

Bondweb hopes for more foreign interest

BY MALAR VELAIGAM

Malaysia's first official bond pricing agency, Bondweb Malaysia Sdn Bhd, is hoping that its bond pricing service, coupled with its information database, will garner increased foreign participation in the ringgit bond market.

"The hope is that foreigners will look more at ringgit-denominated debt," says Bondweb's chief executive officer Doheon Lee.

Lee says one of the reasons that foreigners shy away from the local bond market is the lack of easily available and reliable information.

The service provider feels that professional pricing will "improve the standard of fund operation through consistent, systematic and transparent evaluation of their fixed-income investments".

As such, Lee feels that this will directly enhance the level of bond portfolio management.

"The bonds are being issued, but infrastructure is not up to par with the pace of the issuances," says Bondweb's head of market development, Mohd Shaharul Zain.

Besides pricing bonds, Bondweb also provides up-to-date information on the local bond market through

its website. Generally, information available on Bondweb's website is provided free of charge to those who register. But for the professional investor who requires a more dedicated service, detailed information is available for a fee. This service includes fair valuations of bonds and a professional information service.

On average, the agency evaluates about 1,700 bonds (as at February 2006) that are not traded. According to Bondweb, there are about 2,440 debt securities in the local market, with some 717 being short-term papers of loan stocks (and therefore not in the scope of Bondweb's service).

So how exactly does the agency price bonds?

In short, Bondweb uses the prices of observed trades of bonds in the market to derive the prices of untraded bonds, but also factors in the differences between the issuers and debt structures. As such, each bond has its own individual spread relative to its particular class of credit. Bondweb monitors this price on a daily basis.

To get more technical, a base spread is obtained from past transaction data of bonds that are traded, then the changes of this spread are tracked over a period of time. Fi-

nally, the spread of this bond is estimated relative to yield curves and other benchmarks for the bonds that are not traded.

As such, the fair price is generated using market price data and other market information. The bond is then priced as per the appropriate pricing model for that particular structure.

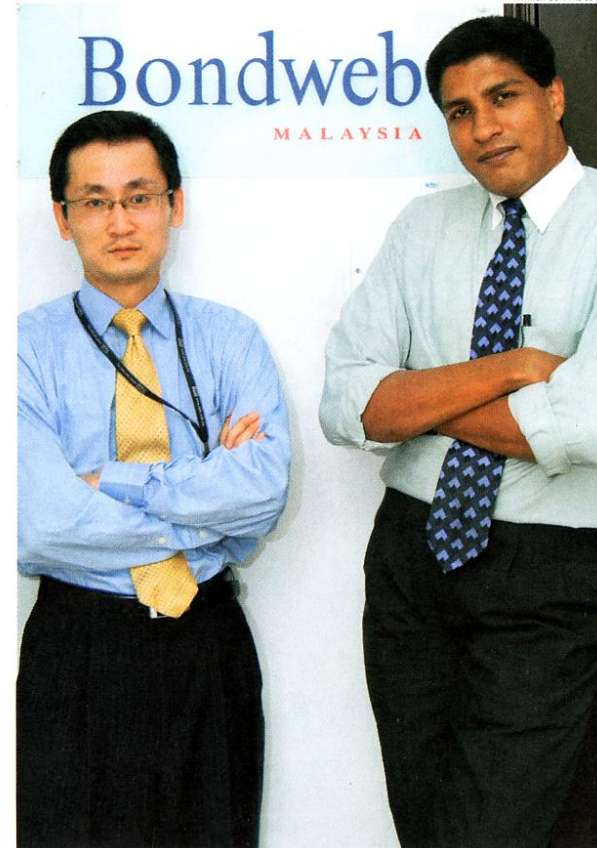
So how did the pricing agency come about?

About six years ago, a private venture by South Korean firm Mainstream & Co conducted a study on Malaysia's bond market. Based on the themes and problems that were unique to Malaysia's emerging market, the company came up with some solutions to manage the financial and market risks associated with the local bond market.

"Mainstream then commenced talks with the SC [Securities Commission] and Rating Agency Malaysia," says Shaharul.

By 2004, Bondweb had conducted three years of study of the local bond market, and started physical work, such as computing fair valuations. The website was launched in March last year.

When the SC released the guidelines on the establishment of bond pricing agencies in January this



Lee (left) and Shaharul. The database will provide easily available and reliable information on ringgit bond market, says Lee.

year, Bondweb took its cue, and submitted its proposal. Last week, it announced that it had been officially appointed as a bond-pricing agency.

It is also interesting to note that Bondweb's shareholders are its Korean parent company Mainstream Co, Rating Agency Malaysia Bhd, PacificMas Bhd, Usaha Tegas Sdn

Bhd and Lembaga Tabung Angkatan Tentera.

Going forward, Lee says another revenue source for Bondweb could come from exporting its technology to similar emerging markets. In fact, he says the company has already been approached by "authorities" from neighbouring markets that are interested in its technology. ■