

Overview

A. Introduction

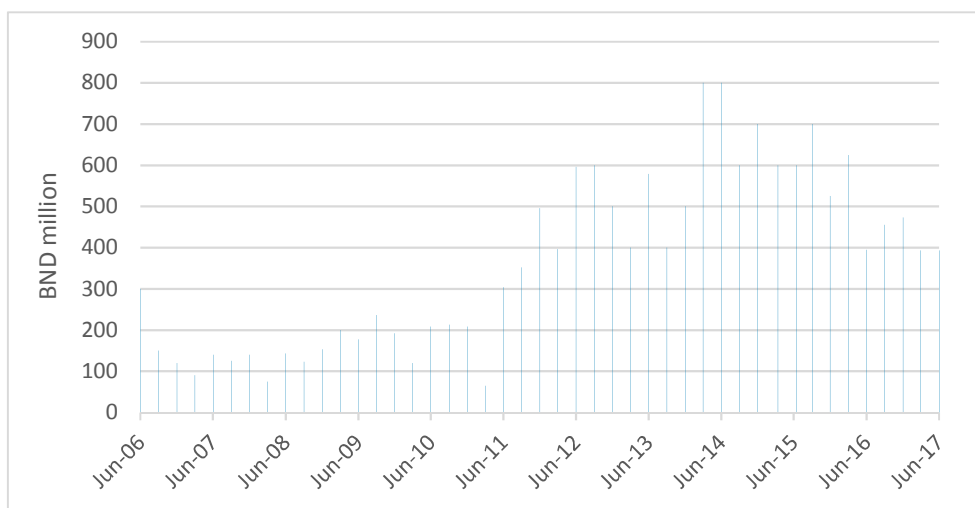
Brunei Darussalam is diversifying its economy through the development of new industries in order to gradually reduce its economic reliance on the oil and gas sector. The Government of Brunei Darussalam has spelled out its development goals over the next several decades in a policy document entitled Wawasan Brunei 2035 (Brunei Vision 2035). Wawasan Brunei 2035 envisages Brunei Darussalam's financial sector playing a central role in transforming the domestic economy by providing financial intermediation for the development of the overall economy and contributing at least 8% of national gross domestic product by 2035. The government's program of economic reform to achieve diversification and growth of Brunei Darussalam's economy will create new opportunities across the financial sector for banks, insurance companies, and in the capital market.

To this end, the Autoriti Monetari Brunei Darussalam (AMBD) has developed the Brunei Darussalam Financial Sector Blueprint, 2016–2025 to highlight ways in which Brunei Darussalam will build upon existing, and establish new, relationships with international investors, financial institutions, and financial centers, particularly in relation to the provision of Islamic financial services.

Although the domestic capital market is currently less advanced than the banking and insurance segment, there is considerable growth potential. Historically, *sukuk* (Islamic bonds) issuances in Brunei Darussalam have mostly been sovereign *sukuk* denominated in Brunei dollars. Since 2006, the government has maintained a continuous program of *sukuk* issuance with progressively longer maturities. The objective of the current program is to both develop Brunei Darussalam's yield curve as a benchmark for corporate *sukuk* and provide a safe and liquid investment instrument for domestic financial institutions. As the country further develops in line with Wawasan Brunei 2035, there will be increased need to finance major national construction and industrial projects, providing significant scope for raising funds through the capital market.

Brunei Darussalam has been a pioneer in issuing short-term *sukuk* with maturities of 1 year or less. Through June 2017, a total of 146 government *sukuk* using the principle of *al-ijarah* (issuance based on underlying assets) had been issued, bringing the cumulative amount issued to BND10.97 billion, with an outstanding amount of BND393.2 million as of 30 June 2017 (Figure 1.1).

The principal legal and regulatory frameworks for the securities markets industry are the Securities Markets Order, 2013 (SMO) and the Securities Markets Regulations, 2015 (SMR).

Figure 1.1: Local Currency Bonds Outstanding in Brunei Darussalam

Note: Data for selected dates through 30 June 2017.
Source: Autoriti Monetari Brunei Darussalam.

The SMO is comprehensive legislation, enacted in June 2013, covering all activities in the capital market. The SMO provides a framework for the licensing and supervision of market operators such as securities exchanges; clearing houses; credit rating agencies; and market intermediaries whose activities include dealing in securities, fund management, and financial advice.

The SMO also contains provisions for the registration of public offerings of securities such as bonds and continuous disclosure obligations designed with investor protection in mind (e.g., insider dealing to deter market abuse).

B. Brunei Darussalam Financial Sector Blueprint, 2016–2025

Wawasan Brunei 2035 sets out an economic vision for Brunei Darussalam over the next 2 decades, while the Brunei Darussalam Financial Sector Blueprint, 2016–2025 will guide the development of the financial sector over the next decade. The blueprint established the strategic framework within which AMBD will be working with other government ministries and stakeholders to achieve key objectives.

As Islamic finance continues to grow internationally and regionally, Brunei Darussalam can leverage its rich Islamic traditions and culture, political stability, and favorable ties with international partners to evolve into an Islamic finance hub serving the fast-growing Association of Southeast Asian Nations (ASEAN) region. The growth of this service line is central to diversifying Brunei Darussalam's economy.

Capital markets, including equity and debt markets, play a central role in promoting economic activity through facilitating and diversifying companies' access to finance. The launch of the Brunei Securities Exchange is expected to promote economic growth and business expansion by providing Bruneian businesses with alternative funding routes (instead of bank loans). Not only will the development of a securities market in Brunei Darussalam expand the country's capital market platform and trigger greater foreign investment opportunities and inflows, the Brunei Securities Exchange

will also align to the national strategy of diversifying the economy away from hydrocarbons.

Within this strategic framework, there will be opportunities for local and international financial institutions to play a role as market participants such as dealers, brokers, market analysts, investment advisers, and underwriters. Financial institutions may also take part as institutional investors. In addition, the framework will create demand for ancillary service providers such as legal firms, audit firms, and corporate secretaries to support listing activities.

C. Regional Cooperation

AMBD's participation in various regional and international cooperation forums offer opportunities for expanded market access. This includes participation in the ASEAN Capital Market Forum, Asian Bond Markets Initiative, ASEAN Working Committee on Capital Market Development, Islamic Financial Services Board, and International Organisation of Securities Commissions. These forums provide platforms for dialogue and meetings with other regional and international organizations that support the development of capital markets.

For more information on recent initiatives and developments with relevance for the Brunei bond market, kindly also refer to Chapters IX and X.