



# Cagamas Berhad

The National Mortgage Corporation

**ASEAN Fixed Income Summit 2015**

Manila, Philippines

## Cross-border Bond Issuance: The Cagamas Experience

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President/Chief Executive Officer

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**Entity Name**

Cagamas Berhad

**Shareholders**

Bank Negara Malaysia (20%)

Commercial and Investment Banks (80%)

**Credit Rating**

A3 Positive (Moody's)

**Date of Incorporation**

2 December 1986

**Objectives**

- Established by Bank Negara Malaysia to support the national agenda of increasing home ownership and promoting the development of Malaysia's capital markets
- Development and promotion of Islamic finance within Malaysia

**Business Model**

- Through the issuance of conventional and Islamic securities, Cagamas funds the purchase of housing loans and house financings through its Purchase With Recourse (PWR) and Purchase Without Recourse (PWOR) schemes.
- By doing this, Cagamas is able to provide liquidity to financial institutions at a competitive cost, encouraging them to provide additional housing loans and house financings to new applicants at an affordable price.
- The PWR and PWOR schemes have now been expanded to include other loans and financings such as SME loans, infrastructure financing and industrial hire purchase / leasing receivables.

# Establishment of Cagamas

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- Creation of a secondary mortgage market as a result of liquidity crunch in 1980s
- Spearhead the development of Private Debt Securities (PDS) market

## Market situation in the mid-1980's

Funding mismatch in financial institutions resulting in liquidity crunch

Financial institutions were not lending to homebuyers despite demand

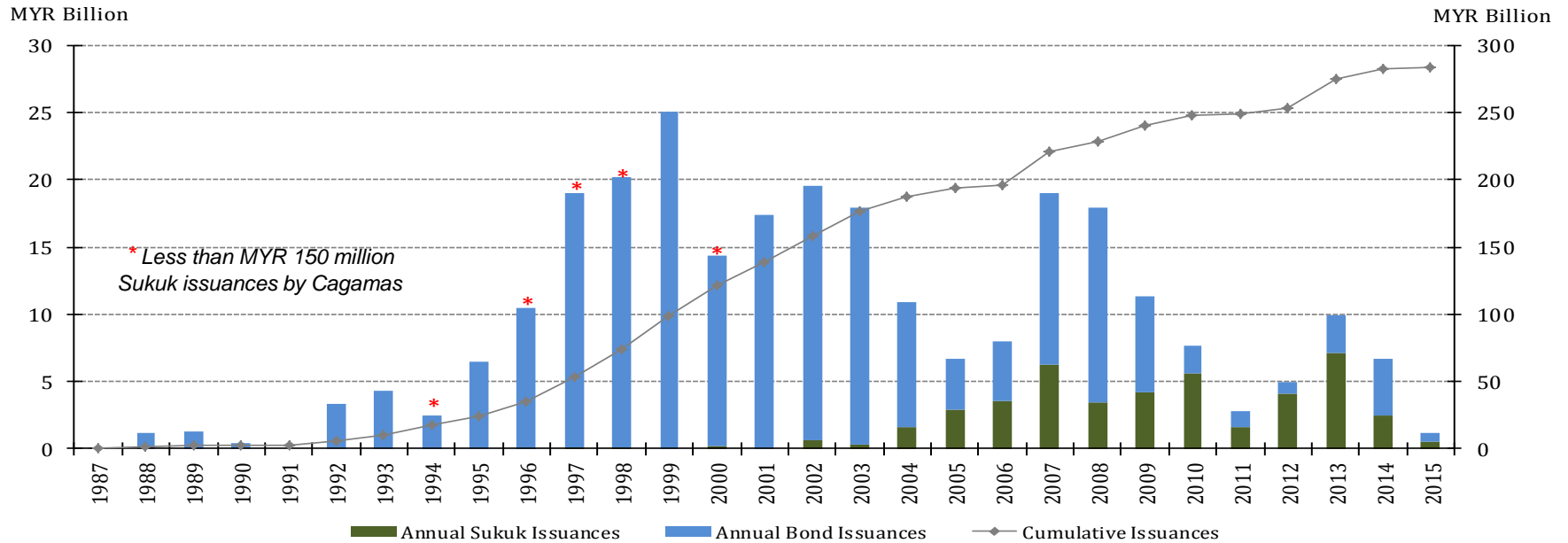
Limited funding source in the market – no bond market



There was a need in the market for an institution to:-

1. Function as intermediary between primary lenders and investors of long term funds; and
2. Take on role of credible issuer of mortgage securities

# Cagamas' Total Issuance



*Cagamas plays a systemically important role in the domestic financial system, underscored by its dual function as liquidity provider and as a leading issuer of conventional debt securities and Sukuk*

- Provide credit and portfolio risk management solutions

- Provide capital management solutions

- Conduit to remove systemic risk in the financial sector

- Conduit for best practices & setting up of standards – development of conforming financing standards

- Cagamas Group has issued papers worth MYR284 billion to the financial market and has successfully redeemed MYR253 billion with not even a single technical default as at July 2015

## Objectives:

- Widening the Company's investors base and network
- Diversify funding sources
- Achieve competitively priced funding from international liquidity pool
- Funding of potential purchase of non MYR assets
- Developmental role in deepening and broadening the Malaysian and international debt capital market
- Reduce over reliance on single benchmark for pricing
- Reduce overcrowding effect in domestic market

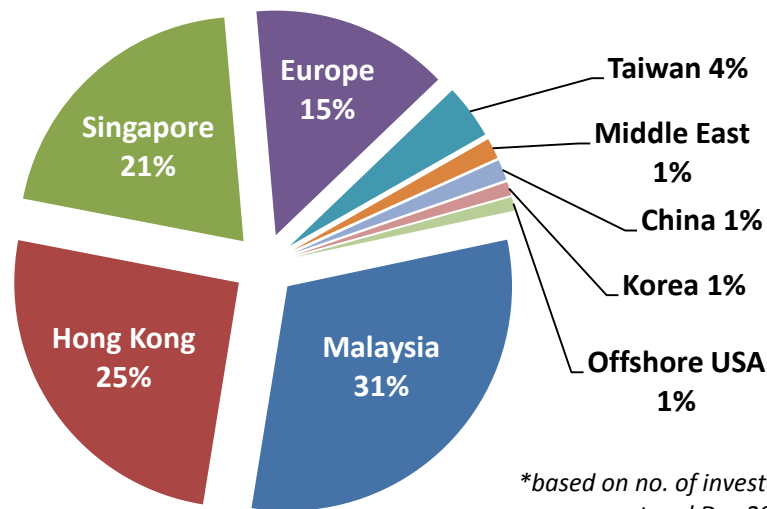
## Programme Features:

Multicurrency Medium Term Note Programme		
Type	Conventional	Islamic
Programme Size	USD 2.5 billion	USD 2.5 billion
Programme Tenor	Perpetual	
Rating	A3 by Moody's Investors Service, Inc.	
Issue format	Regulation S	
Governing laws	English Law	

## Cagamas' Foreign Currency Issuance

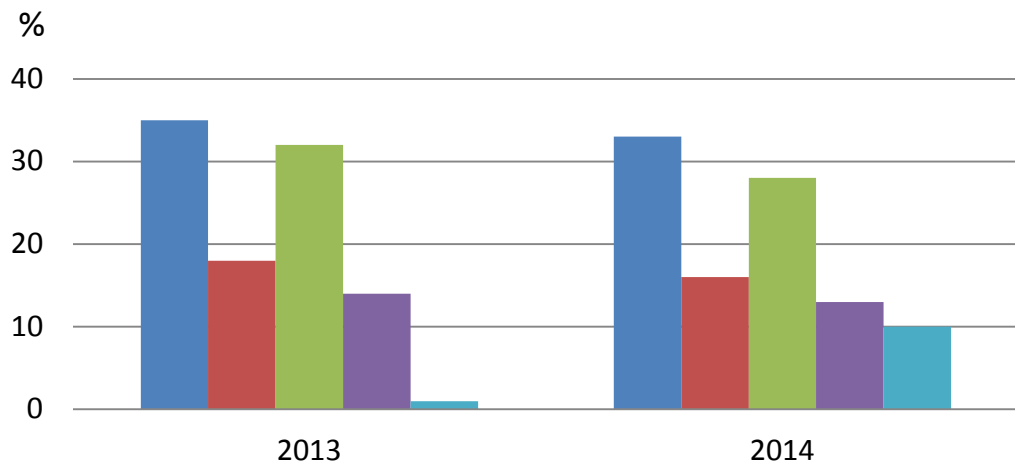
Year	Date	Issuance	Tenure
2014	17 Sep 2014	CNH 1.5bln	3 years
	3 Nov 2014	HKD 1.0bln	3.5 years
	5 Dec 2014	USD 500mln	5 years
2015	24 Jun 2015	USD 100mln	3 years
	29 Jul 2015	SGD 100mln	3 years

## By Country/Region\*



\*based on no. of investors as at end Dec 2014

## Investor's Profile based on Outstanding Debt Securities



	2013	2014
Banking Institutions	35%	33%
Insurance Companies	18%	16%
Provident/Pension Funds	32%	28%
Others*	14%	13%
Non-Resident	1%	10%

\* Others – Local Corporations, Government-Linked Companies and Trust Funds

# Market Prerequisites for Cross Border Issuance

<b>Liquid capital market</b>	<ul style="list-style-type: none"><li>• For effective and efficient price discovery</li></ul>
<b>Deep cross currency swap (CCS) market</b>	<ul style="list-style-type: none"><li>• Liquid, competitive pricing and easily accessible</li></ul>
<b>Favourable interest rates environment</b>	<ul style="list-style-type: none"><li>• Lower cost of fund</li></ul>
<b>Conducive macroeconomic fundamentals</b>	<ul style="list-style-type: none"><li>• Inflation risk low enough to make longer-term borrowing feasible</li></ul>
<b>Favourable Rating</b>	<ul style="list-style-type: none"><li>• Advantageous international rating</li><li>• Mutual recognition of rating – savings on rating expenses</li></ul>
<b>Diversified Investor Base</b>	<ul style="list-style-type: none"><li>• Offer various risk appetite and tenure preferences</li><li>• Principally by FIs, domestic pension funds and insurance companies</li></ul>
<b>Short turnaround time to market</b>	<ul style="list-style-type: none"><li>• Reduce risk of exposure to price volatility</li></ul>
<b>Transparent and facilitative governing framework</b>	<ul style="list-style-type: none"><li>• Standardized legal framework</li><li>• Minimal disclosure requirement</li><li>• Concessionary fee structure e.g. for repeat issuers</li></ul> <p>} Low issuance cost</p>
<b>Centralized clearing and settlement system</b>	<ul style="list-style-type: none"><li>• Reduces cost and promote efficient capital flow</li><li>• Increases liquidity</li></ul>
<b>Liberal foreign exchange administration rules</b>	<ul style="list-style-type: none"><li>• For efficient and effective sourcing of foreign capital</li></ul>

## Regulatory differences / Cost

- Differing regulatory framework abroad make it costly to issue in another currency.
- Involves substantial fixed transaction costs - legal fees, taxation
- Only larger issues in foreign currency are economical.

## Differences in market features

- Differences across markets affect the choice of currency of corporate bond issuers.
- The length of sovereign benchmark yield curves differs widely across currency areas. (e.g. 30 years in Malaysia)
- Illiquidity in longer tenure for CCS pricing

## Recognition of ratings and standardized pricing

- Attainment of more than one rating/program is costly.
- Standardization of bond pricing convention could contribute to a more accurate credit risk assessment
  - E.g. Spread over corresponding Government Securities

## Challenges for ASEAN Market

- The financial linkages between ASEAN fixed income markets are still in its infancy stage and intra-regional investments by ASEAN investors are still small, especially in the PDS space.
- The underdeveloped repo markets and hold-to-maturity behaviours of Asian investors reduce secondary liquidity in the market.



*Encouraging development:* Recent signing of MoU between Bank Negara Malaysia and Bank of Thailand on establishment of framework for settlement of bilateral trade and direct investment in local currencies.

This will:

- **Alleviate against volatilities of global settlement currencies.**

... envisioned to aspire towards:

- **Introduction of a standardized market practices.**
- **Harmonization of market policy and regulatory framework.**
- **Liberalization of domestic governing laws.**

... and will encourage:

- **Higher investment flows.**
- **Lower funding cost to issuer via the tightening of credit spreads.**



# Thank You

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