



Characteristics of the Myanmar Bond Market

The Myanmar bond market is at a nascent stage of development, with issuance limited to government securities and a corporate bond market only now being envisaged. At the same time, the Myanmar securities market as a whole has made enormous strides in the last few years and is expected, under the leadership of MOPF and SECM, to develop quickly and strongly in the near future.

As such, existing or envisaged characteristics specific to the Myanmar bond market are described in more detail in this chapter.

A. Definition of Securities

The current fundamental and key legislation does not contain a consolidated definition of securities. Instead, securities are mentioned (and some examples are given) in a number of places in the legislation.

1. Reference in the Securities Exchange Law

Chapter 1, Article 1 of the SEL contains references to certain securities, as follows:

The expression “Securities” includes the following:

- (i) Treasury bills (T-bills), T-bonds, bonds, and debentures issued or arranged to issue by the government or any governmental organization;
- (ii) T-bills, T-bonds, bonds, and debentures issued by international organizations, foreign governments, and their institutions;
- (iii) shares, stocks, bonds, and debentures issued or arranged to issue by the public companies and rights, options, and warrants relating to such shares, stocks, bonds, debentures; and
- (iv) other securities and instruments prescribed by notification as securities by [SECM].

The SEL also makes mention of or defines the securities business activities for which licenses are required, as well as the terms “Securities Market” and “Over-the-Counter Market.”

2. Reference in the New Myanmar Company Law

Article 60(a) of the New Myanmar Company Law stipulates that the shares or other securities of any member in a company shall be moveable property, transferable in the manner provided or permitted by this law and any other applicable law, and subject to the constitution of the company.²⁷

²⁷ Please see http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/mcl_english_version_mpf_comments_oct_2016_clean.pdf

B. Types of Bonds and Notes

The Government of Myanmar has been issuing securities since 1993. At present, corporate debt securities are not yet being issued in Myanmar. However, the promulgation of the SEL and subsequent rules, regulations, notifications, and guidelines are expected to create the necessary and practical legal and regulatory environment for corporate bond issuances.

At present, the issuance of debt securities in Myanmar is limited to Myanmar kyat only.

1. Bonds and Notes issued by the Government

Until 2013, government securities were issued by CBM upon instructions from the then MOF. In line with the clarification of the roles of government institutions, CBM was made independent from MOF under the Central Bank Law, 2013 and has been concentrating on monetary policy and economic stabilization since then. Instead, MOF, which is now the MOPF, created a Treasury Department in fiscal year 2014/15, which took over the responsibility of issuing government securities from CBM. The MOPF has also established a Debt Management Office as part of the Treasury Department, which administers outstanding government securities. However, CBM retains the role of issuing agent.

At present, the required amount of government securities to be issued is divided equally (50% each) between T-bonds and T-bills, in line with International Monetary Fund Article 4 recommendations. A Treasury Securities Steering Committee and Treasury Securities Working Group Committee will be formed by including officials from the MOPF and CBM to discuss the conduct of securities auctions in future.

a. Treasury Bonds

T-bonds are issued at face value in Myanmar kyat only. CBM began issuing 3-year and 5-year T-bonds in denominations of MMK10,000 and MMK100,000 on 1 December 1993 in Yangon and on 1 January 1994 in Mandalay to promote public saving and the eventual establishment of a capital market in Myanmar. Moreover, 3-year T-bonds in denominations of MMK1 million were first issued on 1 April 1996 and 5-year MMK1 million T-bonds were first issued on 1 January 1997. Since 1 January 2010, 2-year T-bonds in denominations of MMK10,000, MMK100,000, MMK1 million, and MMK10 million have been issued to the public. (For reference, the official exchange rate on 31 August 2017 was MMK1,360 per USD1.)

T-bonds are intended for sale to financial institutions, state institutions, other institutional investors, and retail investors. T-bonds are presently issued with tenors of 2, 3, and 5 years, and carry interest rates typically slightly above the official interest rate for savings accounts in order to increase their attractiveness. As of August 2017, interest rates by maturity were as follows: 8.75% for 2-year, 9.0% for 3-year, and 9.5% for 5-year maturities.²⁸

The Treasury Department is planning to issue longer-tenored T-bonds in the near future, per discussions with ADB and representatives of the Asian Bond Markets Initiative. With the commencement of the issuance of T-bonds via auction (see also section E), the government is aiming to create larger issue sizes, with the intention of offering benchmark bonds, which later may be used as a reference for the interest-rate environment in the market.

²⁸ Please see the CBM website for current rates at <http://www.cbm.gov.mm/content/issuance-government-treasury-bonds>

T-bonds can be utilized by financial institutions to obtain short-term funding from CBM under the existing discount window, in part to maintain minimum reserve requirements. In principle, T-bonds are also tradable between investors (please refer to Chapter IV for more details).

b. Treasury Bills

Under the present budget management framework, T-bills are issued exclusively to CBM, which, in turn, prints currency to pay the government for the issued T-bills. T-bills had an original tenor of 3 months, with a fixed interest rate of 4%, from 1990 to March 2016. Since 2015, T-bill auctions have included 3-month, 6-month, and 12-month tenors. From April 2016, the marketable interest rate is applied for 3-month T-bills for CBM's financing of the government deficit starting for fiscal year 2016/17 and the weighted interest rate is between 7% to 9% per annum.

T-bills are tradable by CBM using the discount window.

2. Characteristics of Government Securities

Both T-bonds and T-bills were originally issued as physical securities on security-printed paper. However, after CBM launched its CSD, book-entry record keeping, and RTGS systems in 2016, T-bond and T-bill issuance moved to a scripless basis. As such, the OTC sale of physical certificates at issuing agents is no longer practiced (please see Section C).

3. Bonds and Notes Issued by the Corporate Sector

At this point in time, no specific rules or regulations exist for the issuance of corporate bonds. While the SEL mentions different types of bonds, there is no definition of an asset class or a term for corporate bonds, and no mention of detailed treatment or activities specific to bonds not issued by the government. In addition, YSX, while principally in a position to include debt securities on its markets (see also Chapter IV), has not defined corporate bonds as eligible instruments in its business regulations.

However, the ability to issue corporate debt securities is included in the Capital Market Development Committee's plan for the Myanmar bond market. SECM is also seeking to create a secondary market for debt securities on YSX. As such, SECM is studying best practices with regard to policy implementation for the issuance of corporate bonds.

4. Issuance Programs

At present, issuance programs for debt securities do not exist in the Myanmar bond market. This also because some of the more fundamental prerequisites for the issuance of corporate bonds would need to be in place prior to the commencement of issuance programs.

C. Money Market Instruments

Money market instruments are short(er)-term debt instruments, typically T-bills issued by the Government of Myanmar. Money market instruments are generally limited to instruments with a maturity of less than 1 year.

1. Issued by the Government of Myanmar

a. Treasury Bills

The Treasury Department of the MOPF issues T-bills with 3-month tenors exclusively to CBM, which, in turn, prints currency to pay the government for the issued T-bills.

At the same time, T-bills with tenors of 6 months and 12 months are tradeable by CBM through the discount window.

2. Issued by the Corporate Sector

There are presently no money market instruments issued by the corporate sector.

D. Segmentation of the Market

To provide a better illustration of the segmentation of the existing types of debt securities issued to the market in Myanmar—consisting of only T-bonds at this point in time—Table 3.1 gives an overview of outstanding values of T-bonds in selected years, as well as the bondholder distribution at the time.

Table 3.1: Segmentation of the Market—Outstanding Value of Government Treasury Bonds for Selected Years (MMK million)

Type of Government T-Bond and Bondholders	2015		2016		2017	
	Amount	%	Amount	%	Amount	%
2-Year	516,263	100.00	365,590	100.00	340,815	100.00
Public	85,613	16.58	38,940	10.65	14,815	4.35
Private Enterprises	430,650	83.42	326,650	89.35	326,000	95.65
3-Year	569,525	100.00	533,299	100.00	390,024	100.00
Public	109,475	19.22	111,649	20.94	12,374	3.17
Private Enterprises	460,050	80.78	421,650	79.06	377,650	96.83
5-Year	1,814,685	100.00	1,715,839	100.00	1,453,482	100.00
Public	25,155	1.39	30,489	1.78	25,132	1.73
Private Enterprises	1,789,530	98.61	1,685,350	98.22	1,428,350	98.27

Notes: Data for T-bonds not issued at auction. All figures as of the end of March.

Source: Central Bank of Myanmar.

In contrast, Table 3.2 offers a breakdown of the outstanding amounts and bondholder distribution for T-bonds issued at auction, which are those T-bonds issued between September 2016, when T-bond auctions commenced, and the end of that same fiscal year on 31 March 2017.

Table 3.2: Segmentation of the Market—Outstanding Value of Government Treasury Bonds Issued at Auction (MMK million)

Type of Government T-Bond and Bondholders	Nominal Interest Rate at 9.0%		Nominal Interest Rate at 9.25%		Nominal Interest Rate at 9.5%	
	Amount	%	Amount	%	Amount	%
Public	0	0.00	500	0.07	500	0.3
Private Enterprises	320,000	100.00	719,170	99.93	159,500	99.7
Total	320,000	100.00	719,670	100.00	160,000	100.00

Note: Data for T-bonds issued at auction only (in the course of fiscal year 2016/17).
Source: Central Bank of Myanmar.

Detailed information on the outstanding values of T-bonds and T-bills, new issuances per period, and government securities in Myanmar can be found on the CBM website.²⁹ Appropriate links are also provided in Chapter VII and Appendix 1 of this Bond Market Guide.

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

T-bonds and T-bills are issued via a number of methods, chief among them being an auction. The introduction of a primary dealer concept may be considered at a later stage. The SEL, SER, and subsequent regulations prescribe that private sector securities be issued through a public offering only, with the approval of SECM required in every instance.

At present, government bonds are only being issued in Myanmar kyat.

1. Government Securities

At the present time, government securities in Myanmar are issued to investors through the methods described below. Following comprehensive study and consultations, which included discussions with ABMF, ADB, and the International Monetary Fund, CBM introduced an auction concept in August 2016. CBM conducts auctions as part of its domestic market operation. CBM may conduct auctions for its own securities and those of the Government of Myanmar.

a. Direct Issuance

Previously, the principal method of issuance of government securities, in particular T-bonds, was direct issuance to interested and eligible investors in the market, mostly in the form of physical certificates. Since 2010, CBM has sold directly to financial institutions, while MEB and MSEC sell directly to institutional and individual investors. T-bills are issued to and kept by CBM. These T-bills are tradable by CBM through the discount window.

²⁹ See the Government Securities tab on <http://www.cbm.gov.mm>

b. Issuance via Competitive Auction

Effective August 2016, CBM published operations procedures for the conduct of auctions for T-bonds and T-bills. Article 40(p) of the Central Bank of Myanmar Law, 2013 authorizes CBM to conduct auctions and Article 121 authorizes it to issue procedures for the conduct of such auctions. The first-ever auction of T-bonds was conducted on 20 September 2016. Regular auctions are expected to be conducted on a monthly basis.

Only financial institutions registered as counterparties with CBM are eligible to tender bids for the auctions. Bidders need to have an account with the CBM settlement system to register as bidders. Such registration enables bidders to participate in securities auctions, deposit auctions, buybacks, repurchases, switch auctions, and credit auctions. Bidders may register for either competitive auctions or noncompetitive auctions.

The auctions will be held on a multiple-price basis. The minimum face value of each competitive bid must be MMK500 million, with multiples of MMK100 million allowed thereafter. Each successful competitive bidder will be allocated securities at the yield at which it bid. Each successful noncompetitive bidder will be allocated securities at the market-value weighted average of successful bid yields in the competitive bidders' pool.

Auction results will be announced by 2 p.m. on the day of the auction via a combination of electronic media and the CBM website. Settlement for all securities issued at auction is on auction date +2 banking days. Settlement is via the CBM's settlement system, CBM-NET.

A detailed description of the current auction procedures for government securities, Domestic Market Operations: Securities Auction Procedures, is available on the CBM website.³⁰

c. Issuance via Noncompetitive Auction

CBM reserves the right to bid as a noncompetitive bidder in auctions of government securities when it is acting as an agent on behalf of the Government of Myanmar.

The minimum face value of noncompetitive bids must be MMK500 million, with multiples of MMK100 million allowed thereafter. The auctions will be held on a multiple-price basis. Each successful noncompetitive bidder will be allocated securities at the market-value weighted average of successful bid yields in the competitive bidders' pool.

Auction results will be announced by 2 p.m. on the day of the auction via a combination of electronic media and the CBM website. Settlement for all securities issued at auction is on auction date +2 banking days. Settlement is via CBM-NET.

A detailed description of the auction procedures for government securities, Domestic Market Operations: Securities Auction Procedures, is available on the CBM website.

³⁰ See

http://www.cbm.gov.mm/sites/default/files/finance_mark/cbmsecuritiesauctions_proceduresaug20164.0_0.pdf

d. Underwriting in the Context of Government Securities

Since January 2010, CBM has authorized a number of branches of state-owned MEB and the joint venture securities company MSEC to issue T-bonds on its behalf. This practice is known in the domestic market as “underwriting.” As such, MEB and MSEC act as underwriters or, in fact, as issuance agents on behalf of the government.

2. Securities issued by the Private Sector

Under prevailing rules and regulations, the only issuance method for securities available in the market is via a public offer.

a. Public Offer

Corporate bonds are not yet being issued in Myanmar but the regulatory framework for public offers of securities is already in place.

The SEL and other regulations mention debt securities, while issuance regulatory processes do not specifically exclude debt securities. The process prescribed is that of a public offer. As such, the market is waiting for input from policy bodies and regulatory authorities on the commencement of the corporate bond market.

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

b. Private Placement

At present, the issuance of securities via a private placement is not yet available in Myanmar.

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

The governing law and jurisdiction for a bond or note issuance is 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 the contractual preferences of stakeholders may affect the accessibility to a specific investor universe that may otherwise not be accessible if a bond or note were issued under the laws of the place of issuance.

At present, the governing law and the jurisdiction of agreements by contracting parties is required to be the law and jurisdiction of Myanmar if bonds or notes are to be issued in Myanmar. The upcoming convergence of foreign and domestic investment practices pursuant to the Myanmar Investment Law, 2016 is expected to further define what opportunities and flexibility for contracts and investments will exist in Myanmar.

G. Language of Documentation and Disclosure Items

In Myanmar, laws (fundamental and key legislation) are required to be translated into English, if not always at the time of their promulgation. SECM publishes its notifications in both the Myanmar language and English, and YSX issues its regulations, manuals, and guidelines for listing, disclosure, trading, and post-trade activities primarily in English—sometimes only in English—in preparation for the broader inclusion of foreign market participants.

SECM already permits the use of an English translation of the prospectus, side by side with the original Myanmar language version, when an issuer applies for approval of issuance of securities.

In the absence of a corporate bond market, it remains untested whether contracts and other bond issuance documentation and disclosure items that will be required to be submitted to SECM as part of the application process may be compiled and presented in English. In this context, YSX already prescribes that an issuer intending to list securities—presently limited to equities—should publish their key documentation in both the Myanmar language and English.

The same is presently also untested for applications to, and correspondence with, policy bodies, regulatory authorities, and market institutions. At the same time, the Myanmar bond market does not yet admit nonresident issuers for whom this ability would be a significant feature.

H. Registration of Debt Securities

In some jurisdictions, the registration of bonds issued in the domestic market with a designated registration place—such as an SRO, market association, or pricing agency—ensures the availability of reference pricing and general bond information for market participants at large. Some professional investors, such as mutual and pension funds, require investment assets to be officially registered or listed in order to satisfy governing prudential regulations.

At this point in time, the registration of bonds in Myanmar is not practiced. However, since the issuance of government bonds is regularly conducted by CBM and pricing is published to market participants on a regular basis, reference pricing is in fact available (see also section I). In addition, reference prices of issued government securities may be available upon request from the Authorised Selling Agents.

I. Listing of Securities

At present, the listing of securities on YSX is limited to equities, with the regulations and manuals of the exchange only referencing equity securities. The Guidelines on Initial Listing, which were issued by YSX in July 2016 to guide potential issuers, also only refer to stock listings and the need for an issuer to be a company under domestic legislation.

J. Methods of Trading Securities (Secondary Market)

The trading of bonds and notes in the Myanmar bond market presently occurs only in the interbank market, between CBM and its constituents, among participating financial institutions and securities companies, and as purchase and sale transactions at the counter of Authorised Selling Agents appointed by CBM. Details on interbank market trading and the specific OTC concept for government securities are contained in Chapter IV.

The SEL and SER, as well as SECM notifications, contain prescriptions for debt securities issuance and related practices, and specify the requirements for an OTC market. This is expected to spur the trading of debt securities once corporate bond issuance commences.

While the systems and procedures employed by YSX would in principle enable the trading of debt securities on its markets, the present YSX Trading Business Regulations, which were issued in October 2015, refer to equities as the only eligible instruments for trading.

K. Securities Pricing

Myanmar does not currently have a securities pricing agency and, due to the small number of bond issues in the market, traded or reference prices are not expected to be collected and published in a centralized manner in the immediate future.

1. Government Securities

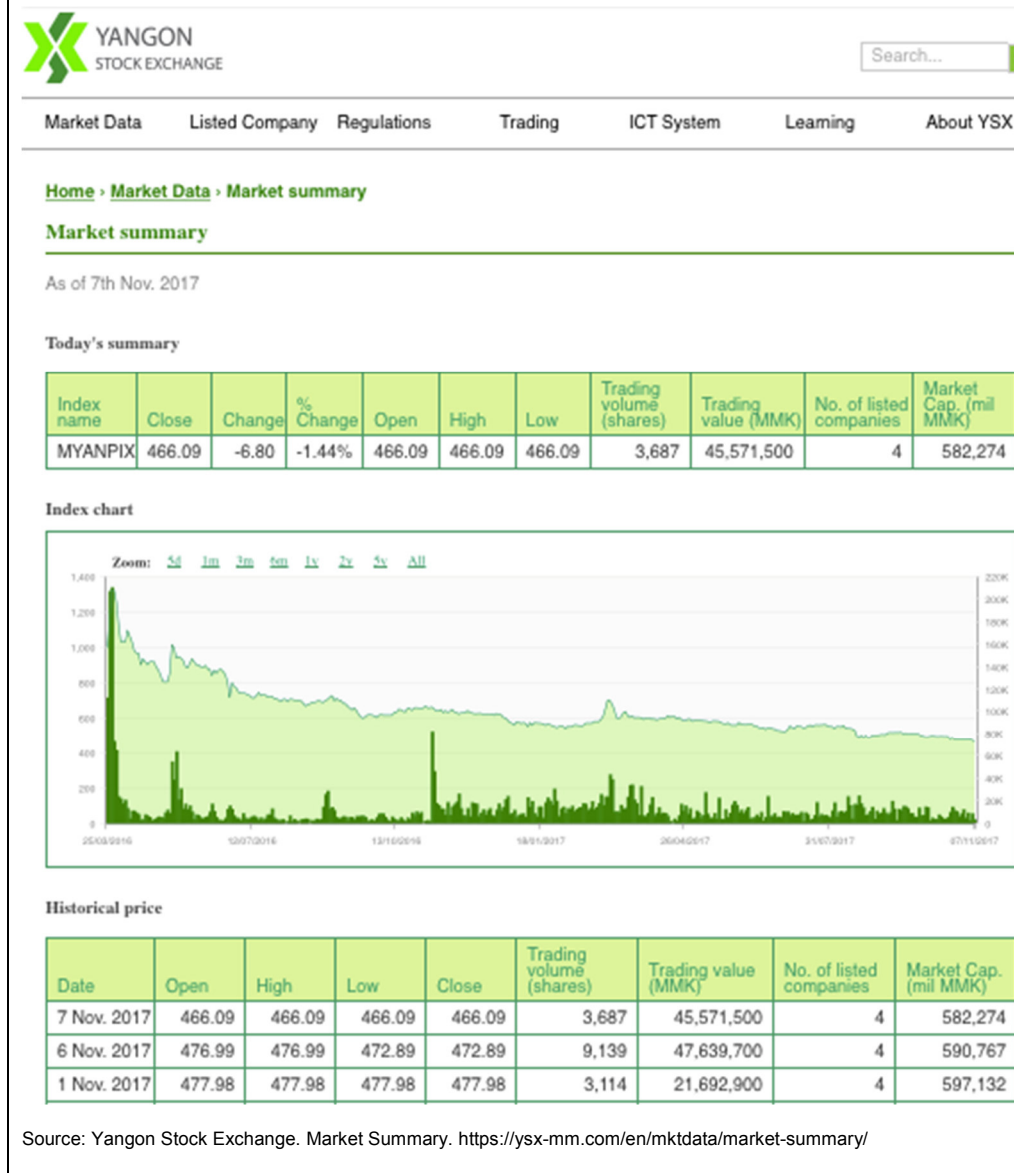
At present, the pricing of bonds issued by the Government of Myanmar is done at the time of auction and during sale or purchase at the counter of the Authorised Selling Agent appointed by CBM, or in the form of a quote upon customer request. For transactions between CBM and financial institutions, pricing is done at the time of transaction between counterparties in the interbank market. CBM also publishes pricing results of government securities auctions as PDF files accessible via its website.³¹

2. Securities Listed on the Yangon Stock Exchange

As a matter of reference, the price-finding mechanism for equities on YSX is based on an auction concept. Price information is also available to the public via the YSX website (Figure 3.1); the same web page also contains historical prices. Debt securities are not yet listed on YSX, but the currently available functionality is expected to also be available for future instruments on the exchange, including debt securities.

³¹ See <http://www.cbm.gov.mm/content/1160>

Figure 3.1: Yangon Stock Exchange Securities Price Information Web Page



L. Transfers of Interest in Bonds and Notes

The recording of a change in ownership of bonds or notes issued in the Myanmar market, or for securities at large, differs between transactions in government securities issued by CBM on behalf of the government and those securities listed and traded on YSX.

1. Government Securities

For transactions in the interbank market—those between CBM and financial institutions registered as counterparties—transfers of interest or ownership in T-bonds are effected through CBM-NET.

CBM-NET comprises two systems: (i) a real-time gross settlement system for funds transfers, the CBM-NET Funds Transfer Service; and (ii) a system for the custody of government and central bank securities, the CBM-NET Central Securities Depository (CBM-NET CSD). The CBM-NET CSD maintains the register of government and CBM domestic securities.

A transfer of a security in CBM-NET CSD is effected by debiting and crediting the accounts of the delivering participant and the receiving participant, respectively, in the quantity of the security relating to that trade. The settlement of transactions requiring the movement of funds is effected on a delivery-versus-payment basis by debiting and crediting the respective funds accounts (in CBM-NET Fund Transfer Service) and securities accounts (in CBM-NET CSD) of the counterparties to the trade. The making of such entries effects final and irrevocable delivery of the securities between the participants with respect to that trade.

2. Securities Listed on the Yangon Stock Exchange

Pursuant to the Electronic Transactions Law promulgated in 2004, and SECM Notification 1/2015, dated 7 August 2015, securities listed on YSX may only be transferred on a book-entry basis. YSX has been designated a Book-Entry Transfer Institution (a transfer agent), which is part of the license of an exchange. As such, YSX carries out the transfer of interest or ownership in listed securities traded on its markets as a matter of course, through its depository operation. The practice is expected to be maintained for debt securities once they can be listed and traded on YSX.

3. Prohibited Transfers

While Section 29 of the Business Regulations Relating to Book-Entry of Stock, etc. issued by YSX principally prescribes the transfer of YSX-listed and -traded securities for transactions other than exchange trades, free-of-payment transfers of securities are presently not permitted other than for the transfer of said securities into and out of a collateral account.

At the same time, CBM-NET CSD does allow for free-of-payment transfers of securities, in order to support the booking of repurchase agreements of CBM with its constituents.

4. Custodian Point of View

Participants in CBM-NET CSD may trade and hold government securities for their own account or for their customers (referred to as indirect participants). The transfer of interest or ownership of government securities occurs between participants in CBM-NET (see also section 1) or in the accounts of indirect participants. Hence, the participants in CBM-NET CSD function as custodians on behalf of indirect participants.

For securities listed and traded on YSX, the Business Regulations Relating to Book-Entry of Stock, etc. define "Account Management Institutions," who are able to maintain accounts for their own books and on behalf of customers with YSX as the Book-Entry Transfer Institution. An Account Management Institution fulfills the function of a custodian in other markets. Transfers of securities listed and traded on YSX are effected in the accounts maintained by these Account Management Institutions.

M. Market Participants

1. Issuers

Since 1990, CBM has been issuing government securities on behalf of the Government of Myanmar. Under the restructuring of the roles of government institutions to support a growing economy, CBM returned the power to issue securities to the Treasury Department of the then MOF, which was established in fiscal year 2014/15. However, CBM continues to issue government securities as an agent of the government.

Corporate debt securities are not yet being issued in the Myanmar market, but their issuance is expected to commence in the near future. SECM is presently focused on defining a secondary market for government securities, followed by provisions to introduce the issuance and trading of corporate debt securities.

2. Investors

Due to the current stage of development of the bond market, and the securities market at large, only a limited number of investor types are active in the bond market at this time. In addition to banks, a number of state committees and retail investors buy and hold T-bonds.

a. Banks

Banks are the primary investors in T-bonds, which can be used to obtain short-term liquidity from CBM through a discount window. T-bonds are also recognized as liquid assets under the banks' minimum reserve requirements. Banks buy T-bonds directly from CBM or at auction (see also sections C and E in this chapter), or from other interbank market participants.

In January 2016, the FIL took effect, further defining the roles and abilities of banks to participate in the securities market. Please see Chapter II.I for details on these bank functions.

MEB, a state-owned bank, is the largest commercial bank in the country, with 337 branches. In total, there are 4 state-owned banks, 6 semi-government banks, 24 private banks, and 13 foreign banks active in the Myanmar financial market.³²

b. Non-Bank Institutional Investors

Key among the non-bank institutional investors in T-bonds in Myanmar are state-owned institutions such as development committees who administer their own budgets and disbursements. The other main institutional investor type is represented by religious institutions that need to invest their funds and reserves. In addition, a number of companies also buy and hold T-bonds for their own purposes.

c. Insurance Companies

Insurance companies in Myanmar are expected to be able to invest in debt securities in the near future.

³² On the CBM website, banks, financial companies, and other financial institutions are listed under the Financial Institutions tab.

d. Retail or General Investors

According to market observations, several thousand general or retail investors have purchased government securities (T-bonds) OTC at MEB branches or through MSEC under the previous direct issuance concept. However, the share of retail investment in T-bonds is considered small in comparison to the total issuance volume.

e. Pension Funds

Pension funds have established themselves as potential investors in the bond market, focused on government securities, in line with the nature and typical activities of their prudential mandate.

f. Mutual Funds or Unit Trusts, and Asset Managers

Mutual funds or unit trusts, or similar collective investment schemes, have not yet been established under Myanmar securities or prudential legislation. Asset managers require a securities business licence from SECM to operate.

g. Foreign Institutional Investors

At the present time, foreign institutional investors are not yet participating in the bond market, due to the absence of corporate bond issuances and lack of a secondary market for government securities. There are no outright provisions in the fundamental legislation and the SEL to limit or restrict the participation of nonresident investors. However, foreign investors need to obtain approval from DICA prior to investing in Myanmar. Please also see Chapter II.N for applicable regulations and limitations for nonresidents.

3. Parties Involved in Debt Securities Issuance

Given the nascent stage of the Myanmar bond market, and the securities market in general, the concept of intermediaries is not yet well developed. At the time of the completion of this Bond Market Guide, SECM had licensed five securities firms to carry out securities agent business, which includes brokerage, underwriting, and other regulated activities. Banks and NBFIs do not require specific licensing for participation in the interbank market or for participation in the auction of T-bonds conducted by CBM.

However, under the provisions of the SEL, a number of roles for intermediaries in the securities market can be identified as a result of the descriptions of activities and the corresponding licences on offer for market participants. Pursuant to Article 2 of the SEL, these activities include

- (i) trading of securities,
- (ii) acting as broker or agent in a securities business,
- (iii) taking responsibility for sub-distribution of securities,
- (iv) advising on investing in securities, and
- (v) offering clearing accounts for securities.

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 being reviewed here.

a. Financial Institutions Registered as Bidders

Financial institutions intending to bid at T-bond auctions conducted by CBM need to be registered with CBM as counterparties for such participation and maintain an account in the CBM settlement system (CBM-NET). This limits participation to commercial banks.

Under the FIL introduced in January 2016, commercial banks may participate in the buying and selling of securities for their own account or for their customers. There is no specific separate license required to participate in auctions of government securities.

While there is no concept of primary dealers or market makers in the Myanmar bond market at present, policy makers are studying the introduction of this concept in future.

b. Securities Agent(s) (Underwriter[s])

Securities agent is the term used in legislation, rules, and notifications concerning the Myanmar securities market. A securities agent fulfills the function of an underwriter, or the role of an arranger if other deal parties are involved.

Securities agents (underwriters) need to be licensed by SECM and may also carry out other activities in the securities market, as permitted by SECM.

The appointment of a securities agent (underwriter) is mandatory in Myanmar for issuances via public offers, currently the only issuance option for securities. A securities agent (underwriter) is not responsible for the issuance documentation and submission of applications to SECM and YSX (in case of a listing) but should be expected to support the raising of documentation and related information.

c. Underwriter(s) in Context of Direct Issuance of Government Securities

Previously, the term underwriter had been used in a different context in the Myanmar securities market rather than in the traditional understanding of the term.

MEB and MSEC act as issuing agents for T-bonds on behalf of the government and CBM (please also refer to section C in this chapter). These institutions are locally designated as underwriters for this practice, including on the CBM website. The naming is potentially misleading since these entities do not use their own funds to subscribe to the issued securities before placing them in the market. For a description of the role of MEB and MSEC as investors in the market, kindly refer to section 2 in this chapter.

MEB issues T-bonds, or sells them OTC to its customers in eight branches, including the main branches in Mandalay, Nay Pyi Taw, and Yangon. MSEC sells T-bonds through its Yangon office only.

d. Securities Sub-Distribution Agent(s) (Selling Agent[s])

Securities sub-distribution agents fulfill the function of selling agents for securities to be issued to the public. In contrast to the underwriter or securities agent, these agents do not take a risk by subscribing to the securities at the

time of placement; instead, their purpose is to place securities within the investor universe allocated to them.

Securities sub-distribution agents require a specific license for this activity from SECM. Securities firms who already have an underwriter or securities agent license may also act as a selling agent.

e. Shareholder Agent (Transfer Agent)

Comparable to the function of a registrar or transfer agent in other markets, the shareholder agent is tasked with keeping the ownership records of issued securities on behalf of the issuer. The name is derived from the focus on equities listed and traded on YSX at the time of compilation of this Bond Market Guide, but the function is likely to be adjusted or renamed once debt securities can be listed and traded on YSX or in the OTC market that has already been mentioned in regulations.

At present, YSX is performing the role of shareholder agent for the stock listed and traded on its market, supported by its Business Regulations Related to Shareholders' Agency Business. In this role, YSX also acts as paying agent for benefits arising from the equity securities in its records.

f. Custodians (Settlement Agents)

At the time of compilation of this Bond Market Guide, there were no market participants acting as third-party custodians (i.e., unrelated to securities firms or market infrastructure providers). Instead, the current market segments for government securities and exchange trading have already established their own settlement and safekeeping functions for the participants in each market.

Under the FIL, commercial banks may act as custodians without obtaining a separate license from SECM.

For government securities, CBM acts as the settlement agent for transactions between banks, or between the CBM and a bank, in CBM-NET. CBM also acts as the CSD and securities registrar for government securities and central bank securities.

Participants in CBM-Net CSD may also perform settlement and safekeeping services for transactions in government securities and central bank securities for their underlying clients (called indirect participants). Eligible participants include regulated financial institutions, which may include a broker or dealer trading in securities or an insurance company or corporation. Foreign institutions are also eligible to participate in CBM-NET CSD.³³ Commercial banks and the CBM are expected to be the main participants in CBM-NET CSD.

In the case of OTC transactions via MEB or MSEC, either MEB or MSEC performs the settlement function, but securities are delivered in physical form to the buyer and ownership is endorsed on the back of the securities certificate. Transfer of ownership is reported to CBM on a regular basis for corresponding entries to the government securities register kept at CBM.

³³ The CBM Guidelines on CBM-NET CSD define "foreign institution" as a "[p]erson other than an individual who (i) is incorporated, established or formed under the laws of a jurisdiction situated outside Myanmar or who is primarily regulated for prudential and liquidity purposes under the laws of a jurisdiction situated outside Myanmar; and (ii) is a Financial Institution, a broker or dealer trading in securities, an insurance company or a Central Bank."

In turn, trades on YSX are settled through the accounts of Account Management Institutions, who fulfill the function of custodians for their underlying clients. YSX acts as the Book-Entry Transfer Institution, or CSD, for transactions on its market. Account Management Institutions are participants in this function, not the exchange market itself.

g. Accounting Firms

Accounting firms are able to provide services to issuers or other market participants in the securities market, without the need to obtain a license or accreditation from the Myanmar Accountancy Council.

Accounting firms need to be registered with DICA as the company registrar in Myanmar. In addition, accounting firms have to be accredited with the Union Office of the Auditor General to carry out audit work.

h. Law Firms

Law firms are able to provide services to issuers or other market participants in the securities market, without the need to obtain a license or accreditation from the Supreme Court, but will also need to register with DICA as a company in Myanmar.

N. Definition of Professional Investors

The legislative and regulatory framework of the Myanmar securities market does not contain a definition of professional investor or the concept of different investor classes based on their incorporation, sophistication, or experience.

Hence, at this point, there is no professional bond market or professional securities market at large in Myanmar. Going forward, securities market participants may be termed professional since they require licensing under the SEL. At the same time, the issuance of T-bonds by CBM to financial institutions, either by direct issuance or via auction is, by the nature of the activity, limited to professional participants.

O. Credit Rating Requirements

At the time of compilation of this Bond Market Guide, a credit rating system and specific prescriptions for the issuance of debt securities were not yet in place.

However, following the establishment of YSX and its increasing number of listed securities, and the advent of the corporate bond market, SECM is likely to introduce a credit rating system in the near future.

At present, SECM is focused on improving the corporate governance standards among listed companies, in view of potentially listing candidate companies (see also Chapter IX), before incorporating such standards and requirements into regulations for credit ratings and credit rating agencies.

P. Market Features for Investor Protection

Typical concepts for investor protection, such as a trustee or bondholder representative function, do not yet exist. Other investor protection measures are also not yet developed in Myanmar.

Measures for investor protection will be included in this section of the Myanmar Bond Market Guide once they are introduced in the market.

Q. Bond Trustee or Bondholder Representative

At the time of compilation of this Bond Market Guide, the concept of a bond trustee, bondholder representative, or a corresponding function had not yet been established in the Myanmar bond market or the securities market at large.

R. Bankruptcy and Insolvency Provisions

Provisions in Part V of the existing Companies Act, 1914 are concerned with the winding up of companies and contain comprehensive bankruptcy and insolvency prescriptions. However, these are expected to be reviewed and revised once the New Myanmar Company Law and the corresponding Rules have been promulgated.

Provisions for bankruptcy and compulsory liquidation of banks and NBFIs are contained in the FIL, which also promotes equal access of resident and nonresident creditors to a universal pool of assets of a bank or NBF in the process of liquidation that had engaged in cross-border activities.

S. Event of Default and Cross-Default

In the absence of a corporate bond market in Myanmar, the need to define events of default and possible cross-default provisions has not yet arisen. However, the market expects such prescriptions in laws and regulations to be introduced in line with the development of the bond and securities market, likely starting with provisions in the New Myanmar Company Law.