

# Overview

## A. Introduction

The Malaysian bond market is one of the most developed and dynamic bond markets in the region. It is the largest local currency (LCY) bond market in the Association of Southeast Asian Nations (ASEAN).

**Figure 1.1: Local Currency Bond Issuance in Malaysia, 2015—Conventional versus Sukuk**  
(MYR billion)

Issuer	Conventional	Sukuk	Total
Government	58	49	107
Corporate	64	65	129
Total	122	114	236

Source: Bond Pricing Agency Malaysia.

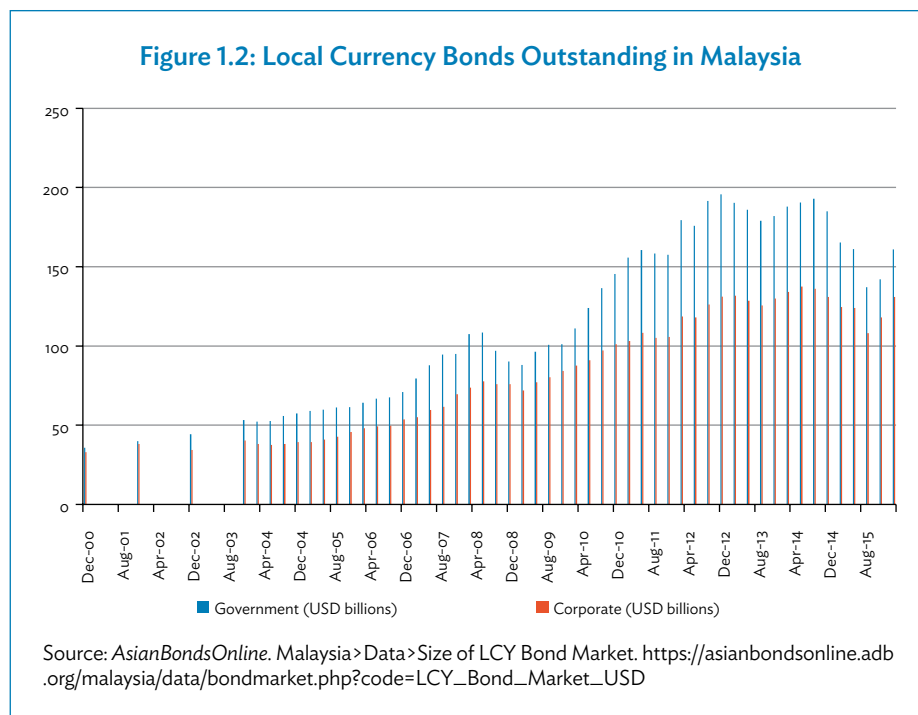
*Sukuk* (Islamic bonds and notes) continued to represent a substantial portion of both government and corporate new issuance, totaling MYR114 billion, or 48% of all new issuance, in 2015. In fact, Malaysia is the global leader in the *sukuk* market, accounting for 66% of global *sukuk* issuance and 57% of global *sukuk* outstanding in 2014.

Figure 1.1 breaks down the total issuance across all market segments and instrument types.

According to data published on *AsianBondsOnline*, total LCY bonds outstanding in Malaysia barely moved in the third quarter of 2015 compared with the previous quarter, standing at MYR1,076 billion at the end of September. In contrast, the fourth quarter of 2015 saw a significant increase in issuance, with more than half occurring in the last month of the year, leading to LCY bonds outstanding of MYR1,127 billion at end-December. Overall, 2015 saw less new issuance than in 2014 as the volatile generic yield environment coupled with weak sentiment in the LCY bond market deterred bond investors and issuers. The primary market for PDS also registered a slowdown in new issuance size in 2015 at MYR72 billion compared with MYR78 billion in the previous year.

*Sukuk* continued to comprise the majority of the LCY bond market with a share of 54% of total bonds outstanding at the end of December 2015.

The development of a vibrant bond market in Malaysia was supported by a facilitative regulatory framework that streamlined the bond, note, and *sukuk* issuance process with the introduction of disclosure-based guidelines for PDS, asset-backed securities, structured products, and *sukuk*. At the same time, the issuance of bonds, notes, and *sukuk* to retail



investors was redefined through specific guidelines. Enhancements to the issuance and rating processes, greater price transparency and an improved discovery process, and a transparent foreign exchange administration framework have attracted a wide range of issuers, including multilateral development banks, foreign multinational corporations, and foreign governments and agencies.

The phenomenal development of the Malaysian bond market over the last decade has largely been driven by the exceptional growth of the corporate bond, note, and *sukuk* markets. There have also been sizable increases in the types and amounts of government securities. Malaysia's well-developed government bond market is complemented by a large corporate bond market, which constituted about 45% of the total bond market at the end of December 2015 (Figure 1.2). The Malaysian bond market is predominantly populated by Sophisticated Investors.<sup>1</sup> Please refer to Chapter II for a comprehensive review of the regulatory framework of the Malaysian bond market.

The Malaysian bond market offers a wide range of instruments and, as mentioned above, it includes the largest *sukuk* market in the world. *Sukuk* have played a major role in Malaysia's capital market development. With the *sukuk* market providing the springboard, the past decade has also witnessed the rapid growth of Malaysia's Islamic capital market. Details on the *sukuk* market are provided in Chapter VIII.

<sup>1</sup> The term "Sophisticated Investor" is referenced in the Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework, which defines a Sophisticated Investor as "any person who falls within any of the categories of investors set out in Part 1 of Schedules 6 and 7 of the Capital Markets and Services Act, 2007."

A testament to the significance of the Malaysian fixed-income market in the global bond market is its inclusion in a number of global indexes, such as the inclusion of Malaysian Government Securities (MGS) in the World Government Bond Index, which is one of the most referenced benchmark market indexes among the international investing community, as well as in the Barclays Global Aggregate Index, JP Morgan Emerging Market Bond Index, and Market iBoxx Index. Malaysian government *sukuk*, better known as Malaysian Government Investment Issues (MGII), are included in the Dow Jones Citigroup Sukuk Index, the world's first *sukuk* index, as well as in Barclays' Global Aggregate and Asia-Pacific Aggregate Indexes and the Market iBoxx Index.

Malaysia has allowed a diverse group of foreign entities to issue and invest in MYR-denominated bonds, notes, and *sukuk* in the country. At the end of December 2015, about 30% of Malaysian government bonds outstanding were held by foreign investors, compared with about 25% at the end of September 2011 and about 18% at the end of June 2010.<sup>2</sup> Inclusion in global indexes is important as this provides formal international recognition of MYR-denominated *sukuk* and drives international participation as fund managers globally are required to assess MGII for the purposes of performance measurement. At the end of April 2015, foreign holdings of MGII had increased 140.0% year-on-year to MYR10.7 billion.

Bond, note, and *sukuk* trading is conducted either over-the-counter (OTC) or on Bursa Malaysia Securities (BMS), and reported via the Electronic Trading Platform (ETP), which is operated by BMS. All trades, including OTC transactions, are reported via ETP within 10 minutes of execution and distributed to the market at large for information and transparency. Significant data on the bond market are also available to market participants through the websites of regulatory authorities and market institutions.

Secondary market regulations are gradually being eased, while measures introduced in response to the 1997/98 Asian financial crisis have long been repealed. Rules on hedging have been liberalized to allow residents and nonresidents to make hedging arrangements with licensed onshore banks. Credit rating requirements are being reviewed in order to remove the need for the mandatory rating of corporate bonds and *sukuk*. The removal of the credit rating requirement will take effect 1 January 2017. At the same time, the Securities Commission Malaysia (SC) has introduced a Lodge and Launch Framework for the issuance of debt instruments and *sukuk* to Sophisticated Investors, which will exist side by side with the more stringent requirements and approvals for issuances targeting retail investors. The new regulations are reviewed in detail in Chapter II.F.

This regulatory environment is also conducive to the implementation of the proposed ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) developed by the ASEAN+3 Bond Market Forum (ABMF) under the guidance of the Asian Development Bank (ADB). The key features of the Malaysian market are further enhanced by the acceptance of governing law other than Malaysian law for professional issuances, and by documentation and disclosure standards that are closer to international market norms. Further details on AMBIF can be found in Chapters IX and X.

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<sup>2</sup> Data and information used in this section adapted by ADB Consultants for SF1 from *AsianBondsOnline*. Malaysia > Market Summary. [https://asianbondsonline.adb.org/malaysia/market\\_summary.php](https://asianbondsonline.adb.org/malaysia/market_summary.php)

## B. Capital Market Masterplan II, 2011–2020

Efforts under the Capital Market Masterplan II (CMP2), which details plans for the development of the Malaysian capital market from 2011 until 2020, continue to shape and improve the Malaysian bond market. CMP2 efforts are ongoing and set to continue for several more years. Detailed information can be found in Chapter X.B.

## C. Regional Cooperation

The Malaysian domestic bond market has also benefited from regional cooperation in East Asia. Local and cross-border impediments have been addressed through the sharing of experiences and technical expertise, as each country strives to add depth and breadth to its own domestic market. Three regional forums have been at the forefront of financial sector development in the region: ASEAN+3, Asia-Pacific Economic Cooperation, and the Executives' Meeting of East Asia-Pacific Central Banks. These three forums have each been focusing on different aspects of the development of domestic bond markets.

In recent years, Malaysia's contributions to regional cooperation have included efforts toward the ASEAN Common Prospectus and ASEAN Disclosure Standards Scheme, both initiatives under the ASEAN Capital Market Forum (ACMF). For more recent initiatives and developments with relevance for the Malaysian bond market, please refer to Chapters IX and X.

Specific information on bond market developments in Malaysia can also be found on the Bond Info Hub website and the SC's website.<sup>3</sup>

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<sup>3</sup> Bank Negara Malaysia. <http://www.bondinfo.bnm.gov.my/portal/server.pt>; Securities Commission Malaysia. <http://www.sc.com.my/bond-market-development-in-malaysia/>