

DJ Interview: Bondweb Aims to Aid Risk Mgmt, Cut Costs

By Carolyn Lim
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KUALA LUMPUR (Dow Jones)--Bondweb Malaysia Sdn. Bhd., the country's sole bond-pricing agency, hopes that the widespread use of its price data will lower borrowing costs for issuers and increase investor protection.

Before Bondweb was recognized as a bond-pricing agency last year, Malaysia was sorely in need of independent pricing for corporate bonds due to the market's massive size and the lack of trading for many issues, market development head Mohd. Shaharul Zain told Dow Jones Newswires on Monday.

Malaysia's bond market is the third-biggest in Asia outside Japan with \$110 billion in government and corporate bonds outstanding. Yet less than 1% of Malaysia's over 2,000 outstanding bonds trade on a daily basis. Thus if Shaharul has his way, Bondweb will play a key role in developing the debt market.

'(The bond) supply side is very established but with regards to the secondary market, there are still holes that need to be addressed,' Shaharul said. 'You cannot have people who are holding bonds and (who) don't know the value of their holdings.'

All 24 unit trust companies in Malaysia that offer bond funds now use Bondweb prices to mark to market their portfolios, following a Securities Commission directive, Shaharul said.

Bondweb now evaluates about 1,812 government and corporate bonds daily and provides fair pricing for these issues using market prices of about 50 bonds traded on the same day and various bond-pricing models.

Mutual fund companies' use of Bondweb pricing paves the way toward greater investor protection, Shaharul said. 'We hope that so far, what we have done has enhanced transparency. We feel there's one more level of security (for investors).'

In addition, Bondweb expects to help make the market more efficient, he said. 'Our secondary objective is to ensure the bond market achieves what it is supposed to do, which is to reduce the cost of borrowing whereby the issuer can raise money from the lender with minimum cost.'

Still, Shaharul said Bondweb isn't in the business of dictating price levels for actual bond trading. 'We don't tell them (at what price level) to trade but we provide a starting point.'

Prudential Fund Management Sdn. Bhd. fixed income head Esther Ong said divergence in Bondweb prices and market levels may exist. 'For illiquid issues, there may be a divergence between market perception and the fair pricing from Bondweb.'

Still, she said the pricing of bonds can be rather 'subjective' and divergence is to be expected.

Until the market grows and more players provide pricing, investors in the secondary market have little choice. In addition to mutual fund companies, more investment banks, pension funds, insurers and even issuers are now using Bondweb data, Shaharul said.

'It's mainly driven by risk management...The whole spectrum of people involved in bonds are there, both the buy-side and the sell-side,' he said.

Issuers also are increasingly using Bondweb prices for reference because its data 'help people to find a level to close their own deals,' he said.

With independent pricing made widely available, ringgit bond issuers - both local and foreign - 'can see that pricing transparency is there and that when they issue, the pricing is fair,' Shahrul said.

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