I

Overview

A. Introduction

The Singapore bond market has become one of the most developed open capital markets in Asia over the past decade and a half. As of December 2015, total local currency bonds outstanding stood at USD221 billion, with an additional USD53 billion of bonds outstanding in foreign currencies.[1]

Sovereign bonds and statutory board bonds are vital features of the market, despite the government's strong fiscal position that does not require deficit financing. Singapore Government Securities (SGS), which comprise Treasury bills (T-Bills) and bonds, are issued primarily to stimulate market activity and provide a benchmark for corporate issues. SGS are also targeted to satisfy reserve requirements for Singapore-based financial institutions (both banks and nonbanks) and are sought after as collateral for repurchase (repo) transactions.

The run-up in domestic debt, while continuing to operate on a balanced budget policy, remains the deliberate strategy of the government to promote a liquid and efficient government bond market. The three main international rating agencies (Moody's, Standard & Poor's, and Fitch Ratings) continue to accord Singapore the highest credit rating of AAA.

To attract greater foreign interest, the Monetary Authority of Singapore (MAS) began internationalizing the Singapore dollar in 1998 with foreign entities being allowed to issue SGD-denominated bonds. Singapore's debt market has grown to become a source of financing for local and foreign corporations, international organizations, and governments. Islamic finance is growing as well. The international nature of Singapore's bond market is reflected in its multicurrency nature. While USD-denominated issuances continue to dominate the market, there have also been significant issuances in other foreign currencies including Australian dollars, pounds sterling, offshore Chinese renminbi, and euros.

The commencement of renminbi clearing arrangements in May 2013 has helped to catalyze Singapore's offshore renminbi bond market. There has since been strong demand among domestic and regional investors for these so-called Lion City Bonds.[2]

Singapore is encouraging the growth of Islamic finance to offer a wide array of financial services including Islamic banking, fund management, and capital-raising via *sukuk* (Islamic bonds). MAS joined the Islamic Financial Services Board (IFSB), an international body that sets standards for the Islamic financial services industry, as an observer member in December 2003 and became a full member in April 2005. For reference, details on the Islamic finance market are provided in Chapter VIII.

1 See *AsianBondsOnline* at https://asianbondsonline.adb.org/singapore/data.php
2 Adapted in parts from MAS. 2013. *Singapore Corporate Debt Market Review 2013*. Singapore.

The Singapore dollar bond market comprises SGS, statutory board bonds, corporate bonds, and structured securities. Statutory board paper issued by autonomous government agencies is considered relatively liquid among debt instruments in the Singapore corporate bond market. As for issuances by corporates, property-related companies continue to be key issuers of SGD-denominated corporate debt securities, while structured products include equity-linked notes, convertible bonds, credit-linked notes, and asset securitization transactions.

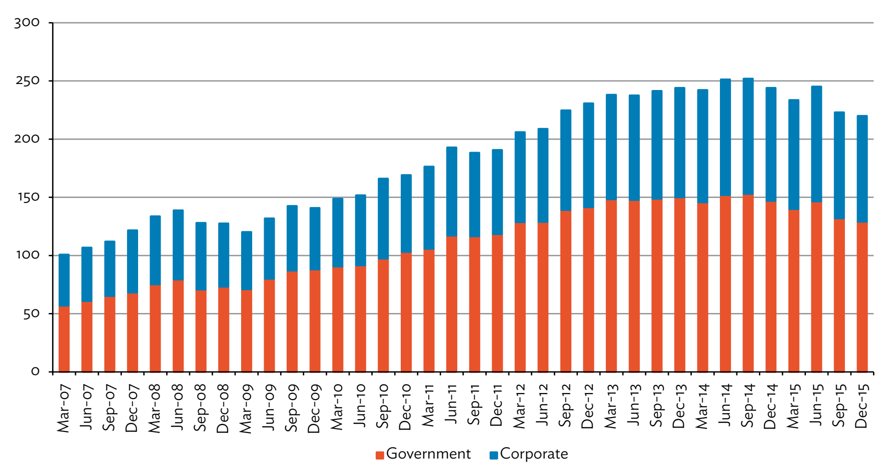
SGS are issued by MAS to Primary Dealers and authorized market participants via competitive auction. Retail investors can buy into SGS at primary issuance via their brokers. All SGS, except T-Bills, are also tradable on the Singapore Exchange Ltd. (SGX), typically aimed at individual investors. SGX also features a significant number of bonds and notes—1,936 issues at the end of June 2016—listed for profiling in its Wholesale Bonds segment. The trading of bonds among Institutional Investors in the secondary market remains over-the-counter (OTC).

A total of 20 SGS bonds amounting to SGD81.6 billion were being traded on SGX as of 1 April 2016, all with original maturities of 2 years or more. SGX's Central Depository (Pte.) Ltd. (CDP) acts as the depository for retail investors holding SGS bonds traded on the exchange, as well as for corporate bonds. MAS itself acts as the depository for SGS other than those held by retail investors.

On 1 October 2015, the government started issuing Singapore Savings Bonds, which are a special type of SGS suitable for individuals. Details on Singapore Savings Bonds are provided in Chapter III.B.

As a general reference, Figure 1.1 provides an overall picture of the growth of the Singapore local currency bond market in recent years.

Figure 1.1: Local Currency Bonds Outstanding in Singapore (USD billion)

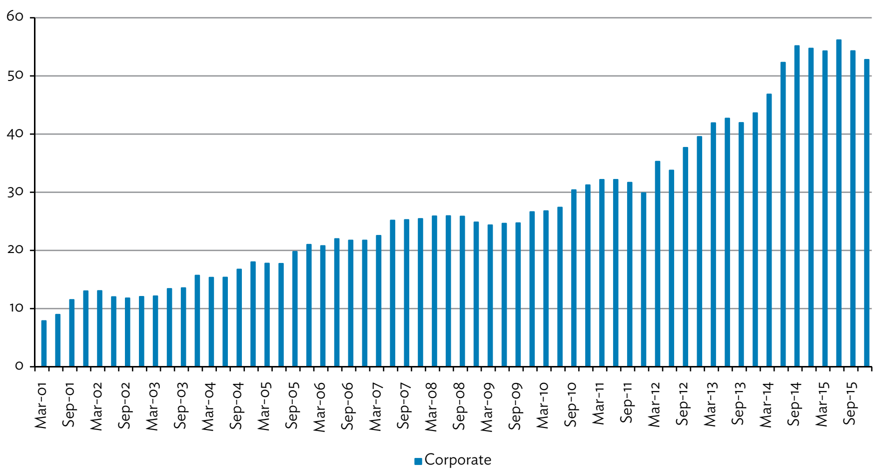


Note: Data as of 31 December 2015 and include bonds issued by nonresidents.
Source: *AsianBondsOnline*. Singapore Bond Market. https://asianbondsonline.adb.org/singapore/data/bondmarket.php?code=LCY_Bond_Market_USD

Foreign currency bond issuance is also expected to increase in the coming years and account for a growing portion of total debt issuance in Singapore. This is attributable to Singapore banks actively pursuing intraregional expansion to take advantage of their corporate customers' growth and increasing interest in the region.

As a general reference, Figure 1.2 gives an overall picture of the growth of the Singapore foreign currency bond market.

Figure 1.2: Foreign Currency Bonds Outstanding in Singapore (USD billion)



Note: Data as of 31 December 2015 and include bonds issued by nonresidents.
Source: *AsianBondsOnline*. Singapore Bond Market. https://asianbondsonline.adb.org/singapore/data/bondmarket.php?code=FCY_Bonds_Outstanding

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

B. Evolution of the Singapore Bond Market

Like most Asian countries, Singapore did not have a well-functioning bond market before 1997.[4] The government operated a prudent fiscal policy and consistently ran budget

3 ASEAN+3 refers to the 10 members of the Association of Southeast Asian Nations plus the People's Republic of China, Japan, and the Republic of Korea.

4 Parts of the text and selected statements (with edits for context and relevance) in this chapter adapted by ADB Consultants for SF1 from Monetary Authority of Singapore. 2011. *Singapore Bond Market Guide*. Singapore.

surpluses. Thus, there was no need for debt financing. At the time, SGS were mainly issued to meet financial institutions' statutory requirements, usually held to maturity, and rarely traded.

The 1997/98 Asian financial crisis highlighted the need to develop a domestic bond market. In 1998, MAS spearheaded efforts to develop the SGS market by embarking on a three-pronged plan to

(i) build a liquid SGS market to provide a robust government yield curve for the pricing of private debt securities;
(ii) foster the growth of an active secondary market, both for cash transactions and derivatives, to enable efficient risk management; and
(iii) encourage issuers and investors, both domestic and international, to participate in the Singapore bond market.

To facilitate active trading, a minimum critical amount of securities is required. The government raised SGS issuance sharply. Between December 1997 and December 2015, the outstanding amount of SGS grew about five times from SGD21.9 billion to SGD105.7 billion. Longer-tenored SGS were also introduced during this period, starting with a 15-year issuance in 2001 followed by a 20-year issuance in March 2007. The government bond yield curve was extended again in April 2012 with the issuance of a 30-year bond.

In January 2005, Singapore was the first Asian country outside of Japan to join the widely followed Citigroup World Government Bond Index. SGS are also included in other leading indices such as the J.P. Morgan World Government Bond Index and the HSBC Asian Local Bond Index.

With effect from 8 July 2011, individual investors have been able to trade SGS bonds in the secondary market on SGX. With the new offering on SGX, investors are able to access SGS bond prices on SGX's website or through their brokers, and trade SGS bonds through their brokers in a manner similar to the way stocks are traded. Trading of SGS and corporate bonds remains OTC for Institutional Investors.

A detailed review of the regulatory framework now in place in the Singapore bond market, and the roles and objective of its regulatory authorities and market institutions, is available in Chapter II. More information on market infrastructure systems and their functions can be found in Chapter IV.

Specific information on the market's development and the present state of the bond market in Singapore can also be found on the MAS website,[5] in particular on its website dedicated to SGS.[6]

C. Regional Cooperation

MAS has worked closely with regional jurisdictions on promoting regional markets access. These initiatives include the ASEAN Disclosure Standards Scheme and the memorandum of understanding signed to establish the Streamlined Review Framework for the ASEAN

[5] See http://www.mas.gov.sg
[6] See http://www.sgs.gov.sg

Common Prospectus. These initiatives are aimed at facilitating greater investor participation across markets in order to broaden and deepen regional market liquidity.

For more information on recent initiatives and developments with relevance for the Singapore bond market, kindly also refer to Chapters IX and X.