DAY 2
5 October 2016
Sub Forum 1 (SF1) Meeting
SESSION 6

Update on ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) by ADB Secretariat
Session 6: Update on ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF)

SYNTHETIC PESO NOTES

Presented by

Smetrix Fixed Income Partners, Inc.
Technology Provider

Rizal Commercial Banking Corporation
Arranger
### CROSS-BORDER DILEMMA

<table>
<thead>
<tr>
<th><strong>Governing Law for Issuance</strong></th>
<th><strong>Advantage</strong></th>
<th><strong>Disadvantage</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Law of issuer’s country (Home Country)</td>
<td>Already licensed as a financial institution</td>
<td>Cannot issue securities denominated in Host Country Currency</td>
</tr>
</tbody>
</table>
| Law of investors’ country (Host Country) | Can issue securities denominated in Host Country Currency | ▪ Host Country license required  
▪ duplication of costs & investment  
▪ fragmentation of capital |

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#### Traditional Swap

- Issuer Bank (Home Country) → PHP
- Third Party
- Swap Counterparty
- Home Currency PHP
- Investor (Host Country)

#### Simulated Swap

- Issuer Bank (Home Country) → PHP
- Issuer Bank (Home Country)
- Investor (Host Country)
- Home Currency PHP
- Investor (Host Country)

---
Money Flows – Debt Service

HOME COUNTRY

ASEAN + 3 Bank

Home Currency

HOST COUNTRY (Philippines)

Philippine Banking System

Phil. Borrower

Philippine Investor

ASEAN + 3 Bank

PHP

Philippine Custodian

Malaysian F.I. (PDR)

RCBC LTNCD

PNB LTNCD

Metro Bank LTNCD

San Miguel Bonds

Ayala Corp. Bonds
SESSION 7
(Slideshow Presentation Only)
Update on WG-Information Platform
by ADB Secretariat
SESSION 8

Update on WG-CBCR by ADB Secretariat
Session 8: SF1 Update on WG-CBCR

23rd ABMF Meeting
Satoru Yamadera, Principal Financial Sector Specialist,
SDCC, Asian Development Bank
Manilla, 5 October 2016

Backgrounds of establishment of WG-CBCR

- In Europe and the US, secured or collateralized transactions have increased after the financial crisis.
- Similarly, Asia will face increase in demand for more secured transactions.

**Asia**

**Asian currency crisis in 1997**
- Various international projects have been carried out so far after the crisis.

**Europe and the U.S.**

**The financial crisis in 2008**
- A chain bankruptcy of market participants
- The fall in security prices and increases of margin call
- Having difficulties in funding due to sudden drop of liquidity

**Market**
- The change from uncollateralized to collateralized

**Regulation**
- Margin requirements for non-centrally cleared OTC derivatives
- The LCR requirement

**Can we utilize such large LCY bonds for secured transactions regionally?**

Outstanding of LCY bonds is increasing thanks to improvements of Asian bond markets.

Historical Growth of Asian LCY Bond Market (excluding Japan)

Source: Asian bond online

Total Corp Total Govt

Total Corp Total Govt

Under these circumstances, this WG was established to find out current CBCR market situation and understand impediments for CBCR.
Conceptual understanding of collateral and repo business

The scope of this survey and conceptual understanding of CBCR is as follows:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Central Bank side</th>
<th>Market side</th>
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<td>Monetary Policy</td>
<td>Needs of funding, pledging, ensuring liquidity</td>
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**Relationship diagram**

1. The fund supply and absorption by operation
2. Credit to FIs
3. Repo for funding or reverse repo between FIs.

*FI = Financial institution

Conceptual understanding of cross-border collateral and repo business

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**Relationship diagram**

1. The fund supply and absorption by operation
2. Credit to FIs
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*FI = Financial institution
Survey findings

We collected information through survey among ABMF and WG members.

1. Collecting information from WG members
2. Interviewing targeted FIs

Findings

1. Invisibility of transactions
2. Differences in legal arrangement represented in GMRA and CSA
3. Some possible transactions in the region

Fact Findings  Invisibility of transactions

- **Limited cross-border transactions**
  - CBCR transaction in the region is limited.
  - Most of transaction are USD/UST, USD/JGB, USD/AGB.

- **Lack or fragmentation of information**
  - Identifying whether a transaction is repo or buy/sell is difficult because transactions are booked outside the region (e.g., London).
  - It is not easy to trace CBCR because FI’s systems does not capture such data.

Difficult to capture current state of the market

- Market players may have psychological barriers to CBCR because they can’t judge what they can or cannot do, with whom, and where.

- Invisibility of transaction may be a barrier for CBCR market.
- We need to gather further information to understand and validate possible transactions.
Fact Findings②:
Differences in legal arrangement

- The extension of BOJ-NET operating hours enabled JGBs to be collateral in Europe. Some FIs revised CSA to accept JGBs.
- Though Singapore and Malaysia are English law countries, there is a difference in GMRA country annex, which seems preventing cross-border collateral.
- We suspect lack or limited confidence in legal framework and market practices of developing markets may be one of reasons why financial institutions can't accept LCY bonds in CSA, particularly for cross-border transactions.
- To change the situation, it is often recommended to changing domestic laws to meet international practices, but it is not easy.
- As domestic repo and collateral transactions expands, there will be more sound market practices in developing markets, which foreign FIs also participate. Then, we may be able to create common recognition that the differences in legal arrangements in Asia may be negligible or not as large as expected.

Fact Findings③:
Some possible transactions in the region [example]

I  Repo using USD

Global custodian

Bank A in London

USD

Bank B in Tokyo

JGB

II  BOJ-BOT cross-border collateral

*This scheme has used in the case of emergency such as natural disaster.

BOJ

BOT

Bank A Tokyo office

JGB

Bank A Bangkok office

BOJ-BOT

JGB

THB

III  Cross-border repo between Singapore and Malaysia

Singapore

Bank A

Funds

Bank B branch

Malaysia

Bank A branch

securities

Bank B
Proposals to create regional CBCR market

- Most of cross-border collateral and repo transactions are in USD/UST or limited currencies and bonds.
- Difficulty in accepting different legal framework and market practices seems to be the biggest hurdle for CBCR to be created in the region.
- Besides, demand for such cross-border transaction may not be large because cross-border transactions are mostly done by internationally active banks which have large operation in USD/UST.
- But regional CBCR needs to be considered if Qualified ASEAN Bank (QAB) is realized.
- To foster CBCR market in future, can we explore feasibilities of connecting each market with existing legal framework?
- Central banks may agree cross-border collateral for emergency, but can we make a similar arrangement for “peace time”?

(Proposed transaction models)
1. Cross-border repo or collateral in two transactions by local branches
2. Tri-party cross-border transaction
3. Cross-border collateral agreement by central banks
4. Cross-border collateral and repo via CSD-RTGS Linkages

1. Cross-border repo or collateral in two transactions by local branches

Bank B’s branch M provides credit to Bank A’s M branch while Bank A N branch sells or pledges securities to Bank B’s N branch.

**Assumption**
- Both Bank A and B have branches (or subsidiary) in the two countries concerned.
- Though sales of securities and provision of funds are two separate transactions, Bank A and B can agree to consider them as one.
2. Tri-party cross-border transaction

- Service provider provides tri-party repo service through local branches.

**Assumption**

- A service provider needs to have branch offices in each country.
- The service provider can provide custody service to banks in each market.
- The service provider will transfer funds in Country M in exchange for securities in Country N.
- Service provider needs to be permitted FOP transfers.

3. Cross-border collateral agreement by central banks

- Tri-party transaction with central banks
  - Like CCBM in Europe, banks can get local liquidity in another country by pledging home-country’s securities to the central bank.

**Assumption**

- Central banks accept other country’s securities as eligible collateral.
  - In emergency situation, some central banks have already agreed.
  - It is not clear to what extent central bank can accept other country’s securities as eligible collateral in peace time.
4. Cross-border collateral and repo through CSD-RTGS linkages

- CSD-RTGS Linkages will provide DVP
- The Linkages can accommodate increase in demand for cross-border collateral by central banks.

**Assumption**

- Demand for DVP is high because settlement risks is high.
- Demand for DVP is high because it reduces counterparty risks.
- Central banks accept other country’s securities as eligible collateral.

Supplementary information: Another way of supplying fund

**Note**

- The model of U.S. Dollar funds-supplying operations by BOJ is as follows.
  ⇒ The fund supplier is BOJ.
Next steps

- Further fact finding
  - potential demand
  - Potential service providers

- Identification of legal issues related with CSA

- Identification of barriers which may impede the proposed transaction models

- Identification of legal gaps in each market which affects CSA

Thank you.
syamadera@adb.org
Update on Bond Market Guide revision by Mr. Hirohiko Suzuki, Research Fellow, Waseda University together with ABMF SF1 Consultants (Prof. Shigejito Inukai & Mr. Matthias Schmidt)
Update on Bond Market Guide Revision
~ New Findings, Comparative Analysis
and Schedule Update, etc. ~

Manila, 5th October, 2016
Mr. Hirohiko Suzuki, Research Fellow, Waseda Univ.
Together with Shigehito Inukai, Professor, Waseda Univ. & Consultant for ABMF SF1 and Matthias Schmidt, Consultant for ABMF SF1

I. Summary: New Findings by Economies since 2012
(Refer to Appendix for details)
New Findings: Cambodia 2016

- 'Qualified Investor' concept introduced (8/2016) as separate regulation; which defines Institutional Investors and HNWI

New Findings: People’s Republic of China since 2012

- The first Chinese renminbi-denominated direct private placement note issue of a foreign corporate issuer in the Interbank Bond Market (IBBM) (Daimler AG, April 2015)
- Major step toward giving foreigners free access to IBBM from 17 February 2016
- QFIIs now have less stringent qualifying criteria and streamlined approval process
- SAFE changed overseas investor capital out-flow rules
New Findings: Hong Kong, China since 2012

- Continuous Disclosure Requirements in the Hong Kong Bond Market
- Changes to the Professional Investor Regime
- Implementation of ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) with effect from August 2015

New Findings: Indonesia since 2012

- OJK introduced Shelf Registration concept for the public offering of debt securities and/or sukuk
- OJK introduced Regulation Concerning Guideline of Repurchase Agreement Transaction for Financial Services Institutions
- As part of its continuing remit for foreign exchange and monetary policy regulations, Bank Indonesia prescribed that banks may no longer purchase IDR bonds issued by nonresidents
- Bank Indonesia developing next generation version of BI-SSSS (Scripless Securities Settlement System)
- In June 2016, MOF provided tax incentives to investors in conventional and Islamic foreign currency-denominated government bonds by removing the withholding tax on interest payments. The incentives are applicable retroactively from January 2016
New Findings: Japan since 2012

- Implementation of ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) with effect from August 2015
- ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) pilot issuance listed on TOKYO PRO-BOND Market (TPBM) in September 2015

New Findings: Republic of Korea since 2012

- “Regulation on Issuance, Public Disclosure, etc. of Securities” was revised on 30 December 2014: extended to securities that are issued by foreign entities and bear the characteristics of foreign currency denominated bonds, etc.
- “Qualified Institutional Buyers (QIB) system for SMEs” was introduced in May 2012
- Deregulation for a QIB-centered Private Placement Market creation: In October 2015, FSC announced the “Measures to boost competitiveness of financial investment business,” which encapsulates its plans aimed at deregulation to create an environment conducive to revitalizing a QIB-centered private placement market. Relevant regulations operating the new system were amended on 1 August 2016
- Establishment of the KOFIA QIB-eligible Securities Market: KOFIA launched a QIB-eligible securities registration and disclosure platform (English available for foreign issuers) effective 1 August, 2016
New Findings: Lao PDR since 2012

- Establishment of the Lao Securities Commission (LSC) (2013) after establishment process as LSC Office since 2009 under the guidance of Bank of Lao PDR
- Promulgation of the Law on Securities (2013) and subsequent regulations, augmenting and in relevant parts replacing the Decree on Securities and Securities Exchange No. 255/PM (2010)
- Regulation on Issuance of Corporate Bonds (2014) introduced public offers and private placements, although both issuance types include similar regulatory processes
- LSX introduced Bond Listing Regulations (2015)
- LSX developing a bond trading platform for both corporate and government bonds, - expected to be launched by the 3rd QTR of 2016

New Findings: Malaysia since 2012

- Introduction of the Lodge and Launch Framework: Effective 15 June 2015, the SC introduced a new regulatory framework with a particular focus on the professional bond market. The Lodge and Launch Framework allows issuers to issue bonds, notes and sukuk aimed at Sophisticated Investors once they have lodged the required documents and information with the SC
- Removal of credit rating requirements: The need for mandatory rating of corporate bonds and sukuk will be removed effective 1 January 2017
New Findings: Philippines since 2012

- Bureau of Internal Revenue (BIR) rulings part of developments leading to discontinuation of private placements (corporate notes) and repo market (2012 onwards):
  - Corporate notes (private placements) also subject to creditable WHT of 20% (was 2%)
  - Corporate note issuances ceased or converted to longer-term, public offers
  - Concurrently, SEC stopped using the term ‘private placement’ in its revised Implementation Rules and Regulations (IRR) for the Securities Regulation Code (SRC)
  - Consequently, corporate bonds and notes are typically offered using either “public offers” or “an offer under the Exempt Transactions provisions in the SRC, or offers to Qualified Buyers (QB)”, instead of PP.
  - Treatment of repo transactions ruled as disposal and, hence, counter to expected repo principle
  - But, BSP is working to revive the repo market

- Many practical changes in 2015 SRC Implementation Rules and Regulations (IRR)
- PDEEx’ QB Board to be activated after rule change considerations
- Implementation of ASEAN+3 Multi-Currency Bond Issuance Framework with effect from August 2015

New Findings: Singapore since 2012

- Enhancements and Extension of Qualifying Debt Securities Scheme:
  Qualifying income derived by investors from debt securities may be tax exempt or enjoy a concessionary tax rate if debt securities qualify under the QDS or QDS Plus schemes, respectively, which have been extended to 2018

- Implementation of ASEAN+3 Multi-Currency Bond Issuance Framework with effect from August 2015

- MAS introduced Seasoning Framework and Exempt Bond Issuer Framework in May 2016 to increase retail investor participation in the bond market
New Findings: Thailand since 2012

- PP-AI Regime introduction and enhancement (2012-2016)
  - Definition of Accredited Investors (AI, professional investor concept) and of provisions for private placements (PP) aimed at such investors – hence, PP-AI regime
  - Some private placements are not required by regulations to carry a credit rating
  - PP-AI regime further enhanced by the acceptance of English documentation and disclosure items for issuance approvals sought from the regulatory authorities, including use of the Single Submission Form (SSF) in 2015.
- Implementation of AMBIF with effect from August 2015.
- SEC to introduce MTN program issuance regulations (still in 2016)

New Findings: Viet Nam since 2012

- Existing Decree 90 under review for definition of “non-public offering of securities” and “private placement”
  - Currently, in Clause 1, Article 1, Decree 90 provides for the private placement of bonds; Clause 4, Article 2 then describes private placement as the issuance of bonds to less than one hundred investors, excluding institutional investors. These descriptions are considered not clear enough, would not be able to support a professional market segment.
II. Comparative Analysis
(Trial Excerpted version)

### Legal Tradition

<table>
<thead>
<tr>
<th>Country</th>
<th>Legal System Type</th>
<th>General Legal Tradition</th>
<th>Influences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aruba</td>
<td>Dutch</td>
<td>Civil law</td>
<td>Singapore law</td>
</tr>
<tr>
<td>Austria</td>
<td>Civil</td>
<td>Civil law</td>
<td></td>
</tr>
<tr>
<td>China, People’s Republic</td>
<td>Civil</td>
<td>Civil law</td>
<td>UK law / EU law / Japanese law</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>Civil</td>
<td>Civil law</td>
<td>UK law / Common law</td>
</tr>
<tr>
<td>Indonesia</td>
<td>British</td>
<td>British law</td>
<td>Dutch law / Belgian law</td>
</tr>
<tr>
<td>Japan</td>
<td>Chinese</td>
<td>Civil law</td>
<td>UK law / EU law / US law</td>
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<td>Korea</td>
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<tr>
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<td>Thai</td>
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<td>French law</td>
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<tr>
<td>Philippines</td>
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[Note: Flags courtesy of Wikipedia]
Source: ABMF 47-1
Existence of a clear Definition of Professional Investor Concept

<table>
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<th>Country</th>
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<td>Japan</td>
<td></td>
<td>Yes, detailed definition in JFSA, the Japan Financial Services Agency.</td>
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<tr>
<td>China</td>
<td></td>
<td>No, no clear definition of the term.</td>
</tr>
<tr>
<td>Hong Kong</td>
<td></td>
<td>No, no clear definition of the term.</td>
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<tr>
<td>Russia</td>
<td></td>
<td>Yes, detailed definition in the law.</td>
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(Note: Flags courtesy of Wikipedia)  
Source: ABMF SF-1

Existence of Professional Investors Only Market / Existence of Exempt Regime

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(Note: Flags courtesy of Wikipedia)  
Source: ABMF SF-1
### Proposed AMBIF Market(s) or Market Segment(s)

<table>
<thead>
<tr>
<th>Flag</th>
<th>Source</th>
<th>Proposed AMBIF Market(s) or Market Segment(s)</th>
<th>Core Function</th>
<th>Depth Function</th>
<th>Peripheral Function</th>
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<tr>
<td><img src="https://via.placeholder.com/15" alt="Flag" /></td>
<td>ABMF</td>
<td>Cheekah &amp; Sonomine</td>
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<td>ABMF</td>
<td>NFR Lamba (Pulse Paced)</td>
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**[Note: Flags courtesy of Wikipedia]**

Source: ABMF SF-1

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### III. BMG Status and new Process; Schedule Update, etc.
Objective is to proceed faster, complete all 14 markets still in 2016:

- BMG layout template now available in Word
- Allows focus on completing Word doc, which will then remain available for revisions at all times
- Limited steps following Word doc completion
- Conversion to PDF (and DER review) creates publish-ready version
- Revisions to be agreed, then to be saved as PDF and published
Bond Market Guide 2016 Status – Explanation

Appreciate Members’ cooperation!

Objective is to proceed faster, complete all 14 markets still in 2016:

- 5 BMGs (HK, JP, MY, SG, TH) ready to publish
- Waiting for soft-launch of new AsianBondsOnline website layout
- Will allow for news section which will (be able to) feature BMG update
- Other markets at different levels of completion, with each market having its own constraints and considerations
- Additional resources with appointment of Mr. Suzuki of Waseda Univ.

BUT

- Requires close cooperation between members and ABMF SF-1 team
- We ask for your support to observe limited timeframe
- Will need to be a closely managed process

APPENDIX – Details of the New Findings
New Findings: Cambodia 2016

- 'Qualified Investor' concept introduced (8/2016) as separate regulation; which defines Institutional Investors and HNWI
- To be further implemented in relation to securities issuance

New Findings: People’s Republic of China since 2012

- New Type of “Panda Bonds” created: The first Chinese renminbi-denominated direct private placement note issue of a foreign corporate issuer in the Interbank Bond Market (IBBM) (Daimler AG, April 2015)
- **Major step toward giving foreigners free access to IBBM:** Most types of overseas financial institutions (Qualified Foreign Institutional Investors (QFII)), no longer need to observe quotas to invest in the IBBM from 17 February 2016
- QFIIs now have less stringent qualifying criteria and streamlined approval process
- **Regulated overseas investor capital out-flow:** The State Administration of Foreign Exchange (SAFE) has required overseas institutional investors to maintain their currency structure between capital inflow and outflow in the Interbank Bond Market (IBBM). When overseas investors remit capital out of PR China’s Inter-bank Bond Market, they must keep a “basically same” yuan-forex ratio as that of the capital remitted into PR China, fluctuating no more than 10 percent

(Related information):
- **Shanghai-Hong Kong Stock Connect:** Shanghai-Hong Kong Stock Connect, a pilot scheme enabling mutual stock market access between the Shanghai Stock Exchange and Stock Exchange of Hong Kong (SEHK), was launched on 17 November 2014. Both parties now are already talking about a ‘Bond Connect’
- **People’s Republic of China - Hong Kong, China Mutual Recognition of Funds:** On 18 December 2015, the Securities and Hon Kong Securities Futures Commission (SFC) granted authorization for the first batch of four PRC-based funds under the PRC - Hong Kong, China Mutual Recognition of Funds (MRF) initiative for public offering in Hong Kong, China. The SFC also welcomed the approval by the China Securities Regulatory Commission (CSRC) of the first batch of three funds from Hong Kong, China for offering in the PRC market. It is expected in the future that this may positively influence the bond markets on both sides
- **Inclusion of RMB into SDR Currency:** On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) decided to include the RMB into the currency basket of the Special Drawing Right (SDR) as a fifth currency along with the U.S. dollar, the euro, the Japanese yen, and the British pound. World Bank Group Issued SDR-Denominated Bonds in China’s Interbank Bond Market. It is considered that there is probably not much use for actual bond market development and use by participants (e.g. Fund Managers may not be able to) buy SDR bonds so much
New Findings: Hong Kong, China since 2012

- **Continuous Disclosure Requirements in the Hong Kong Bond Market**: Professional Bonds (Listing for Trading or Profile Listing), obligation to declare inside information or such information only privy to the issuer that could have a material impact on the debt securities of that issuer (amended in response to the SFO Inside Information Provisions effective January 2013)
- **Changes to the Professional Investor Regime**: Intermediaries are not allowed to be exempt from (i) the suitability requirement, (ii) the requirement to enter into a written client agreement and provide relevant risk disclosure statements, and (iii) other fundamental requirements that have a significant bearing on investor protection under the General Code of Conduct. Except for the requirement to enter into a written client agreement and provide relevant disclosure statements, which will come into effect on 9 June 2017, all other amendments relating to the Professional Investor Regime became effective on 25 March 2016
- **Implementation of ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF)** with effect from August 2015.
- **Introduction of Intraday Repo under the Renminbi Liquidity Facility**: In November 2014, the HKMA announced the provision of renminbi intraday liquidity to Authorized Institutions participating in renminbi transactions in Hong Kong, China via repo
- **Fixed-Income Futures**: In December 2014, HKEX announced the discontinuation of its 3-year EFN Futures because the HKMA would stop issuing 3-Year EFNs in January 2015
- **Streamlining Issuance of EFBNs and Government Bonds**: The issuance of Exchange Fund Bills and Notes (EFBNs) and Government Bonds has been streamlined to minimize overlap in longer tenors. Starting in January 2015, the HKMA stopped new issuance of Exchange Fund Bills (EFBs) with tenors of 3 years or more, while 2-year Exchange Fund Note (EFN) issuance continues. At the same time, new issuance of 2-year Government Bonds has ceased, while issuance of Government Bonds with tenors of 3 years or more continues

New Findings: Indonesia since 2012

- **OJK (Indonesia Financial Services Authority) took over regulation and governance of Indonesia capital market and banking supervision during transition period from mid 2012 to end 2013**
- **Indonesia Bond Pricing Agency (BPAM) signs cooperation agreement with bond pricing agencies** from Malaysia (BPAM) and Thailand (ThaiBMA) to reference information on each other’s websites (2013)
- **OJK introduces Shelf Registration concept** for the public offering of debt Securities and/or sukuk (OJK Regulation Number 36/POJK.04/2014)
- **OJK introduces Regulation Concerning Guideline of Repurchase Agreement Transaction for Financial Services Institutions** (OJK Regulation Number 9/POJK.04/2015), includes use of GMRA Indonesia annex for market participants – but limited to financial institutions
- **As part of its continuing remit for foreign exchange and monetary policy regulations**, Bank Indonesia **prescribed that banks may no longer purchase IDR bonds issued by nonresidents** (Bank Indonesia Regulation Number 16/17/PBI/2014 dated 17 September 2014 Concerning Foreign Exchange Transactions against Rupiah between Banks and Foreign Parties; effective 10 Nov 2014) – this limited the attractiveness of IDR issuances for foreign issuers
- **Bank Indonesia developing next generation version of BI-SSSS** (Scripless Securities Settlement System), with implementation in phases from 2018
- **In June 2016, MOF provided tax incentives to investors** in conventional and Islamic foreign currency-denominated government bonds by removing the withholding tax on interest payments. A withholding tax of 15% had been levied for Indonesian residents while a 20% tax was levied for nonresidents. The removal of the withholding tax will help lower the government’s borrowing costs on its foreign currency government bonds. This will also help corporate bonds receive better pricing as government bonds are normally used as a benchmark for pricing. The regulation is effective retroactively from 1 January 2016
New Findings: Japan since 2012

- **Reference Statistical Prices for Over-the-Counter Bond Trading:** JSDA Introduction of two New Measures in January 2014
  - Improvement of Credibility and Accuracy of the Reference Price
  - Introduction of Reporting and Publication System for Traded Prices of Corporate Bonds
- **Integration of Taxation on Financial Income and Gains:**
  - Taxation for Resident Japanese Individual Investors
- **The merger between the Japan Securities Clearing Corporation (JSCC) and Japan Government Bond Clearing Corporation (JGBCC) took effect on 1 October 2013**
- **Shortening the Japanese Government Bond Settlement Cycle to (T+1):** November 2014 Ground Design of Shortening the Japanese Government Bond domestic Settlement Cycle (T+1) was released and set up of target implementation timing as 1H 2018
- **Japan Securities Depository Center, Inc. Upgrades Book-Entry System and Adopts ISO20022 Standards:**
  - January 2014, JASDEC adopted a Pre-Settlement Matching System and Book-Entry Transfer System based on ISO20022 standards, the next-generation international standard message format
- **Implementation of ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) with effect from August 2015.**
- **ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) Pilot Issuance Listed on TOKYO PRO-BOND Market (TPBM) on September 2015**
- **Launch of Bank of Japan Financial New Network System (BOJ-NET) in October 2015**
- **On-going works on Integration of disclosure standards among Company Act (annual and semiannual report), Financial Instruments and Exchange Act (FIEA; Quarterly Securities Report) and Tokyo Stock Exchange Regulation for listed companies (Quarterly Financial Statement Summary)**

New Findings: Republic of Korea since 2012

- **Regulation on Issuance, Public Disclosure, etc. of Securities** was revised on 30 December 2014:
  - In the past, bonds issued by foreign entities had to be denominated in the Korean won. By this revision, the types of bonds allowed for foreign entities have been extended to securities that are issued by foreign entities and bear the characteristics of foreign currency denominated bonds, and government securities, municipal securities, bonds issued by any corporation established under a special law, or corporate bonds
- **Qualified Institutional Buyers (QIB) system for SMEs was introduced** in May, 2012 for the first time:
  - an effort to resolve such issues and garnered high hopes from many as a promising measure to support SMEs strained by heavy regulations on bond issuance
- **Deregulation for a QIB-centered Private Placement Market creation:** In October 2015, FSC announced the “**Measures to boost competitiveness of financial investment business,**” which encapsulates its plans aimed at deregulation to create an environment conducive to revitalizing a QIB-centered private placement market. Relevant regulations operating the new system were amended on 1 August 2016
- **Establishment of the KOFIA QIB-eligible securities Market:** KOFIA launched a QIB-eligible securities registration and disclosure platform (English available for foreign issuers) took effect on 1 August, 2016
- **Electronic Short-Term Bond Ratings** Electronic short-term bonds, which are electronically-issued bonds with a maturity of one year or less, were introduced on January 15, 2013, pursuant to the Act on Issuance and Trading of Electronic Short-Term Bonds
New Findings: Lao PDR since 2012

- **Establishment of the Lao Securities Commission (LSC)** (2013) after establishment process as LSC Office since 2009 under the guidance of Bank of Lao PDR
- **Promulgation of the Law on Securities** (2013) and subsequent regulations, augmenting and in relevant parts replacing the Decree on Securities and Securities Exchange No. 255/PM (2010)
- **Regulation on Issuance of Corporate Bonds** (2014) introduces public offers and private placements, although both issuance types include similar regulatory processes
- **LSX introduces Bond Listing Regulations** (2015)
- **LSX developing a bond trading platform for both corporate and government bonds**, which is expected to be launched by the 3rd quarter of 2016

New Findings: Malaysia since 2012

- **Introduction of Exchange Traded Bonds and Sukuk**: On 26 September 2012, Bursa Malaysia Securities (BMS) introduced the rules to facilitate Exchange-Traded Bonds and Sukuk (ETBS) to be listed, and traded on Bursa Malaysia Securities
- **ASEAN Disclosure Standards Scheme**: Effective 1 April 2013, the securities market regulators in Malaysia, Singapore, and Thailand implemented the ASEAN Disclosure Standards Scheme (the Scheme) for multijurisdictional offerings to retail investors or the general public of equity and plain debt securities in ASEAN
- **BPAM Pricing Unrated Debt Securities and Sukuk**: On 28 August 2014, the SC announced changes regarding the transferability and tradability of unrated bonds and sukuk. Following the tradability of unrated bonds and sukuk, BPAM responded to strong market demand to expand its pricing services to cover unrated bonds and sukuk effective 2 January 2015
- **Introduction of the Lodge and Launch Framework**: Effective 15 June 2015, the SC introduced a new regulatory framework with a particular focus on the professional bond market. The Lodge and Launch Framework allows issuers to issue bonds, notes, and sukuk aimed at Sophisticated Investors once they have lodged the required documents and information with the SC
- **Removal of Credit rating requirements**: The need for mandatory rating of corporate bonds and sukuk will be removed effective 1 January 2017
- **MGII (Malaysian Government Investment Issues) are issued based on the murabahah concept**: MGII are noninterest-bearing government securities issued based on Islamic principles issued by the Government. Effective from 22 July 2013, MGII are issued under the murabahah concept, essentially a certificate of indebtedness arising from a deferred mark-up sale transaction of an asset, such as a commodity (mainly crude palm oil), which complies with Shariah principles. MGII issued prior to 22 July 2013 were based on a bai al-inah contract, a trust certificate, arising from the sale and buy back of an asset in Islamic finance
- **marketplaceIF: Infrastructure for Sukuk**: In order to further spur the development of Islamic finance, Malaysia has developed in February 2016, the marketplaceIF that provides e-market access to the global community seeking financial solutions and services by linking them with Malaysia’s Islamic financial institutions and professional ancillary services
**New Findings: Philippines since 2012**

- Bureau of Internal Revenue (BIR) rulings part of developments leading to discontinuation of private placements (corporate notes) and repo market (2012 onwards). Originally, the term “private placement (PP)” was only used in regulations and market practice in case of an issuance to a maximum number of 19 investors, regardless whether professional or not, owing to specific concessions existing for distributions to no more than this number of investors in the relevant tax regulations. Subsequently, market practice adopted the term “corporate notes” for such private placements. A 2012 Bureau of Internal Revenue ruling provided that issues with 19 investors or less are subject to a 20% creditable withholding tax. Creditable withholding tax is applicable to resident investors only. On the other hand, a final withholding tax at the rate of 20% is imposed on the amount of interest from any currency bank deposit and yield, or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements. These instruments include debt securities/corporate notes. Final withholding tax is applicable to all investors, resident or nonresident. The SEC, in its revised Implementation Rules and Regulations (IRR) for the Securities Regulation Code (SRC) introduced in early 2015, stopped using the term ‘private placement.’ In the Philippines, currently, corporate bonds and notes are typically offered using either “public offers” or “an offer under the Exempt Transactions provisions in the SRC, or offers to Qualified Buyers (QB)” instead of PP.

- Many useful changes on 2015 SRC Implementation Rules and Regulations (IRR):
  - Among the many changes and refinements were the provision to make shelf-registration of debt securities easier, include a longer issuance period and an improved time-to-market, as well as the ability to pay registration fees in line with issuance in tranches, not upfront for the total issuance size. The distinction between long-term and short-term commercial papers was removed, allowing for single issuance programs under shelf-registration, aided by the fact that the selling period for such securities was lengthened from 2 to 10 business days. Financial statements are now valid for 180 days, in line with the practice in other ASEAN markets.
  - PDEx QB Board to be activated after rule change considerations.
  - Implementation of ASEAN+3 Multi-Currency Bond Issuance Framework with effect from August 2015.
  - Agreement on Cooperation in Bond Pricing: In October 2015, PDS Group and Bond Pricing Agency Malaysia entered into an agreement to make available their bond pricing and information services through a link to each other’s websites.
  - Establishment of central securities depository (CSD) for the delivery of securities: The BSP amended the rule on the delivery of securities by adding the use of an SEC authorized CSD as another option available to investors. The revised rule requires independence of third party custodians, securities registries and CSDs.
  - Interest rate corridor (IRC) system: The Bangko Sentral ng Pilipinas (BSP) formally adopted an interest rate corridor (IRC) system as a framework for conducting its monetary operations June 2016.
  - Accreditation of Personal Equity Retirement Act (PERA) market participants: The BSP issued the guidelines for the accreditation of PERA market participants, which provide rigorous standards for banks and trust entities which may have an interest to function as a PERA market participant.

**New Findings: Singapore since 2012**

- **Enhancements and Extension of Qualifying Debt Securities Scheme:** Qualifying income derived by investors from debt securities that qualifies under the QDS or QDS Plus schemes, with effect from June 2013 and January 2014, respectively, may be tax exempt or offered a concessionary tax rate.

- **ASEAN Disclosure Standards Scheme:** Effective 1 April 2013, securities market regulators in Malaysia, Singapore, and Thailand implemented the ASEAN Disclosure Standards Scheme (the Scheme) for multijurisdictional public offerings of equity and plain debt securities in ASEAN.

- **ACMF Facilitates Cross-Border Fund-Raising and Investments:** MAS and SGX jointly signed a memorandum of understanding with the Securities Commission Malaysia and the Securities and Exchange Commission, Thailand to establish a Streamlined Review Framework for the ASEAN Common Prospectus drafted based on the ASEAN Disclosure Standards.

- **Covered Bonds as a New Category of Debt Instruments:** MAS issued regulations in December 2013 to allow the issuance of covered bonds by locally incorporated banks in Singapore. The regulations were further revised in June 2015 following industry consultation.

- **Prescription of Product Highlight Sheet for debt and other securities (Feb 2015)**

- **Implementation of ASEAN+3 Multi-Currency Bond Issuance Framework** with effect from August 2015.

- **Introduction of Singapore Savings Bonds** with focus on retail investors (Oct 2015)

- **Introduction of SGX Bond Pro OTC trading platform** (Dec 2015)

- **MAS introduced Seasoning Framework and Exempt Bond Issuer Framework in May 2016** to increase retail investor participation in the bond market.
New Findings: Thailand since 2012

- **PP-AI Regime introduction and enhancement (2012-2016)**
  - The introduction of the definition of Accredited Investors, the professional investor concept, and of provisions for private placements aimed at such investors:
    - This had led to the establishment of a professional bond market, typically referred to as PP-AI.
    - In July 2012, the SEC published regulations for a comprehensive professional investor scheme in the context of private placements of debt securities, referred to as PP-AI or PP-AI, which expanded the number of categories and level of detail of PP-AI.
    - Some private placements are not required by regulations to carry a credit rating.
    - This concession was put in place by the SEC in 2012, in conjunction with the introduction of the Accredited Investors concept.
  - Private Placement for Accredited Investors (PP-AI Regime), were further enhanced by the acceptance of English documentation and disclosure items for issuance approvals sought from the regulatory authorities, including use of the Single Submission Form (SSF) in 2015.
  - Implementation of ASEAN+3 Multi-Currency Bond Issuance Framework: with effect from August 2015.
  - SEC to introduce MTN program issuance regulations (still in 2016).

- Growth and actual private repo activities between bank and nonbank clients have slowed significantly since 2012: when the BOT implemented a surcharge of 0.46% on all deposits, including those stemming from repo business, in a bid to replenish the FIDF.

- ASEAN Disclosure Standards Scheme:
  - Effective 1 April 2013, securities market regulators in Malaysia, Singapore, and Thailand implemented the ASEAN Disclosure Standards Scheme (the Scheme) for multijurisdictional public offerings of equity and plain debt securities in ASEAN.

- Securities and Exchange Commission Capital Market Knowledge Center:
  - In March 2015, the SEC opened the SEC Capital Market Knowledge Center as a comprehensive source of financial and investment information for business enterprises and the public at large. The main purpose of the knowledge center is to educate the public about the capital market and its products.

New Findings: Viet Nam since 2012

- **Existing Decree 90 under review for definition of “non-public offering of securities” and “private placement”:**
  - At present, there are no clear concepts/explanation of “non-public offering of securities” or “private placement (PP)” with regards to the disclosure requirements for public offering and exemption rules, etc.
  - To achieve clarity in the regulations, ABMF SF-1 understands that it may be necessary to clearly distinguish; (1) between “public offering of securities” and “non-public offering of securities,” and (2) for “non-public offering (private placement) of securities to institutional (professional) investors” and “small number private placement”.
  - In **Clause 1, Article 1, Decree 90** provides for the private placement of bonds, and **Clause 4, Article 2** then describes private placement as the issuance of bonds to less than one hundred investors, excluding institutional investors. Nothing more than that.
    - That means that, under the concept of private placement (PP), only the “issuance to less than hundred,” in effect the small number PP, is clearly defined. And this does not address the issuance of bonds to “institutional (professional) investors”, since it is specifically excluded. As a result, there is no clear-cut definition of “non-public offering (PP) of securities to institutional (professional) investors.”
    - ABMF SF-1 understands that Decree 90 should regulate the “non-public offering of securities,” including the “non-public offering (PP) of securities to institutional (professional) investors” and “small number PP.” In addition, the issuance methods should also cover the secondary market, and not only the issuing (primary) market.
  - At present, Decree 90 indicates that all investors including individuals (retail investors) are eligible to buy private placements. Not only for the bond issuances governed by Decree 90 to be eligible under AMBIF, but also for the protection of general (retail) investors in the long-term, the general (retail) sector should be excluded from the “non-public offering of securities”.
  - At present, general (retail) investors still have a chance to invest in PP bonds which may lead to investment risks due to a lack of adequate knowledge, experience or information. The definition of “private placement as issuance of bonds to less than hundred investors” should be reworded more specifically to protect general (retail) investors.
  - In summary, general (retail) investors are allowed to invest in “publicly offered securities,” and only in the case general (retail) investors have a certain level of financial assets and adequate knowledge or investment experience, such investors should be able to invest in PP.
SESSION 10

Recent market development in Myanmar
by Ms. Ei Sein Sein Kywe, Securities and Exchange Commission of Myanmar (SECM)
I. Milestones of Capital Market Development in Myanmar
II. Brief in MOPF
III. Who, What, Where… is SECM?
IV. Overview
V. Challenges and Prospects
I. Milestones of Capital Market Development in Myanmar

<table>
<thead>
<tr>
<th>Period</th>
<th>Events</th>
</tr>
</thead>
</table>
| 1989-1997       | - Market Oriented Economy was adopted beyond the democracy revolution in 1988.  
                 | - T-Bonds and T-Bills were issued by CBM in 1993.                      |
|                 | - Capital Market Study Committee was established by presidential decree.|
|                 | - MSEC* is only one JV Co., Ltd established in 1996 under the Special Companies Act (1950), made public offering and listed on OTC, working together with MEB and DIR. |
|                 | - But Privative Banks Sector developed (Total -11)                     |
| 2004-2010       | - Capital Market Development Committee was formed in 2008.            |
|                 | - Myanmar Financial Reporting Standards (MFRS) for small and medium size enterprises was entitled and introduced in 2010. |
| 2011-2013       | - New government was selected post election in 2011.                  |
|                 | - MOF (Myanmar) and Policy Research Institute (PRI) of Japan's Ministry of Finance signed an MOU regarding to drafting the Securities Exchange Law in 2012. |
|                 | - Securities Exchange Law (SEL) was enacted on 31 July 2013.           |

MSEC* Myanmar Securities Exchange Center Co., Ltd.

<table>
<thead>
<tr>
<th>Period</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-2015</td>
<td>- SECM was formed on 19 August 2014 by the Union Government.</td>
</tr>
<tr>
<td></td>
<td>- Yangon Stock Exchange (YSX) was incorporated and registered at DICA and formed as a JV Co., Ltd. between MEB, DIR and JPX on 23 Dec 2014.</td>
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<tr>
<td></td>
<td>- Office of the SECM was officially opened on 24 February 2015</td>
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<tr>
<td></td>
<td>- SECM conducted various notifications, announcements and instructions for Securities Co., Listed Co., and YSX.</td>
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<tr>
<td></td>
<td>- On 9 December 2015, YSX was successfully opened and a new era began for Myanmar’s Capital Market</td>
</tr>
</tbody>
</table>
**II. Brief in MOPF**

**Ministry of Planning and Finance**

1. Planning Department
2. Foreign Economic Relations Department
3. Central Statistical Organization
4. Directorate of Investment and Company Administration
5. Central Equipment Statistics and Inspection Department
6. National Archives Department

1. Budget Department
2. Treasury Department
3. Internal Revenue Department
4. Customs Department
5. Financial Regulatory Department
6. Pension Department
7. Revenue Appellate Tribunal
8. Myanma Economic Bank
9. Myanma Foreign Trade Bank
10. Myanma Investment & Commercial Bank
11. Myanma Insurance
12. Securities and Exchange Commission of Myanmar

**III. Who, What, Where... is SECM?**

**Who...?**

- **SECM** was formed with 7 members including Chairman in 2014
- **Office of ESCM** was organized with 4 Departments in 2014
  - Administration
  - Development and Policy
  - Market Oversight and Supervision
  - Market Surveillance
- Started works with 15 staff and now running with 26 staff
III. Who, What, Where... is SECM?

What...?
- As part of the government regulatory body
- Conducts and issues the necessary notifications, instructions and announcements for securities industry
  [market participants: Securities Co., Listed Co., Public Companies to be listed on YSX, Investors (for protection)]
- Cooperation with;
  - **Local related organizations**: DICA, IRD, UOAG, CBM
  - **International organizations**: JFSA, PRI, JICA, ABMI, ADB
- Will sign MoU with **IFC and SEC Thailand**

Where...?
*Go ahead establish a fair, efficient, liquid and transparent trading system based capital market in Myanmar* with to
- Increase listed companies in YSX
- Encourage more investors in securities market
- Encourage public companies to list in the YSX in order to attain more capital
- Issue the securities business licenses to securities companies
- Hold the examination for securities business representative business license for employees of the securities companies
- Scrutinize and approve the prospectus of the public companies for offering shares
- Educate the public on knowledge of stock exchange and securities industry to create and encourage awareness for capital market development
IV. Overview

IV.1 Roadmap
IV.2 Initiative Activities
IV.3 Current Situation

IV.1 Roadmap

Phase 1
2008-2009

- Issuing of varieties of bonds by CBM
- Forming of Capital Market Development Committee
- Sending Myanmar Participants to attend meetings and seminars of ASEAN and within region

Phase 2
2010-2012

- Enforce the Securities Market Law, Rules and Regulations
- Sending Myanmar Participants to attend meetings and seminars of ASEAN and within region

Phase 3
2013-2015

- Establishment of Stock Exchange
- Sending Myanmar Participants to attend meetings and seminars of ASEAN and within region
IV.2 Initiative Activities

Review of last year’s transformation

In December 2015, in preparation for the introduction of CBM-Net and the auction of bonds by the government, the existing stock of paper certificate bonds was transformed into:

- Paperless, electronic book-entry securities,
- With standardized coupon and maturity dates,
- Coupon dates and also Maturity dates standardized to 15 May and 15 November

Treasury Bonds Offering Memorandum was issued by Treasury Department (MOPF) 22 August 2016

Securities Auction Procedures was issued by CBM in August 2016

IV.2 Initiative Activities

First Treasury Bond Auction Results

<table>
<thead>
<tr>
<th>Tender number</th>
<th>GB0001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Face value of offer (millions MMK)</td>
<td>200,000</td>
</tr>
<tr>
<td>Auction announcement date</td>
<td>16/09/2016</td>
</tr>
<tr>
<td>Auction date</td>
<td>20/09/2016</td>
</tr>
<tr>
<td>Results announced</td>
<td>20/09/2016</td>
</tr>
<tr>
<td>Settlement date</td>
<td>22/09/2016 (T+2)</td>
</tr>
<tr>
<td>Maturity date</td>
<td>15/05/2016</td>
</tr>
<tr>
<td>Coupon rate (%per annum)(paid semi-annual)</td>
<td>9.00</td>
</tr>
<tr>
<td>Term(1)</td>
<td>1 y 7 m 23 days</td>
</tr>
<tr>
<td>Security name</td>
<td>Government of Myanmar 15 May 2018 9% Treasury Bond</td>
</tr>
<tr>
<td>Security identifier</td>
<td>GVTB18051</td>
</tr>
</tbody>
</table>
IV.2 Initiative Activities

**Competitive bids**

Market weighted average accepted yield/price

- Yield (% per annum) 8.843
- Price (per 100,000 Kyat face value) 100,215.54
- Accrued coupon (per 100,000 kyat face value) 3,179.35
- Settlement price (per 100,000 kyat face value) 103,394.89

**Successful range**

- Minimum yield to maturity (%per annum) 8.700
- Maximum yield to maturity (%per annum) 8.899
- Volume (millions Kyat face value) 120,000
- Value (millions Kyat) 120,259
- Number 8

**Unsuccessful range**

- Minimum yield to maturity (%per annum) 8.899
- Maximum yield to maturity (%per annum) 11.000
- Volume (millions Kyat face value) 86,000
- Value (millions Kyat) 92,383
- Number 22

**Non-Competitive bids**

- Yield to maturity (% per annum) 8.843
- Price (per 100,000 Kyat face value) 100,215.54
- Allocated volume (millions kyat face value) 80,000
- Allocated value (millions kyat) 80,172
- Unallocated volume (millions kyat face value) -
- Number 1

**Total**

- Volume issued (millions Kyat face value) 200,000
- Value issued (Kyat) 200,431,371,300
- Accrued coupon (Kyat) 6,358,700,000
- Total settlement value (Kyat) 206,790,071,300

IV.3 Current Situation

- SECM has granted business license to 5 Securities Companies, two on 25th February 2016 and three on 1st March 2016, to open the securities account and to settle transactions by electronic system for investors who wish to invest at the Yangon Stock Exchange.

- 3 listed companies are trading in YSX;
  The first one was First Myanmar Investment Public Co., Ltd (FMI), started the first trading on 25th March 2016.
  The second one is Myanmar Thilawa SEZ Holding Public Ltd (MTSH), started trading on 20th May 2016;
  The third one is Myanmar Citizen Bank Ltd (MCB) which started trading on 26th August 2016.

V. Challenges and Prospects

Challenges
1. need to encourage private companies to transfer to public companies,
2. to encourage that some will offer IPOs and that there will be a diverse group of public companies from sectors such as IT, Services, Tourism, etc.,
3. to do a lot development of the market in terms of not only hard infrastructure but also soft infrastructure in all related parties,
4. limited in professional and experienced personnel in both of SECM and YSX,
5. lack of knowledge about the securities market and business,
6. to educate more for public awareness and investors protection,
7. does not have many institutional investors so we need to encourage institutional investors to develop the size and stabilize the market,
8. need to encourage public companies to list at the YSX and expand the capital market, clear tax instructions and tax incentive are also necessary.
V. Challenges and Prospects

Prospects

1. Among the 230 public companies in existence, there are about 40 public companies that have the potential to become listed in the Yangon Stock Exchange and at least 2-3 more will become listed in 2016-2017 FY.
2. A diverse group of public companies from sectors such as IT, Tourism, Services which will list at the YSX.
3. After the new Myanmar Companies Law is approved by the Parliament, some foreign companies will be treated as Myanmar companies and at that time they can be listed at the YSX.
4. To expand our capital market not only equities market but also to the debt market when we trade medium term bonds as secondary bond market in YSX.
5. In the long run benefit expectation is to connect with the ASEAN stock exchanges and other stock exchange for cross-border listing.

Capital Market For the People!

Thank You
SESSION 11

(Slideshow Presentation Only)

Reporting to ABMI TF3 and next step by ADB Secretariat
THANK YOU