IX

Singapore Bond Market Challenges and Opportunities

This chapter discusses some of the real or perceived challenges facing the Singapore bond market and its participants, and describes the mitigating factors and/or market developments that could address these challenges in an appropriate manner.

A. Challenges in the Singapore Bond Market

Previously noted challenges in the Singapore bond market include the limited issuer base, in particular with regard to debt instruments denominated in Singapore dollars, and a fairly narrow group of investors in these instruments. MAS has in the past few years spearheaded a number of initiatives to increase the issuer base; provide more types of debt securities and different tenors; and increase the number and types of investors in, and their access to, the Singapore bond market.

However, issuers, investors, and other market participants continue to refer to a number of remaining challenges, not unlike in other markets.

1. Buy-and-Hold Investor Mind-set

Due to the high quality of SGS, and also of issuances by GLCs, the attraction of these debt securities for investors lies in their safe nature. Hence, issuances of such instruments are often bought and held to maturity by investors with a prudential mandate (e.g., asset managers and insurance companies). Statutory boards, which manage their own reserves, also demand such safe investments.

At the same time, financial institutions based and regulated in Singapore, including the branches of foreign financial institutions, are able to hold a certain proportion of their reserve requirements in SGS T-Bills and MAS bills, which makes these instruments especially attractive to these investor types, at the expense of the wider market.

2. Limited Supply Affecting Repo Market

According to market participants, the corresponding lack of supply of SGS in the market also limits volume in the private repo market in Singapore. While repo is accepted as an efficient way for institutions to obtain short-term funding, the challenge is often to obtain or hold the instruments eligible as collateral. Convincing asset owners of the benefits of lending SGS and other eligible debt securities is one way of addressing this challenge, but it is also a challenge in its own right.

At the same time, repo transactions actively occur between MAS and Primary Dealers. In this context, MAS has widened the eligibility criteria of acceptable collateral to also include foreign-currency-denominated debt instruments specified in Cross Border Collateral

Arrangements between MAS and foreign central banks.[76] MAS also started issuing MAS bills from 2011 to provide an additional high-quality instrument for money market operations and overall financial market liquidity.

3. Singapore Financial Reporting Standards

Research by ABMF indicates that issuers, intermediaries, and listing places in ASEAN+3 are spending considerable energy on mapping and understanding financial reporting standards in each other's jurisdictions, in anticipation of an increase in cross-border bond issuance and investment activities in the region. ABMF's research also proved that the treatment and disclosure of relevant information is often the same or very similar, particularly with relevance for a bond or note issuance.

At the same time, however, it was found that the financial reporting standards in some markets have not yet fully adopted the International Financial Reporting Standards (IFRS).[77] This can result in issuers aiming to list or profile list their bonds or notes in specific listing places needing to convert their financial reporting information into a format acceptable to such a listing place, if their domestic financial reporting standard has not converged with IFRS.

Singapore has adopted most, but not all, IFRS and has made several modifications to the IFRS that it has adopted. The standards are known as the Singapore Financial Reporting Standards. A time line for full convergence has not yet been announced.[78]

The issuance of bonds or notes to Accredited or Institutional Investors in Singapore does not require the issuer to lodge and register a prospectus with MAS and, hence, documentation and disclosure items, including acceptable accounting and financial reporting standards, may be negotiated and agreed between the issuer and investors. At the same time, for the listing for trading or for profiling of debt securities on its markets, SGX accepts a number of financial reporting standards, including IFRS, the Singapore Financial Reporting Standards, and the United States Generally Accepted Accounting Principles.

Hence, there should be no challenge stemming from financial reporting standards for most, if not all, issuers seeking to issue or list their bonds or notes in Singapore.

B. Opportunities in the Singapore Bond Market

1. General Regulatory Environment

Since the global financial crisis, regulators around the world have been strengthening laws and regulations across many areas of the capital and financial markets. Of particular interest have been banking regulations and a focus on risk-weighted capital. The outcome for financial markets include a limitation of what banks can or are willing to lend, to whom, and

[76] See http://www.mas.gov.sg/monetary-policy-and-economics/central-bank-operations-and-liquidity-management/mas-standing-facility.aspx

[77] ABMF published its Phase 2 Report in April 2014, *Proposal on ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF)*, which included in its appendixes an overview of financial reporting standards in ASEAN+3, in relation to IFRS. The report is available at http://www.adb.org/publications/proposal-asean3-multi-currency-bond-issuance-framework-ambif

[78] The IFRS application profile for Singapore is available from the IFRS website at http://www.ifrs.org/Use-around-the-world/Documents/Jurisdiction-profiles/Singapore-IFRS-Profile.pdf

under what circumstances. A number of these regulatory initiatives may, in consequence, lead to a rebalancing of funding options in the corporate sector from bank loans to the capital markets.

While not unique to any particular market, this development might positively influence the interest of potential issuers—both domestic and international—to consider raising funds via a bond or note issuance, to diversify their debt portfolio, and/or to profile list their debt securities in Singapore.

2. ASEAN+3 Multi-Currency Bond Issuance Framework

The implementation of AMBIF (see also Chapter X) is expected to benefit not only AMBIF issuances, but the Singapore bond market at large. Singapore's policy bodies and regulatory authorities are focused on finding a suitable balance between bank loan and capital market funding opportunities for corporates. AMBIF has been created to provide an additional bond or note issuance avenues for these corporates. AMBIF in Singapore focuses on the issuance of private placements to Accredited and Institutional Investors (professional investors under the law), coupled with the increasingly popular listing of said bonds or notes on the Wholesale Bonds Market at SGX, to ensure visibility for the issuer and issue, and a well-defined continuous disclosure acceptable to professional investors.

On the other hand, the nature of AMBIF and its specific limitation to professional investors is likely to attract the attention and opportunity to invest in AMBIF bonds and notes from additional institutional (professional) investor types in Singapore and from other regional markets.

3. Singapore Exchange as Bond Trading Hub

A new opportunity for the Singapore bond market and the regional markets as well is seen in the introduction of the SGX Bond Pro trading platform (see Chapter X), which will offer the benefits of a central marketplace—such as easily available quotes, large numbers of participants, and market-making activities—to the OTC bond market. Starting with G3 currency bonds and notes, SGX Bond Pro is expected to also trade debt instruments issued in ASEAN currencies in due course.

4. Growth of Islamic Finance Market

The global Islamic finance industry has been on an upward trajectory in the past decade, with total assets exceeding USD2 trillion in 2014, up from USD700 billion in 2005. Most of this demand stems from the Middle East and Asia.

The increasing wealth accumulation in the Middle East is expected to expand the pool of Islamic funds seeking diversification into foreign investments, while Asia is expected to be a key investment destination, which will in turn increase the demand for Shariah-compliant assets in Asian markets, including Singapore. Reflecting this trend, Gulf Cooperation Council banks have already been expanding their operations in Singapore in recent years to support the deployment of Islamic funds to corporates in the region through Islamic bank financing and *sukuk* issuances (see also Chapter VIII). Singapore's market has seen a steady increase in Islamic finance activities.

At the same time, there is scope to extend Islamic finance solutions to meet infrastructure financing needs in Asia and in the Middle East. In particular, ADB has been working with the Islamic Development Bank to provide Islamic infrastructure financing solutions to their member countries in these two regions. This could spur the use and issuance of *sukuk* to fund some of Asia's infrastructure needs while tapping a growing pool of Islamic investors across the Middle East and Southeast Asia. The asset-backed nature of Islamic finance makes *sukuk* ideal for financing of infrastructure projects and would complement ongoing efforts by the government to enhance the bankability of infrastructure projects in the region and involve more capital market participants.