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Removal of mandatory ratings for bonds hailed

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KUALA LUMPUR: The decision to remove mandatory ratings of bonds will spur the growth of the Malaysian bond and sukuk markets and provide investors with greater investment choice, industry players say.

"These are exciting times for the Malaysian capital market. We continue to stress the need for investors to do their 'homework' on companies before investing, but also, there will be greater opportunities for investors and corporations to capitalise on greater liquidity and market participation," Aberdeen Asset Management Sdn Bhd said in an email reply to *StarBiz*.

CIMB Group chief executive Datuk Seri Nazir Razak said allowing companies to issue bonds without credit rating requirement was the normal standard in more-developed markets.

"I think Malaysia is ready to get there," he said on the sidelines of the Invest Malaysia 2014 conference.

He added that without the requirement for credit ratings, the cost of issuing bonds would be reduced.

However, Nazir said credit ratings were still relevant for issuers to benchmark their debt against international standards.

"Companies at the very high end will get away without a rating but those who are not will still need the rating," he said.

AirAsia group CEO Tan Sri Tony Fernandes said many companies would benefit from the new measures. "Because getting a rating is expensive. Anything that makes business easier is a good thing," he told reporters.

"Lenders will come to evaluate your books anyway and identify the risk profile. They will price the debt accordingly," he added.

Maybank Investment Bank chief executive officer John Chong said the measures were a positive development for the Malaysian capital market and were aligned with international markets, which had long allowed the issuance and tradability of unrated bonds and sukuk.

He said the move would, among others, reduce issuance cost and broaden the spectrum of investible fixed income instruments in the market place.

"We view these measures as a positive signal from the government in its move towards liberalisation and allowing competition, which will ultimately lead to a more efficient and deeper capital market.

"They are very much in line with the broad objectives of the Capital Markets Masterplan 2 announced in April 2011," he added.

The removal of the mandatory requirement for corporate bond credit ratings by Jan 1, 2017 was announced by Prime Minister Datuk Seri Najib Tun Razak yesterday.

Najib said international credit rating agencies with full foreign ownership would be allowed to operate in Malaysia from January 2017.

The initiatives, Najib explained, were part of the Government's strategy to liberalise the country's financial market.

But with the removal of mandatory bond ratings, issuers will now have to be more transparent and investors will have to get sufficient access to information.

"Accessibility to information is necessary for investors to do their own credit assessment," Bond Pricing Agency Malaysia Sdn Bhd CEO Meor Amri Meor Ayob said.

He added that a new framework necessitating greater transparency and availability of corporate information of bond and sukuk issuers should be implemented to facilitate investment decision making.