INTERVIEW

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Pension funds can be real engine for growth of sultanate's debt market

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The Gulf Bond and Sukuk Association is at the forefront of developing the region's fixed-income capital markets. Based in the Dubai International Financial Centre, the industry trade association is the voice of the region's bond and sukuk industry which strives to increase the share of debt-market finance and widen the range of entities accessing capital markets.

In an interview with *Muscat Daily*, GBSA president Michael Grifferty speaks about emerging trends in regional debt markets and shares his outlook for bond and sukuk markets in Oman and the GCC.

Can you explain the purpose of GBSA? How does it work to help the bond and sukuk industry in the region?

GBSA is the voice of the region's bond and sukuk industry. It furthers the cause of fixed-income markets by representing its members and promoting their interests.

As an independent entity, our main purpose is to help expand the debt market in every GCC country, while taking a regional approach to growth. Our members are market-leading banks, issuers, arrangers, law firms, rating agencies, services providers, as well as large investors in fixed-income instruments.

We encourage every serious player in the market to be part of the Association. At the same time, our relations with regulators are very important and crucial for our members. We set practices and work with governments, regulators, central banks and corporates to grow the bond and sukuk market.

What are the emerging trends in the region's debt market? What is your market outlook for the next two years?

There are indications that the market will continue to mature in terms of diversity of issuers and more innovative structures. Overall volume of issuance will continue to rise; though not at a rapid pace but with a positive uptrend over the long-term. The diversity in issuers, investor base and longer-term tenors of issues are as important as volumes.

We anticipate more issues in the near future with regional financial institutions preparing to comply with Basel III. The structure of issues will become clear as soon as central banks announce more details on new capital requirements.

Oman has a fledgling Islamic finance industry. Do you see growth potential for sukuk issues in the sultanate?

We see a positive trend and good interest in Oman's newly established Islamic finance industry. Importantly, unlike other regional countries Oman has a strong buy side in the form of pension funds. Omani pension funds are relatively strong, active and well-managed, compared with regional peers.

However, the relatively small size of the economy and investor base could be an issue in Oman. Issuers and arrangers should look to be integrated with regional structures and frameworks, instead of focusing on just the local market.

We would also welcome the increased participation of Omani entities in the initiatives of GBSA. We always encourage governments to provide leadership in bond and sukuk issuance. Oman has a long history of issuing capital market instruments such as government development bonds (GDBs), but the size of the issues remains modest compared to what is possible in the market. We would encourage authorities to develop a domestic yield curve for both conventional and Islamic debt instruments based on government issuance. We are encouraged that the government may be preparing for sovereign issuance.

Most of the large GCC issuances are dollar-denominated and listed on international markets. Doesn't having to compete with European and Asian investors leave GCC investors at a disadvantage?

I would not blame issuers who tap international markets, which are larger and more liquid, and accommodate their needs and generate sufficient demand. Moreover, Gulf investors are eligible to purchase these securities.

However, this trend is not helping to build a vibrant market in the GCC. We are looking to create a process whereby at least part of the issuers' capital requirement is raised in local currencies, targeting investors in their home markets. This arrangement could help set up local currency-yield curves, which do not exist. Governments and central banks have a primary role. Large institutions that are nationally important should also play a role to help the local market.

Do you think regulatory regimes in the region are well placed to encourage growth of the debt market? How are you working with them and what are your suggestions?

Regulators are willing to help encourage growth but are moving ahead at different speeds in different countries. We are encouraging them to adopt consistent approaches at the regional level. Most GCC states have either published or are in the process of publishing new regulations to improve the framework for bonds and sukuk. We advocate on behalf of the market and work at the technical level with regulators. They also seek our help in reviewing the regulations.

What do you think needs to be done to give a boost to Oman's debt market?

Oman's pension funds can be a real engine for growth of the country's debt market. Pension funds can support longer-term capital raising, and in return a growing market will help provide funds with investment options.

Markets are expecting the US Fed to increase interest rates sometime next year. Would a possible hike in US rates have any impact on the GCC debt market?

It has been expected for a long time that US Fed will raise interest rates. If and when they do so, all emerging markets, the including GCC, will be affected. But it need not to be a hard blow for markets and issuers of securities have already factored it in. The situation highlights the need to develop a local debt market. The rise in US rates would make funding more costly and could potentially have a negative effect on overall volume of issuance. But I would not assume the rise in rates to be dramatic. Entities that need to float issues will continue to do so.

With a low interest rate environment in the GCC, how do you see fixed-income securities as an option for local investors?

The strong demand, especially for sukuk, is still not entirely met in the region. The big source of demand is Islamic banking treasuries, but there are other sources as well which we think are still not fully tapped. There is ample liquidity within companies, sovereign wealth funds, family offices and pension funds that are investing but we think there is considerably more liquidity left to be tapped. As the insurance sector grows it will buy more bonds.

Are GCC companies increasingly seeing debt instruments as an alternative to bank funding?

Companies always look at possibilities for alternative financing. But they have to understand it, because they think raising money through debt instruments is a long process compared with bank financing.

Among the major benefits of raising money from capital markets is risk mitigation - in that they can secure longer-term capital and diversify their investors, which they cannot do with bank financing. The entire process, including obtaining credit ratings, has a positive effect and helps improve corporate governance.

Nissan adds to Takata airbag recalls as US urges fast fix

Washington, DC, US - A safety flaw in Takata Corp airbags prompted a new automobile recall even as US regulators questioned whether the company is moving quickly enough to produce replacement parts to repair previously recalled cars.

Nissan Motor Co is warning that airbags in 1,848 SUVs could propel metal fragments toward occupants, according to a posting on the US Transportation Department website on Friday.

The recall, covering Nissan's 2013 Infiniti QX56 and 2014 QX80, shows regulators and automakers are still trying to determine the scope of the problem with Tokyo-based Takata's products.

A logo of Takata Corp is seen through a car window outside the company's headquarters in Tokyo, Japan

Takata will recall 30,867 SDI-X airbag inflators manufactured from June 16, 2008, to June 20, 2014, the National Highway Traffic Safety Administration (NHTSA) said on Saturday in a statement. An incorrect outer baffle could cause the inflator to rupture, potentially inflicting serious injury on vehicle occupants, the agency said. Owners will be notified by vehicle manufacturers.

The part at fault in Friday's recall is different than the one that had already led to 7.8mn US vehicles being called in for repairs, an effort that was stepped up in recent weeks by federal regulators because of the severity of the defect. That recall includes vehicles from ten automakers, including Nissan, Honda Motor Co and Toyota Motor Corp, and is linked to four fatalities.

Unlike the earlier Takata airbag recalls, which involve vehicles from the 2000 through 2008 model years, the new Nissan recall involves recently produced SUVs.

Nissan began investigating flaws with the airbags in June. The Yokohama, Japan-based automaker identified potentially defective inflators in US models in October, it said. The company hasn't identified any injuries that resulted from the flaw.

NHTSA met with Takata on October 30, pressing the company to meet consumer needs for replacement parts.

Takata representatives told the safety regulator that it planned to add two production lines by the beginning of next year, according to a NHTSA statement on Friday.

"It's unclear yet whether that would be sufficient to meet demand," according to the statement. "We've requested details in writing, so we can hold them to these commitments and evaluate how much further they may need to go."

The company agreed to weekly meetings to update regulators on its efforts to speed up production, according to NHTSA.

NHTSA is in talks with other airbag suppliers over whether they can provide replacement parts, according to the statement. Automakers involved in the recalls are also looking for new suppliers, it said.

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Banks setting aside $2.7bn for FX probes as settlements near

Geneva, Switzerland / London, UK - Banks began setting aside money for currency-rate rigging probes this week with as much as US$2.7bn provisioned, indicating settlements are drawing near.

Royal Bank of Scotland Group Plc on Friday set aside £400mn for the foreign-exchange probes. HSBC Holdings Plc will set aside about the same amount when it releases third-quarter earnings on November 3, a person with knowledge of the matter said, asking not to be identified as it hasn't been announced.

RBS on Friday set aside £400mn for the foreign-exchange probes

Citigroup Inc took a US$600mn legal charge on October 30 as it said it is involved in "rapidly evolving regulatory inquiries and investigations." Barclays Plc set aside £500mn the same day for resolving the foreign-exchange investigations.

All four are in settlement talks with the UK Financial Conduct Authority, people with knowledge of the discussions have said. Authorities on three continents have been looking into allegations that traders at some of the world's largest banks used instant-message groups to share information about their positions and client orders to rig the US$5.3tn-a-day foreign-exchange market. Some US authorities are also in talks, and charges against a bank could come by the end of the year, according to people with knowledge of the matter.

Banks are restricted by accounting rules to setting aside reserves only where they have "reasonable line of sight" as to the likely costs, according to Gary Greenwood, an analyst at Shore Capital in London. "I suspect FX provisioning levels will require increasing further," he said.

The FCA is also in discussions with JPMorgan Chase & Co and UBS AG, with agreements expected this month, people familiar with the negotiations have said. US bank regulators at the Federal Reserve and Office of the Comptroller of the Currency are also in settlement talks with some of the same banks, such as JPMorgan, Citigroup, and HSBC, as well as Morgan Stanley and Bank of America Corp.

The US Commodity Futures Trading Commission is trying to settle its cases at the same time as the FCA, though it's unclear whether the US regulator will be able to wrap them up that quickly, according to three people with knowledge of the matter.

Spokesmen for HSBC and the FCA, Federal Reserve, OCC, CFTC and Department of Justice declined to comment. The HSBC provision was reported earlier by the *Financial Times*.

US authorities have tended to levy higher penalties even when investigating the same matters, as seen with probes into allegations of London interbank offered rate rigging. Barclays paid £59.5mn to the UK regulator to settle the probe in June 2012, while US$360mn went to the US Justice Department and CFTC.

Still, as much as US$400mn of Citigroup's provision will go to the FCA settlement, according to a person briefed on the talks. The New York-based bank said it's facing a US criminal probe, and is cooperating with investigators in the US, UK and Switzerland.

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