Characteristics of the Lao PDR Bond Market

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,
Characteristics of the Lao PDR Bond Market

immobilized at a CSD. 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;
vi. interest rate or yield;
vii. amount of the corporate bond issued;
viii. face value of the corporate bond certificate;
ix. aggregate value of corporate bonds issued;
x. 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.

For the detailed regulations, please see 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 purchases 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. 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.

![Figure 3.1: Treasury Bill Auction Process Flow](image)

MOF → BOL → CB and Financial Institution

- Auction announcement
- Sealed envelope
- Auction result
- BOL provides Treasury bill certificates and receives cash; clearing and settlement
- Submit a bid
- Lose
- Win

BOL = Bank of the Lao PDR; CB = commercial bank; MOF = Ministry of Finance, Lao PDR.
Source: Bank of the Lao PDR.


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

---

12 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 correspondant 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.
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](image)

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.¹³

**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.

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**

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.14

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.

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. 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

---

15 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 ±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.16

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.17

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)

17 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.