

# Myanmar Bond Market Challenges and Opportunities

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This chapter discusses some of the real and perceived challenges facing the Myanmar bond market and its participants. This chapter also aims to describe the possible mitigating factors and market developments that could address these challenges in an appropriate manner.

## A. Challenges in the Myanmar Bond Market

The challenges facing the Myanmar bond market are described below, but not necessarily in the order of priority for each policy body or regulatory authority.

### 1. Timely Availability of Rules and Regulations in English

Myanmar's laws are required to be translated into English, though this may not occur at the time the respective legislation is promulgated. In addition, some of the key rules and regulations may not be translated into English in a timely manner. This may have an impact on the level of interest and participation by nonresident investors and other market participants when considering the Myanmar bond market.

At the same time, SECM and YSX publish their notifications and business regulations in English on their website in a timely manner. YSX may issue business regulations only in English, and both SECM and YSX are encouraging public companies to issue their prospectus and disclosure information in both the Myanmar language and English to prepare listed companies for a broader investing public in future.

### 2. Need to Convert More Private Companies to Public Companies

As of August 2017, YSX featured four listed companies, which is significant considering that listings only commenced in March 2016 and that there are a finite number of public companies existing in Myanmar.

At the same time, SECM would like to see the conversion of a larger number of private companies into listed companies, and their subsequent ability to issue and list their securities, to increase the number of securities on offer and achieve broader investor participation. For that purpose, SECM has defined among its objectives the need to educate private and public companies on corporate governance and disclosure practices, to ease them toward the ability to participate in the capital market.

### 3. Capacity Limitations Across the Market

As of August 2017, YSX had four companies listed, with limited trading activities between the six licensed Trading Participants (securities firms) and their underlying clients. Government securities were effectively only issued in the interbank market and not open to actual secondary trading among institutional investors typically investing in debt securities. The auction process introduced in September 2016 may not have

immediately generated the additional institutional investors that are required in a market to establish continuous demand for debt securities issuances. In turn, the actual issuance of (debt) securities in relation to available market participants might still be insufficient to warrant significant investment in market infrastructure and the expertise necessary to carry the market forward.

In response to these challenges, SECM is hoping to address some shortcomings in the securities market on a subject-by-subject basis (please see also Chapter X).

#### **4. Lack of Market Expertise**

Owing to the present stage of bond or securities market development in Myanmar, the regulatory authorities, market infrastructure providers, and market participants are bound to have limited experience with the many aspects of a securities market and its typical development needs. In particular, a shortage of experienced staff in both SECM and YSX may hamper the ability to implement these necessary developments in the near-term.

#### **5. Lack of Public Awareness and Investor Protection**

Since the Myanmar bond market, and the securities market at large, is in the early stages of development, market participants, including both policy bodies and regulatory authorities, cannot be expected to have accumulated much expertise.

SECM is aware of the lack of both public awareness of investing in securities and also the need to establish measures of investor protection evident in a more established bond or securities market. Among these market features are a trustee or bondholder representative concept, the establishment of an investor protection fund by YSX, and a complaint or dispute resolution mechanism.

In response, SECM will invest in educating the public on the features, benefits, and risks of investing in securities. It also hopes to establish adequate measures for investor protection in due time.

#### **6. Lack of Clarity of Tax Treatment and Tax Incentives**

Being a typical side effect of a nascent yet fast-developing bond market, the tax treatment of new instruments and the activities of market participants in relation to new instruments in the Myanmar bond market, and the securities market at large, is in the early stages of development, and market participants, including both policy bodies and regulatory authorities, cannot be expected to have accumulated much expertise.

## **B. Opportunities in the Myanmar Bond Market**

To address some of the challenges mentioned in the previous section, a number of the planned and envisaged developments in the Myanmar bond and securities markets are reviewed in this section. These developments have been identified in the Capital Market Development Plan and through the actions and research of SECM.

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

With the broad legislative and regulatory environment now in place, the Myanmar bond and securities market and its participants are well placed to tackle the aforementioned challenges. Based on existing laws and rules, SECM may now introduce market features and functions through its own notifications and react to the need to develop market practices in a timely manner. The opportunities mentioned below, as well as

some of the recent developments and future items discussed in Chapter X, are a reflection of SECM's forward-looking activities.

## **2. Listing of Securities by More Public Companies**

Among the approximately 230 public companies in existence in Myanmar (as of August 2016), SECM has identified about 30–40 public companies that may be good candidates for the listing of their securities, starting with their company's stock. These companies range from information technology to tourism and other services sectors. SECM had expected that two or three additional listings may occur in any given fiscal year. In fact, two additional companies did list on YSX in fiscal year 2016/17.

In line with this expected development, one of the key priorities of SECM has been to further develop the practices for corporate governance and adequate initial and continuous disclosure for listed entities.

## **3. Opportunities Created by the Myanmar Investment Law, 2016**

The Myanmar Investment Law was issued on 18 October 2016 and its rules were published on 30 March 2017. The law came into effect on 1 April 2017.

The law contains a clarification of what constitutes a foreign company. Previously, a company was considered a foreign company if at least one share of the company was held by a foreigner. Now, a certain percentage of shares of the company must be held by foreigners to classify as a foreign company. This reclassification is expected to create a pool of additional public companies that would be candidates for the listing or issuing of securities since these companies often have benefited from know-how transfers owing to a degree of foreign ownership, including in the areas of corporate governance, disclosure, and financing.

## **4. Creation of a Corporate Bond Market**

Among the priorities of SECM are the establishment of corporate bond and note issuance, and the trading of medium-term corporate bonds in a secondary market, likely on YSX.

## **5. Potential for Cross-Border Listings and Linkages**

In line with the Blueprint 2025 of the ASEAN Economic Community, links and linkages among the region's financial markets are considered desirable. As such, the ability to link YSX with other exchanges in ASEAN markets, or the cross-listing of public companies already listed on YSX on exchanges in these ASEAN markets, are policy objectives for the long-term.