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OECD-Southeast Asia
Corporate Governance Initiative**

ISSUES PAPER

*The corporate governance landscape and
capital market development in Lao PDR*

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Issues Paper

The corporate governance landscape and capital market development in Lao PDR 3rd meeting of the OECD-Southeast Asia Corporate Governance Initiative

A sound corporate governance framework plays an important role in creating a favourable investment climate and a functioning capital market. The degree to which companies observe internationally recognised principles of corporate governance is a key determinant of investment decisions, the cost of capital, the confidence of investors, competitiveness, and the ability of companies to access financing from a larger pool of investors.

The OECD-Southeast Asia Corporate Governance Initiative aims to support capital market development and the reform of state-owned enterprises through knowledge sharing towards establishing an effective corporate governance framework. The Initiative focuses on Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV), providing a platform for these countries to benefit from international experience, especially that of other Association of Southeast Asian Nations (ASEAN) economies. It supports the narrowing of development gaps between ASEAN member countries to facilitate integration of the ASEAN Economic Community (AEC), which was established on 31 December 2015. Southeast Asia is a region of strategic priority for the OECD. Supporting domestic reform processes and regional integration is a common objective.

The *G20/OECD Principles of Corporate Governance* (hereafter *the Principles*) and the *OECD Guidelines on Corporate Governance of State-owned Enterprises* (hereafter *the Guidelines*) provide policy makers and regulators with a sound benchmark for establishing an effective corporate governance framework. The *Principles* and the *Guidelines* were revised in 2015 to take into account recent developments in the corporate sector and capital markets, ensuring continuing high quality and relevance.

A near-term objective for the Lao People's Democratic Republic (Lao PDR) is to prepare for deeper integration within ASEAN. This goal implies boosting competitiveness in all sectors through diversification, productivity and efficiency growth, supported by a sound and internationally benchmarked corporate governance framework and practices. A number of initiatives, as elaborated in the following sections, are currently underway to improve corporate governance in Lao PDR, though still more progress is desirable.

Following an introductory section on ASEAN integration, this Issues Paper provides a snapshot of the current landscape in Lao PDR with regards to the legal and regulatory framework affecting corporate governance, the reform of state-owned enterprises and capital market development. It also identifies challenges the country is facing as it transitions to a mixed economy.

ASEAN Integration – building an economic community

The establishment of the ASEAN Economic Community (AEC) on 31 December 2015 was a significant milestone in ASEAN’s regional economic integration agenda. Representing 8.8% of the world’s population and a combined GDP of over USD 2.6 trillion, ASEAN member countries have made important steps towards building a region with free movement of goods, services, investment, skilled labour and freer flow of capital, as outlined in the AEC Blueprint. One instrument supporting capital market integration is the ASEAN Corporate Governance Scorecard, which is supported by the Asian Development Bank (ADB) and the ASEAN Capital Market Forum (ACMF) to assess the corporate governance of publicly listed companies in six Southeast Asian countries using a methodology benchmarked against *the Principles*.

Southeast Asia is one of the world’s most economically dynamic regions. The GDP of ASEAN countries nearly doubled between 2007 and 2014, and GDP growth is projected at 5.2% on average for 2016-2020 (OECD, 2016). In 2014, ASEAN attracted USD 136 billion in Foreign Direct Investment (FDI), accounting for 11% of global FDI inflows (UNCTAD, 2015). Yet ASEAN countries continue to trade more with the rest of the world than they do amongst themselves. Intra-ASEAN trade represented 26% of exports and 23.1% of imports in 2012 (see Figures 1 and 2).

Figure 1. ASEAN exports to (as % of total exports)

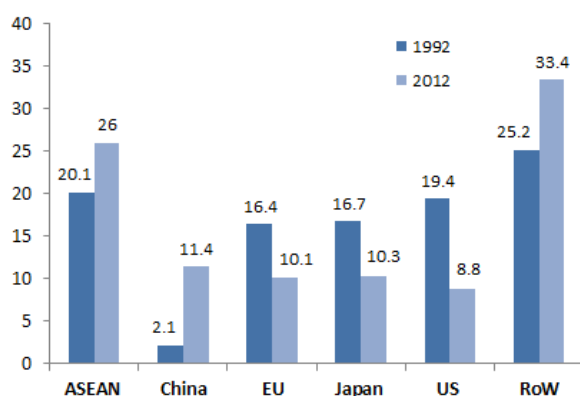
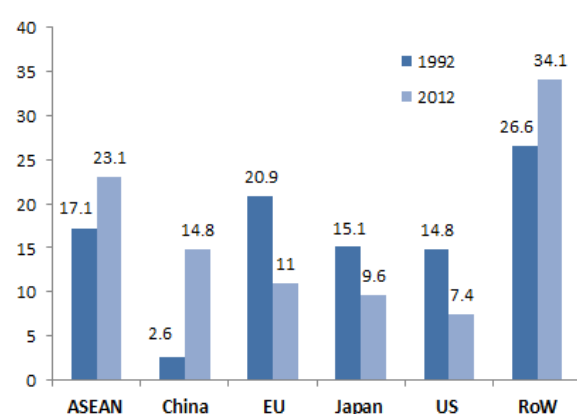


Figure 2. ASEAN imports from (as % of total imports)



Source: ADBI, 2015

Even considering strong growth, the development gap between CLMV and more developed ASEAN member countries remains sizeable. The need for physical infrastructure, including roads, railways, ports, airports and energy lines varies dramatically across countries, and capital markets in CLMV remain at an early stage of development (see Box 1). In order to reach the targets outlined in the AEC Blueprint, CLMV countries should continue to work towards creating a conducive business environment, including by: i) ensuring effective implementation of commitments in trade facilitation and non-tariff measures, ii) providing mutual recognition of qualifications for professional services, and iii) establishing a transparent and non-discriminatory investment regime.

Box 1. Snapshot of capital markets in Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV)

Shares began trading on the **Cambodia Securities Exchange (CSX)** in 2012. There are currently four listed companies on CSX. These are Phnom Penh Water Supply Authority (PPWSA), Grand Twins International, a garment maker, and Phnom Penh Autonomous Port (PPAP) and Phnom Penh Special Economic Zone (PPSEZ). The market capitalisation of CSX is USD 174 million as of May 2016. In 2014, CSX signed a memorandum of understanding with the Stock Exchange of Thailand (SET), aiming to promote capital market development in both countries.

The **Lao Securities Exchange (LSX)** was launched in 2011 with support from both the Stock Exchange of Thailand (SET) and the Korea Exchange (KRX). LSX has five listed companies and a market capitalisation of USD 1.41 billion, as of May 2016. Electricité du Laos-Generation Public Company is the largest listed company on LSX, accounting for over 80% of market capitalisation. According to a recent strategic plan for capital market development, LSX aims to have 25 listed companies by 2020, and 60 listed companies by 2025. KRX holds a 49% stake in the LSX operating company, while the Bank of Lao PDR holds 51%.

In Myanmar, the **Yangon Stock Exchange (YSX)** opened in December 2015, and began trading in March 2016. First Myanmar Investment – a conglomerate with significant real estate holdings – was the first company to list in March 2016. YSX, which is a joint venture between the state-owned Myanma Economic Bank (51%), Daiwa Securities Group (30.25%) and Japan Exchange Group (18.75%), has a market capitalisation of USD 799 million, as of May 2016. The Myanmar authorities aim to list 6-7 companies in 2016. Companies being considering for listing are among the over 200 public companies in Myanmar, as defined by Myanmar's Companies Act.

Nearly 700 companies are listed on Viet Nam's two stock exchanges, the **Ho Chi Minh Stock Exchange (HOSE)** and **Hanoi Stock Exchange (HNX)**. As of May 2016, HOSE has a market capitalisation of USD 53.8 billion, and HNX a market capitalisation of USD 6.9 billion. Many of the listed companies in Viet Nam are equitised state-owned enterprises (SOE) that have improved their professionalism and commercial orientation, often with the assistance of a strategic foreign investor. The State Securities Commission, the State Bank of Viet Nam, HNX and HOSE have increased their staff and other resources to keep pace with rapid market expansion.

Source: OECD research

As Chair of ASEAN in 2016, Lao PDR has taken some important steps towards reaching the targets outlined in the AEC Blueprint. Regarding trade in goods, a number of import tariffs have already been eliminated, with the exception of around 900 sensitive tariff lines (about 10 percent of total tariff lines) and 63 highly sensitive tariff lines (about 1 percent of tariff lines). Under the AEC, the Lao authorities have committed to eliminating the remaining import tariffs by 2018. Regarding trade in services, there continue to be service sectors in which there exist limits on the maximum amount that foreigners can invest. Under the AEC, the Lao authorities have committed to raising the cap on the maximum share that foreigners can invest in services to 70% across all sectors. With regards to trade facilitation, Lao PDR was one of the first ASEAN countries to establish an electronic trade portal – the Lao PDR Trade Information Portal – in 2012. The country's landlocked status, however, keeps trade costs high. (World Bank, 2015)

Lao PDR macroeconomic overview

Lao PDR has maintained strong economic growth since 1986, largely as a result of natural resource development. Over the past decade, growth in GDP has averaged over 7% per year (see further details in Table 1). The 8th National Socio-Economic Development Plan, released in January 2016, sets the ambitious goal of maintaining the current growth rate through 2016-2020. Lao PDR has a population of 6.7 million and approximately 70% of the Lao workforce is in agriculture. The country attained lower-middle income economy status in 2011, and became a member of the World Trade Organisation (WTO) in February 2013.

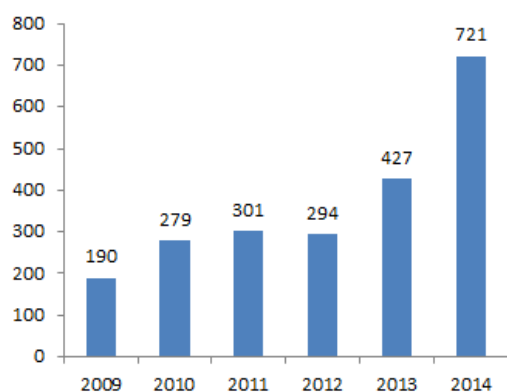
Table 1. Key Economic Indicators

	2010	2011	2012	2013 (Est.)	2014 (Proj.)	2015 (Proj.)
GDP growth (annual %)	8.1	8.0	7.9	8.0	7.4	7.2
Consumer Price Index (annual average)	6.0	7.6	4.3	6.4	4.3	5.0
Current account balance (% GDP)	-20.0	-17.3	-30.2	-28.9	-25.0	-21.3
Overall budget balance (% GDP)	-3.2	-1.7	-0.5	-5.6	-4.2	-4.7

Source: IMF, 2016

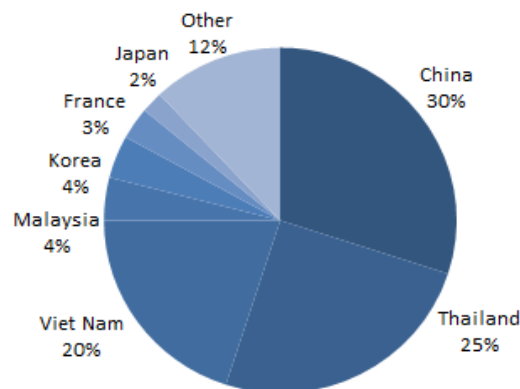
The recent period of strong economic growth has coincided with increasing levels of FDI inflows (see Figure 3), notably in the hydropower, mining and transportation sectors. Six of the ten top foreign investors are from Asia. The People's Republic of China, the largest foreign investor in Lao PDR, has invested over USD 5 billion in approximately 830 projects since 1989. Other regional players, notably Thailand and Viet Nam, are also significant investors in Lao PDR (see Figure 4).

Figure 3. FDI inflows (USD millions)



Source: UNCTAD, 2015

Figure 4. FDI by source (1989-2015)



Source: Lao PDR Ministry of Planning and Investment, 2016

Recently, credit growth has slowed from 35% year-on-year at the end of 2013 to 16% year-on-year at the end of 2014, after several years of very high activity. During the first half of 2014, the average size of non-performing loans (NPLs) in state-owned banks is reported to have increased from 2% to approximately 8%. Rising NPLs—concentrated in public infrastructure-related activities—have cut into bank profitability, raising financial stability concerns. Since liberalisation of the banking sector in 2005, the number of foreign banks has multiplied and there are about 40 banks present in the Lao market. Four state-owned banks reportedly account for approximately 60% of the Lao banking sector. (IMF, 2015)

Building a corporate governance framework

Since 1986, Lao PDR has undertaken important reforms in its transition to a market economy. Under the ‘New Economic Mechanism,’ reforms included the liberalisation of domestic and foreign trade, privatisation of SOEs, and devolution of powers to regional and local governments. Yet a number of challenges continue to face the development of a sound business environment. Access to finance for firms remains difficult, the perception of corruption is high and the number of administrative procedures needed to undergo to carry out business operations can be burdensome.

To address some of these challenges, the Lao authorities have taken steps in recent years towards establishing the legal and regulatory framework for corporate governance (see Table 2). The Law on Enterprises of 2013, which was passed as part of a legislative reform process in preparation for the establishment of the AEC in 2015, applies to all companies in Lao PDR. As such, the Law helps to establish a level playing field by subjecting SOEs to the same rules as private companies. The Law stipulates that a limited company with assets more than LAK fifty billion (USD 6.25 million) must have a board of directors and an auditor. The voting for the selection or removal of a board director may be executed by either cumulative or straight voting, and proxy voting is allowed. Lao companies use a one-tier board system. Shareholders must be given notice of at least five working days before the holding of a shareholders meeting. External audit is carried out through auditors elected by the shareholders in the shareholders meeting.

The Law on Accounting of 2013, which became effective in July 2014, permits entities to use the International Financial Reporting System (IFRS) in preparing and maintaining their financial records, subsequent to approval from the Ministry of Finance. Previously, private entities doing business in Lao PDR had to use the Lao Accounting Standards (LAS).

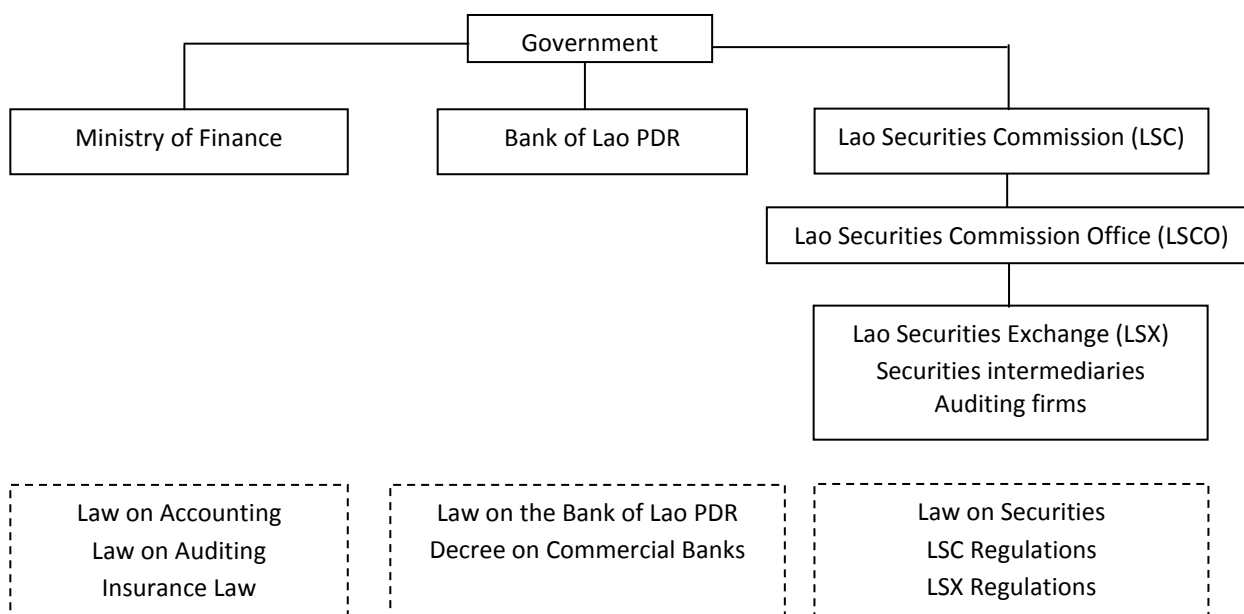
Table 2. Main laws and regulations relating to corporate governance in Lao PDR

Name	Effective	Purpose	Notes
Law on Enterprises, No. 46/NA, 26 December 2013	September 2014	Companies Law	Replaced Law on Enterprises of 2005
Law on Securities, No. 21 /NA, 10 December 2012	March 2013	Securities Law	Upgraded from Decree on Securities and Securities Exchange of 2010
Law on Accounting, No. 47/NA, 26 December 2013	July 2014	Accounting Law	Replaced Law on Accounting of 2007
Stock Listing Regulations of the Lao Securities Exchange (LSX)	November 2015	Rules governing the issuance of and trading in equity and debt securities of listed companies	Pursuant to Regulation on Stock Issuance, No. 018/LSCO, 27 July 2015

Source: OECD research

As for the institutional framework, the Lao Securities Commission Office (LSCO), which was established in 2009, oversees the Lao Securities Exchange (LSX) and is governed by the Law on Securities of 2012 (see Figure 5). LSCO has 48 staff members and reports to the 13 members of the Lao Securities Commission (LSC). LSC is chaired by the Deputy Prime Minister of Lao PDR and has two Vice Chairmen (the Governor of the Bank of Lao PDR and the Minister of Finance) as well as nine Commissioners from selected Ministries and National Committees. To complement and facilitate implementation of the Law on Securities, LSC has issued a number of decrees, decisions, manuals and guidelines (see Annex 2).

Figure 5. Financial Supervisory Structure in Lao PDR



Source: LSCO

As part of the effort to strengthen the corporate governance of listed firms, an updated Stock Listing Regulation was released by the Lao Securities Exchange in November 2015. As outlined in Section 4 Article 13, requirements for the initial listing of stock include disclosure of financial and non-financial elements. Financial elements relate to: 1) operating history (three or more years needed since incorporation), 2) size of the company (capital of LAK 8 billion or approximately USD 1 million), 3) stock distribution (at least 100 minority shareholders and more than 10% of shares owned by minority shareholders), and 4) business performance (sales revenue of at least LAK 24 billion or approximately USD 3 million). Other requirements relate to the quality of corporate disclosure, corporate governance and other matters deemed “necessary for the promotion of the public interest and the protection of investors.”

Even considering these reforms, some important gaps remain. In practice, financial and non-financial disclosure remains weak. Company reports are commonly challenging to access online or in English. Additionally, many of the skills required to implement and create a culture of good corporate governance, including accounting and auditing skills, are in high demand. Finally, enforcement of the law remains inconsistent. The existence of a large number of government decrees leads to limited awareness by market participants.

Ongoing reforms to the ownership and governance of SOEs

As a part of the transition toward a market economy, the Lao government began a privatisation programme of SOEs in 1986. In line with this programme, the central government devolved significant economic powers to regional governments and reduced the number of central ministries and ministry-equivalent organisations. In 1989, there were reportedly 640 SOEs, 200 of which were controlled at the central level (Quang, 1999). This number has been steadily reduced through closing down, leasing, merging and sell-offs. As of October 2015, there were reportedly 130 fully state-owned enterprises in Lao PDR. Approximately 55 of these SOEs operate at the central level, 42 of which are under the responsibility of the Ministry of Finance.

As defined by the Law on Enterprises of 2013, there are two types of SOEs in Lao PDR, namely: (1) State enterprises, which are established by the State and have a capital contribution from the State of more than 50% of the total capital, and (2) Mixed enterprises, which are invested jointly by the State and another party (e.g. domestic or foreign investor). The fundamental principles for the business operations of SOEs outlined in the Law are: i) strict compliance with the Lao People's Revolutionary Party's guideline and policy and the government's social economic development plan, ii) independent business operations based on commercial principles, iii) a transparent and modern management system subject to internal and external audits, and iv) full participation of the entire organisation, in view of contributing to improving the efficiency of business operations.

By some estimates, SOEs in Lao PDR currently account for only 1% of total employment. However, this finding should be tempered by the fact that a number of activities that might in other economies be carried out by SOEs are either performed within the general government sector or by companies that, while not classified as SOEs, are closely related to the government. Moreover, SOEs continue to play a significant role in the overall economy and remain particularly prominent in key sectors such as finance, telecommunications, energy, and mining. According to the National Committee for Business Development, fully state-owned firms in Lao PDR had assets of USD 11.7 billion, revenues of USD 2.8 billion and profits of USD 119 million in 2015.

A number of international observers have described the variant of capitalism in Lao PDR as "frontier capitalism" (Andriessse, 2014). Indeed, the interventionist role of the state in the economy and the state-mediated financial system have led to a situation in which well-connected companies, either under government patronage or having partial government ownership, have flourished. Consortia of SOEs and foreign companies have also particularly benefitted from this model, promoting significant levels of economic growth.

With the aim of improving the governance and efficiency of SOEs, the government has encouraged a number of SOEs to partner with foreign firms, either in the form of joint ventures or by inviting strategic partners into their shareholdings (see Table 3). In 2005, the Danish beer company Carlsberg took a 50% stake in Lao Brewery, with the Lao government retaining the other 50%. In 2011, Russia's Vimpelcom, which operates the Beeline brand, acquired a 78% stake in Millicom Lao, a leading mobile telecom operator, leading to the creation of Vimpelcom Lao. In 2012, Compagnie Financière de la BRED (COFIBRED), a subsidiary of the French bank BRED Banque Populaire, took a 10% stake in Banque pour le Commerce Extérieur Lao (BCEL), a listed company that is 70% owned by the Lao government. In 2014, BCEL established a joint venture with Fudian Bank, a Chinese bank, to establish the Lao China Bank with an initial registered capital of USD 37 billion.

Table 3. Selected foreign investments in Lao SOEs/joint ventures

Name of foreign firm	Country origin of foreign firm	Name of Lao firm/ joint venture	Sector	Year	Share of foreign stake
China Asia-Pacific Mobile Telecommunications Satellite (APMT)	People's Republic of China	LaoSat-1 Joint Venture Co.	Telecoms	2015	35%
Fudian Bank	People's Republic of China	Lao China Bank Co. Ltd.	Finance	2014	51%
BRED Banque Populaire	France	Banque pour le Commerce Extérieur Lao Public (BCEL)	Finance	2012	10%
Vimpelcom	Russia	Vimpelcom Lao Co. Ltd.	Telecoms	2011	78%
KT-Zmico Securities (KT-ZMICO)	Thailand	BCEL-KT Securities Co. Ltd.	Finance	2010	30%
BRED Banque Populaire	France	Banque Franco-Lao Ltd.	Finance	2008	54%
Viettel Global	Viet Nam	Star Telecom Co. Ltd.	Telecoms	2007	49%
Carlsberg	Denmark	Lao Brewery Co. Ltd.	Consumer Products	2005	50%
Imperial Tobacco	United Kingdom	Lao Tobacco Ltd.	Consumer Products	2001	53%
Shenington Investments	Singapore	Lao Telecommunications Co. Ltd.	Telecoms	1996	49%

Source: OECD research

The Lao government has expressed its commitment to continue to reform the SOE sector. This reform entails reducing the number of fully state-owned enterprises from 130 to approximately 30, largely through attracting foreign ownership. SOEs with sound financial performance will be encouraged to list on the stock market. The stated objectives of the reforms are to: i) strengthen state sector performance, ii) maximise public resource use, iii) enhance revenue contribution to the state budget and iv) improve the quality of utility sector services. Yet efforts to establish separation between ownership and regulation have been limited. There is currently no clear state ownership policy in Lao PDR. The *OECD Guidelines on Corporate Governance of State-Owned Enterprises*, revised in 2015, provide the Lao authorities with an internationally-recognised benchmark for evaluating the corporate governance framework pertaining to SOEs and designing reforms.

Launching a capital market

Lao PDR's capital market remains small compared with regional peers. In 2006, the government announced the decision to establish a securities exchange. The Lao Securities Exchange (LSX) began operations in January 2011. Electricité du Laos-Generation Public Company (EDL-Gen) and Banque pour le Commerce Extérieur Lao (BCEL) were the first two companies to list in 2011. As of May 2016, LSX has five listed companies (see Table 4), two of which are majority-state owned (EDL-Gen and BCEL). EDL-Gen accounts for over 80% of the market capitalisation of LSX. The two shareholders of LSX are the Bank of Lao PDR (51%), and Korea Exchange (49%).

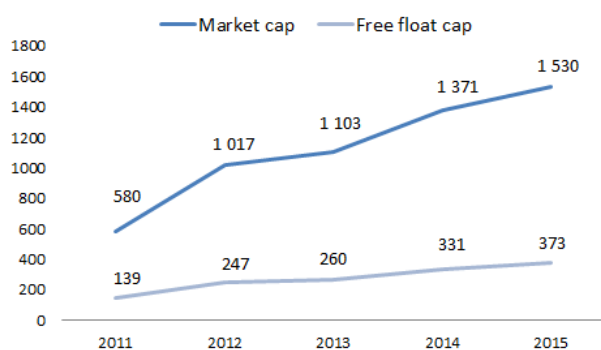
Table 4. Listed firms on the Lao Securities Exchange (LSX)

Name	Issue name	Sector	Free float	Share price (USD) as of 20/05/2016	Market capitalisation (USD)
EDL-Generation Public Company	EDL-Gen	Energy	25%	0.70	1 179 752 820
Banque Pour Le Commerce Extérieur Lao Public	BCEL	Finance	20%	0.65	88 374 194
Lao World Public Company	LWPC	Real Estate	10%	0.85	33 643 552
Petroleum Trading Lao Public Company	PTL	Energy	25.53%	0.32	76 753 937
Souvanny Home Center Public Company	SVN	Construction Materials	15.15%	0.41	67 109 625

Source: LSX, May 2016

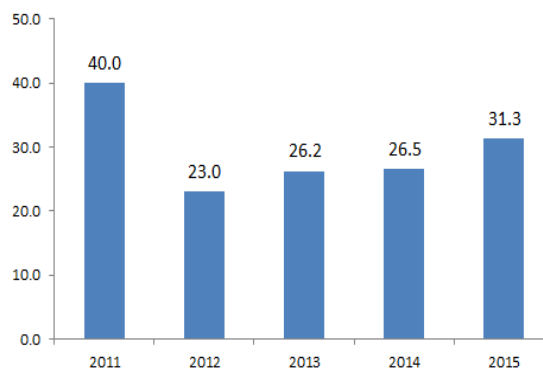
Since its establishment, LSX has experienced modest levels of activity. Between 2011 and 2015, LSX's market capitalisation rose from USD 580 million to USD 1.53 billion, or approximately 12% of GDP (see Figure 6). Over this same period, the number of investor accounts grew to 11 899, of which around 20% are foreign, and the LSX Composite Index rose from 1 000 to 1 147 points (see Figure 8). In 2015, the average daily trading value was approximately USD 100 000, with 86% of this value accounted for by foreign traders. In 2012, the government increased the proportion of shares that foreigners can hold in a listed company from 10% to 20%. Overall, capital market development in Lao PDR remains at an early stage of development.

Figure 6. LSX market capitalisation (USD million)



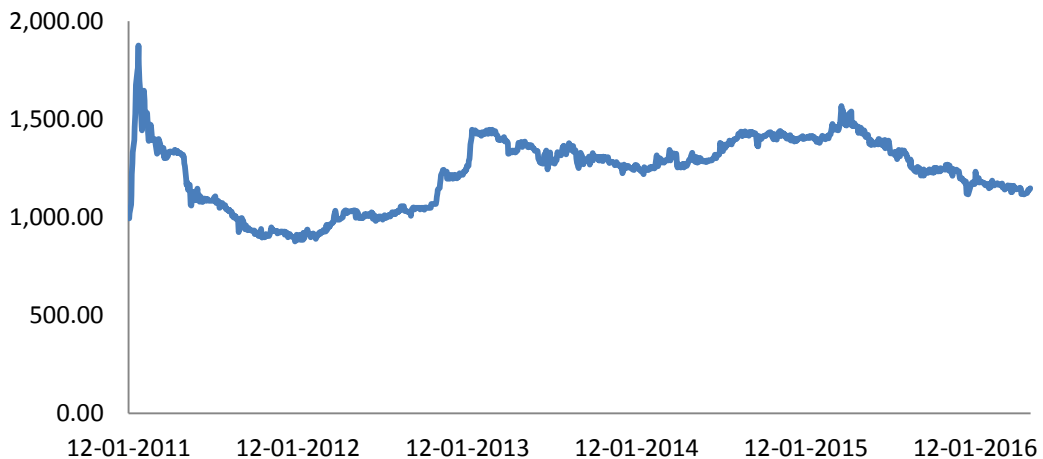
Source: LSX, May 2016

Figure 7. Trading volume (in millions of shares)



Source: LSX, May 2016

Figure 8. LSX Composite Index Daily Closing Price



Source: LSX, May 2016

While there is no corporate debt market in Lao PDR, the Lao government's first sovereign cross-border bond issuance in the Thai debt market in 2013 marked an important step toward facilitating cross-border bond issuance by Lao companies, particularly SOEs with revenues in Thai Baht (THB). By the end of 2015, the Lao government issued four batches of bonds, the last of which was a THB 12 billion triple-tranche issue and the first to be rated. With the aim of developing debt and equity markets in Lao PDR and enabling Lao companies to access regional capital markets to fund long-term investment, the implementation of sound corporate governance practices by Lao firms is critical.

Observers have identified a number of challenges facing the development of a vibrant capital market in Lao PDR (see Annex 1). Notably, the disclosure of financial and non-financial information by firms is commonly perceived as partial and untimely by investors. It is often challenging to obtain detailed corporate information on company websites or through investor relations contacts. The small size of the market and low level of liquidity have also been cited as factors deterring investors. In some cases, the short period of time between the announcement of stock market listing and the IPO has made it difficult for investors to review the company prospectus, and have led to troubles in the IPO process. The short hours of operation of LSX, from 8:30AM to 11:30AM on Monday through Friday, have been cited as presenting challenges for some traders.

The establishment of institutional investors and other intermediaries in the Lao securities market has been slow. Securities companies, which provide financial advice, brokerage services and underwriting for securities issuance, have not yet developed a substantial revenue base. There are currently four active securities companies in Lao PDR (Lanexang Securities Public Company, BCEL-KT Securities Company Limited, Lao-China Securities Company Limited, APM Lao Securities Company Limited) and one foreign representative office (Capital Nomura Securities), though not all of these have functioning websites. Although there are more than 50 accounting firms (including all of the Big Four), most of them focus on accounting services and do not conduct audits. The majority of foreign institutional investors are from the Southeast Asia region, such as Viet Nam, Thailand and Singapore. One firm that has attracted a number of foreign institutional investors is Electricité du Laos-Generation Public Company (see Table 5).

Table 5. Selected shareholders of EDL-Gen

Name	Country origin	Number of shares held	Size of stake
Electricité du Laos	Lao PDR	919 662 992	75.00%
Ratch-Lao Services Company Limited	Thailand	71 136 243	5.80%
RH International Corporation Pte	Singapore	52 811 108	4.31%
Banque Pour Le Commerce Extérieur Lao	Lao PDR	28 762 552	2.35%
Krung Thai Bank Public Company Limited	Thailand	18 737 500	1.53%
NT Asian Discovery Master Fund	Thailand	12 257 587	1.00%
Dragon Capital Clean Development Ltd	Viet Nam	11 056 500	0.90%
Mekong Holding Ins	Viet Nam	6 212 699	0.51%
Thaveerat Proongpattanaskul	Lao PDR	5 003 600	0.41%
KT ZMICO Securities Company Limited	Thailand	3 989 189	0.33%
Other shareholders	--	96 586 795	7.88%

Source: Electricité Du Laos – Generation Public Company, March 2015

The Lao government has expressed its ambition to expand the capital market. The Strategic Plan on Capital Market Development for 2016-2025 states the aim of having 25 listed companies by 2020 and 60 listed companies by 2025. Awareness raising activities with companies and other stakeholders on the benefits of capital market access is a key component of this strategy. Additionally, the Lao authorities have expressed future plans to: i) explore the bond market, ii) introduce mutual funds, iii) extend trading hours beyond the current morning session, and iv) launch a new exchange for small and medium-sized enterprises (SME). To enhance the relationship with regional and foreign investors LSX has signed memoranda of understanding with the Hanoi Stock Exchange, the Ho Chi Minh Stock Exchange and the Stock Exchange of Thailand. Looking ahead, LSX aims to become a member of the World Federation of Exchanges and the ASEAN Trading Link.

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Annex 1. Drivers and challenges to capital market development in Lao PDR (excerpts from the Strategic Plan on Capital Market Development)

Drivers

1. The Party and the government have defined relevant guidance and policies related to the establishment and development of the capital market.
2. The government recognises the importance of capital market development and provides leadership on a continuous basis to the Lao Securities Commission (LSC).
3. The overall macro-economic situation is stable and supports capital market development.
4. The banking sector is developed and ready for conditions to support the operations of securities and the capital market.
5. The legal environment provides the prerequisite conditions for capital market operations.
6. LSC, LSC Office, LSX and concerned parties are committed to their responsibilities.
7. Public and private organisations, enterprises and the general public see the importance of capital market.
8. The international community supports and assists on a continuous basis.

Challenges

1. Securities products in Lao PDR are still in an early stage of development in terms of quantity, type and quality to provide long-term capital-raising.
2. The size of the securities market is small, with low liquidity and a low number of products, making LSX less attractive than other exchanges.
3. The settlement system for securities is challenging and the link between LSX, commercial banks and custodian banks is not well developed.
4. Financial intermediary institutions are limited in terms of number and type. Existing securities companies lack employees with the appropriate skills, lack of equipment and risk management experience. The income base for intermediary institutions is not large.
5. The investor base is small, and mostly consists of individual investors (98%), most of which are long-term investors. Only 20% of total investors are foreign, these have a large influence on trading volume in the second-tier market. The type of investors does not support the expansion of capital market over the long term. The level of financial education of investors is low.
6. A number of related laws and regulations do not support the development of the securities market in Lao PDR. The Law on Enterprise, for example, does not have clear provisions related to the establishment, management and operation of public companies. The Law on Tax, though it has been

revised to add a policy to encourage the listing of companies, is still lacking in that the definition of the policy for listed companies emphasises only domestic listings with no consideration for listing abroad. As for the Presidential Decree on the management of foreign currencies, there are no detailed provisions related to the flow of capital from securities transactions into and out of Lao PDR. In addition, many regulations such those on the management of securities products do not include the operations of listed companies and the operations of financial intermediary institutions.

7. The management of securities transactions remains underdeveloped. There is a need for better mechanisms and experience to monitor entities under the supervision of LSC, including for conducting investigations. Skilled human resources are limited.

8. The IT system for the securities supervision of the LSC Office is underdeveloped, as is the monitoring of unusual trading transactions, the statements of securities, and management and service for investors of securities companies.

9. Advocacy and dissemination is not broad enough and still face limitations, with regards to organisation, budget and human resources.

10. The capacity to integrate with ASEAN markets by 2015 is constrained in many aspects. Lao capital markets are not recognised by the international community. Lao PDR is not a member of IOSCO or the World Federation of Exchanges.

Source: Strategic Plan on Capital Market Development for 2016-2025 (Unofficial Translation)

Annex 2. Regulations related to the securities market in Lao PDR

No.	Title	Type	No.	Date
1	Law on Securities	Law	21/NA	10/12/2012
2	Decree on the Establishment and Operations of the Lao Securities Commission	Decree	188/PM	24/7/2013
3	Decision on the Establishment and Operations of the LSC Office (amended)	Decision	013/LSCO	17/12/2013
4	Decision on Regulation for the Issuance and Public Offering of Shares	Regulation	008/LSCO	21/7/2010
5	Decision on Regulation for Supervision of the Securities Exchange	Regulation	012/LSCO	10/11/2010
6	Decision on Regulation for Accounting and Auditing in the Securities Sector	Regulation	013/LSCO	10/11/2010
7	Decision on Regulation for the Supervision of Foreign owned share Transactions on the Securities Exchange	Regulation	012/LSCO	19/5/2010
8	Decision on Regulation for Information Disclosure	Regulation	014/LSCO	19/5/2010
9	Regulation on Internet Trading Supervision in Lao PDR	Regulation	001/LSC	24/7/2013
10	Regulation on the Establishment and Operations of Securities Companies (amended)	Regulation	002/LSC	24/7/2013
11	Regulation on the Transfer of Listed Shares	Regulation	006/LSC	20/9/2013
12	Regulation on the Inspection of Securities Related Activities (amended)	Regulation	002/LSC	18/2/2014
13	Regulation on the Capital Adequacy Requirements of Securities Company	Regulation	003/LSC	18/2/2014
14	Regulations on Supervision of Securities Professionals (amended)	Regulation	004/LSC	18/2/2014
15	Regulation on Reporting	Regulation	373/LSCO	24/2/2012
16	Regulation on Reporting and Disclosure for Listed Companies	Regulation	007/LSC	03/4/2014

17	Regulation on Custodian Banks	Regulation	010/LSC	07/5/2014
18	Notice on the Establishment, Development and Use of the IT Systems of Securities Companies	LSC Notice	371/LSCO	24/2/2012
19	Notice of the Lao Securities Commission on Implementation of International Financial Reporting Standards (IFRS)	LSC Notice	014/LSC	25/12/2013
20	Notice of the Lao Securities Commission on Capital Mobilization through Securities Issuance and Listing of Companies Abroad	LSC Notice	001/LSC	14/2/2014
21	Decision on Fees of Issuance of Corporate Bonds Abroad	Decision	011/LSC	07/5/2014
22	Instruction on Securities Codes	Instruction	112/LSCO	07/2/2011
23	Manual on Requesting to Establish a Securities Company	Manual	482/LSCO	27/2/2012
24	Guideline on the Shareholders Meetings of Listed Companies	Guideline	257/LSCO	03/3/2014
25	Guideline on Implementation of Regulation on Capital Adequacy of Securities Companies	Guideline	281/LSCO	06/3/2014

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