

# Bond Market Costs and Taxation

This chapter details the typical types of costs to be incurred by issuers and investors in the Brunei bond market, with an emphasis on costs associated with bond, note, and *sukuk* issuance and settlement.

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

## A. Costs Associated with Bond, Note, and *Sukuk* Issuance

These costs refer to charges incurred as a result of debt securities or *sukuk* issuance, as charged by regulatory authorities and market institutions.

### 1. Application Approval from Autoriti Monetari Brunei Darussalam

Issuers are subject to a fee of BND500 upon submission of the Registration Statement for public offering of securities. The relevant provision within the SMO is Part V (Public Offering).

### 2. Principal Adviser Fee (Optional)

The appointment of a Principal Adviser in the Brunei bond market is not mandatory. The Principal Adviser is, among other roles, responsible for the submission of applications and supporting information to the relevant regulatory authorities. The Principal Adviser will charge a fee, which should be expected to follow established market practice and may be subject to negotiations between the issuer and the Principal Adviser.

### 3. Underwriter Fee (Optional)

Issuers are not required by law to appoint an underwriter in Brunei Darussalam; often, the Principal Adviser performs the role of an underwriter as well. However, some offers of bonds, notes, and *sukuk* may require the services of one or more underwriters to place the debt securities or *sukuk* with institutional investors or distribute the issuance to retail investors.

Underwriters charge a fee, typically commensurate with the effort and risk of taking over part or all of a bond, note, or *sukuk* from the issuer. This fee or service charge should be expected to follow established market practice and may be subject to negotiations between issuer and underwriter(s).

#### 4. Syariah Adviser Fee (Mandatory in Case of Sukuk Issuance)

In the case of a *sukuk* issuance, the issuer is required to appoint a Syariah Adviser who will advise the issuer on the suitability of the type and structure of a *sukuk* and certify the compliance of the *sukuk* with Syariah principles, which have been approved by the Syariah Advisory Council.

Syariah Advisers command a service fee, which should be expected to follow established market practice and may be subject to negotiations between the issuer and the Syariah Adviser.

#### 5. Agent Fees

In the Brunei bond market, the appointment of agents in the context of a bond, note, or *sukuk* issuance is not mandated. A facility agent will administer the issuance process of debt instruments and *sukuk* into the market, while a paying agent is responsible for handling the cash flow at issuance, for benefits arising from the issue, and upon redemption. The trustee holds the fiduciary responsibility toward the bondholder or *sukuk* holder, and acts in the case of default or distress.

Facility and paying agents, as well as the trustee, are remunerated for their services based on market practice.

### B. Ongoing Costs for Issuers of Corporate Bonds, Notes, and Sukuk

Resident and nonresident (foreign) issuers in the Brunei bond market tend to appoint a commercial bank as the paying agent for their corporate bonds, notes, and *sukuk*. This service provision may result in charges, such as interest payment and redemption fees.

### C. Costs for Deposit and Withdrawal of Bonds, Notes, and Sukuk

In the absence of a local central securities depository, the Government of Brunei Darussalam has appointed an external depository agent as the custodian of the Brunei Government Sukuk Al-Ijarah. Under the existing program, there is no service fee imposed on market participants. It is expected that such a program will be replaced once the new central securities depository (CSD) is established.

### D. Costs Associated with Bonds, Notes, and Sukuk Trading

As the trading of Brunei Government Sukuk Al-Ijarah is only applicable among Primary Market Participants, there are no trading fees apart from the charges imposed by the appointed depository.

## E. Costs for Settlement and Transfer of Bonds, Notes, and Sukuk

### 1. Transaction Fee (Transfer Fee)

AMBD collects a transaction fee (transfer fee) for each settlement transaction in the AMBD real-time gross settlement (RTGS) system through the settlement account maintained by RTGS participants.

## F. Taxation Framework and Requirements

Brunei Darussalam has one of the lowest tax regimes in the region as there is no sales, payroll, capital gains, manufacturing, or personal income tax.

Section 269 of the SMO exempts the following persons from paying income tax; capital gains tax; or other taxes being levied, withheld, or collected:

- (i) a collective investment scheme conducting management of securities;
- (ii) a CMSL holder conducting management of securities;
- (iii) the collective investment scheme itself;
- (iv) any person who receives dividends or earnings that are attributable to any unit share, partnership interest, debt, or securities; and
- (v) any fees or other earnings received in the capacity of a licensee.

**Table 6.1: Duties and Taxes Related to Debt Securities and Sukuk in Brunei Darussalam**

Type of Tax	Type of Debt Instrument or Service	Type of Investor or Institution	Tax Rate (% or amount)
Business Income Tax	All debt securities	All investors	Exempt
Withholding Tax	All debt securities	5 classes of investors <sup>a</sup>	Exempt
Capital Gains Tax	All debt securities	All investors	n.a.
Stamp Duty	All debt securities	Transactions involving collective investment schemes	Exempt
		All other investors	As per Stamp Act <sup>b</sup>
Value-Added Tax	All debt securities	All investors	n.a.

n.a. = not applicable.

<sup>a</sup> Which for all intents and purposes covers all bond market participants.

<sup>b</sup> Please see <http://www.agc.gov.bn/AGC%20Images/LOB/PDF/Cap34.pdf>

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

## 1. Business Income Tax

Any dividends or earnings attributable to debt securities or *sukuk* are exempt from income tax in Brunei Darussalam.

## 2. Withholding Tax

If an issuer of debt securities or *sukuk* can qualify as one of the five classes of people listed in section 269 of the SMO (as outlined in text above), that issuer will be entitled to an exemption from withholding tax.

## 3. Capital Gains Tax

There is no capital gains tax levied on any dividends or earnings attributable to debt securities and *sukuk* in Brunei Darussalam.

## 4. Stamp Duty

Although there are no exemptions from stamp duty provided under the Stamp Act (Chapter 34), such exemptions are provided under the SMO.<sup>7</sup>

Section 269 of the SMO provides that, notwithstanding the Stamp Act, stamp duty is not chargeable on any of the following:

- (i) instruments relating to transfers of any property to or by any collective investment scheme,
- (ii) instruments relating to transactions in respect of any collective investment scheme interest; and
- (iii) instruments relating in any way to the assets or activities of a collective investment scheme.

## 5. Goods and Services Tax or Value-Added Tax

Neither a goods and services tax nor a value-added tax is applicable in Brunei Darussalam.

## 6. Double Taxation Agreements

Avoidance of Double Taxation Agreements are bilateral tax treaties signed between Brunei Darussalam and other countries or economies that serve to lessen the tax burden on companies when operating in Brunei Darussalam and the other signatory's jurisdiction. Brunei Darussalam has signed Avoidance of Double Taxation Agreements with Bahrain; the People's Republic of China; Hong Kong, China; Indonesia; Japan; the Republic of Korea; Kuwait; the Lao People's Democratic Republic; Malaysia; Oman; Pakistan; Qatar; Singapore; Tajikistan; United Arab Emirates; the United Kingdom; and Viet Nam.

## 7. Tax Concessions or Exemptions for Nonresident Investors

Tax exemptions for nonresident investors are not applicable since Brunei Darussalam does not apply capital gains and withholding taxes on the income or considerations from debt securities and *sukuk*, respectively.

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<sup>7</sup> For further information, the Stamp Act (Chapter 34 of the laws of Brunei Darussalam) may be found at <http://www.agc.gov.bn/AGC%20Images/LOB/PDF/Cap34.pdf>