

# Overview

## A. Introduction

The Republic of the Union of Myanmar (hereafter Myanmar) began to emphasize the development of its financial and capital markets in 2008. Much has been achieved since then.

There were a number of significant milestones in the Myanmar financial and capital markets in 2013, including the Central Bank of Myanmar (CBM) gaining its independence by law from the then Ministry of Finance (MOF), and the passage of the Securities Exchange Law (SEL). The SEL (i) laid the foundation for the key legal framework for the securities market, (ii) established the Securities and Exchange Commission of Myanmar (SECM) and the Yangon Stock Exchange (YSX), and (iii) defined market participants and their activities.<sup>1</sup>

While no defined corporate bond market existed at the time of publication of this Bond Market Guide, the Government of Myanmar began issuing Treasury bonds (T-bonds) in 1993. CBM has been directly issuing T-bonds to the market—both public and private investors—since December 2009.

Legislative and regulatory efforts are under way to further define, organize, and implement a securities market, its institutions and participants, pursuant to the introduction of the SEL. Based on this law, SECM commenced its work in November 2014. In July 2015, SECM issued the Securities and Exchange Rules (SER) and subsequently released notifications and instructions with further regulations for the securities market.<sup>2</sup> A complete list of relevant notifications and instructions is provided in Appendix 2.

By arrangement of MOF and SECM, the YSX was successfully opened on 9 December 2015.<sup>3</sup> It began its operation in March 2016 with the equity listing of First Myanmar Investment Co., Ltd and had already achieved three listings as of August 2016. The SECM is now driving the development of the bond market through the issuance of rules and notifications, as well as capacity building efforts.

Since 2016, Myanmar has experienced comprehensive revisions of the legal framework for its financial and capital markets, including the replacement of fundamental legislation such as (i) the Myanmar Companies Act, 1914;<sup>4</sup> (ii) the associated Myanmar Companies Rules, 1940;<sup>5</sup> and (iii) the Myanmar Investment Law, which was announced on 18 October 2016 and subsequently issued with accompanying rules on 30 March 2017. The Myanmar Investment Law, 2016 became

<sup>1</sup> See <http://secm.gov.mm/wp-content/uploads/2015/12/4.SECM-Law-Latest-version-English.pdf>

<sup>2</sup> The SER are not yet available in an English version.

<sup>3</sup> See <https://ysx-mm.com/>

<sup>4</sup> See [http://www.burmalibrary.org/docs15/1913-Myanmar\\_Companies\\_Act\\_1913-en.pdf](http://www.burmalibrary.org/docs15/1913-Myanmar_Companies_Act_1913-en.pdf)

<sup>5</sup> See [http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/myanmar\\_companies\\_rules\\_1940\\_eng.pdf](http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/myanmar_companies_rules_1940_eng.pdf)

effective on 1 April 2017.<sup>6</sup> The Union President signed into law the new Financial Institutions Law (FIL) in 2016 to regulate the activities of banks and non-bank financial institutions (NBFIs) in the financial and securities market.<sup>7</sup> The creation of these new laws was supported by both the Asian Development Bank (ADB) and the World Bank.

The objective has been to bring key legislation in line with current best practices and new developments in financial products and instruments, as well as with the most recent elements of regulatory supervision for various financial institutions and individual market segments, in a harmonized manner.

Subsequent to the introduction of the SEL, policy bodies and regulatory authorities will continue to define additional legislation and regulations according to market needs. These efforts are jointly led by the Ministry of Planning and Finance (MOPF) and the Attorney General's Office.

The Government of Myanmar and the institutions tasked with the development of the securities markets are conscious of the challenges ahead. The establishment of market infrastructure and participating institutions, including the regulatory authorities themselves, require certain skill sets, experience, and specialist knowledge in the relevant domains. Critical tasks are both legal and operational in nature, including technology upgrading and capacity building measures, and strengthening the ability to identify, train, and deploy skilled personnel across the industry, markets, and related regulatory authorities.

The purpose of this Bond Market Guide is to provide an update for current and future domestic, regional, and international market participants on the tremendous developments in the Myanmar securities market.

## B. Historical Background

As part of transforming Myanmar from a planned economy to a market-oriented system, the Government of Myanmar started the process of financial market modernization and liberalization in the early 1990s, allowing private sector participation in financial activities. To develop a financial system in line with the market envisaged by the government and to promote the efficiency of financial activities, the Central Bank of Myanmar Law was enacted on 2 July 1990.

In 1996, the Capital Market Study Committee was established by presidential decree, under the then Ministry of Finance and Revenue (MOFR). Following that, the Myanmar Securities Exchange Center (MSEC) was formed as a joint venture company between Myanma Economic Bank, a state-owned bank, and the Daiwa Institute of Research of Japan, to help develop an organized capital market in Myanmar.<sup>8</sup> Using this joint venture as a starting point, the establishment of a securities exchange and the development of an over-the-counter (OTC) market were envisaged.

However, due the 1997/98 Asian financial crisis, the development of the securities market stagnated. To refocus on market development, the Capital Market Development Committee was established in 2008 with the approval of the Prime Minister's Office.

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<sup>6</sup> The Myanmar Investment Law, 2016 and its subsequent rules and notifications can be accessed on the Directorate of Investment and Company Administration website at <http://www.dica.gov.mm/en/all-informations>

<sup>7</sup> See [http://www.cbm.gov.mm/sites/default/files/regulate\\_launders/financial\\_institutions\\_law\\_updated\\_by\\_cbm\\_20160303website-1\\_0.pdf](http://www.cbm.gov.mm/sites/default/files/regulate_launders/financial_institutions_law_updated_by_cbm_20160303website-1_0.pdf)

<sup>8</sup> See Government of the Union of Myanmar, Ministry of Finance. Myanma Economic Bank. <http://www.mof.gov.mm/en/content/myanma-economic-bank>

## 1. Capital Market Development Committee

With a view to support the long-term capital needs for economic enterprises, companies, and investors, and to efficiently protect investments and contribute to the development and modernization of Myanmar's economy, the Capital Market Development Committee (CMDC) was formed by the then MOFR on 1 July 2008 and led by its minister, with the approval of the Prime Minister's Office. CMDC was assigned to define what became the SEL and to set up what became YSX and other infrastructure needed for developing the capital market. To carry out these objectives and to provide effective and efficient assistance to the committee, six subcommittees were formed on 19 August 2008 (Figure 1.1).

### Figure 1.1: Capital Market Development Committee— Subcommittee Areas of Responsibility

1. Development of domestic securities market
2. Encouragement of public companies
3. Enactment of the Securities Exchange Law
4. Establishment of securities companies
5. Training, education, and information on the capital market
6. Accounting and auditing standards for the securities market

Source: Capital Market Development Committee.

The CMDC was assigned to plan for the development of the capital market in line with the Association of Southeast Asian Nations (ASEAN) Capital Market Vision. The CMDC prepared a development roadmap with a precise schedule of itemized tasks and policies to be implemented in three phases from 2008 to 2015.

## 2. The Myanmar Capital Markets Development Roadmap, 2008

The Myanmar Capital Markets Development Roadmap, 2008 covered various policy items to be implemented, including stipulating the necessary legal framework and establishing regulatory authorities, relevant securities market institutions, and related infrastructure. The three individual phases of the roadmap are shown in Figure 1.2.

The first phase was implemented in 2008–2009 and the second phase in 2010–2012. The third phase began in 2013 and had fundamentally reached completion by the end of 2015. While the initiative to develop the capital and securities market was lauded, its development was slowed by sociopolitical circumstances.

In order to develop efficient market infrastructure and a trading market for government bonds, Myanma Economic Bank (MEB) and MSEC were appointed as Authorised Selling Agents, which are known as “underwriters” in domestic practice, of T-bonds in January 2010.

Beginning in March 2011, the capital market's development accelerated due to Myanmar's improved macroeconomic stability, the government's securing of stable long-term funding sources, and the privatization of state-owned enterprises. These developments coincided with the preparation of the establishment of the ASEAN Economic Community in 2015.

**Figure 1.2: Myanmar Capital Market Development Roadmap, 2008**

Phase 1 2008– 2009	Diversify Treasury bonds issued by Central Bank of Myanmar.
	Increase number of public companies and issuance of corporate bonds.
	Constitute a committee of development for capital markets.
	Promote and disseminate knowledge of securities through workshops, seminars, business talks, and media.
	Build capacity of local employees in the financial sector.
	Attend international conferences and seminars in ASEAN and other countries.
Phase 2 2010– 2012	Enforce the Securities and Exchange Law.
	Issue municipal bonds.
	Convert state-owned companies to joint-stock corporations.
	Educate institutional investors.
	Establish an industry association for the securities market.
Phase 3 2013– 2015	Establish a stock exchange.
	Diversify methods of securities transaction.

ASEAN = Association of Southeast Asian Nations.  
Source: Capital Market Development Committee.

In August 2012, CBM signed a memorandum of understanding with the Government of Japan to establish the SEL and the related regulations necessary for development of a fair and sound capital market in Myanmar, as well as all relevant human resource development.

At the same time, the Asian Bond Markets Initiative, with assistance from the Japan–ASEAN Fund for Technical Assistance and the ASEAN Secretariat, assigned technical assistance for the development of the bond market to the Daiwa Institute of Research. Phase I of the technical assistance was implemented between June 2011 and May 2012. Phase II started implementation in June 2013.

The SEL was approved by the National Assembly in July 2013 and came into force on 2 August 2013, laying the foundation for the establishment of SECM and YSX.

The government is hoping to sell long-term T-bonds, starting with 2-year issuances and moving to 3-year and 5-year bonds. The Treasury Department of the MOPF indicated in early 2016 that discussions would be held on whether insurance firms and pension companies would be able to buy T-bonds.<sup>9</sup>

### C. Development of the Legislative Foundation

As stated above, Myanmar's economy is undergoing a rapid transformation, including its financial and capital markets. Since Myanmar is at the beginning stages of the

<sup>9</sup> See <http://www.mmtimes.com/index.php/business/20811-government-to-tackle-insurance-regulations.html>

development of a domestic bond market, this Bond Market Guide puts additional emphasis on explaining the legislative foundations of the bond market.

Fundamental legislation—in the form of the Myanmar Companies Act, 1914 and the Financial Institutions of Myanmar Law, 1990—has been reviewed and revised to support this transformation (see also Chapter II.C).

In addition to such fundamental legislation, the SEL, enacted on 31 July 2013 as the first key legislation for the securities market, laid the foundation for the legislative framework for the bond market and the securities market at large. The SEL consists of 13 chapters comprising 72 articles (Figure 1.3).

**Figure 1.3: Contents of the Securities Exchange Law, 2013**

Chapter I:	Title and Definition
Chapter II:	Objectives
Chapter III:	Formation of the Commission and Duties and Powers of the Commission
Chapter IV:	Securities Company
Chapter V:	Licence
Chapter VI:	Issuing Securities
Chapter VII:	Stock Exchange
Chapter VIII:	Over-The-Counter Market
Chapter IX:	Prohibited Acts
Chapter X:	Depository and Clearing of the Securities
Chapter XI:	Appeal
Chapter XII:	Prohibitions and Penalties
Chapter XIII:	Miscellaneous

Source: Securities and Exchange Commission of Myanmar. Securities Exchange Law. <http://secm.gov.mm/wp-content/uploads/2015/12/4.SECM-Law-Latest-version-English.pdf>

As a conduit for the development of the securities market, its institutions, and participants, the SEL was intended to set out the

- establishment of SECM as the main regulatory body to supervise the securities market;
- licenses available for securities businesses (e.g., dealing, brokerage, underwriting, investment advisory, and company representative);
- framework for the establishment of what became YSX;
- establishment of an OTC market;
- establishment of a securities depository and clearing business; and
- prohibited acts in relation to securities trading (e.g., insider trading) and the relevant penalties.

Bonds—like all other securities—used to be required to be issued in physical form. At present, the SEL, in conjunction with the subsequent SER issued by the then MOFR and drawing on the Electronic Transaction Law, 2004, allows for the dematerialization and the implementation of a book-entry system for securities, which has so far been adopted by YSX and is expected to be applicable to corporate bond issuances as well.<sup>10</sup>

<sup>10</sup> See [http://www.wipo.int/wipolex/en/text.jsp?file\\_id=244521](http://www.wipo.int/wipolex/en/text.jsp?file_id=244521)

**Figure 1.4: Contents of the Securities and Exchange Rules, 2015**

Chapter I:	Title and Definition
Chapter II:	The Commission
Chapter III:	Securities Company
Chapter IV:	Licence
Chapter V:	Securities Issuing
Chapter VI:	Continuous Disclosure
Chapter VII:	Stock Exchange
Chapter VIII:	Over-The-Counter Market
Chapter IX:	Prohibited Acts
Chapter X:	Appeal
Chapter XI:	Penalties
Chapter XII:	Miscellaneous

Source: Securities and Exchange Commission of Myanmar.

In turn, the SER contain the detailed provisions for the key objectives listed in its 12 chapters and 198 articles (Figure 1.4). The SER are presently not yet available in an English version. For further details on the legal framework of the bond market in Myanmar, please also refer to Chapter II.C.

#### D. Bond Issuance

The Government of Myanmar has been issuing bonds since 1993. Under the previous Central Bank Law, 1990, government bonds were sold by CBM directly into the market—comprising both public and private investors. Since 2010, CBM has designated two financial institutions, Myanma Economic Bank and MSEC, to sell T-bonds to financial and nonfinancial institutions, and to private investors. CBM itself continued to sell T-bonds to financial institutions until the introduction of competitive auctions in September 2016 (see Chapters III and IV).

As one means toward bond market development in Myanmar, the CBM began issuing 2-year government T-bonds in fiscal year 2010/11;<sup>11</sup> since then, 2-year T-bonds have been issued together with regular 3-year and 5-year T-bond issues. Table 1.1 provides an overview of recent issuances prior to the introduction of the auction concept.

**Table 1.1: Total Sales of Government Treasury Bonds Non-Auction (MMK million)**

Issuance Timeframe	2-Year Government Treasury Bonds	3-Year Government Treasury Bonds	5-Year Government Treasury Bonds	Total Government Treasury Bonds
April 2013–March 2014	436,487	154,225	594,028	1,184,740
April 2014–March 2015	79,775	68,162	276,626	424,563
April 2015–March 2016	285,815	310,913	212,489	809,217
<b>Total</b>	<b>802,077</b>	<b>533,300</b>	<b>1,083,143</b>	<b>2,418,520</b>

Source: Central Bank of Myanmar.

<sup>11</sup> The Government of Myanmar's fiscal year runs from 1 April to 31 March.

With the introduction of competitive auctions, CBM started selling T-bonds to auction participants only, in accordance with the newly established auction procedures.

**Table 1.2: Total Sales of Government Treasury Bonds at Auction  
(MMK million)**

Issuance Timeframe	9.0%	9.25%	9.5%	Total Government Treasury Bonds
April 2016–March 2017	320,000	719,670	160,000	1,199,670
<b>Total</b>	<b>320,000</b>	<b>719,670</b>	<b>160,000</b>	<b>1,199,670</b>

Source: Central Bank of Myanmar.

## E. Cooperation within the ASEAN Framework

SECM has studied the handling of corporate bonds in other ASEAN member countries. SECM is also expected to sign a memorandum of understanding with the Securities and Exchange Commission, Thailand on the exchange of information on securities market practices.