

Green bonds way forward, but clearer definitions needed



Kuala Lumpur (2nd April 2019): Green bonds are a way forward to attract new type of investments or investors, but clear definition must be provided, says Cagamas Berhad President/CEO, Datuk Chung Chee Leong.

He said there was a need to standardised classifications on whether a loan was “green” or otherwise, as Malaysia is beginning to explore green bonds, hence, requiring sufficient green assets to be pooled together for issuances.

The loans are needed to make up a portfolio that allow for issuance of bonds or securities under this category.

“So, the first building block is to define what green housing loan is,” he said at a panel session titled Connecting Capital Markets and Affordable Housing Delivery. The session was held as part of a two-day conference called Affordable Housing across Asia by Cagamas and the World Bank Group.

Chung said the definition for green loans would spell out areas such as whether the building should show improvements in either water or energy consumption.

He added that the World Bank could perhaps assist with an internationally accepted definition.

He said there were some pension funds in other parts of the world that allocate part of their funds towards investment in this sustainable green type of instruments, and that supports socially responsible investments (SRI).

The Securities Commission in Malaysia itself has categorised affordable housing as one of the SRI categories in the local market.

Korea Housing Finance Corporation chairman and CEO Junghwan Lee said the Korean government had given preferential treatment to social bonds and SRIs, making it an incentive for more issuance of such bonds in that market.

“Preferential treatment include concessional tax rate for social bonds and a special provision for pension fund reserve,” he said, adding that was expectation of more preferential treatment this year.

On the subject of preferential treatment, the World Bank senior advisor in Finance, Competitiveness and Innovations, Loic Chiquier said that was part of factors that support new players in housing sectors who have yet to access capital markets for funding.

Chung said for example, if a secondary mortgage corporation were to be set up, it could benefit from central bank and government support.

“But I guess the other point really is the prudent risk management standards that Cagamas itself applied so it can be perceived by the market, rating agencies and other investors as a safe model they can invest in,” he said.

He also said Malaysia has a robust fixed income market and Cagamas had facilitated funds from the capital market to the housing sector.

On the topic of government intervention in the affordable housing sector and in setting up structures such as real estate investment trusts, RAM Rating Malaysia Structured Finance Ratings head, Siew Suet Ming said intervention could be helpful at the initial stage, likened to paying “tuition fees” at the start of a college education.

“First it gives (investors) a level of confidence, then (later) be able to build a sustainable pipeline,” she said, adding that intervention would add a certain amount of certainty in the housing market.

To that, CRH France non-executive chairman Olivier Hassler said there were always challenges for investors in the affordable housing sector, as it dealt with lower income markets.

Issues include lower rental yields compared to the cost of funding from the capital market.

But, he said this was where governments could intervene to mobilise more funding from the capital market in general and to fill gaps in terms of returns. Smart subsidies are one way to target end users, Hassler added.

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About Cagamas Berhad

Cagamas Berhad (Cagamas), the National Mortgage Corporation of Malaysia, was established in 1986 to promote homeownership and contribute towards nation development. It contributes towards the growth of the capital markets, Islamic finance and other priority sectors through issuance of innovative instruments. The provision of liquidity to financial institutions at a reasonable cost to the primary lenders of housing loans encourages further expansion of financing for houses at an affordable cost.

The Cagamas model is well regarded by the World Bank as the most successful secondary mortgage liquidity facility. Cagamas is the second largest issuer of debt instruments after the Government of Malaysia and the largest issuer of AAA corporate bonds and sukuk in the market. Since incorporation in 1986, Cagamas has cumulatively issued circa RM319.1 billion worth of corporate bonds and sukuk.

Cagamas' corporate bonds and sukuk continue to be assigned the highest ratings of AAA/Stable/P1 by RAM Rating Services Berhad and AAA/MARC-1 and AAA_{IS}/MARC-1_{IS} by Malaysian Rating Corporation Berhad, denoting its strong credit quality. Cagamas is also well regarded internationally and has been assigned local and foreign currency long-term issuer ratings of A3 by Moody's Investors Service Inc. that are in line with Malaysian sovereign ratings.

Media enquiries, please contact:

Tan Wai Fong (Ms)
Conference Media Officer
Email: waifong@twfcomms.com
Tel: +6017 3000 032