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Rating agencies 'not worried' by new policy

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Malaysian rating agencies are not worried about losing business from the government's new policy to liberalise the bond industry that will do away with mandatory ratings for local bonds issuance and allow 100% foreign ownership of rating companies.

The new policy, which was announced by Prime Minister Datuk Seri Mohd Najib Razak at Invest Malaysia 2014 in Kuala Lumpur, is meant to open up the local bond market and will take effect in 2017.

There are two rating agencies in Malaysia, RAM Ratings Services Bhd and Malaysian Rating Corp Bhd (MARC).

MARC CEO Mohd Razlan Mohamed said even though rating will not be mandatory in 2017, it will still be in demand as investors need independent third parties to monitor and analyse the credit risks of any investment.

"There will still be demand for a third party analysis of credit risks to assist investors to make investment decisions, to price-in the credit risk premium and to provide early warnings in changes in the credit profile of the bond issuers," he told The Malaysian Reserve yesterday.

Mohd Razlan said until the new policy comes into effect, investors will adjust to the fact and see the benefits of a rating on investment products.

"In the US market there is no mandatory rating requirement for US dollar bonds issued in the international market. But market practice as required by international investors is to have a minimum two ratings from Securities and Exchange Commission- recognised credit rating agencies," he said.

Mohd Razlan said even following the recent global financial crisis, where the big three US rating agencies were partly blamed, their businesses did not suffer.

"Moody's, Standard & Poor's and Fitch Ratings experienced growth in their global rating business. Investors are aware that bond ratings will ultimately be beneficial," he said.

He said domestic ratings are different from international ratings as the ratings are provided on different rating scales.

Mohd Razlan said even if the foreign credit ratings are allowed to enter the local market, it is business as usual for local credit rating agencies.

"They may have the international experience but they have to build their reputation and track record over time in the domestic rating market.

"Liberalisation of the rating requirement in the ringgit bond market provides options to investors and issuers. There will be investors who may opt to invest in non-rated bonds but I believe the majority will still require ratings.

"At the end of the day, it is up to investors on whether our services as an independent agency to monitor credit risks are still relevant," he said.

Some market watchers say, however, there would be some risk that without the mandatory requirement for ratings, there could be an issue over junk bonds flooding the market.

However, Bond Pricing Agency Malaysia CEO Meor Amri Meor Ayob said junk bonds exist even under the current legislation, those that are rated BBB and below.

“There has always been the lack of take-up of such bonds. It is more of a supply/demand issue instead of a rating issue,” Meor Amri said. “It will just mean that bond issuers will have more options in 2017.”