds result in a variety of sources of funds for investments in different asset classes.

The sukuk market continues to be a strong point for the Malaysian corporate bond market. As explained in the previous section, incentives were given to sukuk issuances particularly those labelled as green and social bonds. In fact, a Malaysian company was the first in the world to issue a green sukuk in 2017, which was under the SRI Sukuk Framework.

Amidst these developments, challenges continue to arise. Having a large institutional investor base would mean having a large portfolio. This results in a significant demand for bonds as part of their investments. As mentioned in this research, institutional investors are keen to invest in bonds with issue size of more than MYR200 million. This is compounded by their credit appetite for AA- and AAA-rated bonds. Given these demand conditions, it would seem that only large corporates would be able to tap the corporate bond market for funding needs. This poses an opportunity for credit guarantors to support small- and medium-sized corporates in accessing the bond market.

³⁰ Capital Markets Malaysia. *SRI Sukuk*. <https://www.capitalmarketsmalaysia.com/public-sri-sukuk/> (accessed 6 April 2021).

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