

Bond Market Costs and Taxation

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

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

A. Costs Associated with Corporate Bond Issuance

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

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

a. Application Fee

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

b. Annual Fee

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

2. Financial Advisor Fee (Mandatory)

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

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

3. Underwriter Fee (Mandatory)

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

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

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

4. Guarantor Fee (Conditional)

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

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

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

a. Transfer Agent Registration Fee

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

b. Transfer of Title Service

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

c. Paying Agent Service

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

d. Other Services

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

B. Ongoing Costs for Issuers of Corporate Bonds and Notes

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

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

C. Costs for Listing of Debt Securities

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

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

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

1. Listing Review Fee (Mandatory)

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

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

2. Initial Listing Fee (Mandatory)

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

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

3. Annual Management Fee (Mandatory)

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

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

C. Costs for Deposit and Withdrawal of Bonds and Notes

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

1. Securities Deposit Fee (Mandatory)

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

2. Withdrawal Fee

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

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

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

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

2. Account Maintenance Fee at the Lao Securities Exchange

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

E. Costs Associated with Securities Trading

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

1. Trading Fee

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

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

2. Brokerage Commission

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

F. Costs for Settlement and Transfer of Bonds and Notes

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

1. Transaction Fee (Settlement and Transfer Fee)

a. In the Case of Government Securities

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

b. In the Case of Securities Settled by LSX

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

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

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

G. Taxation Framework and Requirements

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

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

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

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

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

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

1. Corporate Income Tax

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

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

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

2. Withholding Tax

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

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

3. Capital Gains Tax

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

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

4. Stamp Duty

There is no stamp duty applicable on debt securities transactions.

5. Value-Added Tax

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

6. Double Taxation Agreements

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

H. Tax Incentives

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

1. Incentives to Issuers

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