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BPAM working on solutions to boost bond market

Hopes to put bond index online by year-end

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KUALA LUMPUR: The country's bond pricing agency, Bond Pricing Agency Malaysia Sdn Bhd (BPAM), formerly Bondweb Malaysia Sdn Bhd, is working on several solutions to aid the development of the domestic bond market.

"We have developed a bond index and we hope to have it online by year-end," its chief operating officer Meor Amri Meor Ayob told *The Edge Financial Daily* in a recent interview.

Bondweb's name change to BPAM takes effect today. Meor Amri said the renaming of the agency was to more accurately reflect its function as a bond pricing agency.

Currently, there is no central index for investors to track bond prices and trades in the Malaysian bond market, be it for corporate or government bonds.

This was unlike for equities, Meor Amri pointed out, where both retail and professional investors were able to access equity quotes and trades online via the Bursa Malaysia website as well as various other online sources.

He explained that once bondholders and potential investors were able to access the most current bond data via the index,it could eventually lead to the development of a bond futures market.

Meor Amri: We are studying the feasibility of introducing market-implied ratings. Photo by Suhaimi Yusuf

The index, which is currently undergoing final user testing, will be made available to Bondweb subscribers.

Another solution that Bondweb is looking at is market-implied ratings, a relatively new concept in this part of the world although it has been implemented in developed bond markets such as the United States and Europe.

"We are studying the feasibility of introducing market-implied ratings. In the equities space, you have analysts who focus on the technicals and others on the fundamentals of equities and companies," Meor Amri said.

Worldwide, market-implied ratings are offered by global rating agencies Moody's, Fitch and global equity indices provider MSCI Barra.

Locally, credit rating analysts address the fundamentals of bonds and their issuers. "However, it is possible that if a ratings agency does not have access to management accounts or management, they may end up using historical data and this could lead to a lagging effect," Meor Amri added.

Market-implied ratings, on the other hand, are a predictive model that derives ratings from the market prices of bonds and other types of debt instruments as well as credit default swaps. Hence, proponents said this model was able to more accurately predict ratings movements by ratings agencies.

According to Meor Amri, through its own internal research, Bondweb has been able to predict a 70% likelihood that a company would experience a rating change within six months.

For instance, bondholders who actively trade bonds would be able to take pre-emptive measures, as they would have six months to hedge their portfolios, he said.

"We also hope to offer volatility data to clients such as banks, insurance companies and other bondholders. Then they would be available to study daily volatility and by knowing the most and least volatile debt instruments being traded, bondholders would be able to do more active portfolio management," he said.

The bond pricing agency is also exploring the possibility of exporting its expertise and offer consultancy to neighbouring Asian countries. He said the agency was hoping to work with Indonesia, which is establishing its own bond pricing agency PT Penilai Harga Efek. Bondweb, which has over 70 clients, had also visited Egypt, Meor Amri said.