



# Recent Developments and Future Direction

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## A. Recent Major Developments

Recent major developments are considered those that occurred or have been announced in the Lao PDR market since the first publication of the Lao PDR Bond Market Guide in April 2012.

### 1. Introduction of Corporate Bond Legislation and Regulations

For the capital market to support the sustainable development of the Lao PDR's economy, a sound and balanced legislative and regulatory framework, which promotes good market conduct, is necessary. The LSCO, together with other relevant authorities, has given much attention to developing key legislation governing capital market activities, including the corporate bond market. The LSC has issued 41 legislative or regulatory instruments aimed mainly at equity securities, with very few such instruments encapsulating bond market activities. However, according to the development conditions in both the domestic and regional market in recent years, the government has set policies to encourage the relevant authorities to prepare for the issuance of corporate bonds and bring government bonds to list on the LSX. In 2014, the Regulation on Issuance of Corporate Bonds was issued to prepare for the future issuance of corporate bonds. Also, related regulations and subsidiary legislation governing the corporate bond market are to be issued by the LSCO in the near future.

### 2. Move from Call Auction to Continuous Auction System

The LSX has upgraded its trading method from call auction to continuous auction and increased the daily price change limit from  $\pm 5\%$  to  $\pm 10\%$  in 2014 after obtaining approval from the LSCO to suit current market conditions and increase market liquidity. Previously, the LSX operated the call auction trading method, the process of a one-time centralized matching of bid and offer orders received during a specified period. In the current method, called continuous auction, the process of continuous matching of bid and offer orders on a one-by-one basis is done in compliance with the newly revised LSX Regulation on Market Operation and in line with international trading methods.

## B. Future Direction

With the legislative and regulatory framework largely set for the Lao PDR bond market, much additional development can be expected over the next few years. This section reviews some of the proposed initiatives and next steps, including those that are envisaged to address the challenges mentioned in Chapter IX.

### **1. Lao Securities Exchange Developing Bond Trading Platform**

The LSX has successfully developed a bond trading platform for both corporate and government bonds, which is ready to operate (see also Chapter IV.B).

### **2. Listing of Debt Securities on Lao Securities Exchange**

The LSCO has actively increased awareness and understanding of the issuance and listing of corporate bonds among interested parties. It is expected that in the near future there will be bonds listings on the LSX.

### **3. Introduction of Primary Dealer System**

The regulatory authorities are discussing the introduction of a primary dealer system in the early stages of bond market development. The primary dealers would participate in government securities auctions in the primary market but also play an active role as market-makers in the secondary market.

In particular, the market-maker function is seen as a key measure to ensure liquidity in the secondary market through the commitment of PDs to participate not just at auction but also in the daily trading activities of market participants.

### **4. Creation of Government Bond Yield Curve**

One of the key actions of the policy bodies will be to create a government bond yield curve as a standard measure for enterprises that want to issue corporate bonds and as a basic tool for estimating bond prices. The objective will be to include the establishment of government benchmark bonds for which a yield curve can be tracked.