Mixed views on MGS move

Proposal to have MGS, GII traded as ETBS gains little traction

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PETALING JAYA: The Government's plan to list and trade Malaysian government securities (MGS) and government investment issues (GII) to spur retail participation and boost the vibrancy of the debt market has drawn mixed reactions.

The Government had proposed in Budget 2015 that MGS and GII be listed and traded as exchange traded bonds and sukuk (ETBS) and had echoed this initiative in its latest economic report.

ETBS was launched more than two years ago to boost domestic sukuk and bond issuance and trading. Presently, the only ETBS available on Bursa Malaysia is DanaInfra Goverment Guaranteed Bonds.

ETBS are bonds or sukuk that are listed and traded on the stock market. They are traded in minimum board lot size of 10 units per lot size. Given the principal price of RM100 per unit, each board lot would cost RM1,000, excluding transaction costs. ETBS could therefore be traded from denominations as low as RM1,000 and this would enable retail investors opportunities to invest in these intruments.

CIMB Investment Bank senior managing director and global head of capital markets Nor Masliza Sulaiman said the proposal to have MGS and GII listed and traded as ETBS which was tabled in the previous budget had not gained much traction.

She added that even in markets like Australia, Singapore and Hong Kong which provided adequate access for investors to buy government bonds through their respective exchanges, the ETBS statistically still formed a very small part of the overall investment portfolio.

"In Australia for example, only less than 1% of the Australian government bonds are traded on the ASX (Australian Stock Exchange). The bulk of the volume for this asset class is still done via traders on an over-the-counter basis," Masliza said.

Furthermore, she said that something similar had already been offered through Bursa in the form of exchange traded fund (ETF) which acted like a unit trust fund with the added benefit of lower management costs. She felt that MGS/GII were still far from being individually traded within the retail space as most liquidity was residing within the wholesale market.

Alliance Bank Malaysia Bhd head of group financial markets Tan Eng Kiang said the idea of ETBS was to create a platform for retail investor participation but launching ETFs based on MGS or GII would not help to boost market liquidity. One could not trade bonds similar to that of equity, he added.

"Furthermore, if the intention was to promote participation as a form of investment for retail investment, the underlying baskets should not be in MGS or GII. It should consist of private debt securities," Tan said.

Meanwhile, Bond Pricing Agency Malaysia chief executive Meor Amri Meor Ayob felt it was a noble idea to list MGS and GII as ETBS as this would allow the public to invest in quality assets.

"I believe there is genuine demand in this space going forward when more bonds are issued through ETBS. This will broaden investors' access to different asset classes that suit their risk appetites. All stakeholders need to play a role for the ETBS market to achieve greater participation from both issuers and investors. There is a need for a wide spectrum of industry players (besides the current DanaInfra or even the Government going forward) to adopt the ETBS so that the bond issuers can be diversified in nature, just like the equity market.

"Subsequently, if more bonds are issued through ETBS, it will draw a lot of attention from retail investors as they will be presented with plenty of opportunities to invest and trade. Hence, greater liquidity in the market," he noted.

Malaysian Rating Corp Bhd in its pre-budget review said it concurred with the Government that there was a need to further promote retail participation in the bond market. Aside from foreign investors, the Malaysian bond market was dominated by big pension funds, insurance companies and financial institutions, it added.