



Characteristics of the Cambodian Bond Market

The Cambodian securities market has made significant progress since the introduction of the Law on Issuance and Trading of Non-Government Securities and the Law on Government Securities, 2007 and the establishment of the SECC in 2008. Under the guidance of the MEF and the SECC, the market is expected to rapidly develop in the coming years. In fact, with the regulatory framework for the corporate bond market published in August 2017 and a sub-decree on the issuance of government securities under development by the MEF, a firmly established bond market is expected within the next 12–18 months.

The purpose of this chapter is to take stock of the existing features of the Cambodian market and to review some of the characteristics of the planned Cambodian bond market.

A. Definition of Securities

The current fundamental and key legislation does not yet contain a consolidated definition of securities. Securities are mentioned only as a collective term and some examples are given (e.g., the annex of the Law on Issuance and Trading of Non-Government Securities, 2007). In turn, definitions for individual types of bonds are provided in the *Prakas* on Public Offering of Debt Securities (No. 009/17 SECC/Pr.K.), particularly for corporate bonds:

Corporate Bond refers to debt securities issued by the public limited company or permitted entity that have been confirmed the obligation to pay interest, principal, and other obligations of the business for the bondholders.

The *Prakas* also contains definitions of plain bond, guaranteed bond, and secured bond.

B. Types of Bonds and Notes

At present, bonds and notes are not yet being issued in the Cambodian market by either the government or the corporate sector.

As one of its medium-term goals under the FSDS (updated for the 2016–2025 period), the Government of Cambodia is pursuing the development of the MEF's capacity to issue government securities (see also Chapter I.B). At the same time, the regulatory framework for corporate bonds (nongovernment debt securities) put in place by the SECC in August 2017 is expected to lead to the issuance, listing, and trading of debt securities in the next 12–18 months.

C. Money Market Instruments

To kick off its interbank money market project, the NBC issued the Prakas on Issuance of Tradable Securities by the NBC (No. B-5-010-183) on 15 October 2010. After a 3-year preparation timeframe, the NBC commenced issuance of negotiable certificates of deposit (NCDs) on 9 September 2013.¹⁶

The issuance of NCDs is intended to provide banks with a previously unavailable means to manage excess liquidity.

1. Issued by the National Bank of Cambodia

a. Negotiable Certificates of Deposit

An NCD is a short-term, interest-bearing debt instrument issued by the NBC. The minimum denomination for investment is KHR200 million or USD50,000. The maturities of KHR-denominated NCDs range from 2 weeks to 1 year, and the maturities of the USD-denominated NCDs range from 2 weeks to 6 months. The interest rate of an NCD is determined by the NBC daily according to market conditions.

An NCD can be traded in the interbank market or used as collateral for the credit facility provided to banks by the NBC, used for credit purposes among banks, or repurchased by the NBC at a discount before maturity.

D. Methods of Issuing Debt Securities (Primary Market)

The regulatory framework for the issuance of nongovernment securities allows for both a public offering and private placement. Please see Chapter II.F for descriptions of the regulatory process for each issuance method.

At the same time, the Government of Cambodia, through the MEF and the GDNT, has been pursuing a longer-term plan to issue government securities. In fact, the MEF is presently drafting an *Anukret* to implement the Law on Government Securities, 2007 at the appropriate time.

The NBC already issues NCDs directly to the banks that participate in the interbank money market (see section C).

1. Expected Issuance of Government Securities

Budget management is the responsibility of the GDNT, which started operation in January 1991. The GDNT is also responsible for the management of public debt. To address the expected cessation of concessionary funding, the GDNT is targeting the issuance of government securities in line with the FSDS (see also Chapter I.B).¹⁷ The methods described below are expected to be utilized when the issuance of government securities commences.

a. Issuance via Auction System

¹⁶ For details on the interbank market project, please refer to the NBC website at http://www.nbc.org.kh/english/monetary_policy/ncds_overview.php

¹⁷ Cambodia's financial year is the same as the calendar year (1 January to 31 December).

Following a number of consultations with ADB and ABMF, the MEF has signalled a preference for exploring the use of an auction system to issue government bonds.

The type of auction, its pricing mechanism(s), and the number and qualification of participants are being researched to cater to the specific financing needs of the government.

In the context of using an auction system, the benefits of eventually establishing a primary dealer concept have been acknowledged by the MEF.

b. Direct Issuance

At the same time, the MEF is considering the possibility of direct issuance of government securities, in particular Treasury bonds, through the NBC to the bank and financial institution participants in the central bank clearing system.

Additionally, direct issuance to interested and eligible investors in the Cambodian market may also be considered.

2. Direct Issuance by the National Bank of Cambodia

NCDs are issued by the NBC directly to participating financial institutions on a demand basis. Banks with the need to manage excess liquidity in both Cambodian riels and US dollars approach the NBC during stipulated operating hours to place money with the NBC in return for the issuance of NCDs in suitable denominations and maturities.

3. Issuance of Corporate Debt Securities

Laws and regulations favor the issuance of nongovernment (corporate) debt securities in the Cambodian market via public offerings and further link a public offering to the listing of debt securities on the CSX. At the same time, a definition of private placement already existed in law and supplementary regulations, and was further distinguished from a public offering in the context of the introduction of the regulatory framework for corporate bonds by the SECC.

a. Public Offering

The Law on the Issuance and Trading of Non-Government Securities, 2009, as well as its related *Anukret* and subsequent *Prakas*, focus on the issuance of debt securities via a public offering. The listing of debt securities on the CSX has a public offering as one prerequisite.

A public offering is the selling of securities to the broad market rather than to a select or limited group of investors. The original provisions for public offerings are contained in Chapter 2 (Proposed Public Offering and Issuance of Securities) of the *Anukret* on the Implementation of the Law on Issuance and Trading of Non-Government Securities (No. 54 ANKR BK) issued in April 2009.¹⁸ Article 6 of this chapter allows for exempt offers such as issuances by the Government of Cambodia and those specifically approved by the SECC. In August 2017, the SECC published detailed prescriptions in the *Prakas* on Public Offering of Debt Securities providing for the issuance of corporate debt securities as plain bonds but also allowing for the issuance of guaranteed and secured bonds.

¹⁸ Available as a PDF file from the SECC website at <http://www.secc.gov.kh/english/m22.php?pn=3>

To issue securities through a public offering, the issuing company (a public limited company or other permitted entity) must obtain approval from the SECC for the issuance and from the CSX for the subsequent listing and adequate issuance pricing. Other articles in the *Anukret* and, particularly, the aforementioned *Prakas* stipulate the need for an application process and content requirements for the disclosure document and any necessary supplementary documentation and additional information. The disclosure document will be registered by the SECC upon issuance approval.

b. Private Placement

The Law on Issuance and Trading of Non-Government Securities, 2007 contains a basic definition of a private placement.

Subsequently, the *Prakas* on Public Offering of Debt Securities, promulgated in August 2017, further distinguished a private placement from a public offering as an offer to no more than 30 persons within a 1-year period and where there is no advertisement to the public, no public solicitation of the offer, and no advice on investment in such securities.

Any issuance contrasting with the above prescriptions is considered a public offer and will have to comply with the requirements set for such an offering.

In the context of the introduction of the regulatory framework for the corporate bond market, the SECC is expected to further elaborate on the provisions for a private placement of debt securities.

E. Governing Law and Jurisdiction (Securities Issuance)

The governing law and jurisdiction for a bond or note issuance may be of significance since potential issuers can issue 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 can 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.

In Cambodia, the governing law and the jurisdiction of agreements by contracting parties are required to be Cambodian law and the Kingdom of Cambodia, respectively. At the same time, while a request for the use of another law or jurisdiction has not yet been received, the SECC may offer some flexibility such as consideration on a case-by-case basis for issuers to use the laws or jurisdictions of countries for which it has entered into a memorandum of understanding with the respective securities market regulatory authorities. It is likely that taxation considerations will also play a role in the SECC review and decision.

F. Language of Documentation and Disclosure Items

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

During the application for the issuance of securities, the SECC requires all contracts in relation to such issuance to be submitted. According to provisions in the *Anukret* on the Implementation of the Law on Issuance and Trading of Non-Government

Securities, 2007 (No. 54 ANKR BK), contracts that are not originally written in Khmer shall be attached and translated into Khmer by persons recognized by the SECC.

At the same time, the disclosure document for the issuance of securities may also be in English. It may be produced first in English as long as the final version of the disclosure document will be available in Khmer at the time the offer of securities to the public commences.

In this context, the SECC also typically publishes relevant *Prakas* for the securities market in both Khmer and English on its website. The CSX website also offers English versions of the *Prakas* for the securities market, particularly those that contain listing and disclosure, market, and post-trade operation rules.

G. Registration of Debt Securities

The registration of securities in the Cambodian market is for the purpose of evidence of ownership, not for disclosure purposes, as the case may be in other ASEAN+3 markets. Please see section L in this chapter for details on transfer of interests or ownership.

As a matter of distinction, the term “registration” is also used in the Cambodian market, particularly for the acceptance of the disclosure document by the SECC, upon issuance approval, in the context of a debt securities issuance application.

H. Listing of Securities

A listing of securities in Cambodia is possible on the CSX. The systems and practices of the CSX have been adapted from infrastructure provided by Korea Exchange, its joint venture partner, and are principally able to handle debt securities as well. The CSX systems are expected to be in place by the end of 2017 and the *Prakas* on the Implementation of Debt Securities Listing shall be promulgated upon the SECC’s review and approval, which is expected by early 2018.

Recent legislation and regulations, including those on tax incentives for the securities sector (see Chapter VI), refer to the listing of both equity and debt securities. The *Prakas* on Public Offering of Debt Securities issued in August 2017 specifically links the listing of debt securities to a public offering of said securities. Article 36 of the *Prakas* stipulates the need for the issuer to comply with the procedures set by the permitted securities market for the listing and trading of the debt securities. The CSX is presently the only permitted securities market.

1. Actual Listing Process

In addition to equity and debt securities issued via a public offering, other debt securities may be listed on the CSX, including in the form of a profile listing (no trading) provided that the issuer and debt securities fulfill the eligibility criteria set by the CSX as the listing authority and comply with its Listing and Disclosure Rules.

The actual listing process consists of two major steps: (i) determination of the listing eligibility of the issuer and securities to be listed, and (ii) listing approval. The listing eligibility part encompasses the submission of the listing application and supporting documents and the CSX’s check on disclosure and the supporting information; the listing approval is a formality once the issuer has completed all necessary steps.

Step 1—Listing Application to the Cambodia Securities Exchange; Listing Eligibility Review

The CSX requires a Listing Application Form in the form of two hard copies that need to be submitted in Khmer. The attachments to the listing application may be in either Khmer or English, while the CSX will accept disclosure and supplementary documents if they are only available in English.

The disclosure requirements imposed by the CSX are based on the Prakas on Corporate Disclosure (No. 002/12 SECC/Pr.K.) issued by the SECC in April 2012. The *Prakas* is available in English from the SECC website.¹⁹ The CSX permits the incorporation by reference of disclosure items at the time of the listing application and for continuous disclosure thereafter.

The CSX will conduct its Listing Eligibility Review after receiving the completed Listing Application Form with all necessary supplementary documents. Once the CSX is satisfied that the issuer and the debt securities comply with its listing requirements, it will issue a Confirmation of Listing Eligibility to the issuer as a physical letter. The CSX commits to respond to the listing application from the issuer within 2 weeks from the receipt of complete information.

To obtain approval for the issuance of debt securities via a public offering from the SECC, the Confirmation of Listing Eligibility is a mandatory input document.

Step 2—Listing Approval from the Cambodia Securities Exchange

Once the issuer has obtained the issuance approval from the SECC (for public offering) or has completed the necessary steps prior to a profile listing, the issuer will send a request to the CSX for the actual listing.

The issuer will need to sign a Securities Listing Agreement with the CSX, in a format approved by the SECC, prior to listing; the agreement will take effect on the effective listing date.

The CSX will check on the status of the issuer—based on its due diligence at the time of the Listing Eligibility Review—and respond within 5 days with its listing approval and the effective listing date information. The listing approval will be in writing in Khmer.

2. Profile Listing on the Cambodia Securities Exchange

The CSX allows a listing for profiling on its market, which represents a listing where trading on the exchange is not expected. The profile listing process follows the one for the standard listing-cum-trading applications and carries the same requirements for eligibility and compliance with the CSX Listing Rules and Disclosure Rules. A profile listing also requires the same approval from the SECC as other listings.

At the same time, the CSX's functionality allows participants to record offer prices for debt securities that are profile listed, as a price-finding mechanism for trading members and market participants, since the CSX presently is the only official pricing platform for the Cambodian securities market. Please see Chapter IV.B for details.

¹⁹ For details, see <http://www.secc.gov.kh/english/m23.php?pn=3>

I. Methods of Trading Securities (Secondary Market)

At present, the only method of trading of securities approved by the SECC pursuant to the Law on the Issuance and Trading of Non-Government Securities, 2007 is on the CSX as the only permitted securities market. The trading of securities has occurred on the trading platform of the CSX since 2011. It is expected that the CSX will be able to list and trade debt securities, following the introduction of the regulatory framework for corporate debt securities in August 2017, since the CSX' platform partner is Korea Exchange, which is known for significant debt securities trading on its markets.

J. Securities Pricing

In line with the current stage of development of the Cambodian securities market, there is no dedicated securities pricing agency domiciled in Cambodia. However, the securities presently issued in the market are priced daily and competitively in their respective market segment, namely the CSX for listed securities and the NBC for money market instruments.

1. Pricing of Securities on the Cambodia Securities Exchange


Trades in securities listed on the CSX are executed based on the auction concept. Orders from buyers and sellers are matched according to the predetermined auction principles, allowing for a representative price-finding mechanism for the securities.

The CSX publishes comprehensive data on daily trading activities on its website. An example of the data published is shown in Figure 3.1.

2. Pricing of Negotiable Certificates of Deposit by the National Bank of Cambodia

The NBC determines the price of NCDs to be issued and traded on a daily basis in line with market conditions. Interbank market participants use the NCD prices published by the NBC to guide them in their own assessment and pricing of trades with counterparties.

Figure 3.1: Daily Securities Prices on the Cambodia Securities Exchange Website



Market Status: Closed, Mon 11 Sep 2017, 03:04:54 PM

Date: Mon 11 Sep 2017 CSX Index: 337.28 ▼0.5 (0.15%)

GTI 04-Sep-2017 [Disclosure] Announcement on third general shareholders meeting of GTI (Unofficial)

Market Information | Sitemap

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Cambodia Securities Exchange

Market Data > Equities > Daily Closing Price

Daily Closing Price


Search: SEARCH

Period: 20170911 ~ 20170911 1Dy 1Wk 1Mo 3Mo 6Mo

PWSA (2017/09/11 10:37:39)

Previous Day Price	Current Price	Change	%Change	Opening	High	Low	Trading Volume (shr)	Trading Value (KHR)
3,880	3,840	-40	-1.03	3,860	3,860	3,840	3,845	14,804,800

Zoom: 1m 3m 6m YTD 1y All From: Aug 14, 2017 To: Sep 11, 2017



Date	Closing Price	Change	Trading Volume (shr)	Trading Value (KHR)	Opening	High	Low	Market Cap. (Mil.KHR)	No. of Listed Shares
11/09/2017	3,840	-40	3,845	14,804,800	3,860	3,860	3,840	333,977	86,973,162
08/09/2017	3,880	-20	100	388,000	3,880	3,880	3,880	337,456	86,973,162
07/09/2017	3,900	0	10,000	39,000,000	3,900	3,900	3,900	339,195	86,973,162

Source: Cambodia Securities Exchange. Daily Closing Price. <http://csx.com.kh/data/stock/daily.do?MNCD=60201>

K. Transfers of Interest in Bonds and Notes

The registration and transfer of ownership of securities, including debt securities, depends on the type of securities and the permitted securities market they are transacted in.

1. Securities Listed on the Cambodia Securities Exchange

Securities listed and traded on the CSX are registered in the books and records of a licensed securities registrar and transfer agent—as a participant of the exchange (see also Chapter II.J)—for each of the securities. In the CSX Depository, securities are transferred by book-entry; that is, the recording of an applicable debit or credit of the amount of securities in the member and participant account books without the actual movement of physical certificates.

Legal ownership changes when the transfer is recorded in the book of the operator of the securities depository of the CSX.

2. Securities Issued by the National Bank of Cambodia

At present, only NCDs are issued by the NBC. NCDs are issued in scripless form and transactions are recorded in a ledger at the NBC. The ownership of individual NCDs by banks is recorded in the books of the NBC. In the event of a transaction in the interbank market, the NBC will effect the transfer of ownership once it receives confirmation of the transaction from both the seller and buyer.

3. Transfers without Trading

Applicable regulations are currently not available for the transfer of securities without an underlying trade or transaction, with practical exceptions in line with international standard practice. As a result, the transfer of securities free of payment as the result of a donation, an inheritance, a court order, or a pledge may be processed. The SECC is in the process of preparing a *Prakas* specifically on this subject.

L. Market Participants

The following market participants are either active in the securities market or are envisaged as participants in the eventual corporate bond and government securities market segments.

1. Issuers

With the introduction of the regulatory framework for nongovernment (corporate) debt securities in August 2017, potential issuers of corporate bonds could include existing listed and unlisted companies intending to diversify their debt portfolio.

Future potential issuers of government securities could include the NBC, the Debt Management Office of the MEF, other government agencies, and state-owned enterprises.

The NBC already issues NCDs as a money market instrument to its bank and financial institution constituents as part of its open market operations and to help manage minimum reserve requirements. In principle, the NBC could issue short-term government bonds on behalf of the government if this is seen as beneficial.

2. Investors

With the government bond market likely commencing operation in 2019 and the imminent commencement of the corporate bond market following the introduction of the necessary regulatory framework, a number of investor types already present in the Cambodian market (described below) are envisaged to participate.

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, which also makes them keen investors in the bond market. Banks are considered Qualified Investors by the SECC.

Banks may in future also use bonds to obtain short-term liquidity from the NBC through a discount window or similar process, as deemed suitable by the NBC.

b. Non-Bank Financial Institutions

Typical non-bank financial institutions include finance and leasing companies who may also be active as investors in the bond market to satisfy statutory reserve requirements and/or to invest liquid assets.

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 debt securities in the Cambodian market is leading to insurance companies investing mainly in fixed-term bank deposits, short-term loans, or short-term real-estate transactions.²⁰ Insurance companies are considered Qualified Investors by the SECC.

In Cambodia, the MEF, through the Insurance and Pension Division of the General Department of Financial Industry, issues licenses for general insurance services under the provisions of the new Law on Insurance, promulgated on 4 August 2014, and Anukret No. 132 on Insurance, which was passed in 2001 and remains in force. At the time of the compilation of the Cambodia Bond Market Guide, the domestic insurance market consisted of seven general insurance companies, four life insurers, and one reinsurance company. All licensed insurance companies are members of the Insurance Association of Cambodia.²¹

d. Pension and Provident Funds

Pension and provident funds are typical bond market investors and, in Cambodia, are able to invest in debt securities issued in Cambodia.

e. Collective Investment Schemes

Collective investments schemes, typically in the form of mutual funds or unit trusts, and the asset managers that operate these and other asset pools are typical key investors in debt securities. Collective investments schemes are included as Qualified Investors.

Chapter 5 of the Anukret on the Implementation of the Law on Issuance and Trading of Non-Government Securities contains provisions for collective investment schemes (both for companies and under a collective investment contract), related persons, and their licensing.

f. Retail or General Investors

²⁰ As an example, reference is made to the website of the Cambodian National Insurance Company, <http://www.caminco.com.kh/profile.html>

²¹ See <http://www.iac.org.kh/index.php/about-us/brief-history>

Retail or general investors, referred to typically as public investors under regulations (see also section N), may not be an immediate investor type once a bond market is established. However, depending on interest rates and market conditions, government bonds especially may provide a safe alternative to other assets. Other economies in ASEAN+3 have created specific bond types for distribution to retail or general investors, with potentially higher interest rates and smaller denominations to cater to the savings objectives of the broader public.

g. Foreign Institutional Investors

Foreign institutional investors are principally able to participate in the securities market at large (see also Chapter II.K). Foreign institutional investors have already been observed participating in the IPOs of stocks listed on the CSX.

3. Parties Involved in Debt Securities Issuance

A number of intermediaries are already established in the Cambodian securities market and are expected to be able to service nongovernment debt securities (corporate bonds), their issuers, and their investors once the issuance of these debt securities commences. These intermediaries range from securities underwriters, securities dealers, and securities brokers participating on the CSX, to banks, law firms, and accounting and audit firms, all of which require either licensing or accreditation by the SECC.

These entities are intermediaries under the provisions of the Law on the Issuance and Trading of Non-Government Securities, 2007 and as prescribed by the Prakas on Licensing of Securities Firms and Securities Representatives, 2009 and other *Prakas* specific to market functions.

As a practical guide, the market participants that are by their license or accreditation already positioned to participate in the bond market are being reviewed here.

a. Securities Firms

The Law on the Issuance and Trading of Non-Government Securities, 2007 specifically mentions securities companies, securities dealers, and securities brokers as participants in the securities market.

The Prakas on Licensing of Securities Firms and Securities Representatives, 2009 further details prescriptions for securities firms, which may conduct the following types of business: securities underwriting, securities dealing, and securities brokerage. These types of business are further defined in Articles 5, 6, and 7 of the *Prakas*, respectively. Securities firms licensed for any of the business types listed above may only engage in the specific activities as further described in Articles 9, 10, and 11, respectively. Any natural person who has obtained a license as a securities representative may undertake the activities as prescribed in Article 12 of the *Prakas*.²²

A securities firm may also conduct investment advisory services (defined in Article 8) or other services approved by the SECC. Conducting investment advisory services by a securities firm does not require a separate license but the SECC requires such securities firms to have individually licensed investment advisor representatives (Article 41).

²² The *Prakas* is available as a PDF file on the SECC website at <http://www.secc.gov.kh/english/m23.php?pn=3>

At the time of compilation of the Cambodia Bond Market Guide, six securities underwriters, one securities dealer, and three securities brokers had been licensed by the SECC. The license refers to securities in totality, with no specific mention of debt securities. All of the licensed institutions are also members of the CSX.

b. Underwriter(s)

Presently, six securities underwriters are members of the CSX, meaning that these institutions have received a license to conduct underwriting business for securities in Cambodia under the Law on the Issuance and Trading of Non-Government Securities, 2007.²³ Such a license does not limit the securities to equities.

The issuer must appoint an underwriter for the offer of securities to the public.

It is envisaged that practicing underwriters, all of which are securities firms (see also section 4.b), may expand their business to include underwriting debt securities once issuance in the Cambodian market commences.

c. Securities Registrars, Securities Transfer Agents, and Paying Agents

These intermediaries are regulated pursuant to the Prakas on the Registration of Securities Registrar, Securities Transfer Agent, and Paying Agent, 2010, which stipulates the requirements for these service providers and the obligations to carry out the permitted services.²⁴

Securities registrars and securities transfer agents are required to record the holdings of the respective securities and the ownership and transfer of ownership of the securities by investors. Paying agents service the issuer by providing services such as the distribution of the dividend or interest income to be paid by the issuer of securities and the withholding and onward remittance of applicable taxes.

At the time of compilation of the Cambodia Bond Market Guide, two securities registrars and transfer agents had registered with the SECC. Both are listed on the CSX website.

d. Bondholders Representative

The bondholders representative function was introduced by the SECC in August 2017 in the context of the regulatory framework for corporate bonds.

A bondholders representative may be a commercial or custodian bank; a securities firm; or a securities registrar, securities transfer agent, and paying agent. Since these firms are already licensed or registered market participants, a bondholders representative needs to be accredited with the SECC to carry out its functions.

Interested parties will have to apply for a bondholders representative accreditation and have to fulfill certain eligibility criteria specified in the Prakas.

Please see section Q in this chapter for details on the functions and specific responsibilities of a bondholders representative.

²³ For a current list, please see <http://csx.com.kh/en/member/members.jsp?MNCD=10511>

²⁴ The *Prakas* is available as a PDF file on the CSX website at <http://csx.com.kh/laws/prakas/viewPost.do>

e. Custodians

At present, securities firms hold securities for their client in segregated client accounts under the name of the securities firm with the CSX, which also acts as depository. The SECC recognizes that investors require formal custodian services and is in the process of drafting *Prakas* on the subject of custodian business practices.

In a mature market, custodians are typically banks or broker-dealers. The Law on the Issuance and Trading of Non-Government Securities, 2007 identifies safekeeping, clearing, and settlement as distinct activities by market participants. Future *Prakas* and circulars are expected to further describe the permitted market activities under these functions.

f. Law Firms

Law firms are required to be accredited with the SECC for providing services in the securities sector.

g. Audit Firms

All firms conducting business in the securities sector may only select their service providers from among professional accounting firms and external auditors accredited with the SECC.

Pursuant to the *Prakas* on Accreditation of Professional Accounting Firm Providing Professional Services in the Securities Sector, 2010, professional firms must obtain accreditation from the SECC to be involved in the issuance of securities or to service issuers or any other securities market participants. Articles 10 and 11 of the *Prakas* contain specific provisions to avoid potential conflicts of interest by professional firms.

A professional accounting or audit firm that applies for accreditation with the SECC needs to meet a number of requirements, which include a minimum amount of capital, number of staff and clients, and years in operation.

The accreditation is valid for 3 years. To stay accredited, accounting and audit firms have to submit an application for renewal of their respective accreditation to the SECC at least 45 days before the expiry of the existing accreditation.

In addition, these professional firms have to be accredited with their industry body, the Kampuchea Institute of Certified Public Accountants and Auditors. This accreditation is to be proven at the time of application to the SECC.

M. Public Investor and Qualified Investor Concepts

The SECC issued the *Prakas* on Qualified Investors in the Securities Sector (No. 005/2016 SECC/Pr.K.) in August 2016. With the publication of the *Prakas*, the SECC introduced to the market the Qualified Investor concept, which distinguishes between a number of defined investor types and sets their eligibility and qualifying criteria. Like all *Prakas* issued by the SECC, its text is available for download as a PDF file—in both Khmer and English—from the SECC website.²⁵

²⁵ See <http://www.secc.gov.kh/english/m23.php?pn=3&no=32>

At the same time, a definition of “public investors” already existed in previous regulations.

1. Qualified Investors

The Prakas on Qualified Investors in the Securities Sector introduced and defined the terms “Qualified Investor,” “Institutional Investor,” and “High Net-Worth Investor” in the securities market in Cambodia. Qualified Investors may be Institutional Investors or High Net-Worth Investors.

The requirements for Qualified Investors, included in Article 3 of the *Prakas*, are as follows:

Institutional Investors include

- i. the NBC;
- ii. securities firms and investment advisors that have obtained licenses from the SECC;
- iii. collective investment scheme dealers that have obtained licenses from the SECC;
- iv. banking and financial institutions that have obtained licenses from the NBC;
- v. insurance companies that have obtained licenses from the MEF;
- vi. the National Social Security Fund, National Fund for Veterans, Persons with Disabilities Foundation, and National Social Security Fund for Civil Servants;
- vii. international financial institutions that have obtained approval from the Director General of the SECC;
- viii. Financial Institutions Development Funds that have obtained approval from the Director General of the SECC; and
- ix. other legal entities that have obtained an approval from the Director General of the SECC.

High Net-Worth Investors include

- i. legal entities fulfilling one of the following criteria:
 - a. total shareholders’ equity of at least KHR2 billion as per the latest financial statement,
 - b. annual revenue of at least KHR500 millions in the last 2 years, or
 - c. at least KHR200 million of investments in the securities sector in Cambodia; and
- ii. any individual who aims to register as a Qualified Investor and, together with a spouse (if any), fulfills one of the following criteria:
 - a. total net assets of at least KHR1 billion,
 - b. annual income of at least KHR80 million, or
 - c. investment participation in the securities sector in Cambodia of at least KHR100 million.

Institutional investors must submit official documents and other necessary information stating their eligibility to the securities firms before they can be registered as such.

High Net-Worth Investors are required to complete a form set by the securities firm and approved by the Director General of the SECC, and attach bank statements, investment reports, or similar documents confirming their compliance with the qualifying criteria mentioned above.

Securities firms are required to verify the information provided by Qualified Investors and submit a list of such Qualified Investors to the SECC on a periodic basis after having ascertained that the qualifications continue to be met.

2. Public Investors

In regulations, “public investor” refers to a member of the public in Cambodia, including a natural person or legal entity, who has the financial and legal capacity to invest in nongovernment securities issued through a public offering in Cambodia by a public limited company or permitted entity that is not its associate, subsidiary, or related legal entity.

N. Credit Rating Requirements

This section reviews the credit rating requirements for nongovernment (corporate) debt securities in the Cambodian market. For details on the accreditation of a CRA to carry out rating activities in Cambodia, please refer to Chapter II.N.

A credit rating is required if the issue is a plain or secured bond. If the issue is a guaranteed bond, a credit rating on the issue is not required, but the guarantor of the bond needs to be rated.

In case no CRA has been accredited by the SECC, the issuer shall submit a report on the level of ratios such as profitability and cash flow ratio, leverage ratio, coverage ratio, and other such applicable ratios, together with a certification of their appropriateness from the underwriter or the experts appointed by the issuer.

O. Market Features for Investor Protection

1. Investor Complaints

Investors who have reason to file a complaint about their treatment are encouraged to make representations to the securities firm at which they maintain an account. If the response is unsatisfactory, investors can involve the CSX for rectification or mediation, as may be necessary. If such efforts fail, the investor can escalate the complaint to the SECC.

2. Bondholders Representative Function

The SECC introduced the bondholders representative function in a dedicated *Prakas* in August 2017, as part of the regulatory framework for the issuance of nongovernment (corporate) debt securities in the Cambodian market. The purpose of the function is to represent the interest of bondholders by monitoring the status of the issuer and the terms and conditions of the debt securities, and in the event of default or bankruptcy of the issuer.

Please see section Q for further details.

3. Trust Law at Draft Stage

At present, the Government of Cambodia is drafting a dedicated Trust Law, which may support the market framework of investor protection in due course.

P. Bondholders Representative

The bondholders representative represents the interests of bondholders in the event of default or bankruptcy of the issuer, or other disputes between investors and issuer, and monitors the condition of the issuer and the issued debt securities through their lifecycle. The bondholders representative is required to report to bondholders such status at least every 6 months.

The function of the bondholders representative was introduced in the Prakas on Accreditation of Bondholders Representative published by the SECC in August 2017. As the title of the *Prakas* suggests, a bondholders representative needs to be accredited with the SECC to carry out said functions. Eligible entities are commercial or custodian banks; securities firms; and securities registrars, securities transfer agents, and paying agents. The term accreditation is used since eligible entities are already licensed by the SECC to undertake corresponding business in the securities market; in the case of banks, they are licensed by NBC.

An accreditation as bondholders representative is valid for 3 years and may be renewed via application to the SECC at least 45 days before the expiry of the current accreditation term.

The appointment of a bondholders representative is mandatory for the issuance of nongovernment (corporate) debt securities via a public offering.

1. Bondholders Representative Agreement

The Prakas on Accreditation of Bondholders Representative requires that the issuer and bondholders representative enter into a Bondholders Representative Agreement and also specifies minimum content requirements for such an agreement.

Pursuant to Article 14 of the *Prakas*, such minimum content includes

- i. the contracting parties' identities;
- ii. the appointment of the bondholders representative;
- iii. the powers, duties, and responsibilities of the bondholders representative;
- iv. the fee for the bondholders representative;
- v. an indemnification;
- vi. terms for the amendment of the agreement;
- vii. terms for the termination of the agreement;
- viii. the obligations of the bondholders representative after a termination of the agreement; and
- ix. terms on claims and responsibility for liabilities.

2. Obligations of Bondholders Representative

The bondholders representative will need to discharge its obligations under appointment by the issuer and in accordance with the provisions of the Prakas on Accreditation of Bondholders Representative and the terms set in the Bondholders Representative Agreement.

These obligations include monitoring the status and solvency of the issuer, complying with the terms and conditions of the debt securities, and reporting to bondholders at least every 6 months. The bondholders representative also needs to report any adverse conditions to the SECC. The bondholders representative is required to submit an annual report on its activities and its latest audited financial statement to the SECC within 90 days after the end of a financial year.

In case of a breach of the terms and conditions of the debt securities, or another event that affects the interests of bondholders, the bondholders representative must inform the bondholders. The bondholders representative will call a bondholders meeting if it deems it necessary or if bondholders representing at least 10% of the outstanding amount of the debt securities have so requested. Specific provisions for the holding of bondholders meetings are set out in the disclosure document as required under the *Prakas*.

Under Article 13 of the *Prakas* on Public Offering of Debt Securities, a bondholders representative is required to establish its own processes and procedures to fulfill its obligations, and create its own code of conduct, including mechanisms to avoid possible conflicts of interest and the timely disclosure of relevant information to bondholders and the SECC.

An accredited entity is not allowed to act as a bondholders representative if the same entity provides other services to the issuer, such as in the capacity of underwriter or guarantor, or has certain capital affiliations with the issuer.

Q. Bankruptcy and Insolvency Provisions

The Law on Bankruptcy and Insolvency came into effect on 8 December 2007 and was designed to provide collective, orderly, and fair satisfaction of creditor claims from debtor properties and, where appropriate, the rehabilitation of the debtor's business. The Law on Bankruptcy and Insolvency, 2007 applies to the assets of all individuals and legal entities conducting business in Cambodia.²⁶

Bankruptcy and insolvency provisions and procedures related specifically to the issuance and servicing of debt securities are expected to evolve in time in line with the development of the Cambodian bond market.

The SECC is in the process of drafting the Anukret on Rehabilitation and Liquidation in the Securities Sector, which is expected to be ready for publication by the end of 2017.

R. Event of Default

The *Prakas* on Accreditation of Bondholders Representative includes a definition of default. According to Article 2.1 of the *Prakas*, “[d]efault refers to any events that cause the issuer to be unable to fulfill the debt payment obligation including principle and/or interest as prescribed in the terms and conditions of the debt securities.”

In addition, the *Prakas* on the Public Offering of Debt Securities prescribed that definitions of possible events of default are to be included in the disclosure document provided to potential investors at the time of the public offering.

In the event of default, the bondholders representative is required to notify the bondholders and also report the event to the SECC.

²⁶ Statement taken from United States Department of State. 2015. *Investment Climate Statement—Cambodia*. <http://www.state.gov/e/eb/rls/othr/ics/2015/241508.htm>

