SBP Research Bulletin
Volume 3, Number 1, 2007

Development of Bond Markets in Emerging Market Economies

Suresh Menon[•]

This paper discusses the prerequisites for the development of well-functioning bond markets in emerging-market economies, and the facilitative roles of regulators in the developmental process. It also explores the strategies that can be employed to diversify the product base and to increase market liquidity, as well as how Islamic products complement the conventional bond segment. Along the way, there will be examples of the Malaysian experience in relation to some of the issues.

1. The Need to Develop Domestic Bond Markets in Emerging Economies

After the ravages of the Asian financial crisis in the late 1990s, emerging economies have been increasingly exploring the development of local-currency bond markets in a bid for better risk management. In a nutshell, a functional local bond market would be able to eliminate – to some extent the effects of currency, interest-rate and funding exposures – all of which had played a part in triggering the now-infamous Asian crisis that had been precipitated by a massive flight of foreign capital.

1.1. Alleviates FDI-related Risks and Shocks

An efficient domestic bond market would be able to temper some of the risks associated with foreign direct investments (FDI). Local-currency bonds diminish the borrower’s exposure to foreign-currency debts, at the same time absorbing the related shocks and volatility arising from FDI flows; borrowers can lock in interest rates via issuance of local-currency debt papers. In this regard, the impact of a sudden outflow or reversal of foreign capital would not be as devastating. On the other hand, the formation of a local-currency bond market also entices FDI into the country. Foreign investors’ risk exposures are reduced when they can raise financing to fund their projects/investments in the country’s domestic currency.

[•] Executive Director, Rating Agency Malaysia Berhad [suresh@ram.com.my].

1.2. More Effective Resource Distribution

From the macro-economic viewpoint, the creation of a local-currency bond market provides an alternative and cost-efficient avenue for the financing of infrastructure development and privatisation projects, which normally have lengthy payback periods. In this respect, developing nations throughout the world are creating increasingly more robust demand for such large-scale, long-term financing – something which banks, more often than not, are unable to satisfy. In other words, there can be better matching and more effective allocation of resources. There would also be less reliance on the equities market and bank loans, thereby diminishing systemic risk. This is the “spare tyre” role that bond markets can play in times of financial stress, as Alan Greenspan once pointed out in the late 1990s.

In the Malaysian context, the corporate bond market has provided well over RM300 billion of the financing needs of the country’s development over the last 15 years. Among Asian nations (excluding Japan), Malaysia has the highest ratio of outstanding bonds (both government and corporate) to GDP. At just shy of USD72 billion (as at end-2005), Malaysia has one of the largest corporate bond markets in the south-east Asian region.

1.3. Promotes Greater Transparency, Investor Education; Caters to Broad Range of Risk Appetites

Domestic bond markets also fortify the financial industry, by promoting a climate of greater transparency and corporate governance. Just like in equities markets, entities which issue bonds to the public are required to make disclosures regarding their operations, financial and management strategies. At the same time, such practices also enhance investor education, thereby facilitating more informed investment decisions in the market. A domestic bond market, meanwhile, would also offer greater investment opportunities and debt instruments that match investors’ varying risk appetites and investment horizons.

1.4. Encourages Financial Disintermediation, More Efficient Pricing

On the other side of the coin, issuers have the benefit of long-term, fixed-rate funding denominated in local currency – all factors which tone down the mismatches in maturities, interest rates and currencies in their debt portfolios. Being able to tap the local bond market diversifies the issuers’ sources of financing, in the process diminishing their dependence on the equities market and bank loans. Bond markets also give rise to healthy competition for financial institutions, which can ultimately reduce lending rates and engender a more conducive business environment. Leading from this, financial disintermediation allows more efficient pricing of risks and lower funding costs for borrowers that have high credit quality.

2. General Stages in the Development of a Bond Market

The development of a bond market usually goes through three general stages.

2.1. Small, Unsophisticated Market; One-off Transactions

The primary stage often entails one-off transactions, typically done via private placements. An issuer that requires long-term, local-currency financing is matched with a party that seeks a long-term investment. This normally happens in a country with an unsophisticated capital market, undeveloped sovereign bond market and a weak but dominant banking system. The market would also have few issuers and investors, and relatively unskilled intermediaries. Such circumstances are not conducive for a primary bond market, and certainly not a secondary one.

2.2. Constructing a Sound Primary Market

The second stage of development involves the construction of a good primary market for public as well as privately placed papers. Bond markets in this stage would have several good-quality issuers, an expanding but still limited investor base, budding capital markets and a reasonably decent macro-political climate. This scenario factors in public-disclosure requirements, a credit-rating agency and over-the-counter bond trading. A benchmark yield curve, although likely to be limited, would exist, thus providing price guidance for the market.

2.3. Followed by an Active Secondary Market

The third stage will see more active primary issuance and secondary trading of corporate bonds. The development and advancement of all the above factors, especially with a more mature government debt market and a variety of better-quality issuers as well as a broader investor base, will pave the way for the development of a secondary market. Moreover, disclosure rules may be tightened to ensure transparency and investor protection as the heterogeneity of the investor base expands beyond only hefty institutional investors.

3. Prerequisites for the Development of a Domestic Bond Market

3.1. Stable Macro-economic and Political Environment

By and large, bond markets need a stable macroeconomic and political environment to survive and grow. Without either of these two rudimentary features, investors – both local and foreign - would not be inclined to put their money into any of a country's capital markets, not just its bond market. To engender an appropriate base of issuers and investors, economic expansion must be robust enough while inflation and interest rates cannot be too lofty or volatile. Apart from this, a country must also have high savings and investment rates, as well as a high per-capita income, to support its developing bond market.

3.2. Brief Chronicle of the Malaysian Bond Market

At this juncture, it may be opportune to relate the Malaysian experience of developing a domestic bond market, which started in the mid-1950s. At that point, Malaysian Government securities (or MGS) had been mostly to meet the investment needs of the Employees Provident Fund (or EPF), set up in 1951. Until end-1961, the quantum of outstanding MGS only came up to RM120 million. The

Table 1. Bonds Issued as a Percentage of GDP of Asian Countries (end-Dec. 2005)

	As percentage of GDP				**in billion USD**				**Growth (CGRP%) 1996-2005**			
	Govt.	**Corp.**	**Fin. Ins.**	**Total**	**Govt.**	**Corp.**	**Fin. Ins.**	**Total**	**Govt.**	**Corp.**	**Fin. Ins.**	**Total**
China	15.3	0.6	11.4	27.3	340.3	12.8	253.7	606.8	24.1	12.1	27	24.7
Hong Kong	9.2	38.8	0	48	16.3	69.3	0	85.6	7.9	13.9	0	12.5
Indonesia	15.5	1.5	1	18	43.6	4.1	2.8	50.5	37.4	8.6	7.2	31.8
Japan	145.6	17.5	30.9	194	6,644.6	799.7	14,10.9	8,855.2	9.9	1.9	-2.6	5.7
Korea	28.7	19.5	35.2	83.4	226	153.4	277	656.4	20.5	6	10	11.2
Malaysia	39.4	36.5	18.9	94.8	51.6	47.7	24.7	124	4.8	11.8	5.4	7.1
Philippine	40.8	0.2	0.2	41.2	40.2	0.2	0.2	40.6	4.6	7.2	14.9	4.6
Singapore	40.3	29.9	0	70.2	47	34.9	0	81.9	13.5	16.2	0	14.8
Thailand	21.5	14.1	10.3	45.9	38	24.8	18.2	81	36.4	6.6	43.3	18.1
Vietnam	7.9	0.2	0	8.1	4.2	0.1		4.3	4.2	0.1	0	4.3
	Average				Total							
All 10 economies	36.4	15.9	10.8	63.1	7,451.8	1,147	1,987.5	10,586.3	10.5	3.6	0	6.7
All 10 excl. Japan	24.3	15.7	8.6	48.5	807.2	347.3	576.6	1,731.1	17.9	9	14.7	14.5

Source: ADB AsianBondsOnline

corporate bond market, meanwhile, only came into existence in 1987, when Cagamas – the national mortgage corporation – began operations with a purchase of RM120 million of housing loans from commercial banks, along with the issuance of RM100 million of mortgage securities. Prior to 1987, most private financing needs had been fulfilled via the equities market or the banking system.

From a very modest RM59 billion as at end-1988, the value of total outstanding bonds (corporate as well as sovereign issues) in the Malaysian market had multiplied more than 7 times to just under RM450 billion as at end-October 2006. Today, Malaysia reputedly has one of the largest corporate bond markets in the south-east Asian region. The country has a savings rate of more than 40%, an investment rate of some 20% and an inflation rate of around 3.5% - with an overall GDP growth of 5% to 6% and a per-capita income of approximately USD 5,000.

3.3. Greatly Assisted by Government's Firm Commitment

The development of the Malaysian bond market has been greatly facilitated by the Government. One of the authorities' primary thrusts in cultivating our post-crisis domestic bond market had been to focus on the regulatory framework. The Central Bank had introduced basic guidelines on the issuance and trading of corporate bonds, apart from criteria to be used in the evaluation of proposed corporate bonds. These guidelines had provided the market with some degree of transparency and certainty during the initial stages of development. In the last 2 decades, the Government has been firmly committed to the advancement of the Malaysian bond market, having established a supportive legal and regulatory framework – another prerequisite for the development of a domestic bond market.

3.4. Mandatory Ratings to Encourage Transparency, Inspire Confidence; Creation of Credit-Rating Agency

To promote transparency and instil confidence, the rating of corporate bonds was made mandatory by the Central Bank in May 1991 while the rating of financial institutions was permitted to be on a voluntary basis from January 1993. These initiatives had been part of the authorities' efforts in accelerating the development of Malaysian corporate bond market, as an attractive and cheaper alternative to the banking system and equity financing. As the nation's premier rating agency, Rating Agency Malaysia Berhad (better known as RAM, incorporated in November 1990) embodies the authorities' intention of filling the "missing institution" link in the development of the Malaysian capital market. Generally speaking, a high-quality, independent and credible rating agency is a definite requirement for the development of a well-functioning bond market.

3.5. Market Liquidity, Benchmark Yield Curve Vital to Pricing Efficiency

Meanwhile, market liquidity and a benchmark yield curve are also important prerequisites. These are vital for pricing efficiency and to attract a broad base of investors; corporate debt issues need benchmarks against which they can be effectively priced. Dealers and market makers are also crucial players for the enhancement of market liquidity. However, there has to also be the right trading tools and hedging instruments to encourage their participation. An effective market also needs a broad base of issuers and diverse products that cater to investors' different needs and risk appetites. From the issuers' stance, a simple - yet effective - approval process for bond issuance would be a plus.

3.6. Reliable Trading/Clearing Systems, Equitable Taxation, Efficient Pricing Mechanism

To encourage active trading, there must be reliable and cost-effective trading and clearing systems, not to mention affordable transaction costs. In the interest of creating a level playing field, taxes related to bonds must at least be comparable to those of other funding conduits, such as banks and equities. In the meantime, a well-organised bond market would also not be complete without proper dissemination of information as well as an efficient and transparent pricing mechanism. In this regard, RAM had initiated the creation of a bond-pricing agency in Malaysia, known as Bondweb Malaysia.

In summary, the prerequisites for the development of a domestic bond market are:

- A stable macroeconomic and political environment
- Sturdy economic expansion which supports appropriate issuers and investors
- Benign inflation and non-volatile interest rates
- Relatively high savings and investment rates
- A conducive legal and regulatory framework
- An adequate supply of papers with high credit quality, with a diversified issuer base
- Diversity of products
- Simplifying the approval process for bond issuance
- Availability of hedging instruments
- A broad investor base

- High-quality, independent and credible rating agencies
- Establishing a benchmark yield curve
- A sufficiently liquid market with active secondary trading
- Reliable and cost-effective trading and settlement systems
- Tax efficiency and equality – tax related to bonds must be at least comparable to other sources of financing, e.g. bank loans and equities

4. Key Challenges in Developing a Bond Market

Despite the positives outlined, the development of a local-currency bond market is also fraught with challenges. Building such markets requires much time and effort; this is admittedly not a feat that can be achieved by all and sundry. For starters, a well-functioning bond market needs participants such as issuers, investors and intermediaries. A good infrastructure alone is often not enough. And for such participation to take place, there frequently needs to be a set of optimal – though not perfect - conditions or factors.

4.1. Over-reliance on Banking Sector

Many emerging economies are still over-reliant on their respective banking sectors as financiers. In such instances, the regulators (i.e. the government or central bank) would not be remiss in extending their support by introducing fiscal incentives – such as exemption of tax and/or stamp duty - to stimulate the bond market. This would undoubtedly provide a boost in the arm for a fledgling bond market.

4.2. Too Much Red Tape Holds up Issuance Process

Other than championing fiscal incentives, the regulators could also take a closer look at the bond-issuing process. Although disclosure and transparency are encouraged, this and the approval process could ultimately be too lengthy or onerous for potential issuers, thus detracting from the economic benefits of issuing bonds. In the case of Malaysia, the approval and issuance process had taken up to 4-6 months before the turn of the new millennium. Realising this hindrance, the regulators implemented a new legal framework in July 2000. Now, the Securities Commission has become the one-stop centre for corporate bond issuance in Malaysia. Its *Guidelines on the Offering of Private Debt Securities* have superseded the Central Bank’s erstwhile rules, introducing provisions that have liberalised the regulatory requirements and facilitating an approval procedure of just 14 days and issuance process of 2 to 3 months.

4.3. Lack of Investment-grade Issuers

Even with enough inducement for potential issuers, there may still be a dearth of investment-grade issuers in the market. As cashflow is of paramount importance to a bond issuer, in terms of servicing and redeeming its debts, it must have a sufficiently sturdy credit profile that supports this. Failure to achieve an investment-grade rating could well put a halt to any bond issuance by that particular entity.

4.4. Dearth of Large-sized Issues May be Addressed by Securitisation

To address the problem of insufficient decently sized bond issues, several debt papers could be merged into a single large one through securitisation techniques such as collateralised bond obligations (or CBOs) or collateralised loan obligations (or CLOs). Apart from "bulking up" the bond offering, securitisation also allows some of the bonds to be issued at higher ratings, thus reducing the average funding costs for the borrowers. At the same time, securitisation also creates debt instruments of variable credit risks to meet the needs and different risk appetites of investors.

4.5. Colossal, Conservative Institutional Funds Crowd Out Investor Market

One of the characteristics of a developing bond market is a highly concentrated investor base, often dominated by just a handful of massive, conservative statutory pension funds or employee provident funds. Because of their strict investment guidelines, these funds usually place their money in "safe" fixed-income securities or high-grade bonds. Moreover, such statutory bodies/funds normally buy and hold debt securities to maturity. Coupled with the already small issuer base, this crowds out the market. To overcome this, institutional investment guidelines may be liberalised while bond or mutual funds can be established for retail investors. Further aided by the presence of more foreign investors, this would diffuse the concentration in the investor base.

4.6. Illiquid Market, Lack of Reliable Benchmark Yield Curves

The problem of an illiquid market may also be addressed by broadening the investor base as well as the range of investors in the market. Furthermore, lower transaction costs could promote more robust trading activity in the bond market. Emerging markets also often lack reliable benchmark yield curves, exacerbated by illiquid secondary markets. To address this issue, regular issuance of various tenures by sovereign and quasi-sovereign entities will help provide guidance on the pricing of corporate bonds.

4.7. Deficient Pricing Infrastructure, Insufficient Transparency

An efficient pricing infrastructure and – again – market transparency are vital to a well-functioning bond market. Shortcomings in these areas can be dealt with by improving the dissemination of market information as well as enhancing investor education, fortified by the establishment of a bond-pricing agency for proficient price discovery.

5. Accelerating the Development Process

5.1. Firm Commitment from Regulators and Other Market Players

The development process of bond markets can be "accelerated" through concerted efforts and the regulators' commitment. The authorities can collaborate with market participants to better understand the viewpoints of all parties – via the establishment of working groups to formulate strategies on the future direction of the market. There can also be cross-regulator working groups, or the creation of a single regulator.

5.2. Creation of Critical Institutions

In Malaysia, the Securities Commission or SC became the single regulator for the securities market in 2000. Furthermore, the Central Bank and the Securities Commission are currently working closely to create an international Islamic capital/banking hub, with the bond market as a key component. RAM has initiated the establishment of Bondweb Malaysia to create greater transparency in pricing. RAM's experience in the Corporate Debt-Restructuring Committee during the Asian crisis is now being leveraged to provide risk consultancy services and advisory on Basel II, via RAM Consultancy, a wholly owned, independent subsidiary.

5.3. Supportive Framework for Supranational Bond Issues; Learning from Regional Examples

Meanwhile, the authorities can also encourage bond issues by local and/or foreign entities. In this respect, there have been several landmark ringgit bond issues by supranationals in Malaysia over the past 2-3 years, including Asian Development Bank's RM400 million 5-year bonds in 2004 and RM500 million 5-year bonds under its RM 3.8 billion Medium-Term Note Programme in April this year. Last but not least, emerging markets should observe the experience of others in seeking the best solutions to their problems and determining what works best in different types of circumstances.

6. Deepening and Enhancing the Liquidity of Bond Markets

6.1. Tax Incentives for Investors, Encourage Trading by Foreigners

Even though a domestic bond market has already been established in an emerging market, it can be further deepened while enhancing market liquidity. To this end, the investor base may be broadened through the provision of tax incentives to investors, apart from making it easier for foreigners to trade in the local bond market.

6.2. Innovative Structures to Enhance Issuers' Credit Quality; Permit Issuance of Foreign Currency Bonds

The array of products, meanwhile, can be expanded by allowing the issuance of foreign-currency bonds in the local market. By the same token, structured products and asset-backed securities should also be promoted. Besides extending the spectrum of available debt instruments, this would also lift the credit quality of bond issues through the incorporation of certain credit-enhancement mechanisms and cashflow ring-fencing.

6.3. Better Trading Infrastructure, Information Dissemination; Relax Eligibility Criteria for Regulated Institutions; Increase Supply of High-Quality Bonds

In terms of trading activity, the bond market (particularly investors) would gain from lower trading costs and better delivery systems. Financial intermediaries should have the benefit of cost-efficient hedging products. In the meantime, a bond-pricing agency would facilitate efficient and timely dissemination of information on trading, credit ratings and pricing. Elsewhere, there could be more lenient eligibility criteria for regulated institutions – such as insurance companies and pension funds – to allow them to invest in a more extensive range of products and credit quality. Finally, there must be a regular supply of high-quality debt papers in order to develop and maintain a reliable yield curve.

7. The Role of the Central Bank

7.1. Regular Issues of Benchmark Bonds – Price Guidance, Liquidity Enhancement

As a regulator, the central bank can play a facilitative role in the development of a local bond market. Firstly, it can ensure the regular issuance of benchmark bonds for price guidance and to enhance market liquidity. In Malaysia, the Central Bank consistently issues debt papers of varying tenures. In the last year or so, the domestic bond yield curve has had the benefit of having 20-year bonds added to it.

7.2. Simplify Approval Process

In countries where the central bank regulates the bond market, it can also simplify and/or shorten the approval process for bond issues, making it less onerous and reducing the time to market. In the case of Malaysia, the Securities Commission has been mandated to approve applications for bond issuance within 14 days.

7.3. Cultivate Conducive Environment, Encourage Multi-party Working Groups

The Central Bank of Malaysia has also taken the lead by bringing together the market participants – other regulators, issuers, investors, arrangers, rating agencies, pricing agencies, legal and accounting firms - in an effort to cultivate a more nurturing and conducive system. This includes providing incentives in the treatment of bonds as investments by regulated entities such as insurance companies and banks. A financial-guarantee institution or mechanism could also be established to bridge the "credit gap" between issuers and investors – to enable bond issues by lower-rated issuers which would otherwise not be able to access the bond market due to investors' risk-averseness.

7.4. Establishing Prudent Investment Guidelines for Insurance Companies

In the last 3 years, the Central Bank of Malaysia has raised the limits on insurance companies' permitted investments in secured and unsecured credit facilities. In this sense, credit facilities would include private debt securities such as bonds, notes, debentures and loan stocks, certain types of debt securities issued by Cagamas (the national mortgage institution), as well as convertible debt securities before their conversion to equities. An unsecured credit facility under the admitted-assets framework of insurers must have certain minimum ratings from a domestic rating agency or an internationally recognised one. This framework is part of the prudential requirements and financial controls imposed by the Central Bank on insurers, to ensure the financial security of policy owners' funds. The more generous investment limits, meanwhile, are to increase insurers' flexibility in managing their funds and in acquiring assets that can offer stable income to match insurance liabilities, particularly the long-term liabilities of life-insurance companies. The relaxation of investment limits in credit facilities is expected to generate more robust demand for private debt securities, thereby contributing to the development of the domestic capital market.

7.5. Endorse Cross-border Issuance, Framework Harmonisation

From a broader viewpoint, central banks can also encourage regionalisation by promoting cross-border issuance and investments, through regional cooperation and the harmonisation of the legal and regulatory frameworks of different countries.

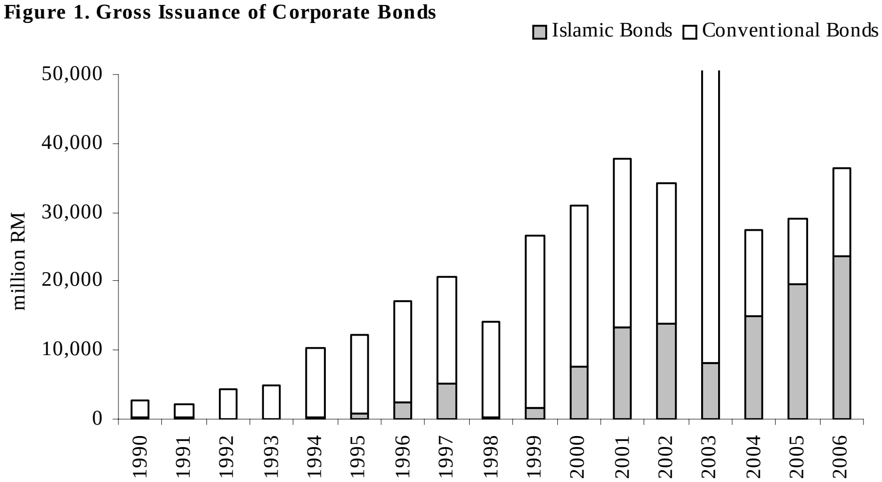
7.6. Towards Better Risk Management-implementation of Basel II

Globally speaking, the benefits of the Basel II framework cannot be fully realised if emerging economies do not have the necessary foundation for effective implementation, i.e. a more efficient and comprehensive legal, accounting, regulatory and market infrastructure. The challenge is therefore to prioritise the establishment and strengthening of their fundamentals. Lack of appropriate foundations could impede the execution of the Basel II framework, in addition to inhibiting the proper implementation of cross-border regulations and the effective conduct of consolidated supervision. As differences in rules and standards are common, the main task is to find areas where convergence can be accelerated. To this end, central banks have an important function in facilitating and overseeing the implementation of the Basel II framework in their respective countries. Broadly speaking, the Malaysian Central Bank has a 3-pronged role in this sphere:

- Establishment of various guidelines for the implementation of Basel II framework
- Formulation of disclosure rules
- Ongoing supervision of the banking industry's risk-management practices and the implementation process

To further expedite the implementation of the Basel II framework, the Central Bank is also exploring other industry-wide initiatives that can accelerate the progress of banks on this journey. These include the option of leveraging on existing infrastructure like the Central Credit Reference Information System (or

Figure 1. Gross Issuance of Corporate Bonds



Source: 1990-2003, Bank Negara Malaysia; 2004-2006, Rating Agency Malaysia Berhad

CCRIS) and Fraud Information Database System (or FIDS), to enable accurate, industry-wide monitoring of bank's risk concentration vis-à-vis borrowers and their related parties.

8. Diversifying the Product Base and Capitalising on Islamic Financial Instruments

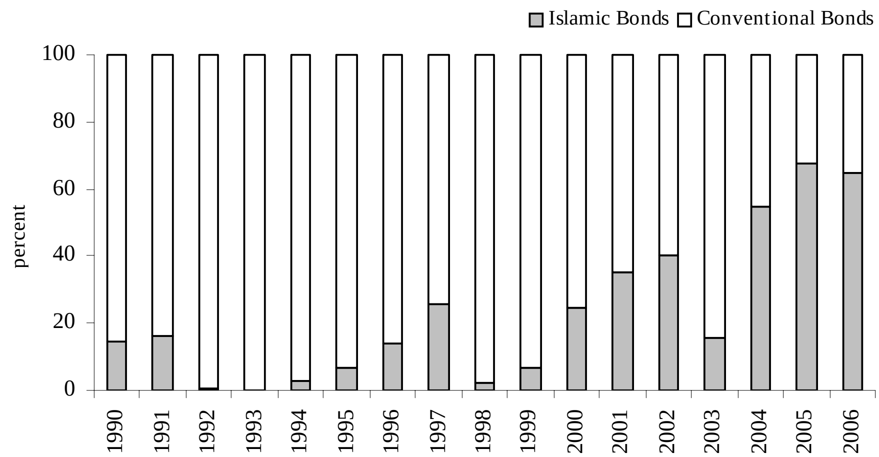
8.1. Diversification through Islamic-Based Instruments

The product base of the bond market can be substantially enlarged and diversified through the issuance of Islamic debt securities, which come in myriad forms and structures. As is the case in Malaysia, the Government has granted financial incentives to issuers and investors of Islamic securities through the exemption of tax and stamp duty for *h*-compliant issues. In fact, Islamic instruments have gained such popularity that they account for about half of the total outstanding corporate debt securities in the Malaysian bond market. New *sukuk* issues comprised about 62% of all new corporate bond issues as at end-June 2006.

8.2. Adopt Globally Accepted Islamic Concepts, Sanction Islamic Securitisation

Nevertheless, there is still much debate on the uniformity, interpretation and recognition of certain Islamic principles vis-à-vis debt securities. To become more

Figure 2. Gross Issuance of Corporate Bonds (Islamic Vs Conventional)



Source: 1990-2003, Bank Negara Malaysia; 2004-2006, Rating Agency Malaysia Berhad

aligned with international practices, domestic bond markets should endeavour to adopt Islamic structures and principles that are globally accepted, e.g. *Musyarakah* and *Mudharabah* contracts, to further broaden the investor base. Aside from this, Islamic securitisation should also be endorsed, to add even more depth and diversification to the bond market.

8.3. Further Education to Demystify Preconceptions

Despite all the potential advantages, market participants still have to undergo further education on the topic of Islamic debt securities, especially to demystify preconceived ideas and possible prejudices vis-à-vis the subject matter.

9. Lessons Learned from the Malaysian Experience

9.1. Asian Crisis Underlined Need for More Balanced Financial Structure

In light of the circumstances, it may be concluded that the lessons learned from the Malaysian experience could serve as a blueprint for the development of bond markets in emerging economies. To sum up, the Asian financial crisis in the late 1990s had reiterated the need for a more balanced financial structure for the country, i.e. a banking sector complemented by bond and equity markets.

9.2. Government Acts as Strong Facilitator; Multi-lateral Working Groups Essential

To spearhead the development of the domestic bond market, the Malaysian Government has demonstrated its steadfast commitment by assuming the role of a strong facilitator by establishing a conducive legal and regulatory environment. In this respect, there have been concerted efforts by the various working groups, together with input from the private sector, to identify and resolve the various pros and cons – an essential ingredient for successful market development.

9.3. Mobilising Pension/Insurance Funds to Fuel Market; Domestic Rating Agencies as Catalysts

In the meantime, pension and insurance funds have been mobilised to fuel the Malaysian bond market. On another note, domestic credit-rating agencies have also contributed by acting as growth catalysts. In particular, RAM has been working closely with the regulators, especially in the area of investor education and in leading the way in the adoption and implementation of international best practices.

9.4. Adopting International Best Practices While Considering Domestic Needs

Last but not least, it should be noted that, in spite of the many advantages, the implementation of international best practices must also take into consideration domestic requirements.

10. Conclusion

In conclusion, it would be fair to surmise that all emerging economies must undergo their own "growing pains" on the road to the development of well-functioning domestic bond markets. In many cases, it would require a change in the attitude and behaviour of market participants. Nonetheless, it is heartening to note that many regulators in emerging economies are now joining forces with market participants and other authorities – both local and regional – to identify the various impediments and to seek resolutions to these problems.