Opportunities and Challenges of Myanmar Bond Market Development
Contents


Part II  -  Bond Market Development (2010 - 2015)

Part III -  Recent Development of Bond Primary Market
            (2016 - up to now)

Part IV  -  Opportunities and Challenges of Bond Market
            Development
Part 1
History of Bond Market (1993 - 2009)

1993 - Central Bank of Myanmar (CBM) started issuing Govt. Treasury Bond

1996 - Establishment of Myanmar Securities Exchange Centre (MSEC) to start-up Myanmar Capital Market for

“Marketization”, “Privatization” & “Internationalization”.

* Markets for Both Equity and Debt are planned at the same time

* Despite the Absence of Secondary Market, Primary Market started

1998 - MSEC signed an agreement with CBM to form a Treasury Bond Market
Revitalization of Capital Market Development

1998-2005 – Several Efforts by MSEC
   Seminars, Workshops, Business-talks and Safe custody,
   Income collection for equity and bond

2006 - Capital Market Study Committee
   - Report ASEAN Capital Market Development
   - Draft Road Map for Capital Market Development
   - Proposal to form Capital Market Development Committee (CMDC)

2008 - CMDC was formed with six sub-committee
Capital Market Development Committee
(7) Members

- Local Bond Market Development sub-committee
  (6) Members
- Public Company Formation and Development Sub-committee
  (8) Members
- Sub-committee to prescribe necessary Laws, Regulations, Orders & Directives
  (6) Members
- Sub-committee for formation of necessary organization for the securities Industry
  (5) Members
- Training, Education & Information Sub-committee
  (10) Members
- Standardization of Accounting & Auditing Sub-committee
  (5) Members
Phase I

- Forming responsible agencies and appointing them for the bond issuance
- Issuance of varieties of bonds by CBM
- Ensuring attractive interest rates
- Setting Trading counters at Myanma Economic Bank (MEB) & MSEC
- Providing and disseminating market information to investor by MSEC
- Negotiating to get the technical assistance from overseas countries for bond market development

Phase II

- Issuing Municipal Bonds
  - Coordinating with regional government
  - Prescribing issuing methods of municipal bonds and interest rate

- Corporatization of State Economic Enterprises (SEEs)
- Selection of suitable SEEs to issue corporate bonds for their capital
- Increasing number of institutional investors
Part II
Bond Market Development
2010 - 2015

Development of primary and secondary market

2010  - CBM appointed MEB & MSEC as sales agencies
  - CBM allowed MEB & MSEC to set trading counters

2011  - CBM extended the issuance of new 2 years bond with 4 different types of denomination
  - Interest rates:
    8.75% (2-year), 9.0% (3-year), & 9.5% (5-year)
<table>
<thead>
<tr>
<th>Issuer</th>
<th>Maturity</th>
<th>Interest (p.a.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union Government</td>
<td>2 years</td>
<td>8.75% (9.34%)</td>
</tr>
<tr>
<td></td>
<td>3 years</td>
<td>9.00% (10.08%)</td>
</tr>
<tr>
<td></td>
<td>5 years</td>
<td>9.50% (11.81%)</td>
</tr>
</tbody>
</table>

Interest to be paid semi-annually

Denomination (kyat)

- 10,000
- 100,000
- 1,000,000
- 10,000,000
Still non-active…

Possible Obstacles;

- No volatility in interest rate
- Less attractive comparing to bank deposit rate
- Insufficient liquidity
- Limited participants
  - Only commercial banks, religious organizations and individuals
- Lack of institutional investors
  - e.g. pension fund, provident fund, social welfare & employees’ fund
Interest Rate Change

Deposit Rate

- 2 Year interest rate
- 3 Year interest rate
- 5 Year interest rate

Timeline:
- 1-12-1993 to 31-3-1996
- 1-4-1996 to 31-3-1999
- 1-4-1999 to 31-3-2000
- 1-4-2000 to 31-12-2006
- 1-1-2007 to 31-8-2011
- 1-9-2011 to 31-12-2011
- 1-1-2012 to Until Now
Interest rate and maturity is different from deposit

<table>
<thead>
<tr>
<th>Interest Rate</th>
<th>Maturity</th>
<th>Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed deposit</strong> (private banks)</td>
<td>10.0% p.a.</td>
<td>1 year</td>
</tr>
<tr>
<td><strong>Treasury bonds</strong></td>
<td>8.75% - 9% - 9.5% p.a.</td>
<td>2 - 3 - 5 years</td>
</tr>
</tbody>
</table>

Government is more reliable to pay back, thus pay less interest

Government is more reliable to pay back, thus longer maturity can be trusted
Investors in Government Treasury Bond

- **Bond Outstanding**
- **Amt held by Public**
- **Amt held by Private Enterprises**
### Turnover of Government Treasury Bond by MSEC from 1997-1998 to 2017-2018

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Turnover Qty</th>
<th>Value (Kyat in million)</th>
<th>Investor Individual</th>
<th>Investor Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-1998</td>
<td>29</td>
<td>1.58</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>1998-1999</td>
<td>20</td>
<td>2.79</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>1999-2000</td>
<td>62</td>
<td>4.29</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>2000-2001</td>
<td>223</td>
<td>20.29</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>2001-2002</td>
<td>243</td>
<td>40.37</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>2002-2003</td>
<td>114</td>
<td>21.27</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>2003-2004</td>
<td>106</td>
<td>22.98</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>2004-2005</td>
<td>65</td>
<td>9.83</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>2005-2006</td>
<td>40</td>
<td>3.89</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>2006-2007</td>
<td>7</td>
<td>0.58</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2007-2008</td>
<td>6</td>
<td>0.58</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2008-2009</td>
<td>9</td>
<td>0.9</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>2009-2010</td>
<td>25</td>
<td>2.38</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2010-2011</td>
<td>45</td>
<td>27.58</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>2011-2012</td>
<td>16</td>
<td>31.6</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>2012-2013</td>
<td>16</td>
<td>2.5</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>2013-2014</td>
<td>6</td>
<td>49.65</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>2014-2015</td>
<td>79</td>
<td>50.77</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>2015-2016</td>
<td>125</td>
<td>937</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>2016-2017</td>
<td>48</td>
<td>344.9</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>2017-2018</td>
<td>1</td>
<td>0.99</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1285</strong></td>
<td><strong>1576.72</strong></td>
<td><strong>129</strong></td>
<td><strong>17</strong></td>
</tr>
</tbody>
</table>
TA Program for Bond Market Development

- ASEAN Bond Market Initiative (ABMI), with the financial support from the Japan-ASEAN Financial Technical Assistance (JAFTA) Fund,

- Following TA program provided for Myanmar bond market development
  - TA Phase I, June 2011 to May 2012
  - TA Phase II, June 2013 to May 2014
  - TA Phase III, June 2015 to May 2016
Market Infrastructures

- 31st Jul 2013 - Securities Exchange Law (SEL)
- 19th Aug 2014 - Launch of SECM
- 27th Jul 2015 - Securities and Exchange Rules (SER)
- 25th December 2015 - Yangon Stock Exchange (YSX)

License to Securities companies
- KBZ Stirling Coleman Securities Co., Ltd (KBZSC)
- Myanmar Securities Exchange Centre Co., Ltd (MSEC)
- AYAtrust Securities Co., Ltd (AYAtrust)
- CB Securities Limited (CB)
- KTz Ruby Hill Securities Co., Ltd (KTz)
- Amara Investment Securities Co., Ltd (AIS)
Part III
Recent Development of Bond Primary Market
(2016 – up to now)

CBM Introduce new issuance system in Sep. 2016

- Market price issuance with Accrued interest
- Yield base
- Dematerialization of T-bond (scrip less)
- Scheduled issuance
- CBM- Net for clearing and settlement
- Codes
- Competitive and Non-competitive
- Repo Market
## Difference between Before and After the introduction of Auction

<table>
<thead>
<tr>
<th></th>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Denomination</strong></td>
<td>Started from Ks 10,000</td>
<td>Minimum Ks 500 mil;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>there after Ks 100 mil</td>
</tr>
<tr>
<td><strong>Price</strong></td>
<td>Face value (100)</td>
<td>Can be Over 100 (auction)</td>
</tr>
<tr>
<td></td>
<td>2 year 8.75%, 3 year 9.00%, 5 year 9.50%</td>
<td>Accrued interest</td>
</tr>
<tr>
<td><strong>Coupon</strong></td>
<td>Same as Coupon</td>
<td>[Same]</td>
</tr>
<tr>
<td><strong>Yield</strong></td>
<td>Any time</td>
<td>Can be less than Coupon</td>
</tr>
<tr>
<td><strong>Issue Date</strong></td>
<td>Exist</td>
<td>Every Tuesday of third week, Once a month</td>
</tr>
<tr>
<td><strong>Certificate</strong></td>
<td>Exist</td>
<td>No certificate;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>only registration</td>
</tr>
</tbody>
</table>
Overall Process in Auction System

1. **1st Step**
   - Open “Securities Account”
   - By: 1 day before

2. **2nd Step**
   - Place a Bid
   - By: 9 AM

3. **3rd Step**
   - Transfer Funds
   - By: 9 AM

4. **4th Step**
   - Auction
   - By: 10 AM

5. **5th Step**
   - Auction Result
   - By: 2 PM

6. **6th Step**
   - Settlement
   - By: 2 days after

[Diagram showing the process with arrows indicating flow from client to securities company to CBM]

- CBM
  - [MEB] Current A/C
## Monthly Result of Government Treasury Bond Auction

<table>
<thead>
<tr>
<th>Auction Date</th>
<th>Maturity Date</th>
<th>Coupon Rate (% p.a)</th>
<th>Yield</th>
<th>Face Value of Offer (millions kyat)</th>
<th>Value Issued (millions kyat)</th>
<th>Issue % on Face Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/20/2016</td>
<td>5/15/2018</td>
<td>9.00</td>
<td>8.843</td>
<td>200,000</td>
<td>200,431</td>
<td>100.22%</td>
</tr>
<tr>
<td>10/18/2016</td>
<td>5/15/2018</td>
<td>9.00</td>
<td>8.761</td>
<td>200,000</td>
<td>120,399</td>
<td>60.20%</td>
</tr>
<tr>
<td>12/20/2016</td>
<td>5/15/2019</td>
<td>9.25</td>
<td>9.180</td>
<td>400,000</td>
<td>297,759</td>
<td>74.44%</td>
</tr>
<tr>
<td>1/17/2017</td>
<td>5/15/2020</td>
<td>9.50</td>
<td>9.480</td>
<td>200,000</td>
<td>19,806</td>
<td>9.90%</td>
</tr>
<tr>
<td>2/21/2017</td>
<td>5/15/2020</td>
<td>9.50</td>
<td>9.694</td>
<td>364,800</td>
<td>119,335</td>
<td>32.71%</td>
</tr>
<tr>
<td>3/21/2017</td>
<td>5/15/2020</td>
<td>9.50</td>
<td>9.476</td>
<td>149,200</td>
<td>20,208</td>
<td>13.54%</td>
</tr>
<tr>
<td>4/25/2017</td>
<td>5/15/2020</td>
<td>9.50</td>
<td>9.000</td>
<td>139,200</td>
<td>105,148</td>
<td>75.54%</td>
</tr>
<tr>
<td>5/16/2017</td>
<td>5/15/2020</td>
<td>9.50</td>
<td>9.075</td>
<td>300,000</td>
<td>184,590</td>
<td>61.53%</td>
</tr>
<tr>
<td>6/20/2017</td>
<td>5/15/2020</td>
<td>9.50</td>
<td>9.303</td>
<td>150,000</td>
<td>107,504</td>
<td>71.67%</td>
</tr>
<tr>
<td>7/11/2017</td>
<td>5/15/2020</td>
<td>9.50</td>
<td>9.577</td>
<td>300,000</td>
<td>93,700</td>
<td>31.23%</td>
</tr>
</tbody>
</table>
Opportunities and Challenges of Bond Market Development

Challenges & Solutions for Bond Market

Obstacles:
- No volatility
- Lower rate
- Insufficient Liquidity
- Limited participants
- Lack of Institutional Investors

Challenges:
- Market Price
  - Yield Curve
- Selling Opportunities
- Market Promotion
- Discuss with Institutional Investors
  - Understanding of "Accrued interest"

Measures:
- (1) Preparation for Secondary Market
- (2) Strengthen Financial Intermediary (SCs)
- Discipline & Investor Protection by SECM & YSX
Banks
Current
Rely on banks
Diversify funding sources

Insurance
Future

Current Composition of Bond Holding

10% Insurance

Banks

Trustees etc.

90% Reserve Requirement
1/3 of bank demand

This could disappear

Trustees

New

Insurance

Potential is:
- Pension
- Provident fund
- Social security fund

Banks

Future
Preparation for Secondary Market within this year

- SECM is discussing with YSX & Securities Companies (SCs) to establish Bond Market
- SECM is drafting Notifications & Instructions for SCs
- YSX is preparing & coordinating market scheme & rules
- SCs will play main role in the Secondary Market
[Possible Trading Market]
- “Yangon Stock Exchange”
- “OTC market”
- Negotiation among Securities companies (Broker - Broker)

[Essential Factors]
- Market Organizer - discipline & standardized procedure
- Amount to be traded
- Accessibility - Consider Individual Investors
- Efficient Clearing & Settlement
Strengthen financial intermediary (SCs)

[SC’s crucial role]

✓ Increase investors & liquidity
✓ Disseminate market info to investors
   ✓ Clear Explanation to customers

[SECM measures]

✓ Instruction (9/2016) allowed SCs
   ✓ to purchase Treasury Bonds or Bills for 10 % of paid up capital

✓ SECM will allow SCs
   ✓ to participate in the auction (Primary Market)
   ✓ to act as brokers or market-makers for the market development
For increasing liquidity, need to expand investor base.

[Supposed types]

• State owned Banks and Private Banks
• Insurance Companies
• Companies
• Religious Organizations
• Foreigners (Foreign JV, Foreign Insurance Companies etc.)
• Individual

❖ After introduction of auction system, current investors are not accustomed to the method of accrue interest payment in primary market.
### Understanding of Accrued Interest

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Calculation Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auction</td>
<td>2/21/2017</td>
<td></td>
</tr>
<tr>
<td>Settlement Date</td>
<td>2/23/2017</td>
<td></td>
</tr>
<tr>
<td>Coupon Rate</td>
<td>9.50%</td>
<td></td>
</tr>
<tr>
<td>Accrued Interest on Ks 100,000</td>
<td>2,624.31</td>
<td>Calculate from November 15, 2016 to February 23, 2017</td>
</tr>
<tr>
<td>Accrued Interest on Ks 500 million @ Settlement Date</td>
<td>13,121,550</td>
<td></td>
</tr>
<tr>
<td>Interest Which will receive on May 15, 2017</td>
<td>23,750,000</td>
<td></td>
</tr>
<tr>
<td>8% Call Deposit Interest from Feb 23, 2017 to May 15, 2017</td>
<td>232,952.45</td>
<td>For 81 Days</td>
</tr>
<tr>
<td>8.25% Saving Deposit interest from Feb 23, 2017 to May 15, 2017</td>
<td>180,421.31</td>
<td>For 2 Months</td>
</tr>
</tbody>
</table>
## Missions Summary in Securities Side

### Discipline & Investor Protection

- Supervision & Market Surveillance
- Notifications, Instruction etc.
- Set a secondary market
- Create a yield curve
- Rules for fair price & no fail
- Participate in auction and market
- Clear Explanation to Customer
- Diversify & Increase investor base
- Strengthen Financial Literacy

### Liquidity

- Develop Education Program
- Increase accessibility
- Provision of market info
- Bond Dealer Analyst
- Dealing Business

<table>
<thead>
<tr>
<th>Regulation</th>
<th>SECM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Infrastructure</td>
<td>YSX</td>
</tr>
<tr>
<td>Intermediary</td>
<td>SCs</td>
</tr>
<tr>
<td>Investor-related</td>
<td>Individuals, Religious Bodies, Banks, Insurance etc.</td>
</tr>
</tbody>
</table>

*Understanding of “Accrued interest”*
Possible Future Missions (Mid-term)

Infra
- OTC disciplined by Securities Business Association
- Efficient Settlement
- Regulations for the Issuance of Corporate Bonds

Products
- T-bonds with various duration & rate / T-bonds designated for Individuals
- Variety of bonds (Municipal Bonds / Cooperate Bonds)
- Derivatives / Bond repurchase transaction

Investor
- Foreign Participation (Especially, Foreign Insurance Companies)
- Link to the Asian Bond Market
Types of Bond

- **Varieties of bonds issuance**
  - Medium-term Bond (5 - 7 years)
  - Long-term Bond (7 - 15 years)

- **Municipal bonds**
  - To cooperate with regional government to issue municipal bonds
  - To prescribe issuing methods of bonds and interest rate

- **Corporate Bonds**
  - Corporatization of State Economic Enterprises (SEEs)
  - Selection of suitable SEEs to issue corporate bonds for their capital.
Corporate Bonds is early...

- Necessary infrastructure arrangement takes time
- T-bonds and Municipal should be first.
- Corporate bonds should start with SEEs

**General Features**

- Bonds accompany **default risk**, (“Credit Risk”) in contrast to Stocks
  - **Infrastructures** are necessary for Investor Protection
- Bond Holders are likely to buy & hold till maturity focusing interest
  - No transaction causes **Limited Liquidity**

**Infrastructures & Measures**

- Legal System relating to insolvency - Company Act, Insolvency Act etc.
- Agencies conducting following functions on behalf of Investors
  - Monitoring issuer’s financial status
  - Managing collateral
  - Debt-collection (Servicer function)
- Credit Rating Agency

- To mitigate Credit Risk, collateral including government guarantee is necessary
Thank You For Your Attention