General

The amount outstanding on the global bond market (which includes corporate bonds, bonds issued by financial institutions, asset backed and structured securities) totalled a record $100 trio in March 2012, up 2% on 12 months earlier. The considerable growth in the size of the global bond market over the past decade means that in March 2012 it was almost twice the size of the global equity market which had a market capitalisation of around $53trio. As a proportion of global GDP, the world bond market increased to over 140% from around 80% a decade earlier. The US was the largest market in March 2012 accounting for 33% of the value outstanding. It was followed by Japan 14%, the UK and France with around 6% each.1
Below briefly details three very different markets and the characteristics within their corporate bond market.

Malaysia

- Since the Asian financial crisis in 1997-98, policymakers in Asia and the Pacific have put a high priority on bond market development as a way to promote financial deepening and help avoid financial crisis. As such, the corporate bond market has grown from c. USD6bio in 1997[2] USD113bio in September 2011.[3]
- Today the corporate bond market makes up approximately a quarter of the total debt financing (including bank loans) to the economy compared with 10% in 1997.[4]
- To assist in the development of the Malaysian bond market the focus has been on a comprehensive regulatory framework and a strong infrastructure.
- Many initiatives were developed and committees established including:[5]
  - In March 1993, the Securities Commission was established to act as a single regulatory body to rationalise securities market regulations.
  - Two rating agencies (rating Agency Malaysia Berhad and the Malaysian Rating Corporation Berhad) were established to provide independent opinions on the potential default risk of debt issuers and disseminate all appropriate information to existing and potential investors.
  - Establishment of a reliable and efficient benchmark curve as well as indices.

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[1]The CityUK Partnering Prosperity, *Financial Markets Series, Bond Markets*, October2012 http://www.msconsultants.co.uk/LiteratureRetrieve.aspx?ID=111457 (Accessed 1 May 2013)

[2] 9th OECD-ADBI Roundtable on Capital Market Reform in Asia, *Bond Market Development in Malaysia*, NR Mahmood, Securities Commission Malaysia, 26 February 2008, http://www.oecd.org/finance/financial-markets/40126717.pdf (Accessed 1 May 2013)

[3] Financial Bonds Information*, General Information on bond market,* http://em.cbonds.com/countries/Malaysia-bond (Accessed 2 May 2013)

[4] Bank Negara Malaysia, Central Bank of Malaysia, *Investing in Malaysian Bonds, 2012,* http://bondinfo.bnm.gov.my/portal/server.pt/community/malaysian_bonds_market_information,_malaysia_bonds,_islamic_bonds,_ringgit_bonds,_asian_bonds,_bond_info_hub/313/overview___brief_profile_page, (Accessed 2 May 2013)

[5] Asian Development Bank , *ASEAN+3 Bond Market Guide*, February 2012 https://wpqr1.adb.org/LotusQuickr/asean3abmf/Main.nsf/h_Toc/3B929170855F3F0E482579D4002E9940/?OpenDocument&Form=h_PageUI (Accessed 2 May 2013)

- On the operational front, various processes were computerised and put on line to enhance cost effectiveness and efficiencies. These systems sped up securities tendering, reduced settlement risk, promoted transparency of information and improved liquidity in the market.
- In September 1999 the Capital Market Strategic Committee (comprising of Securities Commission and the private sector) was established to facilitate development of the Capital Market Masterplan (CMP). The CMP divided into three stages, spanning a period of 10 years and involving 152 detailed recommendations. CMP initiatives were directed at key specific areas, and have included the enhancement of the fund raising process, ensuring the robustness and efficiency of the bond market microstructure and expanding both the issuer and investor base as well as the range of products available.
- Residential individuals, unit trust companies and listed closed end fund companies are exempted from income tax for interest income earned from ringgit-denominated Government bonds and private debt securities in Malaysia and there is no capital gains tax in Malaysia.

New Zealand

- New Zealand's corporate bond market started to develop in the late 1980s, following the deregulation of the country's financial system and floating of the NZD in 1985. Prior to this time, bond market activity consisted of local government bodies issuing small amounts of paper on a tap basis.
- The first issuance of larger tranches of corporate bonds by non-government entities occurred in the late 1980s and these were by state owned enterprises. From 2007 to 2011 the volume of issuance in their domestic corporate bond market has more than tripled at $1.7bio. The main growth has come from the retail sector.[6]
- New Zealand's total debt market is NZ$102bio outstanding with corporate bonds accounting for NZ$10bio, banks and financial institutions NZ$19bio and the government NZ$57bio.[7]
- Over recent years, there has been a lack of New Zealand corporate supply as corporates deleverage and tap alternative funding such as USPP. In 2011, NZ corporates issued NZ$1.7bio domestically and NZ$2.0bio internationally (NZ$1bio in USPP). [8]
- The majority of New Zealand's corporate debt is issued in the three to ten year tenor of the yield curve; however, there have been issues with maturities as long as 15 years. Typically New Zealand corporates have obtained short-term (one-five years) funding from bank, and have turned to the corporate bond market for longer term funding.[9]
- A wholesale issue does not require the issuer to produce a prospectus, but can only be sold to professional and habitual investors. In New Zealand, there are less than a dozen major fund management companies, but a couple of hundred smaller investment pools.

[6] National Australia Bank Global Capital Markets
[7] ibid
[8] ibid
[9] Simon Tyler, *The New Zealand Corporate Bond Market*, Simon Tyler, Reserve Bank of New Zealand, http://www.bis.org/publ/bppdf/bispap26q.pdf, (Accessed 2 May 2013)

Wholesale issues are targeted at both these groups and, typically, will have a minimum purchase amount of NZD100,000. A retail issue must be sold under a prospectus, and can be sold to all members of the public (including wholesale investors). The minimum purchase amount is NZ$1,000.[10]

- In New Zealand, there is a small and relatively illiquid secondary market for corporate bonds. There are no official market-makers; however dealer-panel members are expected to make market in the securities they have brought to market.[11]

United Kingdom

- The UK Corporate Bond Market is a very developed market that has a natural bias for domestic UK names. It is very much a long dated issue market to satisfy an investor base largely made up primarily of sophisticated pension and insurance funds. Tenors of 15 years plus including 30 years are common in this market particularly for Corporate names with an infrastructure angle. This is in contrast to the Eurobond market which sits on the UK's doorstep. In the Eurobond market maturities are commonly 7-8 years with some 10 -12 year issuance usually dominated by European pension funds.[12]
- The UK Bond market had issuance of GBP£115bn in 2012 and in the first quarter of 2013 there has been issuance of GBP£33.3bn. In 2012 the split of total issuance was dominated by 3 sectors – Supranational & Agencies 49%, Corporates 27% and Financials 24%. Corporate issuance as a percentage of total issuance increased to 27% from 21% in 2011 while the number of Corporate issuers increased from 46 in 2011 to 82 in 2012. In contrast Western European loan Volumes have reduced by 50% from their peak in 2007.[13]
- While the UK Corporate Bond market is much larger in volume and provides much longer tenors than the Australian domestic market there is a similarity in that both markets have a relatively small investor base. This often means a small number of investors determine the issue price, the volume and in fact whether an issue proceeds as their involvement often required to cornerstone a transaction.
- The London Stock Exchange's electronic Order book for Retail Bonds (ORB) was launched in February 2010 with key aims to develop both an efficient, transparent secondary market in bonds for UK private investors and to establish a primary market for distribution of dedicated retail bonds
- This has helped to open up the UK corporate bond market to retail investors and increase transparency and liquidity in this market. The ORB offers cost-effective, continuous, transparent, two-way tradable prices for more than 50 gilts and over 100 corporate bonds tradable in denominations of GBP1,000 or less.35 ORB-dedicated new issues and 4 taps of existing ORB issues have raised over GBP3.2bio since launch.[14]

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[10] Financial Markets Authority, New Zealand, http://www.fma.govt.nz/help-me-comply/issuers/your-obligations/, (Accessed 2 May 2013)
[11] Simon Tyler, *The New Zealand Corporate Bond Market*, Reserve Bank of New Zealand, http://www.bis.org/publ/bppdf/bispap26q.pdf, (Accessed 2 May 2013)
[12] National Australia Bank, Global Capital Markets
[13] ibid
[14] London Stock Exchange, Order Book for Retail Bonds (ORB), http://www.londonstockexchange.com/traders-and-brokers/security-types/retail-bonds/orb-overview1.pdf (Accessed 2 May 2013)

- The ORB has been used by companies like Provident Financial, Tesco Personal Finance PLC, Places for People and National Grid to access capital. [15]
- The ORB offers flexibility for issuers as the size of the retail bond can be tailored to meet their requirements; issue sizes have ranged from GBP20mio to GBP300mio. This is particularly beneficial to issuers who do not necessarily need a benchmark wholesale bond of GBP500mio. Issuers have the option of issuing in smaller sizes on a more frequent basis.[16]
- Retail bonds may have yields that are fixed, floating or index linked and with a range of tenors, 1-2 years 10%, 3-10 years 29% and 10 years+ 61%.[17]
- Dedicated market makers are committed to quoting two way prices in a range of retail bonds throughout the trading day and all other registered member participants are also able to enter orders onto the book. Private investors are able to see prices on-screen and trade bonds in a similar way as they currently do for shares.
- All of the bonds available on ORB are London-listed securities admitted to the EU-Regulated Main Market ensuring a high level of regulatory oversight and offers the benefits of the transparency afforded by the Financial Services Authority's disclosure and continuing obligations regimes. Due to the cost of complying with these requirements and upfront costs of issuance, minimum issue size is likely to be around GBP25mio.[18]
- For all retail bonds being admitted to trading on the ORB require a Base Prospectus, a Pricing Supplement, relevant Board Minutes and a trust deed. However Retail bonds can be issued under a programme, allowing the company to return to the market as and when funding is required. Directive 2010/71/EU (the Amending Directive (effective from July 1, 2012) introduced a proportionate disclosure regime.[19]
- Interest and capital gains on retail bonds are usually made exempted from UK tax by the bonds being eligible for purchase within Individual Savings Accounts (ISAs) and Self-Invested Personal Pensions (SIPPs). The main criteria for ISA and SIPP eligibility is there being no requirement for the company to repay the bonds within five years.[20]

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[15] ibid

[16] London Stock Exchange, http://www.londonstockexchange.com/traders-and-brokers/security-types/retail-bonds/generallisting.pdf

[17] National Australia Bank Global Capital Markets

[18] London Stock Exchange, *Retail Bonds Listing and Admission*, http://www.londonstockexchange.com/traders-and-brokers/security-types/retail-bonds/generallisting.pdf (Accessed 2 May 2013)

[19] Ibid

[20] Norton Rose, *UK Retail Bonds for Funding Mid-Cap Companies*, April 2013, http://www.nortonrose.com/knowledge/publications/79796/uk-retail-bonds-for-funding-mid-cap-companies, (Accessed 2 May 2013)

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