

Zeti Akhtar Aziz: Launch of the Asian Bond Fund (ABF) Malaysia Bond Index Fund

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the launching of the Asian Bond Fund (ABF) Malaysia Bond Index Fund, Kuala Lumpur, 18 July 2005.

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Ladies and Gentlemen,

The "Exchange Traded Fund" is a significant and highly successful product of financial innovation that is found in more developed financial markets. First introduced in Canada in the early 1990's, the use of Exchange Traded Funds gathered momentum after the listing of the S&P Depository Receipts Trust Series 1 (also known as "Spiders") on the American Stock Exchange in 1993. Since then, the Exchange Traded Funds have grown tremendously and there are currently a total of 350 such funds on the global exchanges with about USD313 billion in assets, comprising not only stocks and bonds but also currencies and commodities.

Ladies and Gentlemen,

It is my great pleasure to be here today at this ceremony of the inaugural listing of the ABF Malaysian Bond Index Fund, the first Exchange Traded Fund in Malaysia. In the EMEAP region, (the East Asia Pacific region) the ABF Malaysian Bond Index Fund represents the second country sub-fund to be launched, following the successful listing of the ABF Hong Kong Bond Index Fund on 21 June 2005. Six other EMEAP country sub-funds will be launched in due course.

The launch of the ABF Malaysian Bond Index Fund today marks another important milestone resulting from EMEAP Central Bank cooperation in the region. It represents the successful implementation of the Asian Bond Fund project to accelerate the development of the domestic bond market and to promote greater integration among the regional bond markets. The listing of the ABF Malaysian Bond Index Fund is thus another major step forward in the development of the Malaysian bond market, and to enhance further its potential to contribute to sustained and balanced growth of our economy.

The bond Exchange Traded Fund is an investment instrument with a low entry cost. It is a highly efficient, transparent and convenient investment tool designed to appeal not only to institutional but also retail investors. With an affordable standard lot size, the bond Exchange Trade Fund provides an avenue for retail investors to have access to the bond market. It thus offers investors an additional investment alternative as well as an opportunity to diversify their investment into more asset classes.

The ABF Malaysian Bond Index Fund comprises investments in Government and Quasi Government securities and tracks an index, which by design is replicable and transparent. The listing of the ABF Malaysian Bond Index Fund today will not only add to the diversity of listings on Bursa Malaysia but would also pave the way for the increased introduction of other more innovative products in the future. In view of the prevailing dynamic and often volatile financial environment, this development is important to meet the differentiated demands of investors for a broader range of financial products at more competitive prices and through more efficient and convenient channels. The listing of the Exchange Traded Fund on Bursa Malaysia will also raise awareness and generate interest of domestic and international investors in our bond market, thus contributing towards the development of a deeper and broader bond market in Malaysia.

The launch of the Malaysian Bond Exchange Traded Fund would not have been possible without the close cooperation and support of many parties. In particular, I would like to thank the Securities Commission, Bursa Malaysia, the Association of Stock Broking Companies in Malaysia, AmInvest, the fund manager and the market makers for their contributions and commitment in working with the Central Bank to make the listing of the ABF Malaysian Bond Index Fund a reality. The remarkable and strong partnership between the regulators and the industry has been important in resolving significant regulatory as well as operational challenges in order to make the listing of the ABF Malaysian Bond Index Fund possible. Indeed, it represents a strategic cooperation that contributes to improve the overall growth of the financial market.

I would also like to thank AmMerchant Bank, CIMB and Maybank for their participation as the participating dealers. I also wish AmlInvest, the fund manager, every success in managing and promoting the Fund.