

# ASEAN+3 BOND MARKET GUIDE 2017

LAO PEOPLE'S  
DEMOCRATIC REPUBLIC

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In this report, international standards for naming conventions—International Organization for Standardization (ISO) 3166 for country codes and ISO 4217 for currency codes—are used to reflect the discussions of the ASEAN+3 Bond Market Forum to promote and support implementation of international standards in financial transactions in the region. ASEAN+3 comprises the Association of Southeast Asian Nations (ASEAN) plus the People’s Republic of China, Japan, and the Republic of Korea.

The economies of ASEAN+3 as defined in ISO 3166 include Brunei Darussalam (BN; BRN); Cambodia (KH; KHM); the People’s Republic of China (CH; CHN); Hong Kong, China (HK; HKG); Indonesia (ID; IDN); Japan (JP; JPN); the Republic of Korea (KR; KOR); the Lao People’s Democratic Republic (LA; LAO); Malaysia (MY; MYS); Myanmar (MM; MMR); the Philippines (PH; PHL); Singapore (SG; SGP); Thailand (TH; THA); and Viet Nam (VN; VNM).

The currencies of ASEAN+3 as defined in ISO 4217 include the Brunei dollar (BND), Cambodian riel (KHR), Chinese renminbi (CNY), Hong Kong dollar (HKD), Indonesian rupiah (IDR), Japanese yen (JPY), Korean won (KRW), Lao kip (LAK), Malaysian ringgit (MYR), Myanmar kyat (MMK), Philippine peso (PHP), Singapore dollar (SGD), Thai baht (THB), and Vietnamese dong (VND).



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# Foreword

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The Asian Development Bank (ADB) is working closely with the Association of Southeast Asian Nations (ASEAN) and the People's Republic of China, Japan, and the Republic of Korea—collectively known as ASEAN+3—to develop local currency bond markets and facilitate regional bond market integration under the Asian Bond Markets Initiative to strengthen the resilience of the region's financial systems.

Thanks to the efforts of member governments, local currency bond markets in ASEAN, the People's Republic of China, and the Republic of Korea have grown rapidly, with the total outstanding amount of bonds reaching more than USD10 trillion in 2016. Despite this remarkable development, intraregional investment in bond markets has remained subdued. As ADB has estimated that developing Asia will need to invest USD26 trillion from 2016 to 2030 (or USD1.7 trillion per year) in infrastructure for its continued growth, it is critical to mobilize the region's vast savings for the enormous investment needs. As an essential platform for such resource mobilization, the financial markets in ASEAN+3 need to be more harmonized and integrated. Also, the regional efforts should support the developing member countries at early stages of market development.

The ASEAN+3 Bond Market Forum (ABMF) was established with the endorsement of the ASEAN+3 finance ministers in 2010 as a common platform to foster the standardization of market practices and harmonization of regulations relating to cross-border bond transactions in the region. As an initial step, ABMF published the ASEAN+3 Bond Market Guide in 2012, which was welcomed as the first official information source offering a comprehensive explanation of the region's bond markets.

Since publication of the ASEAN+3 Bond Market Guide, bond markets in the region have continued to develop. ABMF recognizes the need for revisions to the guide to reflect these changes, though it is never an easy task to keep up with rapid changes in the markets. This report is an outcome of the strong support and kind contributions of ABMF members and experts, particularly from the Lao People's Democratic Republic. The report should be recognized as a collective good to support bond market development among ASEAN+3 members. It is our hope that the revised ASEAN+3 Bond Market Guide will facilitate further development of the region's bond markets, contribute to increased intraregional bond transactions, and promote efficient allocation of capital within the region.



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# Acknowledgments

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The ASEAN+3 Bond Market Guide was first published in 2012 as the initial output of Phase 1 of the ASEAN+3 Bond Market Forum (ABMF).<sup>1</sup> Across the region, economies with nascent domestic bond markets, such as the Lao People's Democratic Republic (Lao PDR), have experienced tremendous development over the past 5 years. Now in Phase 3, ABMF would like to share, in the public domain, information on these developments by publishing an update to the Lao PDR Bond Market Guide.

The ABMF Sub-Forum 1 team—comprising Satoru Yamadera (Principal Financial Sector Specialist, Asian Development Bank, Economic Research and Regional Cooperation Department); Kosintr Puongsophol (Financial Sector Specialist, Asian Development Bank, Economic Research and Regional Cooperation Department); and Asian Development Bank consultants Shigehito Inukai and Matthias Schmidt—would like to stress the significance and magnitude of the contributions made by the ABMF national members for the Lao PDR, including the Ministry of Finance, the Bank of the Lao PDR, and the Lao Securities Commission Office. These policy bodies and regulatory authorities generously gave their time for market visit meetings, discussions, and follow-up. They have also reviewed and provided inputs on the draft Lao PDR Bond Market Guide over the course of ABMF Phase 3.

No part of this report represents the official views or opinions of any institution that participated in this activity as an ABMF member, observer, or expert. The ABMF Sub-Forum 1 team bears sole responsibility for the contents of this report.

August 2017

ASEAN+3 Bond Market Forum

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<sup>1</sup> ASEAN+3 refers to the 10 members of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China, Japan, and the Republic of Korea.



# Abbreviations

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ABMF	ASEAN+3 Bond Market Forum
ADB	Asian Development Bank
AMBIF	ASEAN+3 Multi-Currency Bond Issuance Framework
ASEAN	Association of Southeast Asian Nations
ASEAN+3	Association of Southeast Asian Nations plus the People's Republic of China, Japan, and the Republic of Korea
BOL	Bank of the Lao PDR
CSD	central securities depository
IFRS	International Financial Reporting Standards
IPD	Investment Promotion Department
LAK	Lao kip (ISO code)
Lao PDR	Lao People's Democratic Republic
LSC	Lao Securities Commission
LSCO	Lao Securities Commission Office
LSX	Lao Securities Exchange
MOF	Ministry of Finance, Lao PDR
MTN	medium-term note
NSEDP	National Socio-Economic Development Plan
OTC	over-the-counter
SF1	Sub-Forum 1 of ABMF
SF2	Sub-Forum 2 of ABMF
SOE	state-owned enterprise
SRO	self-regulatory organization
T-bill	Treasury bill
USD	United States dollar (ISO code)

USD1 = LAK8,269 as of 31 July 2017 (BOL Reference Rate)

# Overview

## A. Introduction

The purpose of this Bond Market Guide is to provide an update to current and future domestic, regional, and international market participants on the tremendous developments in the Lao People's Democratic Republic (Lao PDR) securities market.

The bond market of the Lao PDR was constituted in 1994 when the Government of the Lao PDR issued Treasury bills for the first time to help finance the annual budget deficit. The issuance of Treasury bills continues on a regular basis with the primary objectives of financing the budget deficit and repaying public debt. Treasury bills have been issued into the primary market through an auction channel and through the so-called "over-the-counter method," which is distinct from the typical over-the-counter (OTC) secondary market (see also Chapter IV). The primary participants are commercial banks.

The central bank, the Bank of the Lao PDR (BOL), began issuing BOL bills and bonds in 1992 with the objectives of carrying out monetary policy and managing the exchange rate. BOL bills and bonds are sold to central bank constituents, such as commercial banks and other financial institutions, and may be bought and sold in the secondary market among constituents. In addition, BOL conducts open market operations through its Banking Operations Department on a manual basis, using written contracts for three types of transactions: (i) repurchase (repo) agreement, (ii) discount, and (iii) collateralized lending.

In the context of the objectives of the 6th Five-Year National Socio-Economic Development Plan, 2006–2010—which were to promote economic development, increase competitiveness, utilize comparative advantages, and strengthen the positive linkages between economic growth and social development—the Lao Securities Exchange (LSX) was formally established on 10 October 2010 and launched on 11 January 2011. The launching of the LSX was a historic milestone for the capital market in the Lao PDR. The LSX is expected to help attract the huge amount of capital necessary to develop the country, raise the long-term funds needed by companies, and promote the integrity of the Lao PDR's financial markets.

As for the legislative and regulatory framework, the Law on Securities was approved by the National Assembly in 2012 and introduced into the market in 2013. Pursuant to the Law on Securities, other decrees and subsidiary regulations were improved or created. With regard to the bond market, the Lao Securities Commission (LSC) introduced the Corporate Bond Regulation in 2014 and subsequently issued the Decision on Issuance of Corporate Bonds Abroad in 2016. For government bonds, the Ministry of Finance, Lao PDR (MOF) led the drafting of the Decree on Government Bonds, which was released in March 2017; these new government bonds will be listed on and traded at the LSX. Correspondingly, the LSX is developing a dedicated bond listing and trading platform, and will be amending the existing Regulation on Bond Listing after enactment of the new decree.

To support sustainable economic development in the country, and capital market development in particular, the Government of the Lao PDR has approved the Strategic Plan on the Lao Capital Market Development, 2016–2025 that focuses on eight objectives:

1. create all necessary and favorable conditions for enterprises to raise funds through the capital market to increase the quality and quantity of products and services;
2. have market instruments and mechanisms ready to support the reform of enterprises;
3. have a comprehensive regulatory framework in compliance with the Lao PDR's current conditions and international standards;
4. ensure that the exchange, central securities depository (CSD), and securities intermediaries are operated smoothly with limited risks, and that they can integrate with regional and global markets;
5. ensure that information and communications technology development is suitable for the size of capital market expansion and up-to-date;
6. increase public participation, the investor base, and the balance between individual and institutional investor involvement;
7. have adequate capital market regulators, experts, and professionals in terms of both quality and quantity; and
8. enable the Lao PDR capital market to integrate with regional and global markets.

## **B. The 8th Five-Year National Socio-Economic Development Plan, 2016–2020**

The 8th Five-Year National Socio-Economic Development Plan, 2016–2020, which is also referred to as the 8th NSEDP, is a means of implementing the National Strategy on Socio-Economic Development until 2025 and the Government of the Lao PDR's Vision 2030.<sup>1</sup>

According to statements contained in the Public Finance, Banking, and Capital Market (Finance) section of the 8th NSEDP, significant efforts have been made in the area of domestic debt service, including discount and bond issuance, of which LAK5,379 billion was in the form of discount, and LAK3,872 billion was in the form of 2-year and 3-year bonds. These efforts have contributed significantly to the reduction of the government's debt service and the creation of a smooth environment for business enterprises.

In the Implementation and Financing Plan section, the 8th NSEDP identifies capital requirements of LAK232 trillion for developments during the 2016–2020 period, of which

- (i) public investment accounts for 24%–28%, investment from the state budget accounts for 9%–11%, and investment from grants and loans accounts for 15%–17% of the total envisaged investment;
- (ii) private domestic and foreign investments account for 55%–57% of the total envisaged investment; and
- (iii) money market (bank credit) and capital market investments account for 17%–19% of the total envisaged investment.

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<sup>1</sup> See [http://la.one.un.org/images/publications/8th\\_NSEDP\\_2016-2020.pdf](http://la.one.un.org/images/publications/8th_NSEDP_2016-2020.pdf) (Final version. Officially approved at the 8th National Assembly's Inaugural Session. 20–23 April 2016. Vientiane).

### **C. Cooperation within the ASEAN Framework**

The Lao PDR continues to participate in the activities and initiatives of the Association of Southeast Asian Nations (ASEAN), including preparations for integrating into the ASEAN Economic Community. Details on the Lao PDR's participation are also contained in the 8th NSEDP.

In addition, the Lao PDR participates in regional initiatives under the Asian Bond Market Initiative such as the ASEAN+3 Bond Market Forum (ABMF).

# Legal and Regulatory Framework

## A. Legal Tradition

The legal system in the Lao PDR follows the civil law tradition. Many of the relevant laws and regulations for the securities market have been in place since the late 1990s and continue to be revised and adjusted to the requirements of modern financial and capital markets, with significant revisions and additions, particularly since 2010.

## B. English Translation

There is no legal or other requirement in the Lao PDR to provide official translations of laws, decrees, and regulations. Translations are often carried out by law firms or international organizations but may not always reflect all significant aspects of the laws and regulations as originally intended, particularly when it comes to the finer points of specialist legislation or regulations such as for the securities market.

As such, the unofficial translations by the governmental bodies and regulatory authorities of the Lao PDR are practical resources for the study of the securities market. Although these unofficial translations typically state that every effort has been made to convey the meaning and effect of each provision of the original Lao language version as accurately as possible, these English translations do not carry any legal authority. Only the original Lao text has legal force and, hence, the English translation and the citations in this Bond Market Guide are strictly for reference only.

## C. Legislative Structure

As is evident in most jurisdictions in ASEAN+3, the legislative structure of the Lao PDR comprises a number of tiers that each are designed to structure and define the roles, functions, rights, obligations, practices, and activities of institutions and individuals under their respective purview in increasing detail. The overall legislation and activities of the government, regulatory authorities, and participants is guided by the Constitution of the Lao PDR.

- [1st tier] Constitution of the Lao PDR

- [2nd tier] Laws representing both fundamental and key legislation

- [3rd tier] Decrees intended to promulgate and detail laws for particular legislation such as securities market-related implementation rules and regulations

- [4th tier] Regulations issued by regulatory authorities or market institutions under delegation to provide further detailed prescriptions on market activities, institutions, and participants under the respective laws and decrees



[5th tier] Additional instructions or agreements issued by regulatory authorities that represent additional detailed prescriptions for market activities, institutions, and participants under the respective laws and decrees

For further illustration, Table 2.1 applies the prevalent legislation to the individual tiers of the legislative structure for the securities market mentioned above.

**Table 2.1: Examples of Securities Market Legislation by Legislative Tier**

Legislative Tier	Content or Significant Examples
Constitution of the Lao PDR	Principles, Rights, and Obligations
Fundamental legislation (laws) and key legislation (laws) for the securities market	<ul style="list-style-type: none"> <li>• Law on Promotion of Foreign Investment, No. 02/NA (2009)</li> <li>• Law on the Bank of the Lao PDR, No. 05/NA (1999)</li> <li>• Law on Securities, No. 21/NA (2012)</li> <li>• Law on Enterprises, No. 46/NA (2013)</li> <li>• Law on Accounting, No. 47/NA (2013)</li> </ul>
Decrees	<ul style="list-style-type: none"> <li>• Decree on Organization and Activities of the Bank of the Lao PDR, No. 40/PM (2000)</li> <li>• Decree on Securities and Securities Exchange, No. 255/PM (2010)</li> <li>• Decree on Organization and Operation of the Lao Securities Commission, No. 188/PM (2013)</li> <li>• Decree on Government Bonds, No. 101/PM (2017)</li> </ul>
Decisions and subsidiary regulations	<ul style="list-style-type: none"> <li>• Regulation on Organization and Operation of the Lao Securities Commission Office, No. 013/LSC (2013)</li> <li>• Decision on Issuance of Corporate Bonds Abroad, No. 0022/LSC (2016)</li> <li>• Decision on Fees for Issuance of Corporate Bonds Abroad, No. 011/LSC (2014)</li> <li>• Regulation on Incorporation and Operation of Securities Companies, No. 002/LSC (Update 2013)</li> <li>• Regulation on Issuance of Corporate Bonds, No. 019/LSC (2014)</li> <li>• Regulation on Government Bond Issuance (2008)</li> <li>• Regulation on Management of Share Trading of Foreign Investor, No. 005/LSC (2015)</li> <li>• Regulation on Registration of Foreign Credit Rating Agency, No. 002/LSC (2015)</li> <li>• Regulation on Repo and Outright Interest Rate Determination, No. 478/BOL (2008)</li> <li>• Regulation on Open Market Operation, No. 05 (2007)</li> <li>• Regulation on Treasury Bond Auction, No. 03/BOL (1995)</li> <li>• Regulation on Bond Listing, No. 006/LSX (2015)</li> </ul>
(Additional) instructions and agreements	<ul style="list-style-type: none"> <li>• Instruction on the Implementation of Regulation on Net Capital Ratio of Securities Companies, No. 281/LSCO (2014)</li> <li>• Instruction on the Request for the Grant to Establish Securities Companies, No. 482/LSCO (2012)</li> <li>• Instruction on Shareholders' Meeting of Listed Companies, No. 0001/LSCO (2016)</li> </ul>

LSX = Lao Securities Exchange.

Source: Compiled by ADB consultants for SF 1 and based on publicly available information.

## 1. Fundamental or Key Legislation

Fundamental legislation consists of basic laws that govern business principles, contracts, rights, and obligations, as well as the functions of key regulators and the basic roles and responsibilities of financial and securities market institutions and market participants. Key legislation is the summary term for those laws aimed at a certain market or specific activities, such as the bond market, or at the securities market in general.

These laws are created by the Ministry of Justice in consultation with the ministry responsible for the law's subject(s). They are submitted to the National Assembly Standing Committee and adopted by the National Assembly, and signed into law and promulgated by the President before taking effect.<sup>3</sup> All promulgated legislation of general application at the national, provincial, and capital levels comes into legal force only after 60 days from the publication date in the Official Gazette.

The Lao PDR's fundamental legislation with relevance for the bond, securities, and capital markets at large is the Enterprise Law, which allowed private enterprises to issue securities, and the Investment Promotion Law, which prescribed the abilities for domestic and foreign entities to invest in the market or market segments of the Lao PDR economy.

Key legislation in the Lao PDR for the bond, securities, and capital markets at large primarily consists of the Law on Securities, which was promulgated in 2013 via presidential decree.<sup>4</sup> The law confirmed the role and responsibilities of the Lao Securities Commission Office (LSCO), stipulated the setting up of the exchange, the types of securities market intermediaries, and their qualifications and business operations. The law also contains provisions for credit rating agencies and securities business associations, defines securities issuance types and the eligibility of issuers, and introduces key disclosure documents such as the prospectus. In addition, the law establishes the concept of a public fund (mutual fund). The issuance of the Law on Securities resulted in the revision of subsidiary legislation and regulations and the substitution of earlier decisions or regulations issued with regard to the securities market and its institutions.

The contents and relevance of the fundamental and key legislation is further referenced in the appropriate context in this Bond Market Guide.

## 2. Decrees

In the Lao PDR legislative context, decrees fulfill the function of promulgating the actual laws and serve as implementation rules and regulations, effectively further defining and interpreting the underlying laws. Decrees may detail the general provisions in the corresponding laws, often with a focus on a particular area, in this context market institutions or market segments. A decree is signed by the President of the Lao PDR.

The most significant decrees for the securities market have been the Decree on the Promulgation of the Law on Securities and the Decree on Securities and Securities Exchange; the latter was originally promulgated in 2010 and was eventually replaced by the Law on Securities.

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<sup>3</sup> For a detailed description of the legislative process in the Lao PDR, please see the website of the National Assembly of the Lao PDR at

[http://www.na.gov.la/index.php?option=com\\_content&view=article&id=92%3Athe-legislative-process&catid=37%3Athe-legislative-process&Itemid=161&lang=en](http://www.na.gov.la/index.php?option=com_content&view=article&id=92%3Athe-legislative-process&catid=37%3Athe-legislative-process&Itemid=161&lang=en)

<sup>4</sup> An unofficial English translation of the Law on Securities is available at <http://www.lsx.com.la/rules/laws/listPosts.do?lang=en>

### 3. Decisions and Regulations

Decisions represent ministerial decision(s) signed by the minister overseeing the respective activities to be governed. Regulations represent the further detailing of laws and decrees by the regulatory authorities for areas under their respective purview, or under the authority delegated to the market institutions. Regulations define specific market activities and the actions of its participants.

A key decision in recent years was the appointment of the LSCO. Significant regulations that have been issued by the LSCO and the LSX are listed in Table 2.1 and Appendix 2. The contents and relevance of these decisions and regulations are further explained in the appropriate context in this Bond Market Guide.

### 4. Instructions and Agreements

Instructions issued by the head of relevant governmental authorities prescribe the implementation of the 8th NSEDP; the state budget plan; laws; and other legislation, plans, or activities. Instructions identify concepts, methods, procedures, and the timeframe for implementation. Agreements, on the other hand, are issued to perform the rights and duties of regulatory authorities or further prescribe and implement the respective legislation of higher authorities.

## D. Lao PDR Bond Market Regulatory Structure

The MOF, BOL, and LSCO—which is presently still embedded at the BOL—are the policy bodies and regulatory authorities that govern the bond market and the capital market in the Lao PDR at large. In addition, the Investment Promotion Department (IPD) of the Ministry of Planning and Investment plays a significant role in formulating, implementing, and promoting the rules and regulations for investment in the Lao PDR capital market.

The MOF and BOL regularly cooperate on capital market initiatives. As an example, the BOL monitors the economy and monetary conditions, and advises the MOF on the ceiling rate at which Treasury bills should be auctioned.

### 1. Ministry of Finance, Lao PDR

Under the Decree on the Organization and Activities of the Ministry of Finance, the MOF is the authority responsible for any matter relating to the financial sector as provided in Articles 2.10 and 2.11. The MOF directly oversees the insurance business, lottery business, and accounting and auditing businesses.

For the roles and responsibilities of the MOF in the context of issuance and issuance methods of government securities, please see Chapter III.

### 2. Bank of the Lao PDR

The BOL is the financial institution of the state and the central bank of the Lao PDR, having the status of an independent legal entity. As the central bank, the BOL has regulatory authority to license and control commercial banks, the banking system, the money supply, and foreign currency exchange. It is responsible for issuing licenses to establish banks and other financial institutions. The BOL also has the authority to issue bills and bonds to manage the exchange rate and liquidity in the economy.

The Law on the Bank of the Lao PDR and the Decree on the Organization and Activities of the Bank of Lao PDR assigned the BOL the duties and authority “to

establish and improve the state and commercial banking system for sustainable growth” and “to manage and inspect the activities of all banks and financial institutions under the authority in order to ensure the stability and expansion of the banking system and the financial institutions.”

Article 4 in Part II of the Law on the Bank of the Lao PDR defines the scope of rights and duties of the BOL as listed below.

The Bank of the Lao PDR shall have the following rights:

- i. the sole right to issue notes and coins with the approval of the Government of the Lao PDR, and manage the currency circulation within the country;
- ii. administer the macro monetary policy and shall be the bank of the commercial banks and financial institutions under its supervision, and shall be the final lender to such commercial banks and financial institutions with the objective to implement the monetary policy;
- iii. implement the policy on foreign currency control and the exchange rate;
- iv. issue its own bonds with the objective to carry out monetary policy, buy and sell bonds directly with other commercial banks and financial institutions; and
- v. authorize the establishment of branches of the Bank of the Lao PDR and the establishment of local commercial banks, foreign commercial banks, and financial institutions under its supervision based on approval of the Government of the Lao PDR.

### **3. Investment Promotion Department**

The IPD, operating under the Ministry of Planning and Investment and formerly known as the Department for Promotion and Management of Domestic and Foreign Investment between 2004 and 2007, administers the foreign investment system and reviews investment applications in accordance with the Investment Promotion Law.<sup>5</sup> Its primary functions include promoting the Lao PDR as an investment destination, screening investment proposals, offering investment incentives, and facilitating foreign investment.<sup>6</sup>

To support and encourage investment, the government offers incentives to investors in various forms, including reduced corporate profit taxes, reduced duties and turnover taxes on imported capital equipment and inputs to production, and investment permissions and guarantees. The main laws governing the promotion of investment are the Law on Promotion of Foreign Investment, Law on Enterprises, Law on Labor, Law on Customs, and Law on Taxes. The IPD is designed to offer a one-stop service to foreign investors by providing information and assistance during the investment process. At the time of the compilation of this Bond Market Guide, the government was in the process of putting the draft Investment Promotion Law through the legislative process.

### **4. Lao Securities Commission and Lao Securities Commission Office**

The LSC is the governing body of the securities market regulator in Lao PDR, with the LSCO acting as the executing agency of the governing body.

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<sup>5</sup> The text (in Lao and English) of the Investment Promotion Law, 2009 is available at [http://www.investlaos.gov.la/images/sampled/pdf\\_sample/IPLaw2009\\_Lao-English.pdf](http://www.investlaos.gov.la/images/sampled/pdf_sample/IPLaw2009_Lao-English.pdf)

<sup>6</sup> For more information on the IPD, please see <http://www.investlaos.gov.la/index.php/about-ipd>

### *Lao Securities Commission*

The LSC received its present official name and status pursuant to the Decree on Organization and Operation of the Lao Securities Commission, which was issued on 24 July 2013. The LSCO started operation on 2 July 2009, pursuant to the Decision on Appointment of the Securities and Exchange Commission, which was published on 25 May 2009. It replaced in name the Securities Market Establishment Committee, previously charged with creating and supervising a securities market, and absorbed the committee's staff.

The LSC acts as a secretariat to the Government of the Lao PDR in the management of securities activities at a macro and centralized level in the Lao PDR.<sup>7</sup> The LSC consists of 13 commissioners—including the chairman, the deputy chairmen, and the secretary of the LSCO—who are appointed or dismissed by the Prime Minister. The Deputy Prime Minister is the designated LSC chairman, with the chairman of the BOL and the Minister of Finance designated as first and second deputy chairmen, respectively. The commissioners represent a number of government ministries at the deputy minister level.

The primary rights and duties of the LSC, as defined in the Decree on Organization and Operation of the Lao Securities Commission, are to

- i. formulate and amend necessary strategic plans, policies, and laws relating to securities activities as recommended by the LSCO in order to propose to the Government of the Lao PDR for consideration;
- ii. approve project and work plans, operating plans, recruiting and capacity building plans, and budget plans, including plans on the development of infrastructure and the purchase of technical equipment of the LSCO;
- iii. approve the regulations relating to securities activities proposed by the LSCO;
- iv. grant an approval for establishment or dissolution of securities intermediaries, and issuance of securities proposed by the LSCO;
- v. study and propose the establishment and dissolution of a securities exchange to the government for consideration as recommended by the LSCO;
- vi. lead the LSCO in implementing the supervision of securities activities and support related parties to provide training and education to the public concerning securities activities;
- vii. collaborate with foreign countries and international organizations in exchanging information and seeking technical assistance regarding securities activities;
- viii. promote and encourage persons, juristic persons, and organizations to contribute to the development of securities activities, especially by encouraging companies in all business sectors to list with the LSX; and
- ix. summarize and report its operations to the government regularly.

### *Lao Securities Commission Office*

The Law on Securities firmly established the LSCO as the regulatory authority for the securities market, having direct responsibility to supervise, monitor, and inspect securities activities based on coordination with other relevant sectors and local authorities when necessary.

The LSCO governs the issuance, trading, and post-trade activities of securities in the Lao PDR capital market. It compiles and proposes securities market-related laws and decrees to the LSC, and sets regulations for the securities market at large, including the bond market. The LSCO also licenses market participants and accredits other

<sup>7</sup> Descriptions adapted in part from LSC. 2013. *Annual Report 2013*.

[http://www.lsc.gov.la/declaration\\_index/Annual%20Report%202013%20\(Eng\)\\_dff%20clean%20version.pdf](http://www.lsc.gov.la/declaration_index/Annual%20Report%202013%20(Eng)_dff%20clean%20version.pdf)



professional firms servicing the securities market.

At present, the LSCO's staff and budget are embedded in the structure and budget of the BOL. The LSCO is expected to become an autonomous government agency and the sole regulatory authority of the securities market in the Lao PDR in the course of the implementation of the 8th NSEDP.

Article 152 of the Law on Securities details the rights and responsibilities of the LSCO as follows:

- i. study, create, and improve strategic plans, policies, and laws relating to securities to propose to the Government of the Lao PDR for consideration;
- ii. determine programs and action plans for each time period;
- iii. issue regulations relating to securities activities;
- iv. advertise, disseminate, and educate the public relating to securities activities;
- v. supervise, monitor, and inspect securities activities;
- vi. collect fees and service fees as prescribed by the relevant laws and regulations;
- vii. grant approval for the establishment and dissolution of the securities exchange as approved by the government;
- viii. temporarily suspend the activities of the securities exchange in case of irregular fluctuation of securities trading or when the socioeconomic situation is not appropriate for the operation of the securities exchange;
- ix. grant approval for establishment, suspension, and dissolution of securities companies, asset management companies, domestic securities companies, and branches and service centers of domestic securities companies;
- x. approve, suspend, and revoke an approval of audit companies, credit rating agencies, custodian banks, and the securities business association;
- xi. approve, suspend, and revoke issuance of securities;
- xii. grant an approval for establishment and dissolution of public funds;
- xiii. investigate cases relating to securities;
- xiv. suspend operation of securities accounts or cash accounts relating to operation of securities activities when there is any violation of the laws and regulations;
- xv. apply administrative measures to persons and juristic persons who violate this law or other relevant laws and regulations;
- xvi. resolve any disputes relating to securities activities;
- xvii. prepare a case file to forward to the people's prosecutor for prosecution pursuant to the relevant judicial procedures;
- xviii. collaborate with foreign countries and international organizations in relation to the supervision and development of securities activities;
- xix. summarize and report its activities to the government regularly; and
- xx. exercise other rights and perform other duties as assigned by the government.

Organizationally, the LSCO consists of six divisions:

- i. Personnel and Administration Division,
- ii. Securities Issuance Supervision Division,
- iii. Securities Intermediaries Supervision Division,
- iv. Market Supervision Division,
- v. Legal Division, and
- vi. Training and Education Division.

## 5. Lao Securities Exchange

In the regulatory framework of the Lao PDR, the LSX is referred to as a Relevant Institution under the leadership of the Bank of the Lao PDR. Its activities are regulated and overseen by the LSCO.

The LSX operates, manages, and supervises the listing, trading, clearing, and settlement and depository operations under its purview.

The LSX can issue regulations and rules under its own name and uses this power to prescribe, administer, and monitor listing, trading, and post-trade activities on its markets, and to govern its members and participants.

Most recently, the LSX issued regulations for the listing and trading of corporate bonds on its markets.

According to the Law on Securities, the securities exchange shall have the following rights and duties:

- i. study and issue regulations on listing, trading, membership, clearing and depository of securities, and other relevant regulations to propose to the SC for consideration;
- ii. approve listing and delisting of securities;
- iii. approve or cancel membership in the securities exchange or the securities depository;
- iv. provide the services of listed securities trading, clearing, and settlement of securities transactions;
- v. suspend, cease, or cancel any of the listed securities trading, if necessary;
- vi. display warning symbols on any securities in case a listed company does not comply with the relevant laws and regulations;
- vii. manage, monitor, and inspect operation of its members and members of the securities depository and listed companies;
- viii. conduct listed securities trading surveillance;
- ix. create, develop, and maintain an appropriate and modern securities trading system, securities transaction clearing, market surveillance, securities trading database, and network system;
- x. protect customers' confidential information;
- xi. cooperate and provide information to the inspection committee, investigating officers, and other relevant authorities;
- xii. advertise, disseminate, and organize trainings relating to securities activities for its members, listed companies, investors, and the general public;
- xiii. take responsibility for damage caused by its own fault from its operation, except for damage caused by force majeure;
- xiv. cooperate with foreign securities exchanges and other organizations in relation to securities exchange activities;
- xv. report and disclose information as prescribed by the relevant laws and regulations; and
- xvi. exercise other rights and perform other duties as prescribed in the relevant laws and regulations.

Organizationally, the LSX consists of five departments:

- i. Management and Administration Department,
- ii. Market Operation and Surveillance Department,
- iii. Listing and Disclosure Department,
- iv. Settlement and Depository Department, and
- v. IT Department.

For detailed information on the regulations issued by the LSX and its functions as an exchange market, please also refer to Chapter IV and other relevant sections in this chapter.<sup>8</sup>

## **E. Regulatory Framework for Debt Securities**

The regulatory framework for debt securities is defined through the Law on Securities and subsidiary regulations—specifically the Regulation on Issuance of Corporate Bonds, Decision on Issuance of Corporate Bonds Abroad, and Decision on Fees for Issuance of Corporate Bonds Abroad for the primary market—as well as the LSX Regulation on Bond Listing and Regulation on Market Operation with regard to provisions for the exchange market.

## **F. Debt Securities Issuance Regulatory Processes**

Issuances of corporate bonds in the Lao PDR bond market require the approval of the LSCO, regardless of whether the bonds are to be issued via public offer or private placement.<sup>9</sup> Issuers will need to fulfil certain requirements to be able to issue corporate bonds and are required to appoint a number of service providers fulfilling specific functions in the context of a corporate bond issuance and further throughout the life cycle of the bond. Corporate bonds may be issued in Lao kip or in foreign currencies as approved by the LSCO. At present, there are no regulations that support the issuance of debt securities by nonresident (foreign) issuers.

Corporate bonds may be listed on the LSX, subject to its approval and as governed by the LSX Regulation on Bond Listing issued in 2015

The current existing legislation or regulations do not contain specific provisions for the issuance by financial institutions. In fact, the Regulation on Issuance of Corporate Bonds does not differentiate between types of issuers and their circumstances. This regulation only requires that issuers shall be public companies or limited companies but not sole limited companies.

### **1. Regulatory Processes by Issuer Type**

Table 2.2 provides an overview of these regulatory processes by corporate issuer type and identifies which regulatory authority or market institution is involved. To make the issuance processes by issuer type more comparable across ASEAN+3 markets, the table features common issuer type distinctions that are evident in regional markets. Not all markets will distinguish all such issuer types or prescribe approvals. Sovereign issuers are typically exempt from corporate issuance approvals but, at the same time, may be subject to different regulatory processes.

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<sup>8</sup> An unofficial translation of LSX Regulations are available at <http://www.lsx.com.la/rules/regulations/listPosts.do?lang=en>

<sup>9</sup> Please see Chapter III.E for an explanation of what constitutes a public offer or a private placement in the Lao PDR market.

**Table 2.2: Authorities Involved in Regulatory Processes by Issuer Type**

Type of Issuer	LSCO	BOL	LSX (listing only)
<b>Resident issuer</b>			
Resident nonfinancial institution	X		X
Resident financial institution	X		X
Resident issuing FCY-denominated bonds and notes	X		X
<b>Nonresident issuer</b>			
Nonresident nonfinancial institution	N/A	N/A	N/A
Nonresident financial institution	N/A	N/A	N/A
Nonresident issuing FCY-denominated bonds and notes	N/A	N/A	N/A

BOL = Bank of the Lao PDR, FCY = foreign currency, LSCO = Lao Securities Commission Office, LSX = Lao Securities Exchange, N/A = not applicable.

Note: X indicates approval is required.

Source: ADB consultants for SF1.

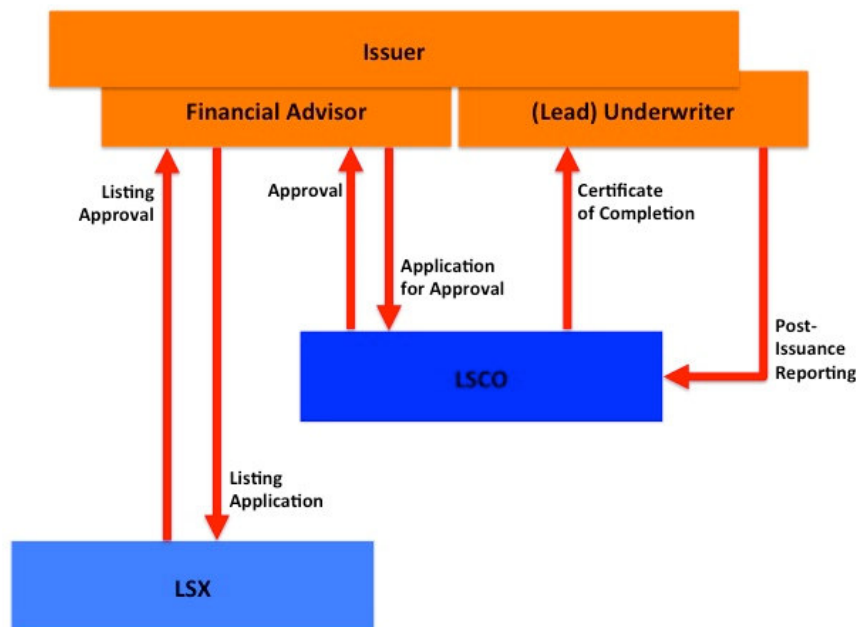
Currently, there is no legislation or regulation that supports the need for the BOL to approve the issuance of bonds and notes in foreign currency. However, it is expected in the near future that approval from the Monetary Policy Department of the BOL shall be required for issuing foreign-currency-denominated bonds and notes.

At present, all regulatory processes are geared toward the issuance of bonds and notes via public offers, and these processes do not differentiate between issuer types. However, nonresident issuers are presently not able to participate in the Lao PDR bond market, pending relevant regulations.

## **2. Overview and Details of Regulatory Processes**

All issuances of corporate bonds require the approval of the LSCO. There is presently no distinction in the regulatory process for the issuance of corporate bonds in Lao kip or in foreign currency. Nonresident issuers are not (yet) able to issue bonds and notes in the Lao PDR, regardless of issuance currency. A listing on the LSX is optional and subject to the approval of the LSX; the related processes are described in Chapter III.I.

The regulatory process map shown in Figure 2.1 provides an overview of the regulatory processes applicable in the Lao PDR.

**Figure 2.1: Regulatory Process Map—Bond and Note Issuance in the Lao PDR**

LSCO = Lao Securities Commission Office, LSX = Lao Securities Exchange.  
Source: ADB consultants for SF1.

The individual regulatory processes are explained in subsequent sections.

### 3. Regulatory Process in Case of a Nonresident Issuer

At present, no legislation or regulation contains provisions for the issuance of debt securities by nonresident (foreign) issuers. As such, nonresident issuers are not yet able to access the Lao PDR bond market.

### 4. Regulatory Process for Public Offers of Corporate Bonds

The issuance of corporate bonds in the Lao PDR requires the approval of the LSCO. The approval process and the requirements for the application for approval are laid out in the Regulation on Issuance of Corporate Bonds published by the LSCO in December 2014.

Issuers are required to appoint a Financial Advisor, one or more underwriters (with a designated lead underwriter in the case of two or more providers), and a custodian bank prior to the application for approval from the LSCO since the contracts with these providers and/or their opinions form part of the submission to the LSCO. For a description of the roles and functions of these intermediaries, please refer to Chapter III.M.

The following steps describe the actions to be undertaken by the relevant parties in the course of the issuance application and approval process for a corporate bond to be offered to the public.



### Step 1—Submission of Application for Approval to the Lao Securities Commission Office

A company wishing to issue a corporate bond to the public shall submit its application documents to the LSCO, together with a number of prescribed documents, as follows:

- i. an application for issuance of a corporate bond as prescribed by the LSCO;
- ii. a copy of the enterprise registration certificate and a copy of a concession license (in case the issuer operates a concession business);
- iii. a copy of a taxpayer identity card;
- iv. a copy of the issuing company's bylaws;
- v. resolutions of the shareholders' meeting concerning the approval of a corporate bond issuance;
- vi. a list of names of shareholders holding at least 1% of shares;
- vii. a confirmation letter on the readiness of a corporate bond issuance from a Financial Advisor and an underwriter;
- viii. an asset valuation report certified by an asset valuer;
- ix. financial statements for the most recent financial year preceding the submission of application documents;
- x. documents relating to principal and interest repayment plan, including an illustration of sources of financing for such repayment;
- xi. a prospectus;
- xii. an underwriting contract between the issuer and an underwriter;
- xiii. a contract with a custodian bank to perform monitoring and custodian functions to protect the interests of corporate bondholders;
- xiv. a credit rating report from a credit rating agency (if the issuer is rated BBB or above);
- xv. a contract with a guarantor (if an issuer is not rated or the rating is below BBB); and
- xvi. other documents as stipulated by the LSCO.

The regulation states that the issuer is required to work together with the Financial Advisor on the compilation of the application documents. At the same time, the other intermediaries are required to contribute to the documents, as indicated in the above list.

For a description of the prospectus requirements and the expected content of the financial statements, please refer to section G (Disclosure Requirements in the Lao PDR Bond Market) in this chapter. If an issuer wishes to apply for issuance after 30 June of a given year, the LSCO requires the submission of a semiannual financial statement reviewed by an audit company.

When an important event occurred after the date of the most recent financial statements submitted to the LSCO, the issuer has to file an additional report of such event with the LSCO in writing and disclose such an event in its prospectus.

While the issuance documentation and supporting documents for the application to the LSCO have to be in Lao, the issuer may choose to also publish a prospectus in English.

**Step 2—Review and Approval of Application by the Lao Securities Commission Office**

The LSCO will review the application for issuance of a corporate bond and communicate a decision to the issuer within a period of 45 days from the date of receiving complete and accurate application documents. In the event that the application is denied, the LSCO will provide reasons for this decision in writing.

During the review, the LSCO has the right to request additional documents and information from the issuer and the audit company and may invite the issuer, the Financial Advisor, and the underwriter or other relevant parties to discuss matters concerning the application and information contained therein. The LSCO may visit the issuer and collect other relevant information, as may be necessary. The parties involved in the issuance are required to give the LSCO full cooperation in these endeavors.

If the application is successful, the LSCO will provide a confirmation letter to the issuer.

The LSCO charges a number of fees for the application review and upon successful completion of the application (please see Chapter VI for details).

The issuance of corporate bonds via a public offer is to be carried out within 90 days from the LSCO granting the certificate of authorization and may be extended for no more than 30 days.

Additional steps are to be carried out before the issuance is considered complete and before the underwriter may transfer the proceeds from the issuance to the issuer and before the use of those proceeds by the issuer. (Please refer to section 6 for details.)

## **5. Regulatory Process for Bonds and Notes Issued via Private Placement**

The regulatory process for private placements, as described in Chapter III.B.2 concerning the Regulation on Issuance of Corporate Bonds, closely follows the prescriptions for public offers, including the need for LSCO approval and the submission of a prospectus. (Please refer to section 4 for details.) The distinctions between the two offering methods are limited to the types of investors and their participation in the offer, as well as advertising and marketing procedures.

A company wishing to conduct a private placement of a corporate bond shall satisfy the requirements as prescribed in Article 8 (except Clause 2) of the Regulation on Issuance of Corporate Bonds and shall fulfill additional requirements including having its operation and business established for at least 1 year. As stated in the Law on Securities, it defines the term institutional investor rather than using the term professional investor. For more details on the definition of institutional investor, please see Chapter III.N.

## **6. Obligations after Approval and after Issuance**

Upon approval from the LSCO, the issuer may proceed with the issuance of corporate bonds to the market, either via a public offer or a private placement. Once the issuance has taken place, a number of obligations are to be met by the issuer and its service providers, as described below.

## **7. Issuance of Corporate Bond Certificates**

The LSCO stipulates that the (lead) underwriter shall issue the corporate bond certificates to the corporate bond purchasers within 5 business days from the date of completion of the issuance. If a corporate bond is to be listed on the LSX, a consolidated corporate bond certificate (global certificate) shall be deposited in the LSX depository center within that period.

Securities certificates, whether consolidated or individual, shall include the name of the issuer of a corporate bond; reference number of the enterprise registration certificate of the issuer of a corporate bond; reference number of the corporate bond certificate; registration date of the corporate bond certificate with a securities depository center (if so applicable); type of corporate bond; terms and date of maturity of the corporate bond; returns; face value of the corporate bond certificate; aggregate value of the corporate bond in total; method, place, and time for repayment of the corporate bond's principal and interest; signature of an authorized person; and seal of the issuer of the corporate bond as well as the rights of the corporate bondholders.

## **8. Report on the Issuance of Corporate Bonds**

After the completion of the auction (see Chapter III.E for details), the issuer— jointly with the (lead) underwriter—needs to report the result of the issuance to the LSCO in writing within 5 business days from the date of completion of the issuance.

One prerequisite for the report to be sent to the LSCO is that the corporate bond certificates have been successfully issued.

Once the issuance of the (global or individual) certificates is complete and the report of the issuer and (lead) underwriter has been sent to the LSCO, the LSCO will confirm the completion of the issuance within 5 business days from the receipt of the report. This “certificate of completion” is a prerequisite before the (lead) underwriter is able to transfer the proceeds from the issuance to a specially designated bank account of the issuer, and before the issuer may be able to use the proceeds in line with the purpose stated in the issuance application.

At the same time, the certificate of completion is also required to complete the final listing application to the LSX in the event a listing of a corporate bond is planned. Chapter III.I contains more details on the listing of debt securities.

## **9. Issuance Process Specific for a Domestic Financial Institution**

No fundamental or key legislation or regulation contains specific provisions for the issuance of debt securities by financial institutions. The applicable Regulation on the Issuance of Corporate Bonds does not differentiate between issuer types and their circumstances. As such, there are no specific regulatory requirements for financial institutions as issuers of debt securities.

## **10. Regulatory Process for Foreign-Currency-Denominated Debt Instruments**

Currently, there is no legislation or regulation that supports the need for BOL to approve the issuance of bonds and notes in foreign currency. The issuance of corporate bonds denominated in a foreign currency shall be approved by the LSCO, and follows the regulatory process outlined in section 4.

At the same time, the LSX is able to list debt securities issued in foreign currency on its market.

## **G. Disclosure Requirements in the Lao PDR Bond Market**

The LSCO's Regulation on Issuance of Corporate Bonds also prescribes the initial and continuous disclosure requirements for issuers of corporate bonds and obligations for their appointed service providers. While the requirements for public offers and private placements are stated in separate chapters of the regulation, the obligations on the issuer and service providers are nearly identical at this point in time.

### **1. Public Offers**

One of the key documents to be submitted at the time of issuance application to the LSCO, and for the general information for investors throughout the life cycle of the corporate bond, is the prospectus. A prospectus for the issuance of a corporate bond to the public shall contain

- i. information on a company such as risk factors, incorporation, and business operation history;
- ii. information on members of the board of directors, internal audit committee, and executives;
- iii. information on a corporate bond such as characteristics, method of offer for sale, quantity, face value, price, projected period of offer for sale, and transfer requirements;
- iv. sources of funds for principal and interest repayment;
- v. a returns and redemption plan when the corporate bond is due;
- vi. a plan on the use of proceeds and business operating plan;
- vii. a list of names of controlling persons;
- viii. information on legal inconsistency and related party transactions;
- ix. name and address of an audit company, a legal advisor, a securities company (underwriter), and other parties involved in the proposed issuance; and
- x. information on the financial status of the issuer, which is audited by the audit company.

Complete financial statements are not a prescribed part of the prospectus but instead are to be submitted separately for the issuance application to the LSCO, and are to be updated regularly during the lifetime of the corporate bond.

Financial statements of the issuer are to include a balance sheet, an income statement, a consolidated cash flow statement, a statement of changes in owners' equity, an explanation of the applied accounting principles and methods used, and other relevant details. Financial statements are to be audited by an audit company before submission.

If, during the life cycle of a corporate bond, an important event occurs, the issuer has to file a report of such an event with the LSCO in writing.

### **2. Private Placements**

The initial and continuous disclosure requirements for private placements are virtually identical to those imposed on public offers. Private placements are distinguished only by some of the eligibility criteria to be fulfilled by the issuer and the types and composition of the investors.

Please refer to section 1 for details on the disclosure requirements imposed by the LSCO.

### 3. Corporate Bonds Listed on the Lao Securities Exchange

In its Regulation on Bond Listing, the LSX stipulates a number of numerical and nonnumerical (official definitions under Article 3) disclosure requirements to be fulfilled by the issuer. In addition, the LSX requires the securities company acting as the (lead) underwriter to submit a Due Diligence Report (Article 3 [7]), which contains the findings, after verifying the information provided by the issuer in its disclosure documents.

Article 7 of the Regulation on Bond Listing stipulates that the bond listing applicant shall disclose company information in the designated timeframe and use an approved method.

Article 29 of the Disclosure Regulation defines the material business details to be reported as follows:

- i. In cases when a bond-listed corporation, which has also listed its stock on the LSX, has disclosed a matter specific to its stock, it shall be deemed that such a bond-listed corporation has made a disclosure.
- ii. Where any one of the following incidents has occurred, a bond-listed corporation shall report such fact or details of any related decision made to the LSX on the same day the incidence has occurred:
  - a. where a bill or cheque issued was dishonored or a transaction with a bank has been suspended or prohibited;
  - b. where the business operation, in part or whole, has been suspended;
  - c. where a cause for the dissolution of the company has occurred;
  - d. where the decision on a merger with another company, a business transfer or acquisition, a split-off, or a merger after split-off has been made;
  - e. where a lawsuit that will have material influence on the listed bonds has been launched; or
  - f. where the auditor's opinion in the external certified audit report is qualified, adverse, or contains a disclaimer of opinion.
- iii. Where any one of the following incidents has occurred, the bond-listed corporation shall report such facts or details of any related decision made to the LSX by the next day after the occurrence of the cause:
  - a. where the bond should be redeemed before its maturity;
  - b. where the notification of calling for a meeting of bondholders has been sent;
  - c. where the decisions made at the meeting of bondholders have been notified;
  - d. where the principal of a listed bond has not been redeemed; or
  - e. where significant events relating to the rights, yields, or handling of a listed bond have occurred.

The disclosure information submitted by listed companies is available as a PDF file—typically in both Lao and English—for download from the LSX website.<sup>10</sup> At the same time, due to the limited number of listed companies at present, and a corresponding lack of material events, the information typically disclosed by listed companies relates to the normal governance activities of a listed company, such as shareholders' meetings, resolutions of such shareholders' meeting, and reports on its financial performance.

<sup>10</sup> Please see the Listed Companies and Disclosure web page on the Lao Securities Exchange website at <http://www.lsx.com.la/info/stock/listedCompany.do?lang=en>

## **H. Self-Regulatory Organizations in the Lao PDR Bond Market**

The Law on Securities provides for the concept of a Securities Business Association in the Lao PDR capital market, which in concept is similar to a self-regulatory organization (SRO).

However, at the time of the compilation of this Bond Market Guide, there was no SRO in existence in the Lao PDR capital market.

The LSX is not considered an SRO by the regulatory authorities. Instead, LSX draws the ability to make rules and publish regulations on its members and markets, which are subject to review and approval by the LSCO, directly from the relevant provisions on the securities exchange in the Law on Securities.

For details on the listing, disclosure, and trading rules of LSX and their underlying regulations, please refer to section J in this chapter.

## **I. Licensing of Market Participants**

All bond market participants, including the entities involved in the issuance of corporate bonds in the Lao PDR other than the issuer and its legal counsel, need to be licensed by the LSCO, pursuant to the Law on Securities and in accordance with the LSCO's own regulations.

Professional firms, such as accounting and audit firms, need to be accredited with the LSCO to provide services to issuers and bond market institutions.

Details on individual licensing requirements for market participants can be found in Chapter III.M.

## **J. The Lao Securities Exchange Regulations on Bond Listing, Disclosure, and Trading**

The LSX issues its own rules with regard to listing and disclosure requirements and trading activities as part of its functions as a securities exchange pursuant to the Law on Securities and LSCO regulations. The LSX is, however, not considered an SRO by regulatory authorities.

LSX rules need to be approved by the LSCO before they may be signed and published. The provisions are issued as (and have the characteristics of) regulations. A list of the relevant LSX regulations is shown in Figure 2.2.

**Figure 2.2: Lao Securities Exchange Regulations on its Website**

The screenshot displays the Lao Securities Exchange (LSX) website. The header includes the LSX logo, navigation links (Home, About LSX, Laws/Regulations, Products/Services, Market Data, Listed Companies / Disclosure), and market data (Date: 01/09/2017, LSX Composite Index: 1,029.47, Price (BCEL): 5,450, EDL-Gen: 5,100, LWPC: 7,400). The 'Laws/Regulations' section is active, showing a list of regulations with their dates and download links.

Regulations	Date	Download
Market Operation (New Amended-2015)	10.03.2016	<a href="#">Download</a>
Bond Listing Regulation (New)	29.01.2016	<a href="#">Download</a>
Stock Listing Regulation (New)	29.01.2016	<a href="#">Download</a>
Membership Regulation (New)	13.01.2015	<a href="#">Download</a>
Clearing and Settlement Regulation (New)	03.12.2014	<a href="#">Download</a>
Joint Compensation Fund Regulation	01.07.2014	<a href="#">Download</a>
Deposit Regulation	22.04.2011	<a href="#">Download</a>
Securities Transfer Agent Regulation	22.04.2011	<a href="#">Download</a>
Disclosure Regulation	22.04.2011	<a href="#">Download</a>
Surveillance Regulation	22.04.2011	<a href="#">Download</a>

Data and information on the LSX website are provided for the purpose of improving availability of information for investment, not for trading securities. In spite of the efforts made in ensuring the accuracy of data and information, the LSX recognizes that unintentional and chance errors and delays occur. The LSX is not responsible for any loss resulted from the investments made using the data and information provided on its website.

LSX = Lao Securities Exchange.  
Source: Lao Securities Exchange. Regulations. <http://www.lsx.com.la/rules/regulations/listPosts.do?lang=en>

Individual LSX regulations are further detailed in the relevant sections of this Bond Market Guide.

#### a. Listed and Traded (Debt) Securities

The LSX Regulation on Bond Listing stipulates the principles, criteria, and procedures for bond listing on the LSX, including the need for a listing eligibility review, details of bond listing application criteria, and other listing considerations.

LSX members can trade in government bonds, corporate bonds issued by listed companies, and listed bonds other than those issued by stock-listed companies. Activities on the LSX are subject to its Regulation on Market Operation (as amended from time to time).



For further details on the trading of (debt) securities, please refer to Chapter IV.

#### **b. Trading Participants**

Domestic and foreign investors may trade corporate bonds by sending orders to securities companies—being the members of the LSX—with whom they have a securities trading account for the trading of securities on the LSX bond trading system (see also Chapter IV). The securities companies and their actions are subject to the LSX Regulation on Membership.

### **K. Market Entry Requirements (Nonresidents)**

Foreign investors are principally able to enter, participate in, and exit the Lao PDR bond market freely, subject to investor registration.

#### **1. Nonresident Issuers**

At present, nonresident issuers are not yet able to access the Lao PDR bond market, in the absence of specific regulations.

The LSCO is planning to review this matter in detail for future consideration. At present, local issuers can raise funds in overseas markets, subject to LSCO approval, while specific regulations on domestic issuance by nonresidents are to be issued in the near future.

#### **2. Foreign Investors**

Foreign (nonresident) investors can invest in the Lao PDR bond market but are required to obtain a Foreign Investor Identification (Foreign Investor ID) from the LSX. The relevant provisions are contained in Articles 4, 5, and 6 of the Regulation on Management of Share Trading of Foreign Investor, which was promulgated in 2015:

##### **Article 4. Requirements for Foreign Investor Identification**

Foreign investors wishing to obtain an investor identification must follow the requirements as specified in Article 8 of the regulation. The foreign investor will need to officially assign either its custodian bank or a securities company to be its representative for obtaining the Foreign Investor ID from the LSX.

##### **Article 5. Application Documents for Foreign Investor Identification**

An individual foreign investor shall submit its application documents as follows:

- i. an application prescribed by the Lao Stock Exchange,
- ii. copy of passport or identity card, and
- iii. copy of assignment document or contract with custodian bank or securities company.

An institutional foreign investor shall submit its application documents in the following manner:

- i. an application prescribed by the Lao Stock Exchange;
- ii. copy of articles of incorporation and enterprise registration certificate;
- iii. copy of assignment document or contract with custodian bank or securities company;
- iv. list of names of shareholders in the institution holding at least 20% of shares; and/or
- v. copy of certificate of registration as a unit trust or the constituent document(s) for a collective investment contract (e.g., a mutual fund) that authorizes the relevant parties to act for the fund, only in the event the investing institution is a mutual fund or unit trust (which is equivalent to a public fund in Lao PDR terminology).

#### **Article 6. Decision on Foreign Investor Identification**

The LSX will consider the application and approve or reject issuance of a Foreign Investor ID within a period of 3 days from the date of receiving complete and accurate application documents. In case of a rejection, the LSX must provide an explanation via official letter.

The LSX must have a system to reflect its Know Your Customer–Customer Due Diligence process, to be used as a reference when considering the issuance of the Foreign Investor ID to foreign investors.

The Law on Securities mentions that foreign investors wishing to subscribe to securities issued in Lao PDR must comply with the relevant laws and regulations.

Other than the Foreign Investor ID, there are no specific market entry requirements for foreign investors.

## **L. Market Exit Requirements (Nonresidents)**

### **1. Nonresident Issuers**

Nonresident issuers are not (yet) able to participate in the Lao PDR bond market.

### **2. Foreign Investors**

According to Article 15 of the Regulation on Management of Share Trading of Foreign Investor, nonresident (foreign) investors may cancel their Foreign Investor ID. The requirements for cancellation are that the clearing and settlement of securities transaction has been successfully completed and any other specific LSX regulations have been met.

There are no restrictions for foreign investors to repatriate funds from divestment or redemption of assets denominated in Lao kip or foreign currency, including debt securities, or interest arising from these investments. However, foreign investors are required to observe the requirements prescribed in applicable laws and regulations, such as the Regulation on Management of Share Trading of Foreign Investor.

Proceeds in Lao kip will need to be converted into foreign currency with a domestic financial institution before they may be remitted abroad. According to Articles 10 and

11 of the Law on Foreign Exchange Management, the remittance of such proceeds requires approval from the BOL (see further details in section M).

## **M. Regulations and Limitations Relevant for Nonresidents**

The applicable regulations and possible limitations with relevance for nonresidents are provided below in brief.

### **1. Investment**

The Law on Promotion of Foreign Investment, promulgated in July 2009, contains the rights and obligations for investors. The law also reiterates the ownership rights and benefits of investors, both domestic and foreign, and the protection of such investment under the laws and regulations of the Lao PDR and international treaties to which the Lao PDR is a contracting party. Article 63 (Rights of Investors) refers to the rights to transfer abroad capital, assets, and incomes from the Lao PDR in the case of foreign investors, which are further described in Article 68.

The law also contains provisions for foreign entities to establish a representative office or a branch in the Lao PDR.

For foreign investors, a number of securities holding limits apply, as may be stipulated in the relevant laws and regulations, in resolutions of shareholder meetings of listed companies, or as defined by the LSCO, in that order of priority. These holdings may apply to bonds or other securities.

### **2. Cross-Border Portfolio Investment**

The BOL regulates cross-border capital and money market transactions. Inward remittances and repatriation of portfolio investments are principally allowed for both residents and nonresidents.

For capital outflows, all transactions are subject to authorization from the BOL. Resident investors are allowed to invest abroad, subject to the Law on Promotion of Foreign Investment. Foreign investors can repatriate profits, capital gains, and other income upon full payment of duties, taxes, and other fees in accordance with prevailing laws and regulations. Repatriation of funds may be done through a domestic bank in the Lao PDR.

### **3. Currency Exchange Controls**

The Lao kip is nonconvertible and nonnegotiable outside the Lao PDR.

The Lao PDR maintains a managed-floating exchange rate system. Foreign currency exchanges are regulated and managed by the BOL under the Law on Foreign Exchange Management, which was promulgated in 2014, and related regulations. By using a managed-floating exchange rate system, the BOL carefully monitors and, at times, intervenes in the foreign exchange market to maintain stability.

Foreign currency remittances into the Lao PDR must be converted with a domestic licensed financial institution into Lao kip proceeds, with the approval of the BOL, prior to the purchase of securities.

Licensed financial institutions can buy and sell foreign exchange at freely determined rates, provided the spread between buying and selling rates is below 0.5% for LAK–USD, 0.75% for LAK–THB, and 2.0% for other currencies, according to the Agreement

on Reference Exchange Rate dated 5 October 2015. All international money transfers require authorization from the BOL.

#### **4. Import and Export of Currencies**

Residents and nonresidents may bring foreign currency into the Lao PDR or take it out of the country. Amounts exceeding LAK100 million or its equivalent in foreign currency are subject to customs declaration and BOL approval. Nonresidents are only authorized to take out foreign currency up to the amount they declared upon entry.

#### **5. Bank Accounts in Domestic or Foreign Currency**

As defined in the Investment Promotion Law, residents and nonresidents are allowed to hold Lao kip and foreign currency accounts with domestic licensed financial institutions.

#### **6. Borrowing and Lending**

Domestic and foreign currency lending and/or borrowing among residents and nonresidents is controlled. All transactions are subject to BOL approval. Under the Law on Promotion of Foreign Investment, foreign investors may obtain financing by borrowing money from commercial banks and other financial institutions in the Lao PDR and overseas in accordance with other applicable laws and regulations.

### **N. Regulations on Credit Rating Agencies**

The Law on Securities introduced provisions for credit rating agencies in 2013. Pursuant to those provisions, the Regulation on Issuance of Corporate Bonds, published by the LSCO in 2014, contained prescriptions for the use of credit rating agencies as well as for credit rating requirements.

The need for a credit rating agency is stipulated in Article 14 of the regulation. Issuers are able to obtain a rating from either a domestic or a foreign credit rating agency. In the event that an issuer wishes to use a foreign credit rating agency to provide credit rating services, such a foreign credit rating agency is required to be approved by the LSCO. In order to be approved, the credit rating agency needs to fulfill certain tax duties and other duties in compliance with the laws and regulations of the Lao PDR.

In order to clarify and further detail the ability of issuers to utilize foreign credit rating agencies, the LSCO subsequently issued the Regulation on Registration of Foreign Credit Rating Agency in December 2015.

For the actual credit rating requirements in the Lao PDR and the application of such credit ratings in the issuance process of corporate bonds, please refer to Chapter III.M.



# Characteristics of the Lao PDR Bond Market

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Government securities were initially issued in the Lao PDR in 1990 to control rising inflation and absorb excess liquidity in the economy. The first government securities issued in June 1990 were Treasury certificates amounting to LAK2 billion, with a 3-month (renewable) maturity priced at 48% per annum. In November of the same year, inflation gradually decreased. As a result, the government reduced interest rates for Treasury certificates issued from November 1990 to October 1991 to 42% per annum. By July 1992, the MOF had sold another LAK2 billion worth of 3-month Treasury certificates to state-owned banks. The MOF's objectives for the issuance of government securities were deemed to have been met, and with this the government allowed the BOL to develop its own monetary instrument amounting to LAK1.5 billion. In November 1991, the first BOL bills—amounting to LAK200 million and with a 6-month maturity at 20% per annum—were issued.

Through November 1993, seven more BOL bills were issued with amounts ranging from LAK200 million to LAK400 million, all of which were to mature after 6 months and priced at 20% per annum. A last batch was priced at 15% per annum.

In view of the fact that the issuance of government securities was an effective monetary policy for the Lao PDR and that the MOF was agreeable to issuing debt instruments to mobilize funds domestically, the central bank pushed for a Treasury bill auction process in 1994. This has been the issuance practice ever since.

In 2014, the LSCO introduced the Regulation on Issuance of Corporate Bonds. The regulation prescribes principles, requirements for, and procedures of public offers and private placement of corporate bonds, and the obligations of participants and related fees.

This chapter will review such existing or envisaged characteristics specific to the Lao PDR bond market in greater detail.

## A. Definition of Securities

The Law on Securities, in its unofficial translation, defines securities in the following manner:

Securities mean financial instruments, which comprise shares, corporate bonds, public funds, and other types of securities as defined by the Securities Commission.

The full official name and acronym of the Securities Commission in the unofficial law text have been further defined and are now referenced in official context as the Lao Securities Commission Office and LSCO, respectively.

Article 3 of the law also further defines a securities certificate:

Securities certificate means a certificate which certifies the type, amount, and value of securities that an investor receives after the trading or transfer of securities.

## **B. Definition of Bonds and Corporate of Bonds**

The definition of bonds and corporate bonds is contained in separate pieces of legislation and regulation issued by the LSCO.

### **1. Decree on Securities and Securities Exchange**

The Decree on Securities and Securities Exchange contained a definition of bonds and stipulations for the issuance of such bonds for public offering. Part I contained the General Provisions. In Article 3, the following definition is given for bonds:

Bond means a long-term debt security such that the bondholder has legal rights as guaranty to get paid back their invested principal with interest as agreed.

In turn, the ability to issue bonds and notes, other than by the government, was also regulated by this decree. While the Decree on Securities and Securities Exchange was eventually superseded by the Law on Securities, the basic provisions it established have been carried forward. The details on the current issuance practices are explained in section E of this chapter.

### **2. Regulation on Issuance of Corporate Bonds**

The Regulation on Issuance of Corporate Bonds was issued by the LSCO on 22 December 2014, pursuant to the Law on Securities. The regulation introduces the term “corporate bond” and its required characteristics, and further defines the ability to issue corporate bonds as bearer instruments or in the form of jumbo or global certificates with a securities depository center on an immobilized basis. Article 2 (Explanation of Terms) states

9. A corporate bond certificate means a document of notification to investors on the results of their bond purchase, corporate bond requirements, and investors’ rights.

10. A consolidated corporate bond certificate means a corporate bond certificate with no name of the holder of a corporate bond and the corporate bond issuer shall deposit such a certificate at a securities depository center.

In Article 4, the regulation also prescribes the characteristic of corporate bonds in the following manner:

- i. marketable and transferable;
- ii. having returns;
- iii. having a maturity of 1, 3, 5, 7, 10, or 15 years;
- iv. trading in Lao kip or another currency as authorized by the LSCO; and
- v. having a face value as specified in a corporate bond certificate of at least LAK1 million.

At the same time, this regulation also detaches the general requirement of a public offering from corporate bonds, in that the definition of an issuer of corporate bonds

only refers to the "sale to investors." In addition, the regulation contains definitions for a credit rating agency and a Financial Advisor.

### **3. Lao Securities Exchange Regulation on Bond Listing**

The Regulation on Bond Listing, which is available on the LSX website, also includes a practical definition of bond for the purpose of listing practices. Article 3 states that

Bond shall mean a kind of long-term debt financial instrument issued by a corporation under [the LCSO's] law and regulation, with an aim to mobilize funds or raise long term capital from investors.

## **C. Types of Bonds and Notes**

The Government of the Lao PDR has been issuing government securities since 1994, mostly in the form of Treasury bills. A core goal of the Lao PDR's bond market development policies continues to be to establish efficient primary and secondary markets for government securities.

The legislation for corporate bonds was issued by the LSCO in December 2014. However, corporate bonds are not yet evident in the market.

### **1. Issued by the Government**

The MOF, on behalf of the Government of the Lao PDR, issues recapitalization bonds when the need arises. The government also issues arrears clearance bonds to clear government debt from state-owned enterprises (SOEs).

#### **a. Recapitalization Bonds**

By end of 2005, the MOF had issued a maximum of LAK200 billion of recapitalization bonds (recap bonds) on behalf of two state-owned commercial banks, BCEL and LDB. The government bonds had a maturity period of 5 years at a fixed per annum rate of inflation (approximately 7%–10%) plus 1%. The issuance of recap bonds not only aimed to restructure and recapitalize the state-owned commercial banks, but this activity also positively resulted in the stabilization of money supply in the economy. In addition, in September 2005, the Agricultural Promotion Bank's capital restructuring via recap bonds was evaluated and was the subject of further discussion between the MOF and the bank's management.

#### **b. Arrears Clearance Bonds**

Arrears clearance bonds are issued on an as-needed basis and priced according to market conditions at the time of issuance.

### **2. Bonds and Notes issued by the Corporate Sector**

While corporate bonds may not have been issued yet in the Lao PDR bond market, the potential issuance of corporate bonds, in particular by listed companies, continues to be an ongoing consideration. The definition and characteristics of corporate bonds are stipulated in regulations (see also section A.2).

According to the Regulation on Issuance of Corporate Bonds, an issuer will need to meet specific requirements to be able to issue corporate bonds in the form of bearer certificates or as consolidated corporate bond certificates, or global certificates,



immobilized at a CSD.<sup>11</sup> Such corporate bond features include

- i. being marketable and transferable;
- ii. having returns;
- iii. having a maturity of 1, 3, 5, 7, 10, or 15 years;
- iv. trading in Lao kip or another currency as authorized by the LSCO; and
- v. having a face value of at least LAK1 million.

In addition, the bearer certificates, or global certificates, of a corporate bond should observe a number of characteristics:

- i. name of the issuer;
- ii. number of the enterprise registration certificate of the issuer;
- iii. a certificate number;
- iv. registration date of the consolidated corporate bond certificate with a CSD;
- v. type of corporate bond;
- vi. terms and date of maturity of the corporate bond;
- vii. interest rate or yield;
- viii. amount of the corporate bond issued;
- ix. face value of the corporate bond certificate;
- x. aggregate value of corporate bonds issued;
- xi. method, place, and time for repayment of principal and interest;
- xii. signature of an authorized person and seal of the issuer; and
- xiii. rights of the corporate bondholders.

### 3. Issuance Programs

A mechanism for securities issuance programs does not (yet) exist in the Lao PDR.

## D. Money Market Instruments

Money market instruments are short(er)-term debt instruments, typically with a maturity of less than 1 year. In the Lao PDR, money market instruments are issued by the government and by the BOL, respectively, typically in the form of bills. Money market instruments issued by the private sector, such as commercial paper, have not been evident so far.

### 1. Issued by the Government

Following a directive passed in 1994, the MOF started issuing Treasury bills to meet the Lao PDR's fiscal deficits. Treasury bills are issued on a regular basis and in accordance with the annual budgetary plan approved by the National Assembly. The BOL's Banking Operations Department facilitates the auction.

#### a. Treasury Bills

Treasury bills are issued as physical certificates. Currently, Treasury bills have maturities ranging from 3 months to 1 year.

The MOF caps, or sets, the ceiling on coupon rates, depending on market conditions. At the time of the compilation of this Bond Market Guide, Treasury bills were priced at 5% per annum for a 1-year maturity, while current account deposits with banks do not yield any interest, regardless of the principal and/or tenor.

<sup>11</sup> For the detailed regulations, please see [www.lSCO.gov.la](http://www.lSCO.gov.la)

Investors may be reluctant to use Treasury bills as part of their investment portfolio because Treasury bills, by practice in the Lao PDR, are not demandable at once; rather, their tenor may be extendable by negotiation with holders, subject to the budget and liquidity status of the MOF (for the renewal process, please see section D.1). At the same time, extended and renewed Treasury bills are given a relatively higher coupon rate relative to their initial interest rate.

## 2. Issued or Transacted by the Bank of the Lao PDR

Article 36 (Buying and Selling of Valuable Instruments) of the Law on Bank of the Lao PDR enables the BOL to transact with financial institutions—its account holders—instruments such as bills of exchange, promissory notes, and certificates of deposit, as well as Treasury bonds and other securities issued by the Government of the Lao PDR or the BOL, or other publicly issued securities.

The BOL started issuing BOL bills in November 1991 and offers instruments or enters into transactions directly with commercial banks in the interbank market.

The interbank market has played an increasingly important role in the development of the financial market in the Lao PDR, compared to previously when trading was only conducted between commercial banks and the BOL. The BOL occasionally provides liquidity for commercial banks that hold Treasury bills through (i) repo, (ii) the use of a discount window, and (iii) collateralized lending.

The interbank market has evolved based on successful practices. There are no specific written regulations of BOL's Treasury bill operations and no official announcements by the BOL on a transaction schedule. Instead, a commercial bank or other financial institution in need of funds would contact the Banking Operation Department of the BOL and lodge an application for funding through one of the abovementioned transaction types. The Banking Operation Department of the BOL will consider the application and proceed with the desired transaction once approved by its director.

As there are very few secondary transfers of Treasury bills, with transactions primarily between BOL and commercial banks, physical delivery of the certificates is still a common practice for settlement.

### a. Bank of the Lao PDR Bills

The BOL started issuing BOL bills in November 1991 to manage the exchange rate and address excess liquidity. Since the original issuance, the BOL does not regularly issue BOL bills because the Law on Bank of the Lao PDR stipulates that the purpose of issuing BOL bills is for monetary policy only. Thus, when the currency exchange rate remains stable, it is not necessary for the BOL to issue bills.

### b. Repurchase Agreements

Under repo transactions, the BOL and a commercial bank sign an agreement that the BOL will purchase Treasury bills, or other acceptable debt securities or money market instruments, from the commercial bank and the commercial bank repurchases the Treasury bills or other securities from the BOL after 14 days. The repo agreement is standard for all participants (see also Chapter IV for details).

### c. Discount Window Transactions

The discount window is an operation wherein the BOL purchases Treasury bills, or other acceptable debt securities or money market instruments, from a commercial bank without a repurchase agreement. The BOL may hold the Treasury bills or other securities until their maturity, or resell them to another commercial bank.

### d. Collateralized Lending

The BOL may grant loans to its account holders, such as banks and other financial institutions, against the security of valuable documents, as defined in Article 36 of the Law on Bank of the Lao PDR, with repayment periods not exceeding 183 days and on terms and conditions determined by the BOL.

In contrast to repo, the documentation used for this transaction is a loan contract, which contains different provisions and does not need to follow the standard repo tenors.

## 3. Issued by the Corporate Sector

At present, money market instruments issued by corporate issuers, such as commercial paper, are not yet evident in the Lao PDR market. The Law on Securities does not specifically mention short-term debt instruments. The Government of the Lao PDR is drafting amendments to the Law on Enterprises, which will support the corporate bond market, including the issuance and trading of money market instruments.

## E. Methods of Issuing Bonds and Notes (Primary Market)

At present, the issuance of debt instruments in the Lao PDR market is limited to debt instruments issued by the Government of the Lao PDR and the BOL. However, the issuance of corporate bonds is a priority development objective for the policy bodies and regulatory authorities.

### 1. Methods of Government Securities Offering

The domestic offering of government bonds and bills can be done directly to investors, via auction at the BOL, or through the LSX to primary dealers. The MOF plans and gets government approval for the annual bond issuance volume using these methods, as described below.

#### a. Direct Offering to Investors

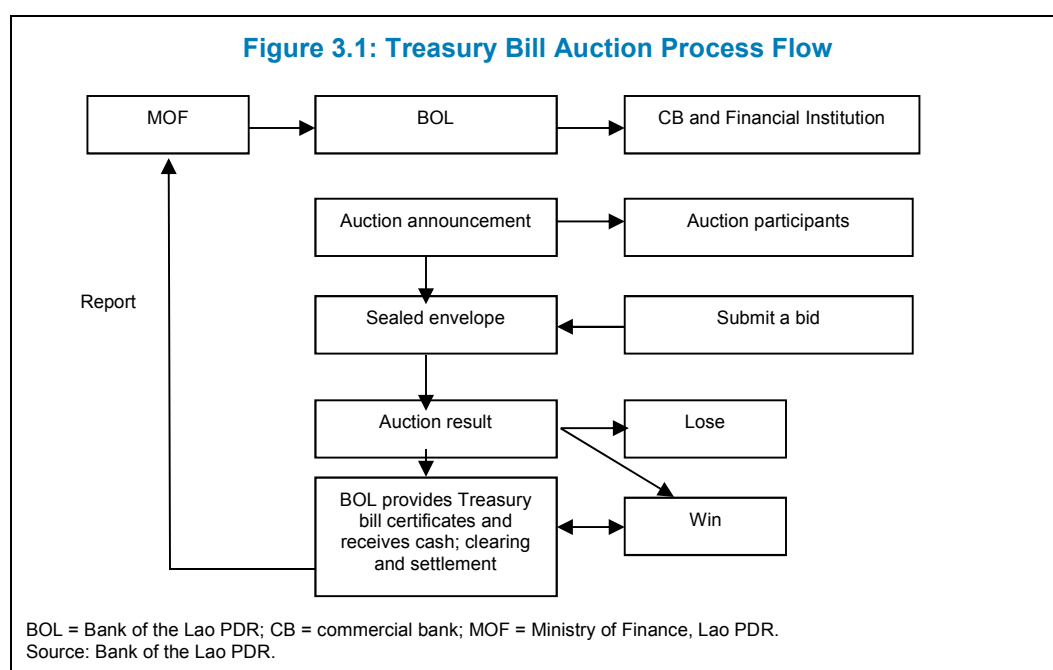
For a direct offering to domestic investors, the MOF announces the decision of such a bond issuance. Investors then transfer the requisite amount for their purchase to the account of the National Treasury with the BOL. Within 7 days from receipt of the purchase amount, the MOF issues a bond certificate to each investor, or issues a global certificate (in scripless form) to register the same, as well as the individual amounts purchased by investors, with the depository center at the LSX.

### b. Offering via Auction at the BOL

The BOL acts as the central agent of the government for the domestic offering of government securities via auction, typically in the form of Treasury bills. The auction process flow for Treasury Bills is illustrated in Figure 3.1.

The MOF announces the decision of issuance via auction and selects primary dealers.<sup>12</sup> The BOL conducts the auction among primary dealers pursuant to the auction regulations and informs participants of the bidding results. The BOL will subsequently transfer money from the winning bidders' primary dealers' accounts maintained at the BOL to the National Treasury account with the BOL within 3 days after the bidding result. The MOF will then issue a government bond certificate to the winning bidder, or issue a global certificate (in scripless form) for registration with the depository center at the LSX, within 7 days of receipt of the purchase amounts from the winning bidders.

Treasury bill auction participants comprise commercial banks and financial institutions. Participants are required to open an account at the BOL or at any licensed commercial bank in the Lao PDR. Investment in Treasury bills is open to financial institutions, SOEs, private companies, and individuals.



### c. Offering through LSX

The MOF announces the issuance of government securities and selects its primary dealers. The primary dealers must nominate a correspondent bank (commercial bank) as cash settlement agent.

The primary dealers are required to issue a prospectus for the government securities and carry out the distribution for said government securities within the

<sup>12</sup> Primary dealers include commercial banks, securities companies, asset management companies, and other financial institutions licensed in accordance with law and regulations in the Lao PDR.

period and conditions stipulated by the MOF. Primary dealers then instruct their correspondent banks to transfer the money received from the sale of government bonds to the account of the National Treasury with the BOL. The primary dealers will also issue confirmations to the investors for government securities purchased. Within 7 days from the completion of the distribution process, the MOF will issue a global certificate for the total amount of government securities placed with investors for registration with the depository center at the LSX.

#### d. **Renewal (Rollover) of Treasury Bills**

Prior to the maturity of a Treasury bill, the BOL notifies the MOF when the issue is going to be due. Should the MOF decide to renew or roll over the Treasury bill, it would give a notice on the amount and interest rate for the renewal. Holders of such a Treasury bill (usually commercial banks) bring the certificates to the MOF, upon which the MOF would stamp the reverse side of the certificates as “renewed” and indicate the renewal date and new date of maturity. The BOL would then return the Treasury bill certificate to the holder, including a new coupon.

The BOL pays the coupon for a renewed Treasury bill by crediting the commercial banks’ account opened with the BOL.

## **2. Issuance by the Bank of the Lao PDR**

### a. **Bank of the Lao PDR Bills via Auction**

BOL bill auction participants comprise commercial banks and financial institutions. Participants are required to open an account at the BOL or at any licensed commercial bank in the Lao PDR. Investment in BOL bills is open to financial institutions, SOEs, private companies, and individuals.

The auction conduct for BOL bills is comparable to the one for Treasury bills described in section 1.

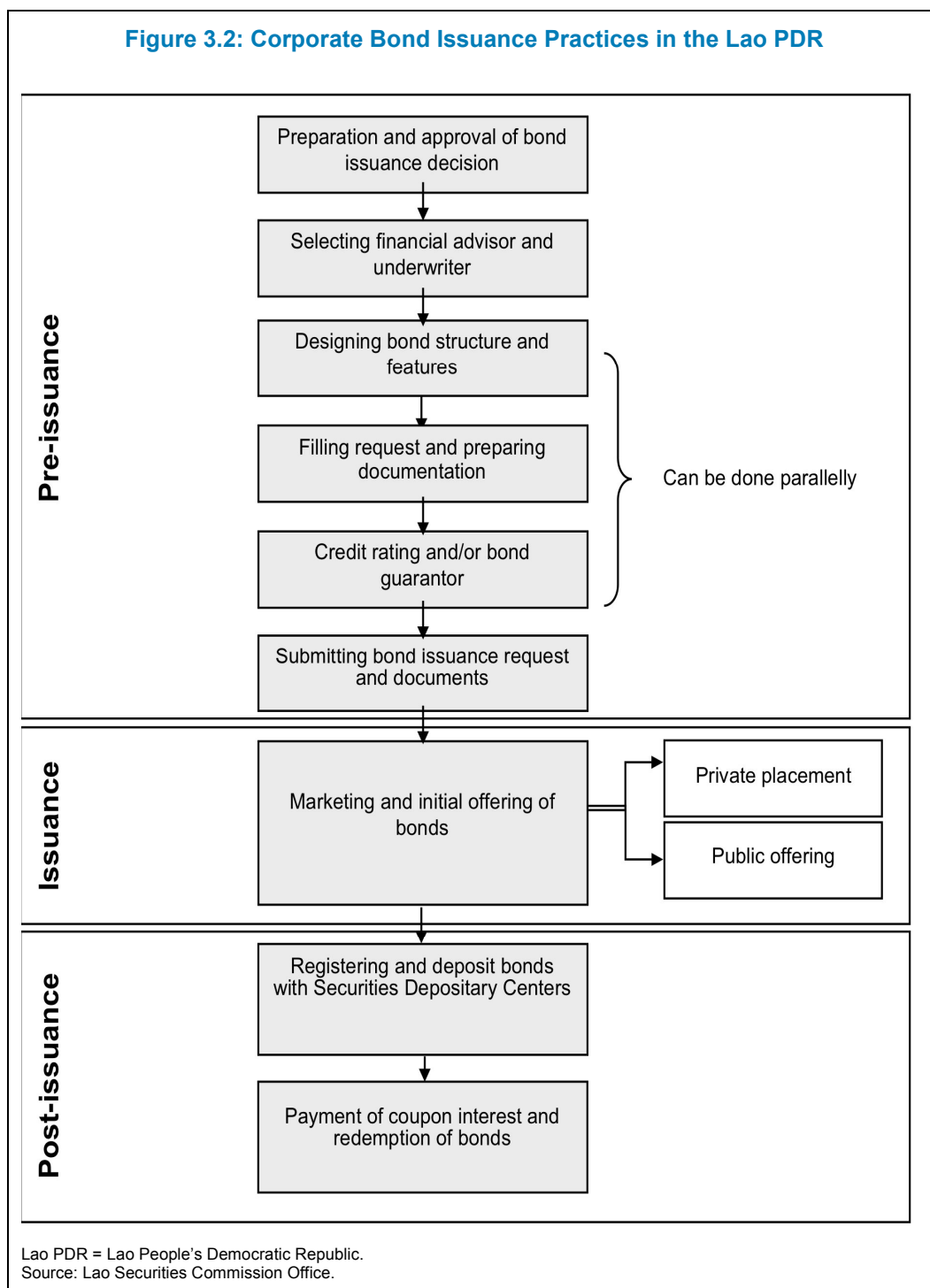
### b. **Direct Issuance**

At the same time, the BOL practices the direct issuance of money market instruments to its constituent participants. The BOL occasionally issues its own bills for its interbank market in case of an inactive market, to raise funds, and to lend to a commercial bank.

## **3. Bonds and Notes issued by the Private Sector (Corporate Bonds)**

Presently, corporate bonds and notes are not yet being issued in the Lao PDR bond market. However, the 2014 introduction of the Regulation on Issuance of Corporate Bonds set the basic features of both corporate bonds and notes and their methods of issuance.

In principle, the Law on Securities provides for the issuance of securities via private placement. For this purpose, private placement is defined as an issuance to between 30 and 100 strategic investors, both institutional investors and individuals, and subject to the further prescriptions to be issued by the LSCO. For the detailed provisions for private placements of corporate bonds, please see Chapter II.F.

**Figure 3.2: Corporate Bond Issuance Practices in the Lao PDR**

The Law on Securities enables the issuance of securities through a public offering or a private placement. In addition, the Regulation on Issuance of Corporate Bonds, published by the LSCO in 2014, introduced the ability to also issue corporate bonds via private placement. Both public offers and private placements may be made for corporate bonds in Lao kip as well as other currencies approved by the LSCO. The expected corporate bond issuance practices are illustrated in Figure 3.2.

#### a. Public Offer

Article 7 of the Regulation on Issuance of Corporate Bonds defines a public offer in the following manner:

[The] issuance of a corporate bond to the public refers to an initial public offering or public offering of a corporate bond that is advertised widely through mass media and made to more than 100 investors without giving any specification on types or groups of investors.

The provisions for public offers are contained in Chapter 2 of the regulation. To issue corporate bonds through a public offer, the issuer must be a public company or a limited company (except for a sole limited company) and will need to obtain approval from the LSCO. The approval process is explained in greater detail in Chapter II.F of this Bond Market Guide.

The requirements for approval include a minimum number of years of operation, credit rating, and specified disclosure data, as well as the submission of all contracts between parties involved. Disclosure documents include a prospectus and other information as stipulated by the LSCO. The requirements also include the appointment of a licensed custodian bank, which would be performing a bondholders' representative or trustee-type role for the bonds to be issued (also see section III.O in this chapter for more detail on the bondholders' representative or trustee function).

Issuers and their advisors will need to follow the prescribed practices for announcements to the public and advertising related to the corporate bond issuance. The actual issuance itself may be held via auction or other methods approved by the LSCO.

For details of the regulatory process for the issuance of (debt) securities via a public offer, please refer to Chapter II.F.

#### b. Private Placement

Article 6 (Types of Corporate Bond Issuance) of the Regulation on Issuance of Corporate Bonds introduced the issuance of a corporate bond via a private placement, with Chapter 3 of the regulation containing the specific provisions for such an offering.

According to these provisions, a private placement is the offer of a corporate bond to up to 100 investors in the space of 1 year, with institutional investors having to hold at least 80% of the issuance amount (Article 27). The issuer of a corporate bond to be offered via private placement needs to be established and operating for at least 1 year (Article 28).

Private placements of corporate bonds require the approval of the LSCO. For a comprehensive description of the approval process, please refer to Regulatory Processes in Chapter II.F.

As for the disclosure documents, the issuance of a corporate bond via a private placement also requires the provision of a prospectus and financial information stipulated by the LSCO, as well as a credit rating, and the appointment of the specified service providers, as prescribed for a public offer.



## **F. Governing Law and Jurisdiction (Bond and Note Issuance)**

The governing law and jurisdiction for a bond or note issuance may be of significance since potential issuers may consider issuing under the laws or jurisdiction of a country or market other than the place of issuance. The choice of governing law or contractual preferences of stakeholders may affect the accessibility to a specific investor universe that may otherwise not be accessible if a bond or note was issued under the laws of the place of issuance.

At present, the governing law and the jurisdiction of agreements by contracting parties are required to be the law and jurisdiction of the Lao PDR if bonds or notes are to be issued in the Lao PDR.

In the event that parties to a bond issuance enter into a dispute, the Law on Securities contains a number of dispute resolution mechanisms in Article 143, consisting of (i) conciliation, (ii) resolution by securities regulation (via the LSC), (iii) resolution by the Economic Dispute Resolution Center, (iv) Resolution by the People's Court of the Lao PDR, and (v) international resolution methods. In turn, Article 148 further references international methods for resolution of disputes relating to securities, which shall be compliant with the treaties and international agreements to which the Lao PDR is a party.

The dispute resolution mechanisms outlined in the law are available as options for parties in a dispute and are based on the voluntary participation by the contracting parties.

## **G. Language of Documentation and Disclosure Items**

The language of bond issuance documentation and disclosure documents is not specifically mentioned in the Law on Securities; Regulation on Issuance of Corporate Bonds, or the Regulation on Bond Listing.

Presently, all contracts, applications for securities issuance and listing, licensing or accreditation approvals, and securities issuance-related documentation and disclosure items, as well as correspondence with regulatory authorities and market institutions (if so required), must be in Lao, which is the official language of the Lao PDR.

At the same time, nothing prevents the issuer of bonds from also producing issuance documentation, such as the prospectus, in English. In fact, most of the companies presently listed on the LSX are offering a prospectus in English through the LSX Disclosure web page.

## **H. Registration of Debt Securities**

Pursuant to the Regulation on Issuance of Corporate Bonds, an issuer of a corporate bond, either to the public or via a private placement, shall register its corporate bond certificates and deposit them in a securities depository center within 5 business days from the date of obtaining the corporate bond issuance certificate from the LSCO.

## **I. Listing of Debt Securities**

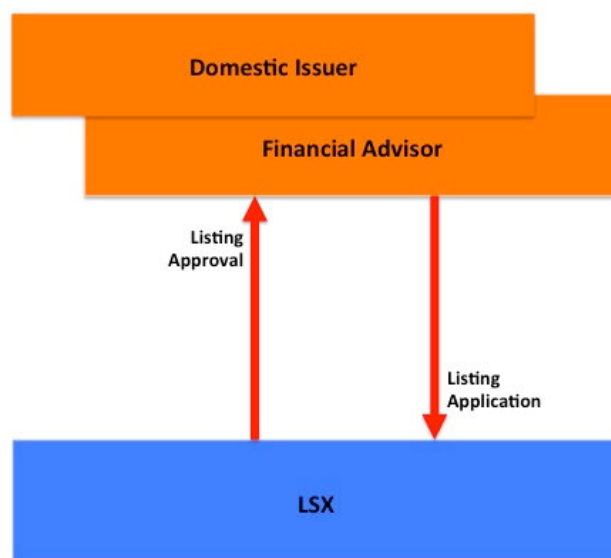
A listing of securities has been possible on the LSX since its inception in 2010. In early 2016, the LSX added its Regulation on Bond Listing to pave the way for the listing of debt securities based on the LSCO Regulation on Issuance of Corporate Bonds.

The bond trading system envisaged to be used in the market was developed by the BOL. However, for the effectiveness of the use of infrastructure and for the benefit of the capital market overall, the LSX is considering taking over the ownership and operation of the bond system.

### 1. Regulation on Bond Listing

The LSX issued its Regulation on Bond Listing on 26 November 2015 and published them in early 2016. The LSX can issue such regulations under its own name in its role as a securities exchange, pursuant to the Law on Securities (please also see the relevant information in Chapter II.D).

**Figure 3.3: Lao Securities Exchange Bond Listing Regulatory Process**



Note: LSX = Lao Securities Exchange  
Source: ADB consultants for SF1.

Article 7 of the Regulation on Bond Listing defines the bond listing applicant shall have the following criteria:

- i. have been granted LSX's listing eligibility review approval;
- ii. have disclosed company information in designated time and accurate method;
- iii. numerical requirements include that the total nominal value of the bond shall be at least LAK3 billion and the total tradable portion of the bond shall be at least LAK2 billion;
- iv. nonnumerical requirements include:
  - a. applicant shall complete a public offering,
  - b. the total bond shall be registered in the Settlement and Depository Department of the LSX,

- c. there shall be no restriction on the transfer of bonds;
- d. there shall have transfer agent agreement with LSX; and
- e. bond certificate shall be accurate and comply with uniform bond certificates as stated in related laws and regulations; and
- v. other matters that the LSX deems necessary for the public interest and the protection of investors.

## 2. Actual Bond Listing

Issuers must meet the listing requirements prescribed in the Regulation on Bond Listing (see previous section). The present listing process is straightforward, as shown in Figure 3.3, and is explained in its individual steps below. For reference, listing information and regulation are available on the LSX website.<sup>13</sup>

### Step 1—Listing Application to the Lao Securities Exchange

The issuer (and/or the Financial Advisor) will submit the LSX application form for a listing eligibility review. The application may be submitted in parallel with the bond issuance application to the LSCO.

The listing application follows format and content requirements stipulated in the LSX Regulation on Bond Listing and the issuer and the securities will have to meet the established eligibility criteria.

### Step 2—Listing Eligibility Review and Notification of Result

The LSX will review the listing eligibility of the issuer and the securities proposed to be listed, and assess the content and completeness of the application and supporting documents.

The LSX will notify the issuer of the results of the listing eligibility review within 15 business days after the date of receipt of the completed application. The results are reflected in an LSX Board of Directors meeting resolution on the listing eligibility review. A positive listing eligibility review is required to proceed to step 4.

### Step 3—Public Offer

The issuer will proceed with the public offer, subject to approval from the LSCO. The public offering has no direct bearing on the listing itself, but is a prerequisite for the submission of the final listing application.

### Step 4—Completed Listing Application and Listing

After completing the public offering of the corporate bonds, the issuer shall submit the final listing application to the LSX, which shall notify the result of the listing to the applicant within 7 business days, subject to the approval of the LSX's CEO. Then, the listing and trading of the bonds may commence.

## J. Methods of Trading Bonds and Notes (Secondary Market)

The trading of debt securities in the Lao PDR bond market is presently limited to government securities transactions in the interbank market, which consists of transactions between the BOL and its constituents, or between participating financial institutions.

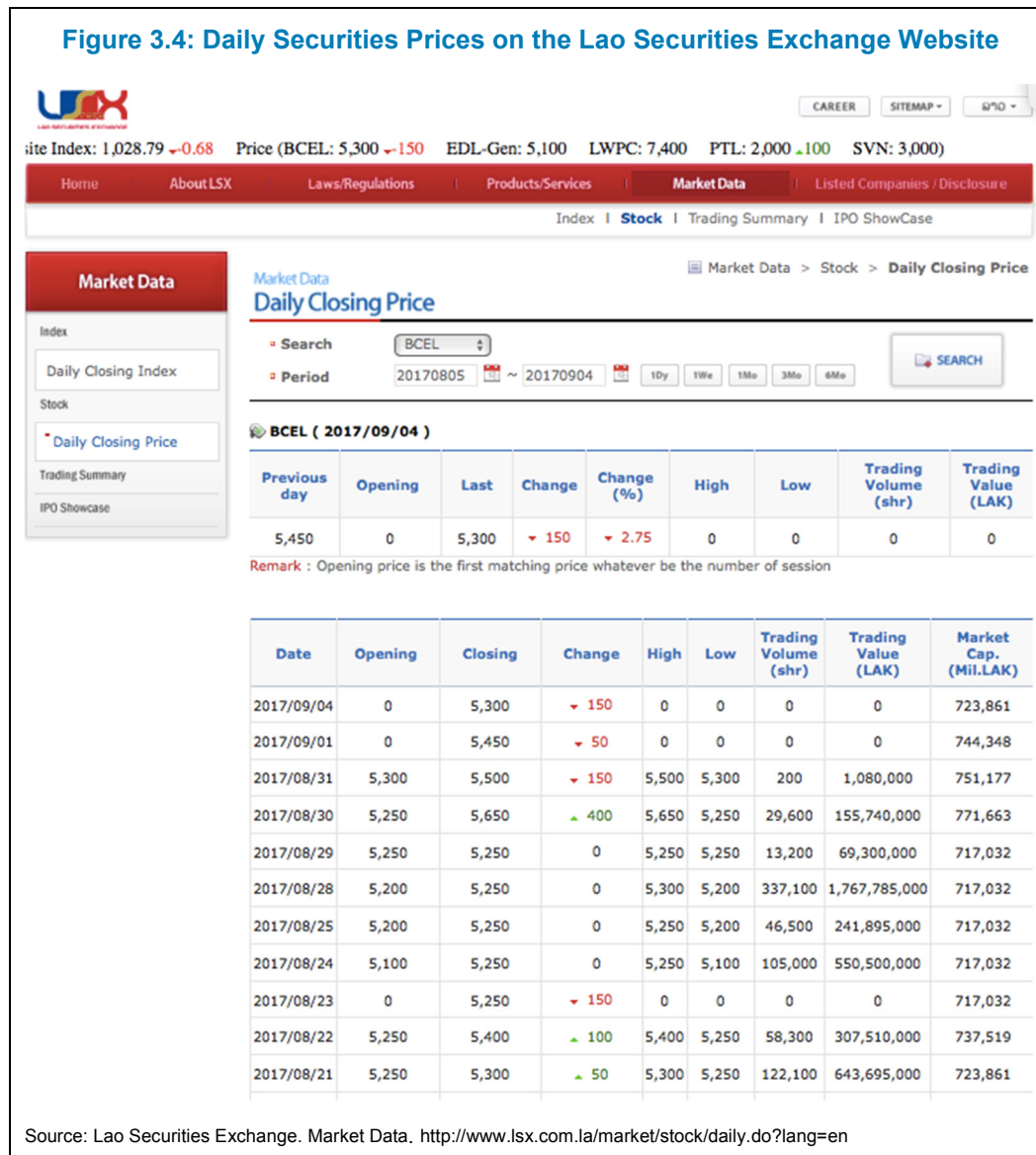
<sup>13</sup> See <http://www.lsx.com.la/en/product/listing.jsp>

The trading of debt securities on the LSX is envisaged once corporate bond issuance has commenced. The LSX is in the process of completing the development of its bond trading platform. In addition, the LSX is also amending its Regulation on Market Operation to accommodate the new bond trading platform.

Details on interbank market trading, proposed bond trading on the LSX, and some details on current trading practices are contained in Chapter IV.

## K. Bond and Note Pricing

Figure 3.4: Daily Securities Prices on the Lao Securities Exchange Website



A dedicated securities pricing agency does not yet operate in the Lao PDR. However, the securities presently issued in the market are priced at least daily and competitively in their respective market segment: the LSX for listed equities and, potentially, listed bonds; the BOL for Treasury bills and BOL bills.

### **1. Pricing of Securities on the Lao Securities Exchange**

The description below is based on the trading of equities on the LSX, with the listing (and pricing) of debt securities still pending, but may be expected soon, since appropriate regulations and listing rules are already in place.

Trades in securities listed on the LSX are executed based on a continuous auction concept, taking into consideration ask and bid quotations, first using price and then time priority principles (for details, please see Chapter IV). Orders from buyers and sellers are matched according to the predetermined execution principles, allowing for a representative price finding mechanism for the securities. As such, the price finding represents the current market.

In addition to the prices of securities from the executed trades, the LSX determines a daily closing price for each of the listed securities.

The LSX publishes comprehensive data on daily trading activities on its website. An example of the data published is shown in Figure 3.4.

### **2. Pricing of Treasury Bills Issued by the Ministry of Finance, Lao PDR**

While the BOL acts as agent for the government during the issuance of Treasury bills to the market, the price setting of the Treasury bills is done through an auction process at the time of issuance, or in the case of a renewal, by the MOF (see also section D.1 in this chapter).

### **3. Pricing of Bills Issued by the Bank of the Lao PDR**

The BOL determines the price of BOL bills, if the issuance is warranted (see also section D.2 in this chapter) according to market demand or policy objectives at the time of issuance or transactions with its constituents in the interbank market. Trades between interbank market participants are priced on a transaction basis.

## **L. Transfers of Interest in Bonds and Notes**

Legislation and regulations in the Lao PDR contain the concept of registration of securities for the purpose of evidence of ownership. However, registration is not mandatory to prove ownership of securities, particularly for debt securities, which are largely issued and circulated in the form of physical certificates. In principle, however, legal ownership changes when the transfer is recorded in the book of the securities registrar, depending on the type of instrument.

### **1. Securities Issued by the Government of the Lao PDR and the Bank of the Lao PDR**

The Government of the Lao PDR issues Treasury bills via the BOL, and the BOL issues BOL bills directly to interbank market participants. BOL acts as registrar for the Treasury bills it issues on behalf of the government. At the same time, the MOF may also issue Treasury bills directly to specific investors such as state-owned banks. In such cases, the MOF keeps the investor details and acts as registrar for these holdings. Treasury bills and BOL bills are issued in physical form. However, market participants or other investors may not have their Treasury bills or BOL bills registered in their name prior to presentation of the certificate for redemption, but instead keep the physical certificates until maturity. As such, ownership and transfer of ownership of these instruments is based on a bearer concept.

## 2. Bonds to be Listed on the Lao Securities Exchange

In contrast, corporate bonds are issued in physical form but need to be deposited in the form of jumbo or global certificates with the LSX, as the sole CSD in the Lao PDR, to be eligible for listing and trading on the LSX. Hence, the securities effectively become immobilized. As such, securities listed and traded on the LSX are registered in the books and records of the LSX (depository center), which also performs the registrar and transfer agent functions in the exchange market. Settlement of LSX transactions is on T+2.

In the LSX (depository center), securities are transferred by book-entry—the recording of an applicable debit or credit of the amount of securities in the member accounts—without the actual movement of physical certificates. In turn, members will record the transfer of securities in their own books and records and in the accounts maintained by their clients.

At the time of the compilation of this Bond Market Guide, Article 3 (Definition of Terms) of the Decision on Transfer of Listed Shares, No.0025/LSC, which was released in 2016, defines transfer procedures only for shares, which are listed on the LSX. An English version of this decision is available on the LSCO website.<sup>14</sup>

## 3. Prohibited Transfers

The Regulation on Securities Transfer issued in late 2016 establishes provisions on prohibited transfers of shares at the LSX. At the same time, regulations that provide for the concept of transferring bonds and notes (other than through trading) have not yet been promulgated (see also 2 above).

## M. Market Participants

Given the fact that the Lao PDR in principle still has a bond market in the early stages of development, it features a full complement of typical market participants, all of which are to be licensed or approved by the relevant regulatory authorities.

A primary dealer system has not yet been established by either the MOF or the BOL. Market participants for the purposes of debt securities issuance, trading, and servicing are defined below. However, the Decree on Government Bonds contains provisions on the establishment and mechanisms of a primary dealer system.

### 1. Issuers

Issuers of government securities presently include the MOF, either directly or through the BOL, and the BOL for its own instruments.

Corporate bond issuers may be SOEs, which are not considered under government securities, as well as public and publicly listed companies and private companies, including foreign issuers eventually (see also Chapter II.M).

### 2. Investors

The Lao PDR market already features a number of the key investor types normally evident in an established bond market.

<sup>14</sup> See [http://www.lsc.gov.la/Doc\\_legal/8.%20Decision%20on%20Transfer%20of%20Listed%20Shares\(E%20version\).pdf](http://www.lsc.gov.la/Doc_legal/8.%20Decision%20on%20Transfer%20of%20Listed%20Shares(E%20version).pdf)

#### a. Banks

Banks typically are active participants in the bond market, either on behalf of their customers or for proprietary purposes. In most markets, banks are permitted to hold bonds of a certain quality as part of their minimum reserve requirements.

In the Lao PDR, banks may buy Treasury bills or BOL bills from the BOL or other interbank market participants, and may hold these short-term instruments for their clients or their own account.

#### b. Pension Funds

Pension funds by their very nature are a key investor in debt securities. In the Lao PDR, the Social Security Organization, which oversees employees' social security funds, began investing in Treasury bills in 2006.

#### c. Insurance Companies

Given the nature of the insurance business and the need to observe prudential capital requirements, insurance companies are typical investors in the bond market. At present, the absence of longer-term debt securities in the bond market in the Lao PDR may represent pent-up appetite among insurance companies for a new tenor to invest in (e.g., government and corporate bonds when those are eventually issued).

LSC legislation and regulations do not contain provisions that prohibit insurance companies from participating in the bond market in the Lao PDR.

#### d. Retail or General Investors

Individual investors may not be an immediate investor type once the bond market in the Lao PDR is fully established. At the same time, individual investors are referenced in the Regulation on Issuance of Corporate Bonds as an eligible investor class.

#### e. Public Funds (Collective Investment Schemes)

Public funds are described in the Law on Securities as the term used for collective investment schemes. Such mutual funds or unit trusts are typical key investors in debt securities.

At the time of compilation of this Bond Market Guide, the LSCO was researching how to implement regulations and market practices on such collective investment schemes.

#### f. Foreign Institutional Investors

Foreign institutional investors are principally able to participate in the securities market at large (see also Chapter II.O).

### 3. Parties Involved in Debt Securities Issuance



Part IV of the Law on Securities defines the types of intermediaries for the Lao PDR capital market and their eligibility criteria, licensing, and operational requirements.<sup>15</sup> These intermediaries include securities companies, Financial Advisors, securities brokers, asset management companies, and custodian banks. Audit companies that wish to audit securities market participants need to be approved by the LSCO.

The law also includes provisions for credit rating agencies and securities business organizations, which are further described in the relevant sections in this Bond Market Guide. Correspondent banks of the LSX, which are banks that conduct cash settlement for transactions executed on the LSX, are not specifically mentioned in the law or in LSCO regulations. Instead, their participation and service provisions fall under the banking law and subsidiary regulations.

As a practical guide, the present market participants involved in the issuance of debt securities, or those participants that are by their license or function already positioned to participate in the bond market, are reviewed below.

#### a. Banks

Banks are able to participate in the securities market as cash account holding institutions for investors and other market intermediaries, and as so-called correspondent banks for cash settlement of securities transactions on the LSX.

At the same time, banks may participate in the interbank market, both in transactions facilitated by the BOL and with other financial institution counterparties. Banks may buy, sell, and underwrite debt instruments in the interbank market.

#### b. Securities Companies

Chapter I of Part IV of the Law on Securities is dedicated to the definition, application, incorporation, and eligibility of securities companies and their conduct and operation. The LSCO will issue a securities business professional license to a successful applicant.

Securities companies can operate any of the following businesses:

- i. Financial Advisor;
- ii. securities broker; and
- iii. securities underwriter.

A securities business operation wishing to add or change its business to become a securities broker or a securities underwriter shall be approved by the LSCO (under Article 65). A securities company may also conduct the activities of a Financial Advisor following separate approval from the LSCO.

At the time of compilation of this Bond Market Guide, three securities companies, which were also approved as securities brokers and underwriters, had been issued licenses by the LSCO. The license refers to securities in totality with no specific mention of debt securities.

#### c. Financial Advisor(s)

A securities company approved to be a Financial Advisor can provide advice relating to the restructuring of organizations, corporate governance, finance, business operation, and other business activities for the preparation of the

<sup>15</sup> Text in part adapted from the Law on Securities.

issuance of securities to the public and a listing on the securities exchange. The Financial Advisor license is different from that of an underwriter and requires a separate approval from the LSCO for a specific change of the securities company's securities business operation.

The function and use of the term Financial Advisor is specific to the Lao PDR market in that the Financial Advisor may perform roles that may typically be performed by a traditional underwriter or investment bank. The term and its functions and licensing are specifically mentioned in the Regulation on the Issuance of Corporate Bonds and the Regulation on Management of Securities Professionals.

A Financial Advisor is employed by the issuer and may be involved in the determination of funding strategies, including the issuance of bonds or notes. The Financial Advisor is also required to assist in the compilation of issuance documentation and disclosure items before filing or submitting issuance applications to the relevant regulatory authorities.

#### d. Lao Securities Exchange as Securities Registrar, Securities Transfer Agent, and Paying Agent

The LSX is the sole central depository center—the domestic term for a CSD—in the Lao PDR. To be eligible for listing and trading on the LSX, securities are to be deposited into the LSX, which acts as registrar for said securities, pursuant to provisions in Part V of the Law on Securities. As the sole depository, the LSX also provides services to an issuing corporation in the form of transfer of title and issuing-agent and paying-agent services for the securities listed on its market. In support of these services, the LSX keeps a book-entry system and safekeeping facilities. The operational provisions are contained in the Regulation on Securities Transfer Agent issued in 2011.

#### e. Bondholders' Representative or Bond Trustee

There is no separate entity acting as bondholders' representative or trustee for bondholders in the Lao PDR. Instead, this role is implicit in the function of a custodian bank under the provisions in the Law on Securities. Please also see section Q in this chapter for details.

#### f. Custodian Banks and Settlement Agents

As defined in Chapter 3 of Part IV of the Law on Securities, a custodian bank is a domestic or foreign commercial bank, granted with an approval from the LSCO, to act as a custodian to protect and supervise the assets of investors. While the licensing and supervision as a bank is handled by the BOL, the LSCO issues a separate custodian bank license upon successful application.

According to Article 82, the business operations of a custodian bank can include the following activities:

- i. protection and supervision of cash, securities, or other assets of investors;
- ii. clearing and settlement of securities transaction;
- iii. transfer of securities;
- iv. registration of securities accounts;
- v. acting on behalf of investors to protect rights and other benefits that investors are entitled to;

- vi. preparation of report relating to securities business operation in order to provide for investors;
- vii. examination, inspection, and evaluation of the compliance of rights and duties of public fund managers as specified in by-laws of public funds or public fund contracts; and
- viii. exercise of other rights and performance of other duties as assigned by investors.

Custodian banks are not direct members of the LSX, but participants in the LSX for its depository center function. In the context of a debt securities issuance, the custodian bank also performs a bondholders' representative or trustee-like function in the interest of investors (see section Q in this chapter).

At present, one custodian bank operates in the Lao PDR capital market.

#### g. Law Firms

Law firms are not required to be approved by the LSCO for providing services to securities market participants or, specifically, in the context of a securities issuance.

#### h. Audit Firms and Auditors

Pursuant to Chapter 4 of Part IV of the Law on Securities, accounting and audit firms, which are collectively referred to as audit companies, that provide audit services to the securities exchange, issuers, listed companies, public funds, and securities intermediaries (and their individual auditors) require the approval of the LSCO. To obtain such approval, a professional accounting or audit firm and its auditors must meet a number of requirements—which include a minimum amount of capital, number of staff and clients, and years in operation—and must also be members of the Lao Association of Accountants and Independent Auditors.

The approval of an audit company has a validity of 3 years. An accounting or audit company wishing to renew its approval shall submit an application to the LSCO at least 45 days prior to the expiration date of such a term.

At the time of compilation of this Bond Market Guide, four accounting and audit firms had been approved by the LSCO.

## N. Definition of Investors

At the time of writing this Bond Market Guide, definitions of professional investors, a professional bond market segment, and a securities market aimed solely at professional or institutional investors had not yet been established in the Lao PDR. Instead, legislation and regulations refer to institutional investors or strategic investors, depending on the available unofficial translations of those regulations.

Going forward, market participants may be termed professional investors through legislation or regulations.

### 1. Institutional Investors

Article 3 of the Law on Securities defines institutional investor as an investor who is a juristic person, such as a commercial bank, public fund, insurance company, or social security fund. Institutional investors are further referenced in the Regulation on

Issuance of Corporate Bonds as having to constitute 80% of a bond issuance (and the total number of investors to be not more than 100 within a period of 1 year) for it to be considered a private placement. The term strategic investors is also used in the securities issuance part of the law but is not further explained in the definitions.

## **2. Individual Investors**

There is no official definition in legislation or regulation of retail or public investors. Instead, the applicable provisions for the bond market refer to individual investors, being distinct from institutional investors, as is also the case in the prescriptions for private placement in the Regulation on Issuance of Corporate Bonds. Other instances simply refer collectively to investors or use the term public.

## **O. Credit Rating Requirements or Use of Guarantor**

This section covers the applicable credit rating requirements for bonds and notes issued in the Lao PDR bond market. For details on the underlying regulations on credit rating agencies and their business, please refer to Chapter II.N.

The credit rating requirements for corporate bonds are contained in the Regulation on Issuance of Corporate Bonds and apply to both public offers and private placements.

Article 14 states that an issuer of corporate bonds needs to be rated by a credit rating agency, with a rating of at least BBB. The issuer may use a foreign credit rating agency, subject to its approval by the LSCO.

In the event that no credit rating for the issuer is available, or the issuer rating is below BBB, the use of a guarantor for the corporate bond would be possible (Article 15).

## **P. Market Features for Investor Protection**

Although still nascent in nature, the Lao PDR bond market already provides a number of measures to protect the interest of investors.

For the protection of investors, the LSCO generally sets forth daily limitations on share price movements to stay within  $\pm 10\%$  in comparison to the previous day's closing price, as stipulated in the Regulation on Market Operation, No.007/LSX (2015) and the Regulation on Management of Foreign Investors Conducting Trading Activities in the Securities Exchange, No.005/LSC (2015) issued by the LSCO. Also, the LSCO has incorporated many aspects of corporate governance into its regulatory framework and in promoting good corporate governance. The LSCO has worked closely with domestic and international experts and the industry to develop guidelines for good corporate governance. Some other examples of investor protection features are mentioned below.

### **1. Legal and Regulatory Framework**

The LSC and the LSCO have put in place a comprehensive legal and regulatory framework containing many measures to ensure a free, organized, and transparent marketplace for all participants. The Law on Securities contains provisions for timely reporting and disclosure from issuers; adequate licensing criteria and supervision of market participants; as well as definitions of insiders and market manipulations and their corresponding prohibition, investigation, and penalties.

## 2. Risk Protection Fund (Clearing Risk Fund)

Article 112 of the Law on Securities provides for the establishment and management of a Risk Protection Fund, also referred to as Clearing Risk Fund, by the securities exchange operator, to protect members and participants, and their underlying investors, against payment risk in case any member is unable to comply with their payment or delivery obligations.

Pursuant to the above provisions, the LSX issued the Regulation on Joint Compensation Fund in July 2013. The regulation text is available on the LSX website.<sup>16</sup>

## 3. Implied Bondholders' Representative or Trustee Function

Although no defined bondholders' representative or trustee concept exists in the Lao PDR, the protection of investor interests and the safeguarding of investor assets has been incorporated into the function of the custodian bank (see also section Q).

## Q. Bondholders' Representative or Trustee Function in the Lao PDR Bond Market

The Law on Securities provides for a bondholders' representative or trustee-type function in the context of the issuance of debt securities. This function is to be performed by a custodian bank.

Under Article 78 of the law, a custodian bank is a domestic or foreign commercial bank, granted with an approval from the LSCO, to act as a custodian to protect and supervise the assets of investors. In turn, Article 82 prescribes that a custodian bank shall act on behalf of investors to protect rights and other benefits that investors are entitled to. In addition, Article 8 of the Regulation on Issuance of Corporate Bonds stipulates that the requirements for the issuance of corporate bonds are to include a custodian bank providing monitoring and custodian services for the interests of corporate bondholders.

## R. Bankruptcy and Insolvency Provisions

The Law on Bankruptcy of Enterprises, also known as the Bankruptcy Law, was adopted by the National Assembly in October 1994 and promulgated by the President in November 1994. It stipulates the comprehensive treatment of a bankrupt enterprise, covering bankruptcy petition, control of assets under the Asset Supervision Committee assigned by the court, meetings of creditors, reorganization of enterprises, liquidation of assets, and distribution of assets. According to Article 15 of the law, the Asset Supervision Committee comprises creditor and debtor representatives, court and financial authority employees, as well as workers' representatives of the debtor enterprise. The rights and duties of the Asset Supervision Committee are set out in Article 18 and include the determination of the debtor's assets and liabilities and the debts owed to each creditor. The Asset Supervision Committee is liable to the court regarding the performance of its duties.<sup>17</sup>

With regard to provisions relating to the bankruptcy of securities market participants, the Law on Securities stipulates the dissolution of a securities company (Article 71)

<sup>16</sup> See <http://www.lsx.com.la/rules/regulations/listPosts.do?lang=en>

<sup>17</sup> The text of the Bankruptcy Law may be found on the website of the Bank of the Lao PDR at <http://www.bol.gov.la/english/law%20on%20enterprise%20bankruptcy1.html>

and the dissolution of an asset management company (Article 77), while the dissolution or treatment of other securities market participants relative to bankruptcy follows the Bankruptcy Law.

The use of clauses on bankruptcy or insolvency in disclosure and other documentation related specifically to the issuance and servicing of debt securities is expected to evolve in line with the development of the Lao PDR bond market.

## **S. Event of Default and Cross-Default**

The Regulation on Issuance of Corporate Bonds is silent on the definition of and manner in which provisions on an event of default should be specified. Instead, descriptions of event(s) of default are contained in the terms and conditions of the bond in the prospectus.

# Bond and Note Transactions and Trading Market Infrastructure

## A. Trading of Bonds and Notes

The bond market in the Lao PDR is still at a nascent stage of development. While the government has issued debt securities, the issuance of corporate bonds is not yet evident in the market, since the underlying regulations are fairly new. An OTC market has not yet been established, other than the interbank market for money market instruments. At the same time, some of the infrastructure required for a domestic (corporate) bond market is already in place; the relevant details are described in this chapter.

Information on additional subjects—such as market monitoring and reporting, bond yield curve and indices, and repo and securities lending businesses—will be made available in this Bond Market Guide once the features of the Lao PDR bond market mature accordingly.

Although the bond market in the Lao PDR is still in its beginning stages, the trading of debt instruments can be conducted in the interbank market or, at least in principle, on the LSX.

### 1. Interbank Market

At present, the BOL trades Treasury bills with its financial institution constituents in the interbank market on a bilateral basis. Such trading activities could also include repo transactions of debt instruments.

At the same time, these financial institutions may trade Treasury bills and other instruments among themselves, again on a bilateral basis. Transactions are typically concluded over the phone and settlement involves the physical delivery of debt instrument certificates against a fund transfer via the counterparties' cash accounts with the BOL.

### 2. Bond Trading on the Lao Securities Exchange

In principle, the listing and trading of debt securities on the LSX is possible. The LSX issued its Regulation on Bond Listing in 2015 and updated its Regulation on Market Operation in early 2016 to accommodate debt securities alongside the existing equities listing and trading operations.

Following the release of dedicated regulations on the issuance of corporate bonds by the LSCO in 2014, the subsequent issuance and listing and trading of corporate debt instruments is expected in the near future.



## B. Trading Platforms

### 1. Interbank Market

Participants in the interbank market typically use the phone to trade money market instruments, chiefly Treasury bills, with counterparties. An inter-dealer broker concept has not yet been established in the Lao PDR. Individual market participants may use electronic means to communicate and even conclude transactions in the interbank market with specific counterparties.

At the same time, financial institutions use in-house trading or securities movement and control systems, either bought from vendors or built in-house, to record trades in such instruments.

To the extent that market participants trade international securities in overseas markets, the use of global trading or information platforms, such as Bloomberg or Reuters, may be employed.

### 2. Lao Securities Exchange

The LSX was officially opened on 10 October 2010. The LSX is a joint venture between the Government of the Lao PDR (51% ownership), represented by the BOL, and Korea Exchange (49% ownership). The trading platform of the LSX and its procedures were, to a certain degree and as practical, adopted from Korea Exchange systems and processes. Since Korea Exchange is one of the few exchanges in ASEAN+3 with significant bond trading volume, the key functionality for the trading of debt instruments on the LSX is principally in place.

The LSX has four member firms, all of which are licensed securities companies (see Chapter III.L for further details). In addition, the correspondent or settlement banks are considered to be participants of the exchange. Investors intending to trade on the LSX will need to open an account with one of these member firms, as well as an account with a designated correspondent bank for the cash settlement of executed trades.

#### a. Trading Days and Trading Hours

Trading days are from Monday to Friday, with the exception of Lao PDR public holidays, and the last 3 business days of every year.

Normal trading hours are 8 a.m.–11:30 a.m. and are divided into three sessions as shown in Table 4.1.

**Table 4.1: Lao Securities Exchange—Trading Hours**

Continuous Trading Session	Start Time	End Time
Opening Call Auction	8:30 a.m.	9 a.m.
Continuous Auction	9 a.m.	11:20 a.m.
Closing Call Auction	11:20 a.m.	11:30 a.m.

Source: LSX website. [http://www.lsx.com.la/en/product/trading\\_equities3.jsp](http://www.lsx.com.la/en/product/trading_equities3.jsp)

## b. Trade Execution

The LSX adopts an auction market concept for trade execution. Multiple orders competing for trade execution are matched by the exchange system based on price and time priority.

The minimum trade size, tick size, and other conditions for debt instrument trading have yet to be confirmed and published by the LSX. For details on fees relating to the trading of instruments on the LSX, please refer to Chapter VI.

Further information on the trading procedures, market operations, trade execution, and market management practices and conventions is best accessed through the LSX website.<sup>18</sup>

The LSX has completed the development of a bond trading platform for both corporate and government bonds, which is ready to operate (see also Chapter X.B). In conjunction with this development, the LSX is amending its Regulation on Market Operation to support the new bond trading system.

## C. Mandatory Trade Reporting

There is no mandatory trade reporting function, or underlying legal or regulatory requirement, in the Lao PDR bond market at present. The LSCO may consider establishing such a mechanism once an OTC market is in place and sufficient transactions have been observed.

At the same time, trades in instruments on the LSX are already concluded and reported via the LSX trading platform and published as part of the end-of-day (closing) data on the LSX website.

## D. Market Monitoring and Surveillance in the Secondary Market

Article 106 (Rights and Duties) in Part V (Securities Exchange) of the Law on Securities empowers the LSX to conduct listed securities trading surveillance and develop adequate market surveillance mechanisms.

The LSX performs market monitoring and surveillance to ensure that all trading activities comply with relevant laws and regulations, and acts as the frontline regulator to detect any unfair trading practices. The monitoring of activities is carried out on a daily and periodical basis.

## E. Bond Information Services

At present, a dedicated resource for bond information, such as a website or education center managed by the regulatory authorities or market institutions, does not yet exist in the Lao PDR. However, as the development of the domestic bond market gains momentum with the future issuance of corporate bonds, such resources for interested and targeted investors are expected to become available.

<sup>18</sup> See [http://www.lsx.com.la/en/product/trading\\_equities4.jsp](http://www.lsx.com.la/en/product/trading_equities4.jsp)

In the meantime, investors and interested parties should use the websites of the LSCO and the LSX to conduct research on debt securities and their issuance, trading, clearing, and settlement practices. Please see Appendix 1 for details.

## **F. Yields, Yield Curves, and Bond Indices**

At present, there are no market or instrument-specific yield curves available in the Lao PDR bond market.

At the same time, the MOF is planning to establish benchmark bonds, which will lead to the creation of yield curves in the medium-term.

In addition, market intermediaries and information vendors may track yields of existing government securities and produce yield curves for their own purposes or for the provision of securities related services to their clients.

## **G. Repurchase Market**

### **Repurchase Market Overview**

The BOL is conducting repo transactions with its constituent participants in the interbank market as part of its open market operations. The BOL in effect conducts a discount window with banks using available government bonds and bills in both Lao kip and US dollars. At present, two transaction types are evident: (i) 14-day repo and (ii) outright (90 days remaining). The repo and outright interest rates are announced by the BOL on a monthly basis.

In turn, the commercial banks or other financial institutions are principally able to enter into repo transactions with one another, using the same bonds or money market instruments issued and traded by them with the BOL. However, at the time of the completion of this Bond Market Guide, the market had not yet observed such transactions between counterparties.

## **H. Securities Borrowing and Lending**

At present, the LSCO has not yet permitted the conduct of securities borrowing and lending transactions in the Lao PDR, or issued any relevant notices or opinions on this securities business type. Prevailing legislation and regulations do not contain provisions on securities borrowing and lending.

# Description of the Securities Settlement System

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This chapter, as included in the original ASEAN+3 Bond Market Guides published in 2012, has been discontinued in favor of a more comprehensive and updated description in the Phase 2 Report of ABMF Sub-Forum 2 (SF2), Information on Transaction Flows and Settlement Infrastructures, dated 13 June 2014. The SF2 Phase 2 report contains information on the post-trade features of the Lao PDR bond market, its market infrastructure and settlement systems, interest payment and redemption practices, as well as market and message standards (pp. 186–193). In addition, the SF2 Phase 2 report contains detailed infrastructure and transaction flow diagrams for the Lao PDR (pp. 491–505).

The SF2 report is available at <https://asianbondsonline.adb.org> as well as through a number of mirror sites.<sup>19</sup>

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<sup>19</sup> See <http://www.adb.org/publications/asean3-information-transaction-flows-and-settlement-infrastructures>

# Bond Market Costs and Taxation

This chapter details the typical costs incurred by issuers and investors in the Lao PDR bond market, with a number of the applicable fees described as evident in the equities market where no specific fee levels for corporate bonds have yet been established.

For ease of reference, the descriptions of the types of costs are given in the context of the actions to be taken by issuers and investors (as explained in this document), and follow the lifecycle of a bond or note in the Lao PDR bond market.

## A. Costs Associated with Corporate Bond Issuance

### 1. Application for Issuance Approval from the Lao Securities Commission Office (Mandatory)

Pursuant to the Law on Securities and other regulations, the issuance of corporate bonds requires the approval of the LSCO, which applies a number of fees and charges to the approval process as well as during the lifecycle of the corporate bond.

#### a. Application Fee

The application fee covers the application process, the need for the LSCO to review the application and check the submitted documents. The application fee amounts to LAK15 million and is payable by the issuer. Payment needs to be made at the time of submission of the issuance application.

#### b. Annual Fee

During the lifecycle of the corporate bond, the LSCO levies an annual fee of LAK10 million. Payment for this fee is expected in the first quarter of each financial year during the tenor of the bond, starting from the year after the one in which the registration for the initial public offering of a corporate bond was made.

### 2. Financial Advisor Fee (Mandatory)

The appointment of a Financial Advisor is mandatory in the context of the issuance of corporate bonds in the Lao PDR, for both public offers and private placements. By regulation, the Financial Advisor is to help the issuer in the raising and submission of the application for issuance approval, prospectus, and other documentation.

There is a fee for the services provided by the Financial Advisor, which should be expected to follow market conditions once corporate bond issuance in the Lao PDR is more established and may be subject to negotiation between the issuer and the Financial Advisor.

### 3. Underwriter Fee (Mandatory)

Relevant regulations prescribe the issuer using the services of an underwriter when planning to issue corporate bonds in the Lao PDR. Depending on the size of the issuance, there may be more than one underwriter, with one of them designated as lead underwriter.

The underwriter is also responsible for the actual issuance of the corporate bond certificates to the investors in the case of a public offer or a private placement.

An underwriter will charge a fee, typically commensurate with the assigned tasks as well as with the risk of taking over parts or all of a corporate bond issue from the issuer. Such a fee should be expected to follow market conditions once corporate bond issuance in the Lao PDR is more established and may be subject to negotiations between issuer and underwriter.

### 4. Guarantor Fee (Conditional)

The Regulation on Corporate Bond Issuance prescribes that a guarantor is required in the event the credit rating of the issuer is lower than BBB. If so, the issuer needs to appoint a guarantor who will charge a fee commensurate with the risk of the transaction.

### 5. Fees to Lao Securities Exchange as Registrar and Transfer Agent

The LSX provides services to an issuing company, such as transfer of title, acting as issuing agent and performing the role of paying agent. In support of these services, the LSX maintains a book-entry system and safekeeping facilities. Under the Securities Transfer Agent Regulation, the LSX collects fees corresponding to the individual services it performs, as follows:

#### a. Transfer Agent Registration Fee

At the time of the first registration of securities at the LSX, in relation to the appointment of the LSX as a transfer agent for said securities, a fee of 0.001% of the nominal amount of the securities deposited is to be paid by the issuer.

#### b. Transfer of Title Service

The performance of regular transfer agent services, such as the transfer of title of securities from seller to buyer in the books of the LSX, is charged at 0.001% of the nominal amount of the securities deposited on an annual basis and invoiced at the end of each calendar year.

#### c. Paying Agent Service

The LSX charges a fee of 0.002% of the nominal amount of the securities deposited for the performance of paying agent services throughout each year. The fee is charged annually at the end of the calendar year.

#### d. Other Services

For the issuance of a statement of bond holding balance, the LSX bills the issuer (or holder) LAK10,000 per instance.

## **B. Ongoing Costs for Issuers of Corporate Bonds and Notes**

The LSX also acts as the depository for the securities traded on its platform. Debt securities to be listed and traded on the LSX are expected to be deposited into the LSX for a fee, which will follow the prevailing LSX fee schedule.

Under the Depository Regulation, the LSX collects fees from participants or securities companies equivalent to 0.000069% of the deposit balance per day (every 20th day of the month);

## **C. Costs for Listing of Debt Securities**

Government and corporate bonds may be listed on the LSX. The listing fee(s) follow the prevailing LSX fee schedule, which is also included in Chapter 4 of the LSX Regulation on Bond Listing. At the same time, the CEO of the LSX has the authority to reduce the prevailing fees or exempt issuers from paying such fees.

The listing of securities also carries tax incentives for the issuing company. Please see section G for details.

At the time of the compilation of this Bond Market Guide, the fees related to bond listing were structured as explained below.

### **1. Listing Review Fee (Mandatory)**

The LSX charges a listing review fee for the review of the listing application and the check on the submitted documents and their contents, in accordance with the law, regulations, and its own Regulation on Bond Listing. The listing review fee is set at LAK5 million.

The listing review fee is payable within 10 days after the completion of the listing review by the LSX.

### **2. Initial Listing Fee (Mandatory)**

The LSX charges an initial listing fee upon the actual listing of the corporate bond of a successful applicant. The issuer is required to pay 0.01% of the nominal value of the bond amount listed.

The payment of the initial listing fee is expected within 10 days after the LSX approves the listing.

### **3. Annual Management Fee (Mandatory)**

The issuer is required to pay to the LSX an annual management fee for the duration of the listing of the bond; that is, until maturity. The annual management fee is calculated at 0.001% of the nominal amount of the bond listed.

The annual management fee is expected to be paid by the end of January following a completed year of listing.



## C. Costs for Deposit and Withdrawal of Bonds and Notes

Under the Depository Regulation, the LSX collects fees from participants or securities companies as follows:

### 1. Securities Deposit Fee (Mandatory)

Upon issuance, corporate bonds are required to be registered and deposited into the securities depository center of the LSX. The bond depository fee used to be 0.001% of the deposited balance. On 12 October 2016, the LSX announced the new rate of the securities deposit fee equivalent to 0.000069% of the deposited balance per day.

### 2. Withdrawal Fee

There are no costs for the withdrawal of securities from the LSX Depository.

## D. Costs for Account Maintenance at Securities Depositories in the Lao PDR

### 1. Account Maintenance Fee at the Bank of the Lao PDR

In accordance with the Agreement on BOL Service Fees, dated 2 September 2015, the BOL charges its constituents a member fee for participating in its Clearing and Settlement Center of LAK2 million per annum.

### 2. Account Maintenance Fee at the Lao Securities Exchange

The LSX does not charge an account maintenance fee to its depository participants.

## E. Costs Associated with Securities Trading

Debt securities may be traded on the LSX or on an OTC market, which may be formed once more bonds are issued in the Lao PDR market. The trading of debt securities on exchange has to be carried out by securities companies who are members of the LSX and attracts different fees.

### 1. Trading Fee

A trading fee is levied by the LSX on all trades conducted on its trading platform. The trading fee is charged to the participating securities companies who, in turn, may pass on the trading fee to their investor clients. Participants will need to pay the trading fee on the settlement date.

At present, the trading fee for debt securities is set at 0.015% of the trade value.

### 2. Brokerage Commission

Investors are expected to pay a brokerage commission to the securities companies who buy and sell debt securities on their behalf. The brokerage commission is likely to follow market practice and conditions but is capped at 0.03% of the trade value under LSX regulations.

## **F. Costs for Settlement and Transfer of Bonds and Notes**

Government securities are settled by the BOL, while corporate bonds will be listed, traded, and settled on the LSX.

### **1. Transaction Fee (Settlement and Transfer Fee)**

#### **a. In the Case of Government Securities**

The BOL does not charge a settlement fee. Instead, participants pay an annual fee for clearing and settlement services (see also D.1).

#### **b. In the Case of Securities Settled by LSX**

Under the Depository Regulation, the LSX imposes clearing, settlement, and book-entry fees on securities companies or depository center participants in the following manner:

- i. a clearing and settlement fee (applicable to securities companies or brokers) of 0.01% of the amount to be settled, chargeable on settlement day; or
- ii. a book-entry settlement fee of 0.0025% of the amount to be settled, chargeable to depository participants through whose accounts the settlement occurs; the fee is due on settlement day.

At the time of the compilation of this Bond Market Guide, the LSX fee schedule was under review and may be amended in the near future.

## **G. Taxation Framework and Requirements**

The Lao PDR tax system consists of direct and indirect taxes. Indirect taxes include value-added tax and excise tax. Direct taxes include profit tax, income tax, lump-sum tax, environmental tax, and various technical fees and charges. All legal entities that are registered under Lao PDR law, or are registered abroad and carry out business activities in Lao PDR, are subject to profit tax. The basis for taxation at the time of the compilation of this Bond Market Guide was the Law on Taxes promulgated in 2012.

Table 6.1 summarizes duties and taxes on debt securities, which residents and nonresidents investing in the Lao PDR are subject to. The rates provided were correct at the time of the publication of this Bond Market Guide. The applicability of and practices for the relevant duties and taxes are explained in subsequent sections.

**Table 6.1: Duties and Taxes on Fixed-Income Securities in the Lao PDR**

Duties and Tax	Type of Bond	Tax Rate (%)
Corporate Income Tax	Government	Exempt for interest income
	Corporate	Exempt for interest income
Withholding Tax	Government	Exempt if securities listed on the LSX
	Corporate	Exempt if securities listed on the LSX
Capital Gains Tax	Government	Exempt if traded on the LSX
	Corporate	Exempt if traded on the LSX
Stamp Duty	Universal	N/A
Value-added tax	Universal	10%

LSX = Lao Securities Exchange, N/A = not applicable.

Source: Compiled by ADB consultants for SF1 from public domain sources.

### 1. Corporate Income Tax

The corporate income tax (profit tax) applies to both domestic and foreign businesses, except for companies registered at the LSX, which benefit from a 5% reduction of the normal rate for a period of 4 years from the date of registration with the LSX. After this period, the normal profit tax rate applies.<sup>20</sup>

The normal current profit tax rate is 24%, as is the top rate of income tax for individuals.

According to the Law on Taxes, for issuers, income earned from fund-raising by issuing equity or debt securities is tax exempt but subject to approval by the relevant industry sectors. In turn, for investors, interest payments from bonds or government debentures, as well as those from deposits, are exempted from income tax. This concession applies to both residents and nonresidents.

### 2. Withholding Tax

In principle, interest paid to nonresident individuals and legal entities that are registered outside of the Lao PDR are subject to a withholding tax of 10%.

At the same time, interest income from holding government and corporate bonds that are listed on the LSX are exempted from withholding tax.

### 3. Capital Gains Tax

Capital gains tax from the sale of equity or debt securities on the LSX by natural persons or juristic persons are considered tax exempted.

<sup>20</sup> This and selected other statements in this section contain information from the KPMG publication *Laos Tax Profile*, updated in June 2015, and adjusted by ADB consultants for SF1 to fit the context. <https://www.kpmg.com/Global/en/services/Tax/regional-tax-centers/asia-pacific-tax-centre/Documents/CountryProfiles/Laos.pdf>

#### **4. Stamp Duty**

There is no stamp duty applicable on debt securities transactions.

#### **5. Value-Added Tax**

The taxation system in the Lao PDR provides for a value-added tax. The standard rate of the value-added tax in the Lao PDR at the time of publication of this Bond Market Guide was 10%.

#### **6. Double Taxation Agreements**

At the time of the publication of this Bond Market Guide, the Lao PDR had in place double taxation agreements with a number of other ASEAN countries, as well as with the People's Republic of China, the Republic of Korea, and Luxembourg. Interested parties should review these double taxation agreements for applicable concessions with regard to the payment of withholding tax on securities issued in the Lao PDR, or seek professional tax advice.

### **H. Tax Incentives**

Issuers enjoy tax privileges when issuing and listing in the Lao PDR capital market.

#### **1. Incentives to Issuers**

Companies that list their securities on the LSX can enjoy a 5% profit tax reduction for 4 years, beginning from the year in which the listing occurred. After that period, the normal profit tax rate would apply.

## Market Size and Statistics

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The original ASEAN+3 Bond Market Guide was published in April 2012 and included several pages of bond market statistics for the published economies, including historical data such as bond holdings, bondholder distribution, outstanding amounts, and trading volumes. Not surprisingly, this data became stale soon after publication.

Since the ASEAN+3 Bond Market Guide is most likely to be updated only on a biennial basis, it is not the best channel for the dissemination of market statistics. Hence, a chapter comprising bond market statistics has been discontinued and replaced with a list of recommended sources for detailed, accurate, and current information sources on the Lao PDR bond market. These sources are listed below in alphabetical order.

- *AsianBondsOnline* (an ASEAN+3 initiative led by ADB)  
<https://asianbondsonline.adb.org/lao.php>
  - Market-at-a-Glance
  - Data (market size, yields, indicators, ratings, including historical data)
  - Market structure
  - Market summary
  - News (latest statistics)
- Bank of the Lao PDR  
[http://www.bol.gov.la/english/financial\\_statistics.html](http://www.bol.gov.la/english/financial_statistics.html)
  - Financial statistics
- Lao Securities Commission (information will be added once the corresponding reports become available in English)  
<http://www.lsc.gov.la/EN/>
  - LSX Index, January 2011–November 2015
  - Trading Volume, January 2011–November 2015
  - Market Capital, January 2011–November 2015
  - Market capitalization per GDP, 2011–2014
- Lao Securities Exchange  
<http://www.lsx.com.la/market/index/daily.do?lang=en>
  - Market data
  - Daily closing index
  - Trading summary (daily)

## Presence of an Islamic Bond Market

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The Lao PDR has no regulations on an Islamic bond market as it is still in the early stages of capital market development. Further research and study of an Islamic bond market and its features is desirable.

# Lao PDR Bond Market Challenges and Opportunities

This chapter discusses some of the real and perceived challenges facing the Lao PDR bond market, its policy bodies and regulatory authorities, as well as its participants, including potential issuers and investors who are nonresidents. This chapter also aims to describe the possible mitigating factors or market developments that could address these challenges in an appropriate manner.

## A. Challenges in the Lao PDR Bond Market

The bond market in the Lao PDR is at the early stages of its development, with only a small number of bond issuers and small bond issue sizes. This limited supply naturally leads to a limited number of transactions and, hence, limited liquidity in the market. This is not helped by the fact that most investors interested in debt securities hold their investment to maturity.

One challenge for the bond market in the Lao PDR is the absence of market-making activities. As a result, issuers have experienced a lack of interest from investors who are not sure whether they would be able to sell their holdings in case of need. This entrenches the liquidity problem.

A number of these challenges are reviewed in this section in greater detail.

### 1. Interest Rate and Government Issuance is too Limited to Serve as Reference

Government bonds are not regularly issued and traded; therefore, there is no benchmark for corporates to use the interest rates as a reliable reference for the issuance of corporate bonds of their own. However, the MOF is considering the creation of government benchmark securities to address this issue.

At the same time, the interest rate in the banking system, in particular rates for deposit products, have been fairly high, which may make it unattractive for corporates to issue bonds if they need to compete with these interest rate levels.

### 2. Actual Corporate Bond Issuances

Although the LSCO has issued regulations governing corporate bond issuance by enterprises and listed companies, such corporate bonds have not yet been issued in the Lao PDR. In the near future, it is expected that corporate bonds issued by listed companies will be traded on the LSX (see also Chapter IV for details).



### **3. Lack of Liquidity**

The Lao PDR bond market is still small in size, has limited products, and has no market-making function. As a result, there is a lack of liquidity in the market.

In this context, the LSCO, in collaboration with the LSX and relevant authorities, is undertaking research and preparing to develop and improve a wide range of securities products to meet fund-raising needs and increase investment options. These activities include formulating relevant legislation regarding the issuance of central and local government bonds, and government guarantees granted to enterprises wishing to issue corporate bonds to raise funds to finance useful projects for the general public, and other related legislation; promoting eligible enterprises to issue securities and list on the LSX; and preparing the establishment of collective investment schemes.

### **4. Lack of a Market-Making Function**

At present, there is no party that undertakes a market-making function to ensure liquidity in the secondary market in the Lao PDR. As a result, the LSCO is researching the possibility of implementing such a concept and promoting suitable parties to take on this role.

### **5. Lack of Benchmark Government Bonds**

Apart from the role as a fund-raising channel for the government to balance the budget and invest in prioritized projects, government bonds are also considered as a reference securities product for fund-raising of enterprises, particularly the issuance of corporate bonds. However, these bonds are not regularly issued and traded, hence, there is no reliable reference for the issuance of corporate bonds. For the medium- to long-term, relevant legislation is expected to be formulated to enhance investor confidence in the issuance of government bonds as benchmark bonds.

### **6. No Access for Nonresident Issuers**

Nonresident issuers are not yet able to access the Lao PDR bond market. The drafting of specific regulations is expected to be considered in the near future.

### **7. Lao PDR Financial Reporting Standards versus International Financial Reporting Standards**

Companies in the Lao PDR, including companies listed on the LSX, do not have experience in the adoption of the International Financial Reporting Standards. The LSCO has promoted and is ready to assist listed companies in adopting IFRS following 2 years of being listed on the LSX. However, the actual and practical adoption of IFRS by listed companies is proving to be difficult. So far, only one listed company has successfully begun to adopt IFRS and it still needs to implement IFRS in full across all its operations.

### **8. Capacity Building**

The development of human resources and the building of public awareness and understanding of the capital market, including its practices and instruments, poses considerable challenges. In this context, the LSCO is planning to establish a capital market training and education center as it recognizes the importance of developing personnel capable of carrying out and supervising securities market activities.

## **B. Opportunities in the Lao PDR Bond Market**

### **1. General Policy and Regulatory Environment**

The journey toward developing a bond market in the Lao PDR is not without challenges and remains at the early stages. At the same time, the government has put significant efforts into promoting the development of the Lao PDR bond market. Necessary key legislation is being created or amended to ensure that the legislative framework governing the issuance of government and corporate bonds remains relevant and effective. Cases in point can be seen in the development and promulgation of regulations on the issuance of corporate bonds in 2014; the decision on issuance of corporate bonds abroad in 2016; and the decree on government bonds, which the BOL, MOF, and LSCO are jointly in the process of drafting. Following the enactment of such key legislation, subsidiary regulations will be issued and amended, including the LSX bond listing and trading regulations.

### **2. Introduction of Corporate Bond Issuance**

The issuance of corporate bonds in the Lao PDR will represent another significant milestone in the country's capital market development. The introduction of corporate bonds as a new product in the market is expected to attract interest from both domestic and foreign investors and, therefore, should lead to an improvement in market liquidity. By issuing corporate bonds, enterprises will have an alternative channel for their fund-raising rather than relying solely on bank borrowing. It is hoped that successful initial issuances will set good examples for other interested parties to recognize the benefits of fund-raising through the capital market, thereby bringing more participants into the market.

### **3. Introduction of Bond Listing and Exchange Trading**

The introduction of bond listing and trading on the LSX will, undoubtedly, contribute greatly to the efforts of the government in promoting liquidity in the Lao PDR capital market. The listing of bonds will improve transparency, price discovery, public awareness, and the credibility of the issuing companies, as well as make the issuing companies more accessible to investors.

### **4. Lower Interest Rate Environment**

With reference to the challenge of limited interest rate references and interest rate levels not being conducive for potential issuers (see item A.1), the BOL issued a notice on 21 July 2015 to commercial banks to reduce their interest rates in consideration of the low inflation environment prevalent in recent years. This led to a gradual reduction of interest rates in the banking sector. This development could represent an opportunity for corporations to consider issuing bonds and using the bond market as an alternative method of raising funds.



# Recent Developments and Future Direction

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## A. Recent Major Developments

Recent major developments are considered those that occurred or have been announced in the Lao PDR market since the first publication of the Lao PDR Bond Market Guide in April 2012.

### 1. Introduction of Corporate Bond Legislation and Regulations

For the capital market to support the sustainable development of the Lao PDR's economy, a sound and balanced legislative and regulatory framework, which promotes good market conduct, is necessary. The LSCO, together with other relevant authorities, has given much attention to developing key legislation governing capital market activities, including the corporate bond market. The LSC has issued 41 legislative or regulatory instruments aimed mainly at equity securities, with very few such instruments encapsulating bond market activities. However, according to the development conditions in both the domestic and regional market in recent years, the government has set policies to encourage the relevant authorities to prepare for the issuance of corporate bonds and bring government bonds to list on the LSX. In 2014, the Regulation on Issuance of Corporate Bonds was issued to prepare for the future issuance of corporate bonds. Also, related regulations and subsidiary legislation governing the corporate bond market are to be issued by the LSCO in the near future.

### 2. Move from Call Auction to Continuous Auction System

The LSX has upgraded its trading method from call auction to continuous auction and increased the daily price change limit from  $\pm 5\%$  to  $\pm 10\%$  in 2014 after obtaining approval from the LSCO to suit current market conditions and increase market liquidity. Previously, the LSX operated the call auction trading method, the process of a one-time centralized matching of bid and offer orders received during a specified period. In the current method, called continuous auction, the process of continuous matching of bid and offer orders on a one-by-one basis is done in compliance with the newly revised LSX Regulation on Market Operation and in line with international trading methods.

## B. Future Direction

With the legislative and regulatory framework largely set for the Lao PDR bond market, much additional development can be expected over the next few years. This section reviews some of the proposed initiatives and next steps, including those that are envisaged to address the challenges mentioned in Chapter IX.

### **1. Lao Securities Exchange Developing Bond Trading Platform**

The LSX has successfully developed a bond trading platform for both corporate and government bonds, which is ready to operate (see also Chapter IV.B).

### **2. Listing of Debt Securities on Lao Securities Exchange**

The LSCO has actively increased awareness and understanding of the issuance and listing of corporate bonds among interested parties. It is expected that in the near future there will be bonds listings on the LSX.

### **3. Introduction of Primary Dealer System**

The regulatory authorities are discussing the introduction of a primary dealer system in the early stages of bond market development. The primary dealers would participate in government securities auctions in the primary market but also play an active role as market-makers in the secondary market.

In particular, the market-maker function is seen as a key measure to ensure liquidity in the secondary market through the commitment of PDs to participate not just at auction but also in the daily trading activities of market participants.

### **4. Creation of Government Bond Yield Curve**

One of the key actions of the policy bodies will be to create a government bond yield curve as a standard measure for enterprises that want to issue corporate bonds and as a basic tool for estimating bond prices. The objective will be to include the establishment of government benchmark bonds for which a yield curve can be tracked.

# Appendix 1

## Practical References

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For easy access to further information about the market features described in the Lao PDR Bond Market Guide—including information on the policy bodies, regulatory authorities, and securities market-related institutions—interested parties are encouraged to utilize the following links. Most of the listed websites are available in English, while some websites have individual web pages that are available in English.

*AsianBondsOnline* (Asian Development Bank)

<https://asianbondsonline.adb.org/lao.php>

Lao Securities Exchange (LSX)

<http://www.lsx.com.la>

LSX—Regulations

<http://www.lsx.com.la/rules/regulations/listPosts.do?lang=en>

Ministry of Finance, Lao PDR (MOF) (partly in English)

<http://www.mof.gov.la/#####?q=en>

Bank of the Lao PDR (BOL)

<http://www.bol.gov.la/english/index1.php>

Lao Securities Commission Office (LSCO) (annual reports and selected information available in English)

<http://www.lsc.gov.la/EN/>

LSC Annual Report 2015 (unofficial translation)

[http://www.lsc.gov.la/declaration\\_index/Annual%20Report%202015%20\(Eng\).pdf](http://www.lsc.gov.la/declaration_index/Annual%20Report%202015%20(Eng).pdf)

LSC Annual Report 2014 (unofficial translation)

[http://www.lsc.gov.la/declaration\\_index/Annual%20Report%202014%20\(Eng\).pdf](http://www.lsc.gov.la/declaration_index/Annual%20Report%202014%20(Eng).pdf)

LSC Annual Report 2013 (unofficial translation)

[http://www.lsc.gov.la/declaration\\_index/Annual%20Report%202013%20\(Eng\)\\_dff%20clean%20version.pdf](http://www.lsc.gov.la/declaration_index/Annual%20Report%202013%20(Eng)_dff%20clean%20version.pdf)

World Bank—Lao PDR

<http://www.worldbank.org/en/country/lao>

## Appendix 2

# List of Laws and Regulations

Provided for the easy reference of readers is a list of the laws, decrees, regulations, and agreements with relevance for the Lao PDR bond market. The list was accurate at the time of compilation of this Bond Market Guide. As the prevailing laws and regulations are increasingly being translated into English and posted online, readers are encouraged to visit the websites listed in Appendix 1 for the latest information.

### Laws

- Law on Promotion of Foreign Investment, No. 02/NA (2009)
- Law on the Bank of the Lao PDR, No. 05/NA (1999)
- Law on Enterprises, No. 46/NA (2013)
- Law on Securities, No. 21/NA (2012)
- Law on Accounting, No. 47/NA (2013)

### Decrees

- Decree on Organization and Activities of the Bank of the Lao PDR, No. 40/PM (2000)
- Decree on Securities and the Securities Exchange, No. 255/PM (2010)
- Decree on the Promulgation of the Law on Securities, No. 27/PO (2013)
- Decree on Organization and Operation of the Lao Securities Commission, No. 188/PM (2013)
- Decree on Government Bond, No. 101/PM (2017)

### Regulations

- Regulation on Treasury Bond Auctions, No. 03/BOL (1995)
- Regulation on Organization and Operation of the Lao Securities Commission Office, No. 013/LSC (2013)
- Regulation on Management of Securities Professionals, No. 004/LSC (2014)
- Regulation on Custodian Bank, No. 010/LSC (2014)
- Regulation on Issuance of Corporate Bonds, No. 019/LSC (2014)
- Regulation on Management of Foreign Investors Conducting Trading Activities in the Securities Exchange, No.005/LSC (2015)
- Regulation on Registration of Foreign Credit Rating Agency, No. 002/LSC (2015)
- Decision on Issuance of Corporate Bonds Abroad, No. 0022/LSC (2016)
- Decision on Transfer of Listed Shares, No.0025/LSC (2016)
- LSX Disclosure Regulation, No. 22/LSX (2011)
- Regulation on Membership, No. 02/LSX (2014)
- Regulation on Bond Listing, No. 006/LSX (2015)
- Regulation on Market Operation, No. 007/LSX (2015)

**Agreements and Instructions**

- Instruction on the Request for the Grant to Establish Securities Companies, No. 482/LSCO (2012)
- Instruction on the Implementation of Regulation on Net Capital Ratio of Securities Companies, No. 281/LSCO (2014)
- Instruction on Shareholders' Meeting of Listed Companies, No. 0001/LSCO (2016)



## Appendix 3

# Glossary of Technical Terms

certificate of authorization	Represents approval from the Lao Securities Commission Office (LSCO) of an application for issuance of corporate bonds
certificate of completion	Official confirmation from the LSCO of completion of a bond issuance
certificate of registration	Confirmation of deposit of corporate bond certificates into the Lao Securities Exchange (LSX) depository
consolidated corporate bond certificate	Refers to jumbo or global certificates of corporate bonds that are immobilized with the securities depository center
corporate bond certificate	Physical certificate of corporate bonds
Due Diligence Report	Here, report by underwriter on findings after verifying the information provided by the issuer in its disclosure documents
Financial Advisor	Title of a securities company specially licensed to support the issuer of corporate bonds in the issuance process
Foreign Investor ID	Identification to be obtained by foreign investors from the LSX prior to being able to invest in the Lao People's Democratic Republic (Lao PDR) bond market
Institutional Investors	Preliminary description of an investor class other than the broader public; not yet fully defined in law or regulations
prospectus	Key disclosure document for (debt) securities offered in the Lao PDR
public fund	In the Lao PDR, the term used in legislation and regulations for a mutual fund or other collective investment schemes
public company	Term refers to a company that is not a private company; does not refer to listed companies as the term may suggest in other markets
recap bonds	Bonds issued by the MOF for the recapitalization of state-owned commercial banks
Securities Business Association	Term used for concept similar to a self-regulatory organization in the Lao PDR
securities depository center	Term used in the Lao PDR's legislation and regulations for a central securities depository

## **ASEAN+3 Bond Market Guide 2017 Lao People's Democratic Republic**

ASEAN+3 Bond Market Guide provides an in-depth look at the region's bond markets. It explains the markets' legal and regulatory frameworks, specific characteristics, trading and transactions (including settlement systems), and other relevant information and data. The Bond Market Guide 2017 for the Lao People's Democratic Republic is the result of comments and contributions from ASEAN+3 Bond Market Forum members and experts, particularly in the Lao People's Democratic Republic. A highlight of this guide is an update on the development of the country's securities market.

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