Securitisation In Singapore

The securitisation of debt represents a movement away from traditional lending and borrowing in what is known as the "disintermediation" of banks. The process of securitisation brings borrower and investor into a direct relationship through the issuance of paper security, as each party strives for price advantages and liquidity.

Though debt-securitisation has blossomed particularly in the US and European financial markets, the Singapore market has not followed this trend to the same extent. The economic slowdown in 1985, and depressed property and stock markets have dampened the push for greater securitisation last year.

Nonetheless, a number of revolving underwriting facilities (RUFs) or note issuing facilities (NIFs) were assembled for Singapore borrowers and underwritten by various banks and merchant banks. Several issues of floating rate notes (FRNs) were also undertaken. Some corporate borrowers also attempted bonds and other fixed-rate instruments. With the improvement of the equity market in late 1986, a number of equity-linked bonds were also launched then.

Except for the equity-linked issues, a number of the debt securities announced in the last 12 months were guaranteed by banks to improve marketability to the investing public. Banks provided credit protection in these issues as the Singapore investors are still limited in their ability to evaluate credit.

The Monetary Authority of Singapore recently gave the capital market a boost with the restructuring of the Government securities market. The way has been paved for more frequent and larger issues of Government bonds and notes. Liquidity in these instruments will be provided through five primary dealers and three registered dealers. Bankers are hopeful that the development of the Government bond market will lead to a further improvement of the corporate bond market. Government paper will serve as a market sensitive instrument to establish a benchmark for the future pricing of corporate paper.

However, some constraints to further progress in securitisation exist and may take a while to be resolved. The main constraints are the lack of suitable market information for the potential investor as well as insufficient investor education, coupled with the lack of interest of the Singapore investor in investing in corporate bonds.

The ability of the investing public to evaluate credit in Singapore is limited. In the United States and other developed markets, there are market rating agencies which provide guidance to investors. Such a system does not yet exist in Singapore which, to a large extent, explains why the market is still mainly restricted to institutional participants with their own in-house credit evaluation capability. Neither are there critical assessments by brokers or merchant banks. This has led to a situation where the individual investor does not play a significant role in the market at present, and is likely to continue to concentrate on traditional cash market products like shares and bank deposits.

From the issuers' point of view, other difficulties arise. Under Section 43 of the Companies Act, corporations that issue debt paper for public subscription are required to publish a prospectus. Traditionally in Singapore, businesses have demonstrated a reluctance to open their companies to public scrutiny. The prospectus requirement for some instruments like RUFs and NIFs is particularly onerous.

There is also insufficient investor education by the professional financial community. There has been a tendency among banks to concern themselves only with selling products to customers, and not teaching them how to use the markets to full advantage.

The Singapore investors' understanding of the market and the opportunities involved in fixed income securities investment has to be improved. Moreover, they do not seem to place enough value on negotiability, unlike their western counterparts. They tend to hold on to their investments which inhibits market turnover.

Finally, there are not enough investors in fixed income securities, especially investors with long-term funds. Market liquidity is inhibited. The shortage of investors may be a function of interest rates which are low at present. It may also result from a reluctance to move away from traditional means of investing, especially under conditions of rising stock market values being experienced at present.

Hence, notes have largely been issued to parties who in their ordinary business deal in securities, i.e. the professional securities dealers. These notes have become little better than syndicated transferable loans and cost saving opportunities are restricted to the cost of funds of banks and merchant banks.

In addition, the Securities Industry Act restricts trading in bonds through the 'over-the-counter' market (OTC) to specific categories of investors and traders. On the face of it, the Act appears restrictive, but in fact, it is not of critical importance. Although a totally unrestricted access to the OTC market will broaden the base, the funds of small investors do not directly constitute a sizeable proportion of the market in such instruments.

To develop the market, a market-makers' association could be formed to bring the institutional participants together. This association should establish rules and market practices which are designed to promote liquidity and professionalism. An organisation of this nature would also be in a better position to pool resources for a market education programme. The investor as well as the dealer need to understand the instruments and the market place and then advances will be possible.

By the New Products & International Development Sub-Committee