

# Bond and Note Transactions and Trading Market Infrastructure

## A. Trading of Bonds and Notes

The bond market in the Lao PDR is still at a nascent stage of development. While the government has issued debt securities, the issuance of corporate bonds is not yet evident in the market, since the underlying regulations are fairly new. An OTC market has not yet been established, other than the interbank market for money market instruments. At the same time, some of the infrastructure required for a domestic (corporate) bond market is already in place; the relevant details are described in this chapter.

Information on additional subjects—such as market monitoring and reporting, bond yield curve and indices, and repo and securities lending businesses—will be made available in this Bond Market Guide once the features of the Lao PDR bond market mature accordingly.

Although the bond market in the Lao PDR is still in its beginning stages, the trading of debt instruments can be conducted in the interbank market or, at least in principle, on the LSX.

### 1. Interbank Market

At present, the BOL trades Treasury bills with its financial institution constituents in the interbank market on a bilateral basis. Such trading activities could also include repo transactions of debt instruments.

At the same time, these financial institutions may trade Treasury bills and other instruments among themselves, again on a bilateral basis. Transactions are typically concluded over the phone and settlement involves the physical delivery of debt instrument certificates against a fund transfer via the counterparties' cash accounts with the BOL.

### 2. Bond Trading on the Lao Securities Exchange

In principle, the listing and trading of debt securities on the LSX is possible. The LSX issued its Regulation on Bond Listing in 2015 and updated its Regulation on Market Operation in early 2016 to accommodate debt securities alongside the existing equities listing and trading operations.

Following the release of dedicated regulations on the issuance of corporate bonds by the LSCO in 2014, the subsequent issuance and listing and trading of corporate debt instruments is expected in the near future.

## B. Trading Platforms

### 1. Interbank Market

Participants in the interbank market typically use the phone to trade money market instruments, chiefly Treasury bills, with counterparties. An inter-dealer broker concept has not yet been established in the Lao PDR. Individual market participants may use electronic means to communicate and even conclude transactions in the interbank market with specific counterparties.

At the same time, financial institutions use in-house trading or securities movement and control systems, either bought from vendors or built in-house, to record trades in such instruments.

To the extent that market participants trade international securities in overseas markets, the use of global trading or information platforms, such as Bloomberg or Reuters, may be employed.

### 2. Lao Securities Exchange

The LSX was officially opened on 10 October 2010. The LSX is a joint venture between the Government of the Lao PDR (51% ownership), represented by the BOL, and Korea Exchange (49% ownership). The trading platform of the LSX and its procedures were, to a certain degree and as practical, adopted from Korea Exchange systems and processes. Since Korea Exchange is one of the few exchanges in ASEAN+3 with significant bond trading volume, the key functionality for the trading of debt instruments on the LSX is principally in place.

The LSX has four member firms, all of which are licensed securities companies (see Chapter III.L for further details). In addition, the correspondent or settlement banks are considered to be participants of the exchange. Investors intending to trade on the LSX will need to open an account with one of these member firms, as well as an account with a designated correspondent bank for the cash settlement of executed trades.

#### a. Trading Days and Trading Hours

Trading days are from Monday to Friday, with the exception of Lao PDR public holidays, and the last 3 business days of every year.

Normal trading hours are 8 a.m.–11:30 a.m. and are divided into three sessions as shown in Table 4.1.

**Table 4.1: Lao Securities Exchange—Trading Hours**

Continuous Trading Session	Start Time	End Time
Opening Call Auction	8:30 a.m.	9 a.m.
Continuous Auction	9 a.m.	11:20 a.m.
Closing Call Auction	11:20 a.m.	11:30 a.m.

Source: LSX website. [http://www.lsx.com.la/en/product/trading\\_equities3.jsp](http://www.lsx.com.la/en/product/trading_equities3.jsp)

### b. Trade Execution

The LSX adopts an auction market concept for trade execution. Multiple orders competing for trade execution are matched by the exchange system based on price and time priority.

The minimum trade size, tick size, and other conditions for debt instrument trading have yet to be confirmed and published by the LSX. For details on fees relating to the trading of instruments on the LSX, please refer to Chapter VI.

Further information on the trading procedures, market operations, trade execution, and market management practices and conventions is best accessed through the LSX website.<sup>18</sup>

The LSX has completed the development of a bond trading platform for both corporate and government bonds, which is ready to operate (see also Chapter X.B). In conjunction with this development, the LSX is amending its Regulation on Market Operation to support the new bond trading system.

## C. Mandatory Trade Reporting

There is no mandatory trade reporting function, or underlying legal or regulatory requirement, in the Lao PDR bond market at present. The LSCO may consider establishing such a mechanism once an OTC market is in place and sufficient transactions have been observed.

At the same time, trades in instruments on the LSX are already concluded and reported via the LSX trading platform and published as part of the end-of-day (closing) data on the LSX website.

## D. Market Monitoring and Surveillance in the Secondary Market

Article 106 (Rights and Duties) in Part V (Securities Exchange) of the Law on Securities empowers the LSX to conduct listed securities trading surveillance and develop adequate market surveillance mechanisms.

The LSX performs market monitoring and surveillance to ensure that all trading activities comply with relevant laws and regulations, and acts as the frontline regulator to detect any unfair trading practices. The monitoring of activities is carried out on a daily and periodical basis.

## E. Bond Information Services

At present, a dedicated resource for bond information, such as a website or education center managed by the regulatory authorities or market institutions, does not yet exist in the Lao PDR. However, as the development of the domestic bond market gains momentum with the future issuance of corporate bonds, such resources for interested and targeted investors are expected to become available.

<sup>18</sup> See [http://www.lsx.com.la/en/product/trading\\_equities4.jsp](http://www.lsx.com.la/en/product/trading_equities4.jsp)

In the meantime, investors and interested parties should use the websites of the LSCO and the LSX to conduct research on debt securities and their issuance, trading, clearing, and settlement practices. Please see Appendix 1 for details.

## **F. Yields, Yield Curves, and Bond Indices**

At present, there are no market or instrument-specific yield curves available in the Lao PDR bond market.

At the same time, the MOF is planning to establish benchmark bonds, which will lead to the creation of yield curves in the medium-term.

In addition, market intermediaries and information vendors may track yields of existing government securities and produce yield curves for their own purposes or for the provision of securities related services to their clients.

## **G. Repurchase Market**

### **Repurchase Market Overview**

The BOL is conducting repo transactions with its constituent participants in the interbank market as part of its open market operations. The BOL in effect conducts a discount window with banks using available government bonds and bills in both Lao kip and US dollars. At present, two transaction types are evident: (i) 14-day repo and (ii) outright (90 days remaining). The repo and outright interest rates are announced by the BOL on a monthly basis.

In turn, the commercial banks or other financial institutions are principally able to enter into repo transactions with one another, using the same bonds or money market instruments issued and traded by them with the BOL. However, at the time of the completion of this Bond Market Guide, the market had not yet observed such transactions between counterparties.

## **H. Securities Borrowing and Lending**

At present, the LSCO has not yet permitted the conduct of securities borrowing and lending transactions in the Lao PDR, or issued any relevant notices or opinions on this securities business type. Prevailing legislation and regulations do not contain provisions on securities borrowing and lending.