

# Lao PDR Bond Market Guide



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The ADB team bears responsibility for the contents of this report.

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Asian Development Bank (ADB) Team



# I. Overview and Instruments

## A. Overview

The Lao People's Democratic Republic (Lao PDR) domestic bond market is still in its early stages.

### 1. Development of the Market-Oriented System and Financial Sector Reforms

Since the introduction of the New Economic Mechanism in 1986, Lao PDR has been gradually moving from a centrally-planned economy toward a market-oriented system. It has planned a wide range of reforms, with the assistance of various supranational bodies such as the World Bank, Asian Development Bank (ADB), International Monetary Fund (IMF), and the European Union.

Financial sector reforms are one of the country's priority initiatives, with banking sector reforms the government's current focus. These reforms involve strengthening the operation and oversight functions of the Bank of the Lao PDR (BOL), and restructuring state commercial banks by improving their lending decisions and risk management systems. A number of legislative reforms to support financial sector development have been passed, including the *Decree Law on Foreign Currency* and *Decree Law on Commercial Banks*.

### 2. The National Socio-Economic Development Plan (2006–2010)

The sixth Five-Year National Socio-Economic Development Plan covered the period 2006–2010. It outlined the plans and strategies to achieve the targets set in the Ten-Year Socio-Economic Development Strategy. The sixth five-year plan focused on the following areas:

- Promoting economic development;
- Increasing competitiveness and utilizing comparative advantages; and
- Strengthening the positive linkages between economic growth and social development.

### 3. National Socio-Economic Development Plan (2006–2010)

#### Box 1.1 Extract from the National Socio-Economic Development Plan (2006–2010)

##### PART I: IMPLEMENTATION OF THE FIFTH NATIONAL SOCIO ECONOMIC DEVELOPMENT PLAN (2001–2005) (EXTRACT)

##### III. CONSTRAINTS AND LIMITATIONS

##### B. Monetary and Fiscal Management

##### 3. Financial Sector

The administration of financial sector policies has been slow in solving several issues. The monetary policy framework is limited and incomplete. It is mainly based on the obligation and issuance of bonds of the Bank of Lao PDR while credit and marketing officers may not yet use them. It is for such reasons that the sources of money and credit are restricted. The exchange rate management mechanism is not yet fully consistent with the actual conditions, thereby limiting the efficiency of its implementation. The use of foreign currencies in transactions by enterprises and the general population is still widespread.

The central bank has not yet been able to set indicative interest rates to guide the market. The administration and the setting of guidelines for market rates still encounter severe difficulties.

During the last two years of the Fifth Plan, interest rates on loans extended to economic entities remained substantially high although the rate of inflation declined significantly, thereby adversely affecting economic growth.

The financial market is developing within a limited scope. Credit is limited and meets only 15 percent of the requirements. The loan amortization periods are short and there is pressure on the operations of enterprises and the capacity of the commercial banks to recover loans. The volume of repayments overdue in the banking system is substantial and is concentrated mainly in the domestic commercial banks, which suffer from poor financial capacity and quality of transactions. High non-performing loans (NPL) are a drag on credit flow and high interest rates remain.

##### D. External Economic Relations

##### 2. Foreign Investment

Foreign investment increased at a slow pace. Investments in the agriculture, forestry and fisheries sectors and areas with difficult access are very limited. At the same time, the capacity to attract investments in the industrial sector remains low. The licensing process is time consuming and cumbersome. Foreign investors face many difficulties due to the insufficiently open investment environment, inadequate facilities, and the lack of consistency and predictability. The costs of inputs such as fuel, electricity, telecommunications and shipping are much higher than in many other countries in the region, restricting the competitiveness of Lao products and services and the attractiveness of the Lao PDR to foreign investors. Also, there are very few investors with the capacity to raise large volumes of funds from the regional and international economic groups.

One of the main causes restricting the growth of foreign investment in the Lao PDR is the insufficiency of skilled labour. Currently, skilled labour represents only 2 percent of the total labour force and is not able to meet the requirements of foreign enterprises which need highly skilled labour.

##### F. Limitations and Causes

##### 1. Limitations

Nevertheless, the economy of Lao PDR needs to overcome the following limitations:

The economic growth rate remains below the Plan target and has not met its full potential, while ODA is stable and remains significant, covering a major proportion of the national budget's development investments specifically and more generally of the total investments.

FDI sources have increased and cover a higher share of the total investment. Funding from enterprises, the domestic private sector and bank credit for investment remain low and are characterized by inward-looking self-sufficiency. Capacities in production, and the quality and efficiency as well as competitiveness are still low. The main types of markets are newly set up and less developed, especially the capital market;

There is a severe shortfall in revenues, expenditures are excessively high and the budgetary targets are not firmly maintained. Public debt—including domestic and foreign debt—incurred by the Government is overwhelming and the debts of enterprises are also substantial; and Many social issues are problematic, including the delay in the payment of salaries and very low salary packages for Government officials and people whose main income is from the Government budget. This fact is likely to result in the low quality of services provided by Government officials.



Box 1.1 continuation

## VI. MACRO DIRECTIONS

### C. Financial Sector

#### 1. Banking Sector

One of the important objectives in the financial sector is to continue to refine the legal framework for the banking sector to better meet the needs of the fast developing economy including its increasing international integration. Laws on Banking and credit organizations would be modified and supplemented to serve as the basis for the development of the capital markets. The financial capability of commercial banks would continue to be strengthened, with a move towards the full implementation of internationally accepted rules and standards on banking activities.

The operations of the commercial banks will be guided toward the provision of improved credit services to the economy based on the principles of safety, efficiency and self-sustainability.

Priority would be given to supporting the production, processing and marketing of key products/goods in the agriculture sector and in rural areas. The commercial banks will be encouraged to expand the provision of credit to profitable and effective projects.

The dynamism of the commercial banks will be improved by reducing the interventions by relevant authorities in their operations. Improvements will be achieved in the procedures and practices of commercial banks for the provision of loans. Monitoring and adjusting mechanisms in providing loans by commercial banks will be based on asset ownership (collateral). They will be encouraged to diversify monetary and banking services. The development of capital markets and foreign exchange trading among commercial banks will enhance the capacity of the state-owned commercial banks (SOCBs) including in lending.

The staff skills will be improved to support the activities of commercial banks and ensure strict monitoring and evaluation of the commercial bank system.

The Government will monitor SOCBs and enforce adherence to government agreements. There will be an examination of the accounting system to bring it up to international standards. There will be some changes in the classification of debts of the SOCBs based on international standards. Regulations will be enforced widely and these include shark loans, exchanges, guarantees and other conditions in order to allow creditors to collect their debts, including through confiscation and sale of the debtors' properties. There will be improved assessment of the creditworthiness of borrowers and increased monitoring of the loans by the banks to reduce loan losses. Transparency will be taken seriously in evaluating debt amounts accurately.

The Government is committed to recapitalise the state-owned commercial banks (SOCBs) through the provision of about 700 billion Kip [sic] in 2006 and 2007. The restructuring and strengthening of the SOCBs will continue, especially the three major ones (Banque Pour Le Commerce Extérieur Lao, the Lao Development Bank and the Agriculture Promotion Bank) building upon the results of the diagnostic financial audits of the institutions. The Government is also exploring the feasibility of partial privatization/joint ownership of the Lao Development Bank.

The Agriculture Promotion Bank (APB) will be transformed into a self-sustaining, market-oriented rural financial institution. A variety of micro-finance institutions will be encouraged.

The Policy Statement, the Industry Assessment and Action Plan developed by the Rural Microfinance Committee were endorsed in early 2004 by the Prime Minister's Office. The Policy and action plan aim to promote a sustainable development of microfinance industry by encouraging microfinance institutions to have diverse forms and ownership and discourage subsidized credits.

The judicial foundations and regulations to support the implementation of lending by SOCBs will be strengthened based on common policies, in order to eliminate free loans and investments that do not comply with commercial practices.

The BOL will continue improving and creating regulations related to, among others, the monitoring of the operations of the commercial banks and their loans based on their capital, assets, management, earnings and liquidity (CAMELs) ratios. There will be a study on the feasibility of initially putting in place an advance warning system, based on the Basel Principles, especially on forecasting the interest and profit trends, prices of services and the growth of loans. Monitoring of the SOCBs will utilize modern technology.

It is planned to assess BOL's capacity to pay interest on the mandatory reserves of commercial banks (and other financial intermediaries) deposited with BOL. The assessment is to be based on the revenue resources of BOL, derived through the management of foreign currency funds, and the effectiveness of the tools in the open-market operations and repayment operations.

The Government plans to gradually eliminate preferences for State-owned banks. At the same time, State-owned [sic] banks would be required to stop their direct involvement in the business activities of commercial banks. The banking services such as savings and loans will be developed further and the operations will be modernized adopting the e-transaction systems.

Investments in inter-bank settlement, credit payment mechanisms and the deployment of a number of new services will be increased. The financial services will be diversified and their quality and quantity improved, thereby increasing their contribution to the value added in the services sector. The

*continued on next page*

*Box 1.1 continuation*

communications modalities in the financial and banking systems will be modernised to make the services courteous and expeditious. The Government plans to develop and increase the quality of the people's credit system.

Regulations on peoples' credit funds (including Village Development Funds) will be announced to suit the special needs of the social economy and the population. Loans will continue to be provided for people to help build independent associations on the basis of volunteerism, self-reliance and self-motivation.

#### 4. Legal Framework

The drafting and finalizing of the legal framework that better fits the socialist-oriented economy of the Lao PDR and is in line with the commitments on integration and opening markets will be completed. This will help establish a base for business development in all economic sectors. It will ensure the systematic implementation of fair, consistent and stable financial sector policies across all economic sectors and groups.

#### 5. Financial Market Development

There will be a comprehensive plan to expand the financial market in the initial years of the Sixth Plan (2006–2010) in accordance with the directions of safety, tight management monitoring and benefit protection for all target groups, who invest in the Lao financial market. There will be a focus on developing a financial capital market first by referring to the contribution of resources into business activities including monetary, foreign exchange, property and other unique ways of conversion of resources into capital.

The financial markets will be expanded with transparency in short-term capital swapping and trading of currencies. Relationships between monetary and financial markets, policies, accounting management mechanisms and progress monitoring will be strengthened. The development of a market for State bonds is still at an initial stage. Research will be undertaken for improving market strengths through assessing the real returns (benefits). This will help reflect any turbulent changes in the market value of the State bonds. Several tasks will be implemented at the beginning of the Sixth Plan, such as conducting tenders for selling State bonds through Lao banks and targeted purchasers, obtaining approval of the National Assembly for a clear domestic borrowing (state bond selling) plan with the annual budgets, showing ownership, dividing the bonds into sub-groups, and informing commercial banks to maintain funds to purchase State bonds at the beginning of the year.

Research will help in the experiment of establishing a stock market in Vientiane Capital City [sic] by the end of the final year of the Sixth Plan.

#### D. Fiscal Management

##### 1. Fiscal Management

The overall objective is to implement a policy on sound State Budget striving for higher revenues and prudent expenditures. The fiscal policy will aim at increasing revenue mobilization to reach about 17–18 percent of GDP by 2010. Expenditure will be allocated more appropriately, carrying out measures to revitalize finance-budget activities, and to cut down the budget deficit to a safe ratio. Budget revenue collection performance will be increased with concerted efforts to improve customs and tax administration. Stronger monitoring mechanisms will be developed to monitor revenue collection and central-local coordination on revenue collection will be improved.

The measures to achieve the targets are to first establish a legal framework governing the state budget and finance including the following:

- (i) the amendment of the State Budget Law to enhance the powers and responsibilities of central and local authorities in budget management, with the clear decentralization of financial administration to ensure the decisive role of the central budget, and at the same time promote self-control at the local level;
- (ii) implement the revised Tax law and tax policies to ensure State budget revenues; carry out studies to modify tax-exemption policies to fit the current national context; and establish the necessary legal framework to ensure the collection of state budget revenues and create a development environment for the financial and capital markets; and
- (iii) widely disseminate (popularize) the relevant laws/regulations and coordinate closely with all relevant authorities to implement them. The budget administration should be considered a responsibility of the entire Government and the people.

Second, to firmly implement measures in budget management including the following:

- (i) on the revenue side, enhance revenue regulation, implement immediately measures to avoid revenue losses (in terms of both the number of tax-payers and amount of revenue), and definitely abolish arbitrary tax exemptions that do not comply with the law; and definitely terminate the provision of loans from the State budget or the Government underwriting of loans to state-owned enterprises (SOEs);
- (ii) on the expenditure side, line ministries and authorities would have to follow the spending plans in the budget approved by the National Assembly, with no entity or individual exercising the right to decrease budget revenue or increase expenses without jurisdiction; and in case there are ad-hoc expenses [sic], these would be covered by reallocation of spending to ensure budget balance;
- (iii) on investment capital, continue to implement the approved or to-be-approved foreign-assisted projects; with the selection and signing of only the priority FDI projects, and allocate sufficient counterpart funds for such projects; and repay (capital construction) debts; and
- (iv) on regular (recurrent) spending, review expenditure items and establish spending criteria that match the national context and the budget, which will serve as a basis for cutting down subsidized expenses.

*Box 1.1 continuation*

Improve the salaries of civil servants, and prioritise education, training and social activities.  
Adapt specific measures for savings in expenditures, especially in administrative expenses.

Third, it is agreed that the Ministry of Finance will take the lead role in managing foreign debts. Localities (Provinces, Municipalities and Districts) are not permitted to borrow from foreign countries. It is essential to promptly settle public debts to revitalize financial and budget activities. Adequate budget will be allocated to service foreign debts according to the commitments. Relevant authorities would be proactive in negotiating debt conversion (including write-off), extension of repayment period, reduction in interest rate, etc., especially on loans for re-lending. Also, domestic debts will be classified and proper measures will be taken to solve current debts and prevent a rise in debts.

Fourth, monitoring against the loss of State revenues, properties and expenditures will be strengthened. The enforcement of financial discipline will be further enhanced, strictly dealing with cases that break regulations on the management of budget receipts and payments, for example, tax-exemptions not according to jurisdiction, slow payments to the Treasury, and spending beyond the mandate of policies and regulations.

Fifth, the decentralization mechanism in terms of budget management between central and local authorities will be renovated and refined to improve the State management of finance.

The limited State budget resources and a lack of tight financial discipline require the reorganization of the tax and fee collecting organizations and the State budget management organizations (State Treasury) aimed at receiving the right and full amounts of taxes and fees on time. Firstly, Customs and the State Treasury in the Ministry of Finance would be organised systematically from the centre to the localities, with the centre responsible for overall management, including the number of personnel and salaries. The tax collection organizations will be made accountable for the loss of revenues from taxes. As indicated earlier, the Budget Law will be modified, decentralizing the revenue resources between the centre and the localities. Basically, branches of the central tax organization would be in charge of collecting all the tax receipts of the entire centre and those decentralized between the centre and local budgets. Tax offices of the localities in the Department of Finance will be in charge of collecting the local tax receipts. The budget will be managed effectively with adequate controls on the receipt and payment activities of organizations and localities.

The fiscal sector including Customs and Treasury will be modernized in order to improve the effective management of state budget activities. The training of financial staff will be strengthened as indicated in fiscal budget management for the entire country in the next stage.

Domestic resource mobilisation has to be increased. Bottlenecks will be removed to increase domestic investment and to develop a competitive market. The institutions needed to better enforce contracts and other property rights have to be developed. These are essential prerequisites for developing an effective financial system. Remittances from overseas Lao Nationals and workers will be encouraged.

## **VII. THEMATIC AND CROSS-CUTTING AREAS**

### F. Private Sector Development

#### 2. Specific Strategies

Some of the main areas contributing to the enhancement of the business environment have been identified:

- a) enabling policies, regulations and practices,
- b) improvements in the legal framework,
- c) information and consultation,
- d) a more favourable macroeconomic environment, and
- e) improved coordination and management capacity.

These are discussed briefly in the following:

- a) Policies, Regulations and Practices

Policies will be drafted and issued aiming at facilitating the rapid development of the private sector, including businesses of all types and sizes. The private economic sector will be supported via an equal and fair business environment for both private and state enterprises.

The business law has to be finalised, implemented and enforced. There will be immediate action on the promulgation of the law against monopolies and barriers that confront enterprises. Private enterprises do not have to obtain any further permission certificates when there is equality in operation based on rules and decrees regarding a list of permission certificates. Procedures of application and other unnecessary restrictions will be limited to build connections among state organizations and to increase outside enterprises entering the markets (e.g., enterprise registration, procedures for obtaining official stamps, tax registration, leasing land for operating business and conditions for applying for loans).

*Box 1.1 continuation*

The administrative application system for business activities of enterprises within the private economic sector will be reformed. There will be a reform of the procedures such as monitoring, calculation and enterprise accounting in order to facilitate activities and increase the effectiveness of monitoring. The Government will continue the public administration reform related to business operation, improving the efficiency of monitoring and evaluation works toward creating more favourable conditions for all types of businesses. Policy makers need to respond quickly in taking concrete measures to reduce barriers to business investment.

Government administration and organizations will be disciplined to prevent the rejection of business applications. There will be an experiment to transfer the application processes to business associations and capable sectors. Regulations of the three business coordinating organizations will be announced. Regulations on such aspects as business registration, official stamp management and customs will be disseminated. Information on enterprises will be supplied to banks as a reference for granting loans. There will be an experiment on enterprise services to assist banks issuing limits on their loans. There will be campaigns on collecting funds for growing investment through selling enterprise, state and Vientiane (municipal) bonds.

The priority is to reform the regulations and administrative constraints that give rise to monopolies, such as expanding the number of tourist operators permitted to establish in a province, lifting restrictions on movements of goods between provinces and not limiting provincial contracts to local firms. Relevant Government agencies should be charged with studying and taking action to increase competition in priority areas, such as transport, logistics and freight handling. Discrimination between the state and the private sectors will be eliminated. The Government will complete the granting of land-use certificates and ensure land-use-related rights to businesses. It will review and revise the credit and banking policies with a view to expanding the target group and simplifying loan provision and allocation procedures. The overall business information system will be established and strengthened to support business operations as well as assist Government authorities in terms of monitoring and evaluation.

Small and medium enterprises (SMEs) will receive special attention and appropriate legal frameworks will be put in place at least by the end of the Sixth Plan (2010). The Prime Minister's Decree on the Promotion and Development of Small and Medium Sized Enterprises (No. 42/PM) issued on 20 April 2004, provides the overall framework for defining the directions and policies, establishment of SME support fund and support organizations, and regulations, practices and measures to promote and develop SMEs in the country. The Decree identified six priority policy areas for SME promotion and development:

- (i) creating an enabling regulatory and administrative environment;
- (ii) enhancing competitiveness;
- (iii) expanding domestic and international markets;
- (iv) improving access to finance;
- (v) encouraging and creating favorable conditions for establishment of business organizations; and
- (vi) enhancing entrepreneurial attitudes and characteristics within society.

Support to SMEs will be strengthened. Traditional handicrafts will be developed and handicraft villages will be built to create jobs, generate income and develop the nonagricultural sectors in rural areas.

b) Legal Framework Improvement

The Government will promote the drafting and finalizing of the legal framework that better fits the socialist-oriented economy of the Lao PDR. This will help establish a base for business development in all economic sectors. The country will have a comprehensive legal system, which is a factor for effectiveness in a market-oriented economy. Legal procedures will be rationalized and improved with declaration, enforcement, dissemination and serious studies. There will be research done to adjust, improve or add some details to the existing legal system, especially in the areas of commerce, bankruptcy, enterprise, labour, credit, state budget and land acquisition, to suit the objectives of implementing the socio-economic strategy and of participating in the international economy. New laws will be formulated to suit the development objectives and facilitate participation in the international arena.

The judicial system will be based on equality for facilitating foreign and domestic investments, in relation to building a stable environment and equity in business-production.

The regulations and policies on investments will be implemented to suit each objective.

Judicial documents will be improved in order to prevent documents that are against overall regulations. There will be transparency in the application procedures, and administrative mechanisms will be based on a one-stop corridor window at the central and local levels for foreign investments.

The law related to competition will be announced in order to encourage state-owned enterprises (SOEs) to receive fair competition. For monopolistic enterprises, the Government will have rules to monitor pricing and benefits.

The establishment of a central register of all legal documents and instruments related to private sector development is a high priority. A Registry of Secured Transactions has been established in the Ministry of Finance and will require technical support for making it functional.

### 3. Foreign-Invested Sectors

*Box 1.1 continuation*

A favourable environment will be created to attract foreign direct investment (FDI), especially from the main companies in Asia. It is necessary to be aware that FDI is an organic part of the economy and will be further developed in parallel with the country's socioeconomic development process. The present situation of the Lao PDR indicates that foreign investments have played a key role in developing the country's economy and they will be major factors for development in the next decades. Despite the abundance of natural resources in the country, the discovery and utilization of such resources has not been made due to the lack of funds, skilled labour and management capacity. If the country manages to explore and utilize these resources, it will strengthen commodity production.

In general, there are limitations in attracting foreign direct investment due to the lack of a domestic workforce with technical capacity. Human resources development requires an extended period of time. A solution at the initial stage may be to import international labour required to support projects receiving foreign direct investments. Clearer labour policies will be issued to promote the private sector and foreign investors to invest more capital in developing the industries. Foreigners working for enterprises investing in the country have to contribute to commodity production. Employees and technical workers are urged to prepare for meeting the needs of foreign investments. Thus, there is an urgent need to train technical workers.

The Sixth Plan (2006–2010) will translate programmes into actions and methods for economic development that incorporate foreign investments. There will be an immediate materialization of laws related to foreign investments. The 5th National Assembly already made some changes to the mechanisms, policy, plans, procedures for granting investment permits, etc. These will be monitored regularly for further improvement and to enlarge the investment environment. This will create fast investment procedures, which will become simpler. Based on occupation types and regional specialty, a development plan will be determined in order to attract foreign investment. For example, foreign investment will be attracted in hydro-electricity, mining, food processing, cattle rearing and export industries.

A list of projects that require foreign investment will be compiled within each period of the five-years [sic] in relation to the granting of foreign investment permits. A supporting committee will be assigned to inform potential investors in capable countries to attract foreign investment. Major cities should set up meetings for discussion and report on the foreign investments that suit the capacities, strengths and priorities of the local people as well as the country. Senior Government leaders should arrange meetings with local and international investors/enterprises to receive feedback, in order to improve the public investment environment. The difficulties that confront the enterprises should be addressed and solved immediately in order to encourage and facilitate production and business operations. Regular budgets will be injected into enterprise activities to enhance integration, discussion and assistance, solving difficulties that confront foreign investors.

The Government will conduct regular assessments of enterprise business operations for every economic sector (e.g. [,] private and state sectors), and has policies to reward people with great achievements with medals. Regulations and services will be improved and disseminated in order to simplify investment, and shorten the time for granting investment permits. The effectiveness of investment promotion will be improved and there will be a new method to gain awareness about investments with ownership and suitability for local conditions and types of enterprises. The policies on investment priorities will be reviewed, including the regulations on granting investment permits, especially land acquisition fees, transportation and telecommunications service charges and others, to build a more favourable investment environment in the Lao PDR. Projects with permission can be implemented immediately and new project registration will be speeded-up.

Directions on minimizing service costs will be extended in order to obtain equal returns from both domestic and international investments. Land acquisition fees and some previous exemptions will be reviewed. Procedures and administrative permits relevant to foreign investments will be improved and the time involved for granting permits will be shortened.

There will be open registration for investments and a limitation on certificates that are barriers to foreign investments.

#### 4. Targets

- Reform the laws and regulations involved in setting up enterprises and streamline the process;
- Finalisation, implementation and enforcement of the implementing regulations for the Business Law;
- Improve the quality and professionalism of public service provision;
- Increasing transparency;
- Hold regular meetings between the central and local level Government and the private sector;
- Reform regulations and administrative constraints that give rise to monopolies such as: lift restrictions on the movement of goods between provinces; and abolish limitations on restricting provincial contracts to local firms;
- Lift some restrictions on foreign workers;
- Reform the tax system, setting up proper monitoring agencies;
- Increase foreign investment;
- Continue to develop regulations and business operation laws and improve the business licensing processes; reduce unnecessary procedures; and increase fast and convenient services to businesses and entrepreneurs;
- Promote the establishment of enterprises, cooperatives and family businesses in all areas permitted by the Government; Increase people's access to financing.

*continued on next page*

Box 1.1 continuation

## IX. Implementation Measures

### B. Key Measures

The key measures are as follows:

#### 1. Implementation of the Market Economy:

Continue the implementation of the socialist multi-economic sectors, establish various types of markets, and create the enabling conditions for investment in the production sector by the enterprises and the people.

#### a) Implementation of the multi-sectoral economy development policies:

##### (i) State-Owned Enterprises (SOEs)

In order to improve the performance and effectiveness of SOEs, there is an urgent need for implementation of the resolutions of the Party and the Government on urgent restructuring, reform and development of the enterprises. In the five-year period, the focus will be on the following goals and key measures:

- Complete the restructuring and reform of the SOEs from the central to the local levels. Maintain some selective key SOEs that play leading roles in the basic national economy. At the first stage of the Sixth five-year Plan, there is a need for rapid assessment to take firm action on abolishment, announcement of bankruptcy or change to other forms of ownership of those SOEs that are operating at low efficiency or inefficient;
- Formulate a comprehensive legal framework for the business management of the SOEs based on the independent financial movement;
- Improve the application of modern technology in the management of SOEs. The newly established SOEs should have comprehensive conditions based on the standards set by the sector, region and the key geographical areas. The establishment of new SOEs should be in the form of integrated enterprises, share holding companies and limited companies;
- The mechanisms and regulations that enhance the competitiveness among the state-owned business units following the market mechanism and provide a level playing field for all economic players should be established. Attention will be paid to monitoring to avoid the monopoly by the state-owned businesses. Improve the role and responsibilities between the administrative management and business management in order to make the ownership of running the businesses under the control of the state and the laws. Improve the accounting, auditing and financial reporting systems. Implement the reform of business and financial enterprises to be more transparent and accountable. Improve the effectiveness and efficiency of the state management, particularly the government sectors that own the SOEs. The state ownership and the business management rights of the government sectors, and the rights to run the businesses by the SOEs should be clearly defined. The direct intervention of the state administration in the business activities of the enterprises should be eliminated. Increase the efficiency of state monitoring on behalf of the owner of the SOEs. Increase the role of legal bodies and civil society in monitoring the state administration from the central to the local levels. Develop plan for expansion and building the business partners in SOEs. Prior to the appointment of the Director of any SOE, training should be provided to the candidate to upgrade the technical knowledge.

##### (ii) Domestic Private Sector

Actively promote the domestic private (economic) sector based on the equal and fair business environment (level playing field) for both private and state enterprises. Enhance the creativity in running businesses under the legal framework. Promote the model family in family businesses that lead to small- and medium-scale enterprises.

Improve the mechanism and the process so that the obligations of the domestic private sector to the state, such as the payment of land tax, should be centralized, simplified, accountable and transparent. Formulate the regulation on free information sharing services by the Government and the establishment of professional associations.

Review and remove all barriers to the domestic private sector business movement to ensure the legal independence of the business movement. Improve the speed of issuing the certificate permission process through single entrance ("one-door or one-stop"). Improve the monitoring, accounting and auditing of the enterprises following the policy on creating enabling conditions for enterprises, while at the same time improving the effectiveness and efficiency of the monitoring system.

Improve the import-export conditions and the processes to create enabling conditions for small-scale businesses to have better opportunities to legally produce unlimited quantities for export. Promote the participation of some types of businesses in the exposition of goods in the country and abroad.

Create and enhance the facilitating conditions for local authorities at each level to regularly meet and exchange views with the business units for problem-solving [sic] and necessary information sharing such as the market for their products, prices and other issues.

Attention will be paid to the development of small- and medium-scale businesses; expand the enterprise forms in the traditional professional sectors, non-rural agricultural sector and the establishment of model villages with special provision for job creation. Study the possibility of providing credit to help investors and businesses of all economic players (sectors), especially the small and medium scale businesses. The Government should provide assistance for training and technology transfer, credit schemes and market information sharing.

continued on next page

*National Socio-Economic Development Plan (2006–2010) continuation*

Establish the system of “budding entrepreneurs” and revolving funds for the start-up of new businesses focusing on the need for increased investment in the business development services. Special attention should be paid to the development of the services in the areas of accounting, auditing, research, design, market analysis, technical consultation and technology transfer.

Establish and improve policies and mechanisms to create facilitating conditions for enterprises to be self-reliant (master) in expanding their businesses through the accumulation and mobilization of capital in the market.

(iii) Economic Areas with Foreign Investments

Create a comprehensive facilitation to attract foreign direct investments, particularly from the main multi-national [sic] corporations in Asia. Formulate comprehensive administrative regulations and allow foreign workers to work within our country, which is an important factor contributing to boost commodity productions. Meanwhile, it is necessary to encourage and promote the Lao workforce that already has capabilities to work in other projects. In parallel, it is necessary to urgently train more domestic technical workers.

Attract many forms of investment in many types of businesses. Open the investment sector to foreign investors. Promote and encourage private foreign investors and the Lao people living abroad to invest in commodity production in order to replace imports and contribute to the development and expansion of the market. In parallel, it is necessary to provide services in science and technology, protect intellectual property rights, and provide consulting services to serve the businesses and others.

Study the regulations on admission of foreign investors that have licenses to undertake (perform) their businesses in our country to be able to use documents for land utilization as collateral (a secured property) to borrow money from financial institutions, with the investors showing other assets (properties) to provide adequate guarantee to the Government.

Study the incentives that impact on cost reductions in commodity production and lower the prices of goods enabling the country to compete with others, such as the exemption of taxes or adjustments in land leasing costs. It is necessary (required) to take into account the establishment of mechanisms and policies to manage foreign investments in a simple manner and via the “one corridor” policy from central to local levels. Continue to discuss with and find out from both domestic and foreign investors the difficulties in operating their businesses, in order to seek timely measures for problem solving.

b) Creating incentives for comprehensive market development

(i) Financial Markets Development

It is necessary to start work on the development of the financial markets at the initial stage of the Sixth Five-Year Plan, in compliance with the strategic content of the Plan. This includes the development of the stock market, money market, capital market and immovable property (including land or real estate) market in a comprehensive manner, guaranteeing their regular and safe operation to ensure the growth of the markets step-by-step.

Enhance the self-reliance of the business operations of the state-owned commercial banks.

Minimize the intervention of bureaucratic hierarchy in the provision of loans by the commercial banks. Improve the mechanisms for the provision of loans and ensure that the pledging of collateral (procurement of secured properties) is in accordance with the direction of enhancing the self-reliance.

Establish strong regulations to control monetary-financial markets in order to facilitate foreign exchange operations and the transfer (trading) of money in the market to be simple and transparent, while monitoring the movement of the volume of currencies in the market to be consistent with sound monetary management.

Strongly study the development of the bond market, setting forth the interest rate to be consistent with the changing situation and the trading within the bond market. Terminate the sale of government bonds to commercial banks to solve the problems of triangle debts (of SOEs). The sale of government bonds should be through open bidding through the banks, with the bond buyers providing clear certificates on their financial status. The Government should have an active role in selling bonds and have detailed plans on expenses by period (year) and should publicly declare the plans to enable the commercial banks to balance their capital sources and buy the bonds.

Consider developing the state-owned banks in order to enable the Government to supervise and monitor the performances of the monetary-financial system to be more transparent in solving doubtful debts through auditing of the accounts and the categorization of debts in accordance with international standards.

Study and experiment to establish the property market and stock market in Vientiane Capital [sic] towards the end of the Sixth Five-Year Plan period.

Source: Government of Lao People's Democratic Republic

## B. Debt Instruments

### 1. Government Debt Instruments

In 1994, a directive was passed approving the issuance of Treasury-bills to help finance the budget deficit. The Government issues Treasury-bills on a regular basis to finance the country's budget deficit. The Government also issues arrears clearance bonds to clear government debt from state-owned enterprises (SOEs). A core goal of the Lao PDR's bond market development is to establish primary and secondary markets for government securities.

### 2. Bank Bills

The Bank of the Lao PDR (BOL) began issuing Treasury-bills in 1992 in an effort to manage the exchange rate and address excess liquidity.

### 3. Corporate Bonds

The Government is drafting amendments to the *Enterprise Law*, which was passed in 2006, that will support future corporate bond market development.

## C. Lao People's Democratic Republic Stock Exchange—History, Mission, and Vision

### 1. History

The Lao PDR formally established its stock exchange, the Lao PDR Stock Exchange (LSX), in January 2011. In addition, the equities market was opened in July 2011. The Sixth Session of the National Assembly has adopted the five-year national socioeconomic plan from 2006 to 2010 that includes the establishment of the LSX at the end of 2010. The government authorized the Bank of the Lao PDR to implement such plan by appointing the General Leading Committee on LSX's establishment, consisting of His Excellency Somsavat Lengsavad, Standing Deputy Prime Minister and chairman of the General Leading Committee; Phouphet Khamphounvong, Governor of the BOL and vice chairman of the committee; and other deputy ministers as members of the committee.

On 19 September 2007, a Memorandum of Understanding (MOU) was signed between BOL and the Korea Exchange (KRX) in Seoul, Republic of Korea. H.E. Somsavat Lengsavad appointed the Securities Market Establishment Committee (SMEC) on 22 January 2008 to implement the project under the advice of Mr. Phouphet Khamphounvong. A Joint Venture Agreement between the BOL and KRX, which was in effect up to the end of July 2009, stipulated the 51% and 49% share of BOL and KRX, respectively.

The LSX was officially opened on 10 October 2010, which was presided over by H.E. Somsavat Lengsavad as the Standing Deputy Prime Minister and Chairman of the SEC, together with the governor of the BOL; the delegation from KRX; Mr. Dethphouvang Moularat, chairman and chief executive officer of the LSX; members of the diplomatic corps; representatives from the People's Republic of China; executive officers of the Vietnam Stock Exchange; representatives from the Securities Exchange of Thailand; and other related sectors. The LSX is the first capital market in the Lao PDR, which will attract huge capital to develop the nation and raise the long-term



funds for companies, and also promote the integrity of Lao financial market. Thus, Lao Government deems it necessary to establish the capital market to mobilize the long-term funds required for developing and expanding manufacturing and services sustainably.

## 2. Long-Term Strategy of the Lao PDR Stock Exchange

The LSX is envisioned to move toward becoming a stock exchange adhering to international standards. Its mission is to provide up-to-date and modern services characterized by transparent practices.

Opening the LSX is seen to propel economic development and offers new opportunities to individual, institutional, and/or foreign investors. Thus, the establishment of the securities exchange enables Lao PDR to become the economic center of Indochina.

The Aim of Comprehensive Services in 2020:

- Cultivate employees to be moral, and to be experts in their technical skills and knowledge to provide appropriate services to investors.
- Give knowledge on investment to investors and potential listing companies to raise funds through the stock market by on-site training and through the media.
- Testing the information technology system for guaranteeing its quality to be ready for short-term and long-term securities trading services.

It is intended to list (corporate) bonds at a later stage.

## II. Participants

As the Lao PDR takes steps to establish its capital market, several key participants are involved in the effort:

- The BOL has the authority to issue bills and bonds to manage the exchange rate and liquidity in the economy. BOL is also responsible for licensing and overseeing financial institutions.
- The Department of Domestic and Foreign Investment (DDFI) is a one-stop service that oversees investment licensing and manages investment promotion.
- Social security organizations such as pension funds, insurance companies, and other non-bank financial institutions (NBFI) have recently started to invest in bonds. Insurance companies and social security organizations will likely be major investors in the LSX. For instance, the Social Security Organization (SSO) of Lao PDR oversees employees' social security funds and began investing in Treasury bills (T-bills) in 2006.
- Other key participants in the financial sector include state commercial banks, private banks, foreign bank representative offices, and the National Treasury under the Ministry of Finance (MOF).

# III. Legal and Regulatory Framework

Lao PDR's capital markets are still in the early stages of development. Rules and regulations concerning the financial market are mainly supervised by the BOL and MOF. Details on regulatory agencies are discussed in this section.

## A. Regulatory and Supervisory Framework

The BOL is the country's central bank and is responsible for licensing and supervising banks. The MOF, on the other hand, serves as the tax authority and has the authority to prepare the government budget including the issuance of government securities. The DDFI, formerly the Foreign Investment Management Committee (FIMC), administers the foreign investment system.

Lao PDR formally launched its stock exchange, LSX, in January 2011. The LSX opened with the listing of two companies—the Electricite du Laos Generation Company and the Banque Pour Le Commerce Exterieur Lao. LSX is responsible for making the listing rules.

### 1. Ministry of Finance

Under the *Decree on the Organization and Activities of the Ministry of Finance (No. 80/PM, 28 February 2007)*, MOF is the authority responsible for any matter relating to the financial sector as provided in Art. 2.10 and 2.11.<sup>1</sup> It oversees state banks, the insurance business, commercial banks, lottery business, and accounting, auditing and other financial services.

### 2. Bank of Lao People's Democratic Republic

BOL, as the central bank, has regulatory authority to license and control commercial banks, the banking system, money supply, and foreign currency exchange. It is responsible for issuing licenses to establish banks and other financial institutions. The

<sup>1</sup> Art. 2.10 states that the MOF "oversee(s) the State Banks; participate in research to resolve banking problems related to the public finance, research on currencies, credits and stocks market in order to fulfill its function on financial management regarding banking-monetary credits." Art. 2.11 provides that the MOF "oversee(s) insurance business, commercial banks, lottery business, accounting auditing and other financial services; co-manage the sale of treasury bills/bonds and various types of social insurance."

*Law on Bank of the Lao PDR No. 05/NA* approved on 14 October 1999 and the *Decree on the Organization and Activities of the Bank of Lao PDR No. 40/PM* issued on 6 April 2000 give the BOL the duties and authority “to establish and improve the state and commercial banking system for sustainable growth” and “to manage and inspect the activities of all banks and financial institutions under the authority in order to ensure the stability and expansion of the banking system and the financial institutions.” Art. 4, Part II of the *Law No. 5 on the Bank of the Lao PDR* dated 14 October 1995 defines the scope of rights and duties of BOL.

*Part II Scope of Rights and Duties of the Bank of the Lao PDR*

(New) Article 4: Scope of Rights of the Bank.

The Bank of the Lao PDR shall have the following rights:

1. Has the sole right to issue notes and coins with the approval of the Government and manages the currency circulation within the country;
2. Administers the macro monetary and shall be the bank of the commercial banks and financial institutions under its supervision and shall be the final lender to such commercial banks and financial institutions with the objective to implement the monetary policy;
3. Implements the policy on foreign currency control and exchange rate;
4. Issues its own bonds with the objective to carry out monetary policy, buys and sells bonds directly with other commercial banks and financial institutions;
5. Authorizes the establishment of branch of the Bank of the Lao PDR, the establishment of local commercial banks foreign commercial banks, financial institutions under its supervision based on the approval of the Government.

Both MOF and BOL have cooperated when necessary. As an example, BOL watches the economy and monetary conditions, and advises MOF regarding the level of ceiling rate for T-bills to be auctioned.

### 3. Department of Domestic and Foreign Investment

Operating under the Prime Minister’s Office, the DDFI administers the foreign investment system and reviews investment applications. Its primary functions include: promoting Laos as an investment destination, screening investment proposals, offering investment incentives, and facilitating foreign investment.<sup>2</sup> To support and encourage investment, the government offers incentives to investors in various forms, including reduced corporate profit taxes, reduced duties and turnover taxes on imported capital equipment and inputs to production, and investment permissions and guarantees. The main laws governing the promotion of investment are the *Law on the Promotion and Management of Foreign Investment* (1994), *Law on Domestic Investment* (1995), *Business Law* (1994), *Customs Law* (1994), and *Tax Law* (1995). The DDFI is designed to offer “one-stop” service to foreign investors by providing information and assistance during the investment process.

<sup>2</sup> Government of Lao People’s Democratic Republic (Lao PDR). 2004. *Law on the Promotion of Foreign Investment*. <http://www.invest.laopdr.org/investlaw04.pdf>

## B. Laws and Decrees on the Financial Sector

Major laws and decrees related to the licensing/registration of the financial sector are listed below:

**Table 3.1 Laws and Decrees on the Financial Sector**

Jurisdiction	Name of Legal Document	Enacting Authority	Date Enacted and Latest Amendment
Bank of Lao PDR	Commercial Banks Law (No. 03/PSA)	National Assembly	26 December 2006
	Decree on Activities of the Commercial Banks Law (No. 275/PR)	National Assembly	25 September 2009 (Amended)
Commercial Banks	Presidential Decree Law on Commercial Banks (No. 02/PR) <sup>a</sup>	President	22 March 2000
Insurance Business	Insurance Law (No. 11/90/PSA) (This law is being revised and will pass through the National Assembly for consideration.)	National Assembly	29 November 1990
NBFI (Non- Bank Financial Institution)	Prime Minister Decree on Pawnshop (No. 10/PM)	Prime Minister	2 February 2002
	Prime Minister Decree on Leasing (No. 11/PM)	Prime Minister	18 February 1999
SEC	Decree on securities and securities exchange No.255/PM <sup>b</sup>	Prime Minister	24 May 2010

NBFI = Non-Bank Financial Institution; SEC = Securities and Exchange Commission  
<sup>a</sup> See <http://www.bol.gov.la/english/decreecom1.html>  
<sup>b</sup> See Appendix 2. A translated copy of the decree can also be found in the BOL website. [http://www.bol.gov.la/english/PM%20Decree%20on%20Securities%20and%20Securities%20Exchange\\_EnglishTranslation.pdf](http://www.bol.gov.la/english/PM%20Decree%20on%20Securities%20and%20Securities%20Exchange_EnglishTranslation.pdf)  
Sources: Bank of Lao PDR (BOL); Ministry of Justice; Ministry of Finance :

## C. Laws and Regulations on Financial Transactions

Major laws and regulations related to the financial transactions are listed in Table 3.2 while details on the regulations of the LSX can be found in Table 3.3.

**Table 3.2 Laws and Decrees on Financial Transactions**

Financial Transactions	Name of Legal Document	Enacting Authority	Enacted Date and Latest Amendment
Banking	Commercial Banks Law (No. 03/PSA)	National Assembly	26 December 2006
Cheque	Prime Minister Decree on Cheque (No. 175/PM)	Prime Minister	22 October 1996
Secured Transactions	Prime Minister Decree on the Implementation of the Law on Secured Transactions (No. 171/PM)	Prime Minister	21 September 1999 Amended May 2005
	Law on Secured Transactions (No. 07/94/NA)	National Assembly	14 October 1994
Insurance	Insurance Law (No. 11/90/PSA)	National Assembly	29 November 1990
Foreign Currency Exchange	Presidential Decree Law on Governing the Management of Foreign Exchange and Precious Metals (No. 01/OP) <sup>a</sup>	President	9 August 2002
SEC	IPO regulation	Deputy Prime Minister	No. 008/SEC 21 July 2010
	Agreement on market securities management		No. 012/SEC 13 November 2010
	Agreement on regulation establishing and activities of a securities company		No. 009/SEC 21 July 2010

*continued on next page*

Table 3.2 continuation

Financial Transactions	Name of Legal Document	Enacting Authority	Enacted Date and Latest Amendment
	Agreement on managing regulation [of] foreign investors in market securities at Lao PDR	No. 012/SEC 19 May 2011	
	Agreement on opening information regulation Agreement on supervising security professionals	No. 014/SEC 19 May 2011	
	Agreement on audit and accounting regulation supervising security	No. 013/SEC 10 November 2010	
LSX	Regulation on market securities <sup>b</sup>		

IPO = initial public offering; LSX = Lao Securities Exchange; SEC = Securities and Exchange Commission  
<sup>a</sup> For full text, see <http://www.bol.gov.la/english/decrees01eng.pdf>  
<sup>b</sup> For list of regulations, see <http://www.lsx.com.la/rules/regulations/listPosts.do?lang=en>  
Sources: Bank of Lao PDR (BOL); Ministry of Justice; Ministry of Finance

Table 3.3 Details of Lao Securities Exchange Regulations

Regulations	Purpose	Date
Membership Regulation	The purpose of this regulation is to stipulate the matters necessary for membership qualifications, admission and withdrawal, as well as obligations of members, and supervision of the members of the LSX established pursuant to the Government Decree on Securities and Securities Market.	22 April 2011
Market Operation Regulation	The purpose of this regulation is to stipulate matters necessary for the trading of securities in the securities market that the LSX has established pursuant to the Government Decree on Securities and Securities Market.	22 April 2011
Clearing and Settlement Regulation	The purpose of this regulation is to stipulate the matters necessary for clearing and settlement in the securities market that the LSX has established pursuant to the Government Decree on Securities and Securities Market.	22 April 2011
Deposit Regulation	The purpose of this regulation is to stipulate the matters necessary for depositing and transferring of securities in the LSX pursuant to the Government Decree on Securities and Securities Market.	22 April 2011
Securities Transfer Agent Regulation	The purpose of this regulation is to prescribe the contents and procedures to provide securities transfer and related services as an agent in accordance with the Decree on Securities and Securities Market.	22 April 2011
Listing Regulation	The purpose of this regulation is to stipulate the matters necessary for the listing of securities in the LSX pursuant to the Government Decree on Securities and Securities Market.	22 April 2011
Disclosure Regulation	The purpose of this regulation is to stipulate the matters necessary for reporting, disclosing and managing corporate information by corporations that has listed their stocks and corporate bonds on the LSX pursuant to the Government Decree on Securities and Securities Market. The details of this regulation can be found in Appendix 3.	22 April 2011
Surveillance Regulation	The purpose of this regulation is to stipulate the matters necessary for the surveillance, investigation into abnormal trading activities and inspection of members in the securities market and the follow-up actions according to the Government Decree on Securities and Securities Market.	22 April 2011

Note: LSX = Lao Securities Exchange  
Source: Lao Securities Exchange.

The *Commercial Banks Law* allows banks to issue and trade securities, provided that the investment on securities in the securities market is not more than 15% of the regulatory capital. This is also referred to in the agreement on investment in securities of micro-financial and commercial banks (No. 160/BOL) dated 21 February 2011 under *Presidential Decree Law on Commercial Banks*, which allows banks to trade securities.

## D. Legal Framework of Securities Issuance

### 1. Government Securities

The issuance of government securities is stipulated under the *Budget Law*. In order to issue government securities, the National Assembly shall approve the maximum volume of issues in advance as part of the budget.

### 2. The Bank of the Lao PDR

The BOL can “[issue] its own bonds with the objective to carry out monetary policy, buys and sells bonds directly with other commercial banks and financial institutions” as mandated by Art. 2, Part 2 of *Law No. 5* dated 14 October 1995.

### 3. Corporate Bonds

Decree on Securities and Securities Exchange No. 255/PM

Part I General Provisions

Article 3. Definitions of Terms

Defined terms in this Decree shall be interpreted as follows:

1. “Bond” means a long-term debt security such that the bondholder has legal rights as guaranty to get paid back their invested principal with interest as agreed.

Part III

Securities Issuance and Public Offering

Section 1

Securities Issuance

Article 15. Criteria for securities issuance

Any companies established in accordance with Lao Enterprise Law, wishing to issue securities for public offering, shall meet the following criteria:

1. Being established in any kinds of company [*sic*], except for a sole limited company;
2. Having a minimum paid-up charter capital at the time of registering for public offering at least two billion kip [*sic*] in book value;
3. Having sound financial performances [*sic*]; having not accumulated losses [*sic*]; being profit-making in the year preceding the year of such registration for offering; and its financial statement shall be audited by an external certified auditing firm. Additional conditions for offering bonds to the public, the enterprise shall not have overdue debts over than [*sic*] one year up to the year of registration for offering;
4. Other criteria and conditions as stipulated by the Office.

The Commission shall be granted the authority to formulate the regulations concerning overseas issuance and public offerings of any companies located in Lao PDR and any companies wishing to make an [*sic*] public offerings in Lao PDR.

## E. Legal Framework of Investor Protection

### 1. Contract Law

The *Contract Law* was adopted by the National Assembly in 1990. It provides the conditions of written contracts and definitions of parties related to specific contracts such as loan contract and lease contract.

### 2. Bankruptcy Treatment and the Bankruptcy Law

The *Law on Bankruptcy of Enterprises* (also known as the *Bankruptcy Law*) was adopted by the National Assembly in October 1994, and promulgated by the President in November of 1994. It stipulates the comprehensive treatment of a bankrupt enterprise, covering bankruptcy petition, control of assets under the Asset Committee assigned by the court, meetings of creditors, reorganization of enterprises, liquidation of assets and distribution of assets. According to Art. 15 of the law, the Asset Supervision Committee comprises of creditor and debtor representatives, court and financial authority employees, as well as workers' representatives of the debtor enterprise. The rights and duties of the Asset Supervision Committee are set out in Art. 18 and include the determination of the debtor's assets and liabilities and the debts owed to each creditor. The Asset Supervision Committee is liable to the court regarding the performance of its duties.<sup>3</sup>

### 3. Auditing and Accounting

#### a. Enterprise Accounting

All enterprises are required to produce financial statements, which mostly should follow international accounting standards. There are exceptions, however, for small enterprises to use a simplified accounting system. At present, enterprises apply the Laos Accounting Manual (LAM) issued by the MOF; LAM is a set of instructions using accrual basis accounting designed for local tax submission purposes.<sup>4</sup>

#### b. Bank Accounting

Under the *Decree on the Accounting of Lao PDR* and the provision on “Financial Institutions under the Authorization of the Bank of Lao PDR,” banks have to submit annual financial statements through a registered auditor to the BOL. With the assistance of IMF, BOL provides a comprehensive and detailed format of financial statements, which banks have to follow.

<sup>3</sup> For easy reference, details may be found in the website of the Japanese Embassy in Lao PDR ([www.la.emb-japan.go.jp/jp/laos/Law\\_on\\_Bankruptcy\\_&\\_Decree.pdf](http://www.la.emb-japan.go.jp/jp/laos/Law_on_Bankruptcy_&_Decree.pdf)).

<sup>4</sup> PriceWaterhouseCoopers. 2008. *Similarities and Difference: A Comparison of IFRS and Thai GAAP, Vietnamese GAAP, Cambodian GAAP and Laos GAAP*. [http://www.pwc.com/en\\_VN/vn/publications/assets/similarities\\_and\\_differences\\_gaap.pdf](http://www.pwc.com/en_VN/vn/publications/assets/similarities_and_differences_gaap.pdf)



# IV. Foreign-Investment Related Laws and Exchange Control

## A. Foreign Investment Law (1994)

The *Foreign Investment Law* governs the promotion and management of foreign investments (see Appendix 4 for the entirety of the law).

## B. Cross-Border Portfolio Investment

BOL regulates cross-border capital and money market transactions. Inward remittances and repatriation of portfolio investments are principally allowed for both residents and non-residents. The International Monetary Fund's (IMF) Annual Report on Exchange Arrangements and Exchange Restrictions for the Lao PDR, which is available only in hard copy, summarizes the latest regulations on portfolio investments.

For capital inflows, all capital transactions are subject to authorization from BOL. For capital outflows, resident investors are allowed to invest abroad, subject to the *Law on the Promotion and Management of Foreign Investment*. Foreign investors are allowed to repatriate profits, capital gains, and other income upon full payment of duties, taxes, and other fees. Repatriation of funds may be done through a bank in the Lao PDR.

## C. Currency Exchange Controls

Lao PDR maintains a managed floating exchange rate system. Foreign currency exchanges are regulated and managed by BOL under *Presidential Decree Law No. 01/P, March 17, 2008 on Governing the Management of Foreign Exchange and Precious Metals*, and related regulations. By using managed floating exchanges rate system, BOL carefully monitors and, at times, intervenes in the foreign exchange market to maintain stability.

Licensed financial institutions are allowed to buy and sell foreign exchange at freely-determined rates, provided the spread between buying and selling rates is below 2%. All international cash transfers require authorization from the Bank of the Lao PDR (BOL). The IMF's Annual Report on Exchange Arrangements and Exchange Restrictions for Lao PDR, available only in hard copy, discusses currency exchange controls.

### 1. Import and/or Export of Currencies

Residents and non-residents may bring in or take out foreign currency. Amounts exceeding \$5,000 or its equivalent are subject to customs declaration and BOL approval. Non-residents are only authorized to take out foreign currency up to the amount they declared upon entry. Import and export of Lao kip in excess of KN5 million requires BOL authorization.

### 2. Domestic and/or Foreign Currency Accounts

Residents and non-residents are allowed to hold Lao kip and foreign currency accounts locally. Withdrawals exceeding \$10,000 or its equivalent require approval of authorized banks and must be reported to the BOL.

### 3. Borrowing and/or Lending

Domestic and foreign currency lending and/or borrowing among residents and non-residents is controlled. All transactions are subject to BOL approval. Foreign investors may borrow revolving credit capital from local commercial banks.

## D. Taxation

The Lao PDR tax system consists of direct and indirect taxes. Indirect taxes include turnover taxes and excise tax. Direct taxes include profit tax, income tax, minimum tax, and various fees and charges.

The Lao PDR applies a special tax regime to foreign investors that includes reduced rates, tax exemptions or holidays, a flat-rate profit tax of 20%, and a 1% import levy. Art. 30 of the *Tax Law* states that “lending interests, bond or shares interests” are included in the list of tax-exempt incomes. Interest paid are considered expenses that can be deducted from annual taxable profits. Detailed descriptions of the Lao PDR tax system and the special tax regime for foreign investors are accessible through the DDFI website.<sup>5</sup>

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<sup>5</sup> Department of Domestic and Foreign Investment. <http://www.invest.laopdr.org/tax%20law.htm>

# V. Market Regulation and Infrastructure

## A. Bond Operation in Lao PDR

### 1. Primary Market

In the primary market, there are three types of method of operation of T-bills and BOL bonds: interest value, auction value, and over the counter. Bond interest calculations are classified into two types: discount and coupon.

### 2. Secondary Market

Trading in the secondary market is done through 14 days of repurchase agreement, discount or outright agreement, and collateralised lending.

## B. Inter-bank Market

An inter-bank market has played an important role recently in the development of the financial market, compared with the last 10 years when trading was only between commercial banks and the BOL. BOL occasionally provides liquidity for commercial banks that hold T-bills through: 1) repurchase agreement (repo), 2) discount, and 3) collateralised lending. BOL started such operations by practicing. There is no written notice or announcement that notifies BOL's T-bill operations to the banks.

### 1. Repurchase Agreement

BOL and a commercial bank sign an agreement that BOL purchases T-bills from the commercial bank, and the commercial bank repurchases the T-bills from BOL after 14 days. The agreement follows the same format for any commercial bank.

### 2. Discount

Discount is an operation wherein BOL purchases T-bills from a commercial bank without a repurchase agreement. BOL may hold the T-bills until its maturity or re-sell it to another commercial bank.

### 3. Collateralised Lending

BOL may grant loans to account holders against the security of valuable documents

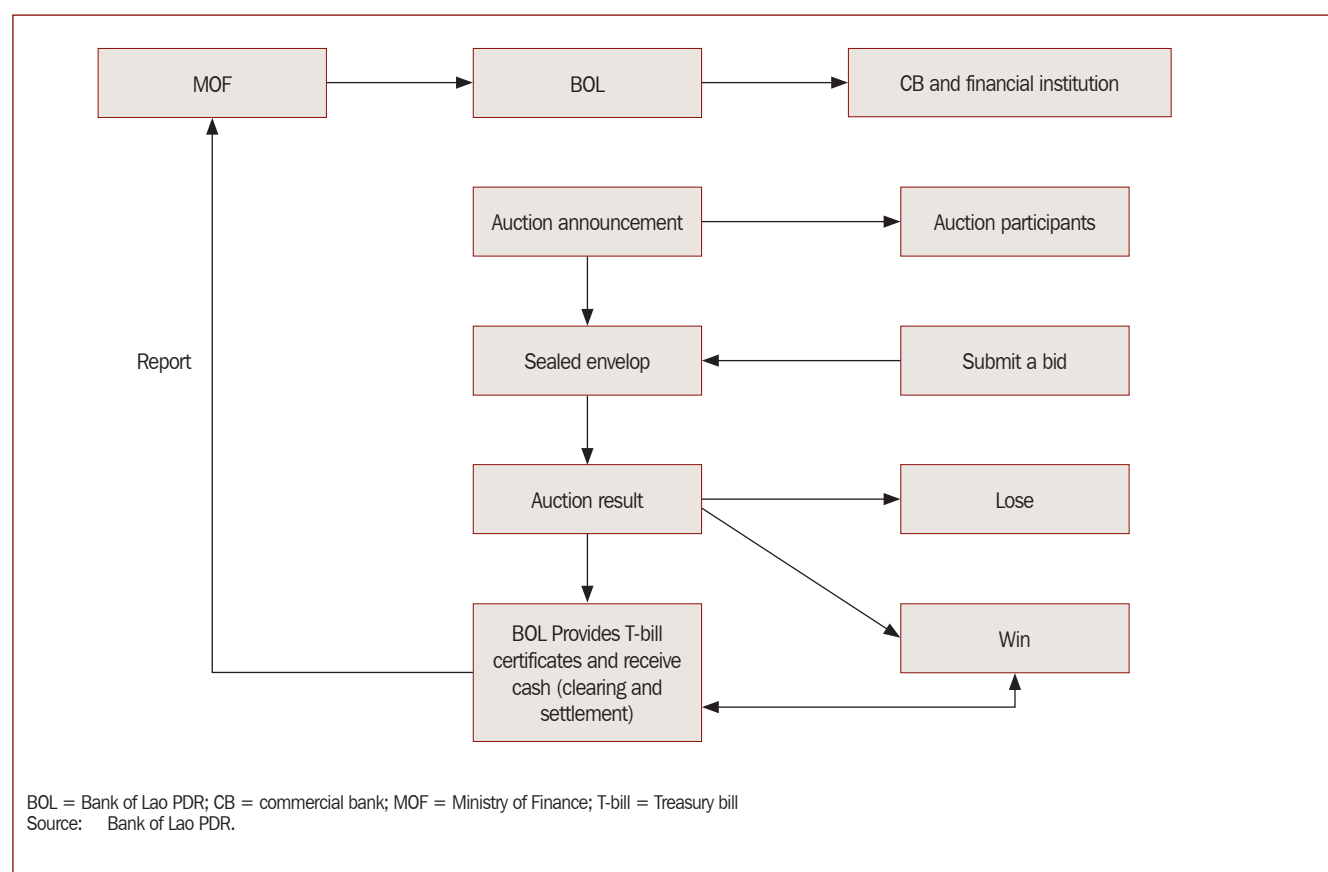
(as defined in Art. 36 of the *Law on the Bank of the Lao PDR*), with repayment periods not exceeding 183 days, and on terms and conditions determined by the BOL.<sup>6</sup>

As there are very limited secondary transfers of T-bills with transactions only between BOL and commercial banks, physical delivery of the certificates is still a common practice for settlement.

### C. Auction Process

T-bills auction participants are comprised of commercial banks and financial institutions. Participants will be required to open an account in BOL and at any banks in Lao PDR. The completed auction process is carrying the number of indicated values (amount, maturity, date of auction results, date of settlement and clearing, auction steps).

**Figure 5.1 The Auction Process**



<sup>6</sup> Government of Lao PDR. *Law on the Bank of Lao PDR*. [http://www.la.emb-japan.go.jp/jp/laos/Law\\_on\\_Bank\\_of\\_the\\_Lao\\_PDR.pdf](http://www.la.emb-japan.go.jp/jp/laos/Law_on_Bank_of_the_Lao_PDR.pdf)

## D. Settlement and Clearing

T-bills are issued as physical certificates. After the auction of T-bills, BOL passes the certificates to successful bidders. The auction process from bidding to settlement is as follows:

Auction begins on a Thursday when auction participants submit a proposal in a sealed envelope to BOL. The Auction Committee decides which bids are successful. On Friday, BOL announces the results, setting the price (discount rate) and the amount to the successful participants, and serves a notice of failed proposal to unsuccessful participants.

On the Tuesday after the auction, the settlement process begins. BOL provides the T-bill certificates and receives cash, usually withdrawn from deposits made to BOL.

### 1. Settlement of T-bill

The settlement and clearing of bonds are done after auction results have been made and successful participants are informed within 2 business days (T+2).

### 2. Renewal (Roll-over) of T-bill

When the maturity of a T-bill is reached, BOL notifies MOF when the issue is going to be due. If MOF decides to renew the T-bill, it will then give a notice on the amount and interest rate for the renewal. Holders of such T-bill (usually commercial banks) bring the certificates to BOL. BOL writes down the renewed date and date of maturity, and marks it with a stamp saying “Renew” at the back of the certificate. BOL then returns the certificate to the holder as well as the coupon for the renewed T-bill. BOL pays the coupon for the renewed T-bill by crediting the commercial banks’ account opened with BOL.

## E. Taxation and Tax Exemption

According to the *Tax Law*, which was legislated in 2005, interest from bonds or government debentures, as well as those from deposits, are exempted from income tax. Whether capital gain (or loss) from sales of bonds or government debentures is recognized as taxable income (or loss) is ambiguous; profit from share sales, however, is taxable income.

# VI. Budget, Debt, and Cash Management of the Ministry of Finance

## A. Relevant Departments of the Ministry of Finance

Under the MOF, National Treasury, the departments of budget, tax, customs, external financial, and fiscal policy are major organizations that are relevant to management of budget, debt and cash. The Budget Department is responsible for drafting annual budget plans, which are subject to adoption by the National Assembly, and drafts semi-annual budget plans, which are reported to the National Assembly. It also prepares quarterly budget plans for internal use within MOF by reflecting updated status of budget executions.

National Treasury is organizationally part of the MOF. It has 16 provincial treasury offices, one office in Vientiane Capital and more than 100 district-level treasury offices, and is staffed with more than 900 employees. Provincial treasury offices have dual reporting lines, i.e., to headquarters and to the provincial governor. The headquarters of National Treasury in Vientiane capital consists of seven divisions: cash division, revenue division, accounting division, expenditure management division, mobile fund and debt division, inspection division and personnel and administrative division. At present, the mobilize division and debt division are responsible for T-bills.

The Tax Department and Customs Department are responsible for the collection of taxes and customs, respectively. The Tax Department has nearly 16 provincial offices, one office in Vientiane Capital and 144 district offices nationwide.

The External Financial Department is responsible for disbursement and debt services of projects loaned by multilateral and bilateral donors. The Fiscal Policy Department is also engaged in data collection and analysis of budget for policy formation and statistical purpose.

## B. Budget Management and Government Securities

The annual budget approved by the National Assembly defines how much the difference between revenue and expenditure (deficit) shall be, and how much shall be mobilized by foreign and local debt financing. As shown in Table 6.1, the budget

difference or deficit for the fiscal year 2010–2011 is minus KN1,802 billion, KN33 billion of which is mobilized through local debt financings, i.e., issuance of treasury bills whose maturity is up to a year. Triangle and recapitalization bonds seem to be out of scope of budgeting requirements. While majority of treasury bills and all of triangle bonds have been renewed with coupon payment upon maturity, such renewal of government securities, hence, outstanding volume of government debt may not be properly reported to the National Assembly.

**Table 6.1 Approved Budget and Deficit Financing, FY2010–2011 (KN billion)**

Item		Fiscal Year 2010–2011
Total Revenue		4,005
Total Expenditure		5,807
Difference (Deficit)		-1,802
Financing	Foreign debt financing	1,769
	Treasury bills	33
Source: Ministry of Finance		

## C. Debt Management

The MOF has a two-fold responsibility when it comes to debt management. The Treasury is responsible for managing domestic debt, while the External Financial Relations Department manages foreign debt, which is larger in terms of outstanding volume. The External Financial Department has an external debt service plan, which, however, is not yet shared with the National Treasury. The amount and timing of repayment of the external debt's principal and interest is communicated to the National Treasury through a payment order from the External Financial Department. Under the current procedure, only BOL knows or aggregates the outstanding volume and debt service schedule of domestic debt. As an issuing agency, BOL notifies the National Treasury of every repayment about a month prior to maturity, a procedure which can be amended to give the National Treasury ample time to prepare for the payment order for domestic debt servicing. Moreover, the National Treasury needs to apply with the Budget Department for coupon payments of treasury bills and triangle bonds (it renews the principal at most), but it does so only once a month by combining the different maturities of a particular month into one application. Therefore, by the time the National Treasury receives approval from the Budget Department and pays through BOL to institutional investors, most, if not all, deadlines or maturity dates of that particular month have lapsed already. This is too often called a delay in Lao PDR, but must be regarded as default in accordance with international standards.

As for treasury bills held by individual investors, commercial banks as agents periodically pay the interests ex-ante and then receive the reimbursement from BOL, who pays such due on behalf of the National Treasury temporarily. Since the approval process for government debts through the relevant parties may take time, commercial banks and other intermediaries have taken it upon themselves to pay out the debt interest first and then seek reimbursement from BOL. Nevertheless,

while BOL reports and requests reimbursement dues to the National Treasury every quarter, it receives reimbursements only if the National Treasury has some surplus of cash. Therefore, BOL holds an account receivable of around KN30 billion for this operation alone. In the meantime, the National Treasury fulfills redemption to individual investors upon maturity through BOL and commercial banks.



# VII. Review of Fixed-Income Securities

T-bills are issued in accordance with the annual budgetary plan approved by the National Assembly. BOL's Banking Operations Department facilitates the auction.

## A. Historical Background

Government Securities were initially issued in Lao PDR in 1990 to control rising inflation and to absorb excess liquidity in the economy. The first government securities issued in June 1990 were via Treasury Certificates, which amounted to KN2 billion, with 3 months (renewable) maturity priced at 48% per annum. In November of the same year, inflation gradually decreased. Hence, the government reduced interest rates for Treasury Certificates issued from November 1990 to October 1991 by 12.5%, or pricing it at 42% per annum. By July of 1992, MOF was able to sell KN2 billion worth of 3-months Treasury Certificates to state-owned banks. The objectives MOF posed for the issuance of government securities were deemed effective, and with this the government allowed BOL to develop its own monetary instrument totaling to KN1.5 billion. In November 1991, the first BOL bills—amounting to KN200 million, with 6 months maturity at 20% per annum—were issued.

Until November 1993 seven more succeeding BOL bills were issued with amounts ranging from KN200 million to KN400 million, all of which to mature after 6 months and priced at 20% per annum, and the last batch which was priced at 15% per annum.

In view of the facts that the issuance of government securities were effective monetary policies for Lao PDR, and that the MOF was agreeable in issuing debt instruments to mobilize funds locally, the central bank pushed for a Treasury bills auction in 1994.

## B. Treasury Bills

### 1. Issuer

The MOF started issuing Treasury bills as a means to meet Lao PDR's fiscal deficits. Currently, T-bills have maturities ranging from 3 months to 1 year.

## 2. Investors

Investment in T-bills is open to financial institutions, state-owned enterprises (SOEs), private companies, and individuals. At the time of the ADB market visit in June 2011, T-bills with 1-year maturity were priced at 7.5% per annum, whereas current account deposits at banks did not yield any interest, regardless of principal and/or tenor. Corporations find investment in T-bills favourable compared with bank deposits or savings relative to the interest rate it offers. T-bills are priced at 7.5% per annum with 1 year maturity.

MOF caps or sets the ceiling of coupon rates, depending on the market scenario. At present, T-bills are priced at 14% to 16% per annum, whereas current deposits to banks of a corporation do not yield any interest, regardless of principal and/or tenor. However, investors are reluctant to use T-bills as part of their investment portfolio because T-bills, by practice in the country, are not demandable at once; rather it is renewable and extendable, subject to the budget and liquidity status of MOF. T-bills can be extended usually up to 3 months to 1 year. Extended and renewed T-bills are given a relatively higher coupon rate relative to its initial rate.

In 2005, the total Treasury bills issued in Lao PDR amounted to KN33 billion, with a coupon rate (on the average) of 15%, all of which will be maturing by 2006. Outstanding triangle bonds maturing in 2005 and by 2006 amounted to KN189.15 billion.

## 3. Redemption of T-bills

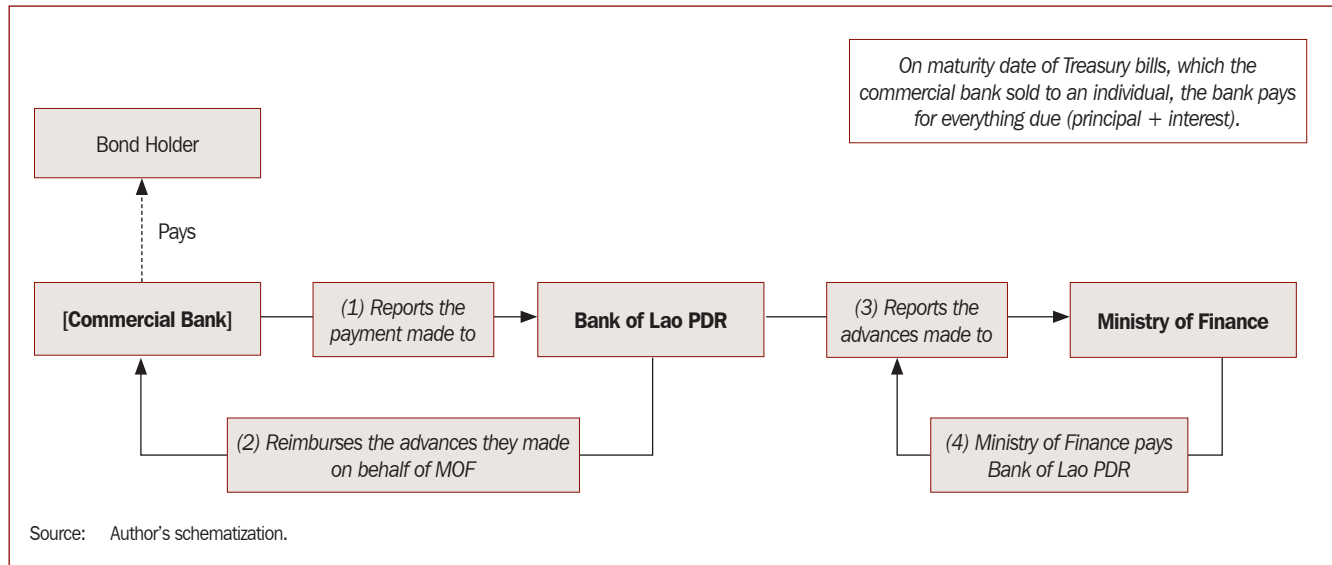
Upon issue, T-bills were allocated to commercial banks and further transferred or sold to non-banks. The National Treasury of the MOF sends to the Central Bank information on which T-bills that had been issued are subject for redemption. Usually, these bills are those with high interest rates and bear an earlier tenor, i.e., 6 months. The amount for redemption depends on the ceiling established and based on the budget available. Once a month commercial banks go to BOL to ask for T-bills redemption. BOL then advances payment to the commercial banks on behalf of the MOF. After which, the MOF issues a letter similar to a Promissory Note (PN) stating when they can pay for the advances BOL made on their behalf for a particular T-bill.

For coupon payments, where T-bills have been sold or transferred by commercial banks to non-banks, the commercial bank advances the coupons for the MOF. After which, commercial banks report to BOL the advances they made on behalf of MOF, and BOL records these advances made and later on reports to the MOF. Unlike the advances made by BOL on behalf of MOF, the MOF need not issue a letter (similar to a PN) to BOL regarding advances made by commercial banks. See Figure 7.1 for a schematic diagram of this process.

This reminder is done on a quarterly basis through a report. The MOF, before making payments, first reconciles the details with BOL, particularly on the amount for payment. Since majority of T-bills are sold to commercial banks, these banks also work as an agent in the sale or transfer of T-bills, although there is no law supporting such function. T-bills are allocated among commercial banks in accordance with their capacity. Such capacity is based on their network (i.e., number of branches) and willingness and ability to advance for the coupon payments on behalf of the

government. Most of the T-bills are allocated for distribution or sales to the following banks: Banque Pour Le Commerce Exterieur Lao (BCEL), Lao Development Bank (LDB), and Agriculture Promotion Bank (APB).

**Figure 7.1 Process of Coupon Redemption of Treasury Bills Issued to Commercial Banks**



In August 2011 there were KN1 billion worth of T-bills redeemed. The National Treasury pays for the interest of renewed T-bills; the MOF, on the other hand, is responsible for interest payments of primary issued and renewed T-bills. BOL sends a reminder in the form of a letter a month before the due date of payment of interest to the MOF. Upon BOL's receipt of the Payment Order (PO) from the Treasury, BOL pays the commercial banks concerned by crediting the payment to their respective accounts with the central bank. Receipt of the PO used to be late for a day or several days after maturity date under previous procedures; with a timelier receipt of such document, if not a few days before date of payment, PO is received on transaction date.

### C. Recapitalisation Bonds

By end of 2005, the MOF had issued a maximum of KN200 billion of recapitalization bonds on behalf of two commercial banks, BCEL or Foreign Trade Bank and LDB. The said government bonds had a maturity period of 5 years at a fixed per annum rate of inflation (approximately 7% to 10%) plus 1%. The issuance of recapitalisation (recap) bonds did not only aim to restructure and recapitalize the said state-owned commercial banks, but this activity also positively resulted in the stabilisation of money supply in the economy. In addition, in early September 2005, APB's capital restructuring via recap bonds was evaluated and was the subject of further discussion between the MOF and APB's management.

# VIII. Immediate Action, Roadmap, and Work Programs

There are five challenges identified to jumpstart the bond market.

## A. Action 1: Strengthening Capacity of the Ministry of Finance

### 1. Strengthening Debt Management of the National Treasury

Debt management of the National Treasury needs to be strengthened, especially to safeguard the redemption of government securities. Although the domestic debt has to be managed by the National Treasury, it seems that BOL, rather than the National Treasury, is better prepared for and aware of the debt obligations. This resulted in delays, if not defaults, of interests for payments of Treasury bills and triangle bonds. This can be also addressed in the short term if the National Treasury develops and maintains the issuance, recordkeeping, and repayment scheduling, and if it applies interest payments in advance and more frequently to the Budget Department. Such practices may help the National Treasury aggregate the outstanding volume of government debt and report it to higher authorities.

At present, National Treasury is not notified of the repayment schedule of external debts by the External Financial Department, until it receives a repayment order. Hence, it is unable to prepare for the repayment in advance, leading to extension of such, or delay of, other payments. This can be addressed in the short term, if only the External Financial Department produces and updates the long-term debt service plan and its monthly breakdown for the forthcoming years, and shares it with the National Treasury. In the long run, the government may want to finance infrastructure projects with long-term benefits by issuing government bonds with mid- to long-term maturities. When the government wants to issue a significant volume of such government bonds in a regular manner, the establishment of debt management division or department, inside or outside the National Treasury, needs to be examined. Such a specialized division or department shall be responsible for issuing, auctioning, settling, recordkeeping, and repaying government securities. The rationale behind allowing such a single division or department to fulfill sales and redemptions in one place is that it can closely monitor market response upon auction and redemption. It is essential for the MOF, as the dominant and major

issuer of bonds, to know market sentiments directly and immediately to better examine issuance strategy such as timing, volume, terms, targeted coupon rate, among other things.

Among member countries of the Association of Southeast Asian Nations, for example, Viet Nam and the Philippines have debt management functions inside their respective Treasuries, while Thailand has a public debt management office besides the Treasury under its MOF.

## 2. Strengthening Cash Management of the National Treasury

Cash management of the National Treasury needs to be strengthened, especially to know its cash position and for smooth budget execution. Towards this end, usage of the banking system for treasury operations needs to be expanded.

While tax payments by Large Taxpayer Units (LTUs) and Medium Taxpayer Units (MTU) are collected directly by the headquarters of the National Treasury through checks, provincial treasury offices still continue to receive cash from small and very small taxpayers. Provincial treasury office may have the incentive and room to hold, spend, misplace and/or delay transfer of such cash to headquarters at least in part; this is based on the premise that they have their own spending needs, which are too often unmet by budget release and transfer processes, and that there is no reconciliation between reported data and cash. Such practices of not fully remitting to the headquarters, in turn, make the process of releasing their budgets more difficult. To curtail this cycle, cash transactions need to be shifted from the National Treasury to BOL and/or commercial banks, wherever possible. Bank staff, in general, may be better trained to receive cash, issue and clear check, and report and reconcile such transactions, requiring all taxpayers to pay through commercial banks, which act as revenue agents. This will decrease underreported or unaccounted cash transactions in the treasury system as a whole.

As for tax, the difference in office networks may matter. In fact, the Tax Department has nearly 16 provincial offices and 144 district offices nationwide, while the commercial bank with the largest branch network, APB, covers all the provinces but not the districts through its branch network. The geographical coverage by province and district of the treasury, banks and postal savings needs to be examined.

As for customs, the difference in operating hours may matter. While customs offices may open on a 24-hour-and-365-day basis, depending on entry point, bank branches usually open during weekdays only. Revenue agents may be required to locate their counter inside the customs area and open it in consistency with customs operation hours. In addition, checks clearing outside Vientiane needs to be examined as well. In return for administrative burdens, revenue agents may be given a service commission or some prefixed privileges.

## B. Action 2: Developing the Legal and Regulatory Framework for Corporate Bonds

No business company, such as a public limited company, besides a bank has so far issued and sold corporate bonds at least through public offering. The *Business Law* broadly stipulates that only a business company (public limited company) is entitled

to issue and sell corporate securities such as shares and bonds to the public. This means that public limited companies including full or quasi-SOEs may be able to issue corporate bonds. However, the *Business Law* as well as other laws provide for neither procedures nor criteria for a public limited company to issue corporate bonds. Meanwhile, the *Banking Law* allows banks to issue bank debentures, and the APB has sold savings bonds to the public.

At the early stage of bond market development when both issuers and investors are not familiar with corporate securities, it is recommended that the regulator approves who can issue corporate bonds and how much. Even with no corporate bond market currently in place in Lao PDR, several business companies (public limited companies) are interested in issuing corporate bonds for large-scale investment projects such as infrastructure. The government therefore needs to develop the legal and regulatory framework for corporate bonds. More concretely, it needs to:

- i) elaborate regulations on application procedures, approval criteria, and information disclosure;
- ii) improve law provisions such as in the *Bankruptcy Law and Secured Transaction Law*, and;
- iii) designate and strengthen the regulators, MOF and/or BOL, as watchdogs not only of the corporate bond market but also of the securities market as a whole.

### C. Action 3: Developing the Inter-bank Market

Although the government continues to issue debentures for a few years, and more investors are interested in buying debentures, there is very limited trade of such debentures, and most (if not all) trades are done between BOL and commercial banks, as part of BOL operation of T-bills. Therefore, developing the inter-bank market for government debentures is important at this stage, because it is the most basic market structure and critical prerequisite for the government bond market. Without a liquid inter-bank market, banks would have difficulty to take positions on T-bills or any other government securities, and BOL may also reach its full capacity if it continues to take positions on T-bills whenever it is asked by banks at the current rate. Current market operations by BOL work as an initial step to develop the inter-bank market. Next steps would follow as described below.

Firstly, BOL may systemize its open market operations of T-bills by formalising the rules and conditions as well as procedures, and announcing them by issuing notices. By stating its support to market participants clearly, BOL shows its policy to develop the inter-bank market, which should encourage banks to take active positions of T-bills.

Secondly, BOL may expand its role for the settlement of T-bills by working as the central custodian or securities depository to make clearing and settlement more efficient. It is necessary especially when secondary trading among banks becomes more active. As of September 2005, most of the transactions occur only between BOL and a bank involving many transactions. Once the inter-bank trading becomes more active, transactions become many versus many. Such situation makes efficient

clearing and settlement an indispensable function. BOL has such capacity, as it already operates T-bills auctions and open market operations, and holds accounts of all the commercial banks as the central bank.

Thirdly, BOL, in collaboration with the MOF, may create and issue detailed guidelines on how banks can operate a securities business firstly as dealer for itself, secondly as broker-dealer of government securities, and thirdly as underwriter of non-government securities. Risk management is essential when functioning as a dealer and as a broker-dealer while being an underwriter requires an effective firewall between banking businesses. Without clear guidelines, banks may take excess risks without proper management, and may cause significant loss within a short time. Furthermore, when private enterprises start issuing corporate bonds, banks may be involved in conflicts of interest and in insider trading when using information obtained through banking operations.

## **D. Action 4: Developing Institutional Investors**

The development of institutional investors, especially long-term investors, is essential for the development of the bond market.

### **1. Commercial Banks**

For banks, establishment of the inter-bank market, or at least BOL operation as a “last resort,” is essential to invest in bonds as their liability is short-term. Currently, T-bills are purchased mostly by the state-owned commercial banks, but other banks who have excess liquidity would be encouraged to consider T-bill investment.

It is expected that if BOL upgrades its roles and functions in the government securities market, as described in the chapter on legal and regulatory framework, a wider range of the commercial banks can become active in the market. For example, banks can be confident to invest in T-bills when they know BOL stands as a last resort whenever banks need immediate cash. Also, setting clear guidelines on banks’ operations of their securities business would become helpful for banks to work as dealers. In addition, bank supervisory regulations have unexpectedly significant effects on the banks’ investment activities. As an example, recognition of T-bills as a risk-free asset when calculating the required capital as the current practice goes relieve banks to allocate capital when investing in T-bills, thus encouraging them to do so. BOL may consider introducing additional treatments for T-bills (e.g., allowing banks to count T-bills as reserve cash-equivalent assets).

### **2. Postal Savings Institutions**

Although in some developed countries postal savings institutions are some of the major investors in government securities, at this stage in Lao PDR, it is not expected to happen nor necessary yet. The Lao Postal Savings Institution invests in high-return investments such as employee loans, and the amount of the loans becomes comparably significant to the amount of the savings. In the future, when savings becomes more developed as it plans to expand the network nationwide, and the Institution becomes more cautious about the risks of the employee loans, then it may consider investing in government securities.

### 3. Pension Funds

The Social Security Organization (SSO) may upgrade its Social Security Fund's (SSF) fund management skills covering its investments in government securities. Issues to be addressed include the capacity of the management of SSO to manage SSF investing in various asset classes while considering liability structure and skills on asset liability management (ALM).

### 4. Insurance Companies

They said that insurance companies started to invest in T-bills in 2005, but it will do so more aggressively if it starts the life-insurance business. The development of the life-insurance business is one of the essential supporting factors for the development of the bond market. In Lao PDR, at this stage, careful study and updating or revision of the existing regulatory framework would be necessary before life-insurance can be implemented.

## E. Immediate Action 5: Developing the Securities Business

As bonds are mostly traded on over-the-counter (OTC) market or quote-driven markets, rather than at an exchange or auction markets, the development of well-trained dealers becomes essential especially to develop the bond market. At this stage in Lao PDR, allowing and encouraging bank dealers to trade among themselves would be practical and reasonable. By encouraging inter-bank dealing, BOL would eventually step back to work as a “last resort” for the government securities market, taking position only when no counterparts within banks are available. The level of market intervention depends on the market conditions, however. As an example, when the market shrinks due to lack of confidence or depending on seasonal fund shortage, BOL may take a more aggressive role.

In order to develop banks' securities business as intermediaries, again, the BOL may take further steps to expand its roles and functions, namely: systemizing its open market operations; working as the central custodian and/or securities depository; and issuing detailed guidelines on securities business by banks.

## F. Roadmap

In terms of the four “I”s—issuer, infrastructure, investor and intermediary—and mainly from the viewpoint of the MOF and BOL, the roadmap for bond market development in Lao PDR is suggested as follows.

**Table 8.1 Roadmap of Bond Market Development in Lao PDR (2011–2020)**

4 “I”s	Short Term (2011–2012)	Medium Term (2012–2016)	Long Term (2016–2020)
Issuer	<p>Immediate Action 1: Strengthening Capacity of MOF (See work programs for details)</p> <p>Immediate Action 2: Developing the Legal and Regulatory Framework for Corporate Bonds (See work programs for details)</p>	<p>Setting up a debt management section under the MOF.</p> <p>Developing the legal and regulatory framework for a variety of structured bonds such as convertible bonds, ABS and MBS.</p>	<p>Developing a primary dealership for government securities.</p> <p>Developing the legal and regulatory framework for credit-rating agencies.</p>

*continued on next page*



Roadmap of Bond Market Development in Lao PDR continuation

4 "I"s	Short Term (2011–2012)	Medium Term (2012–2016)	Long Term (2016–2020)
Infrastructure	Immediate Action 3: Developing Inter-bank Market (See work programs for details)	Developing the clearing and settlement infrastructure for government securities, serving as including post-trade information system, as well.	Introducing the primary-dealer system for government securities.
Investor	Immediate Action 4: Developing Institutional Investors (See work programs for detail)	Developing the legal and regulatory framework for a variety of investors such as investment funds.	Developing the retail channel of government securities.
Intermediary	Immediate Action 5: Developing the Securities Business (See work programs for detail)	Enhancing bank-dealers into broker-dealers who can provide brokerage services including underwriting.	Introducing the primary-dealer system for government securities.

ABS = asset-backed securities; MBS = mortgage-backed securities; MOF = Ministry of Finance  
Source: Bank of Lao PDR, Ministry of Finance.

## G. Work Programs for 2011–2012

During the short-term (2006–2010), mainly from the viewpoints of the MOF and BOL, the work programs to jumpstart the bond market in Lao PDR are shown in Table 8.2. The MOF and BOL also need to enhance the prerequisites and enabling conditions such as financial stability and market confidence in general.

**Table 8.2 Work Programs for Jumpstarting the Bond Market in Lao PDR (2011–2012)**

Challenges	Work Programs for the Short Term (2011 to 2012)
Immediate Action 1: Strengthening the Capacity of MOF	<p>MOF shall fulfill the redemption of government securities on maturity by upgrading recordkeeping and repayment scheduling.</p> <p>MOF shall stop renewing matured government securities and instead reissue another round of government securities, if necessary.</p> <p>MOF shall prepare and disclose the auction calendar of government securities by frequenting cash projection through the monitoring of budget execution and tax and customs collection.</p> <p>MOF shall expand the usage of the banking system for tax and customs collection and for the treasury's cash operations.</p>
Immediate Action 2: Developing the Legal and Regulatory Framework for Corporate Bonds	<p>MOF and BOL shall define each regulatory regime on corporate bonds and securities market.</p> <p>MOF and/or BOL shall elaborate regulations on application procedures, as well as approval criteria.</p> <p>MOF and/or BOL shall provide the requirements for accounting, auditing and information disclosure for corporate bond issuers.</p> <p>MOF shall take lead to improve some law provisions such as the Bankruptcy Law and Secured Transaction Law.</p>
Immediate Action 3: Developing the Inter-bank Market	<p>BOL shall systemize its open market operations of T-bills by formalizing the rules and conditions, as well as procedures, and announcing themselves by issuing notices.</p> <p>BOL shall expand its roles for the settlement of T-bills by working as the central custodian or securities depository to make clearing and settlement more efficient.</p>
Challenge 5: Developing the Securities Business	<p>BOL and MOF shall create and issue detailed guidelines how banks can operate securities business firstly as a dealer.</p>
Immediate Action 4: Developing Institutional Investors	<p>BOL and MOF shall create and issue detailed guidelines how banks can operate a securities business firstly as a dealer</p> <p>MOF and SSO shall upgrade SSF's fund management skills covering its investments in the government securities.</p> <p>MOF shall develop the legal and regulatory environment for life-insurance business.</p>

BOL = Bank of Lao PDR; MOF = Ministry of Finance; SSF = Social security Funds; SSO = Social Security Organization  
Source: Bank of Lao PDR, Ministry of Finance.

# IX. Market Statistics

Due to the nature of the nascent bond market in Lao PDR, market statistics are very limited at this stage. The authors express their hope that as a result of the work of the ASEAN+3 Bond Market Forum (ABMF) and the excellent work of its members from Lao PDR, some basic statistics may be available in due course.

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# Appendixes

## Appendix 1: Decree on Securities and Securities Market

### Box A1.1 Decree on Securities and Securities Market

Prime Minister's Office  
Ref. No. 255/PM  
Vientiane, 24 May 2010

The Government's Decree on Securities and Securities Market

- Pursuant to Law on the Government of the Lao PDR, No. 02/NA, dated 6 May 2003;
- Pursuant to Enterprise Law, No. 11/NA, dated 9 November 2005;
- Upon the proposal set forth by the Chairman of the Securities and Exchange Commission, No.001/SEC, dated 18 March 2010.

The Prime Minister issues hereby the decree:

#### **Part I** **General Provisions**

##### Article 1. Objective

Decree on Securities and Securities Market prescribes principles and regulations on the establishment, and operations of the Securities and Exchange Commission, regulations on the establishment and operations of a securities exchange, regulations and supervisions of securities public offering and listing, and operations of securities companies in order to promote fund raising from the public, in order to ensure that securities-related activities in the market are conducted in a public, equal, transparent, in order and efficient manner and protecting investors' legitimate rights and interests.

##### Article 2. Securities and Securities Exchange

Securities mean a financial instrument which an issuer uses for the purpose of fund raising in order to finance their business operations. Securities shall include shares, bonds, and other kinds of securities as specified by the Securities and Exchange Commission.

The Securities Exchange shall serve as a center for trading of listed securities and shall be established in compliance with this Decree.

##### Article 3. Definitions of Terms

Defined terms in this Decree shall be interpreted as follows:

1. "Share" means the company's capital divided into portions of equal value certifying the lawful rights and interests of the shareholder over a part of the equity of the issuer.
2. "Bond" means a long-term debt security such that the bondholder has legal rights as guaranty to get paid back their invested principal with interest as agreed.

*continued on next page*

*Box A1.1 continuation*

3. "Listed company" means the company having their securities listed on a centrally organized market.
4. "Listed securities" means the permission granted to eligible securities to be traded on a centrally organized market.
5. "Public offering" means an openly offering for sale of securities by any methods of offering via a securities company to at least thirty investors, excluding institutional investors.
6. "Issuer" means a legal entity that is approved by the Office in order to offer its securities to the public.
7. "Prospectus" means a document published for the purpose of providing information and inviting the public to subscribe or purchase the securities issued by the issuer.
8. "Investor" means individuals and legal entities participating in securities investment, aiming at capital or financial gains.
9. "Institutional investor" means a legal entity, including commercial banks, insurance companies, financial leasing companies, securities companies, and other kinds of financial institutions as specified by the Office.
10. "Principal shareholder" means shareholders holding 10% or more of the total amount of the issuer's voting shares.
11. "Insider" means any principal shareholders, members of the Board of Directors and management titles, managers and employees of the issuer, the issuer's underwriter, management titles and officers of an Exchange, an auditor of issuing company, management titles and officers of the Office, who have access to internal information of the issuing company.
12. "Inside information" means any information regarding to the issuer that are not yet disclosed to the public, such disclosure would have great influence on its securities prices or investors' decisions.
13. "Securities company" means a financial institution licensed to undertake securities businesses, as specified in this Decree.
14. Securities business means securities brokerage, securities dealing, securities advisory, securities underwriting, and other securities-related businesses, as licensed by the Office.
15. "Securities brokerage" means the operation of a securities company acting as an intermediary to carry out securities buying or selling orders on behalf of the customers for brokerage fees.
16. "Securities dealing" means the securities company's engagement in buying and selling securities for its own account.
17. "Securities advisory" means the securities company's engagement in financial advisory and securities investment advisory.
18. "Securities underwriting" means the commitment made by an underwriter to help the issuer to complete procedures prior to an offer, to buy part or all of the securities issued by an issuing organization for resale or to buy the undistributed portion of the securities from the issuer, as agreed in an underwriting contract.
19. "Securities professional practitioner" means individuals passing a securities business qualification exams and receiving a Securities Practitioner License from by the Office.
20. "Securities depository" means the receipt of securities deposited by customers, safekeeping of customers' securities, [and] delivery of securities to customers and securities settlement.
21. "Exchange member" means a securities companies being established in accordance with this Decree and meeting membership requirements as specified by the Exchange.
22. "Customer account" means the account opened in a securities company by the customer in order to trade securities, and the person's name as stated in the Securities Depository Book has the legal rights to own any securities in the account.
23. "Commission" means the highest administration body of the Office of the Securities and Exchange Commission and being appointed in accordance with this Decree.
24. "Office" means the Office of the Securities and Exchange Commission.

**Article 4. Securities Market Development and International Cooperation Policies**

The Government of Lao PDR encourages individuals and legal entities to participate in the process of investment, operations and development in the securities market in order to mobilize long-term capital sources for the national socio-economic development.

The Government promotes international cooperation and relationship with friendly countries, based upon the principle of mutual benefits without any monopolistic conditions, in order for sharing lessons and experiences, exchanging information, attracting investment capital and technology transfer regarding to the securities and securities market in order to integrate the Lao capital market into the regional and global capital markets.

**Article 5. Scope of Application**

This Decree stipulates the regulations concerning any individual and legal entity on public securities offerings, securities business services, securities investment, and a securities market within the territory of Lao PDR.

**Part II****Securities Supervisory Authority****Section 1****Securities and Exchange Commission****Article 6. Roles of the Securities and Exchange Commission**

The Securities and Exchange Commission acts as a secretariat for the Government in formulating necessary policies, strategic plans, regulations, management and supervision over securities and the securities market on a uniform basis.

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*Box A1.1 continuation***Article 7. Organization Structure**

The Commission shall comprise of Chairman, Vice Chairman, and commissioners representing the sectors of finance-banking, justice, Secretary-General of the Commission, and other related sectors.

The Public Administration and Civil Service Authority shall study, draft and propose requirements and qualifications of the commissioners to the Government for its consideration and approval.

**Article 8. Appointment and Removal**

The Commission shall be appointed and removed from the office by the Prime Minister, and shall have a term of the office for five years and may be re-appointed.

**Articles 9. Rights and Duties**

The Commission shall have the following rights and duties:

1. To submit to the Government for promulgation of newly established regulations and amended laws, and strategic plans and policies of development on securities and the securities market.
2. To submit to the Government for promulgation of policies for the promotion and development of securities and the securities market.
3. To approve policies and plans on securities market development based upon the proposal by the Office.
4. To approve an annual operation plan and budget plan based upon the proposal by the Office.
5. To consider and grant licenses relating to the activities regarding securities businesses and the securities market based upon the proposal by the Office.
6. To approve necessary regulations relating to the activities of the Office.
7. To consider and approve changes relating to roles, duties and organization structure regarding the Office.
8. To propose [to] the Prime Minister for appointment or removal of Secretary-General of the Office.
9. To appoint or remove the positions for Deputy Secretary-General of the Office, Director of Division and Deputy Director of Division in the Office.
10. To consider and approve the appointment and recruitment of senior officials and employees equivalent and below any positions of Deputy Director-General, including awards and sanctions against the offenders.
11. To monitor and inspect the activities of the Office.
12. To report and propose the opinions on the securities-related conditions and a securities industry to the Government at a regular basis.
13. To carry out other rights and duties according to the Government assignment.

**Articles 10. Working Method**

The Commission shall perform the activities as agreed [in] decisions of the Meeting and shall have a meeting at least every two months. The Commission shall be granted the authority to define its roles and activities in further details.

**Articles 11. Budget and Sealed Stamp**

The Bank of the Lao PDR shall provide an annual budget to the Commission and its Office in order to perform their activities, including necessary equipments, infrastructure development and personnel training and development.

In the case that the Commission and its Office need further financial budget exceeding the said budget as approved by the Bank of the Lao PDR, the Ministry of Finance shall be responsible for the required exceeding budget.

Any revenues as generated by the Office shall be transferred into the Revenue Account of the Bank of the Lao PDR.

The Commission shall have its official stamp for official use.

**Section 2****Office of the Securities and Exchange Commission****Article 12. Position and Roles of the SEC Office**

The Securities and Exchange Commission Office, abbreviated as "SECO", acts as a secretariat for the Securities and Exchange Commission in formulating necessary policies, strategic plans, regulations, administration and supervisions over securities and the securities market.

**Article 13. Organization Structure**

The Office shall comprise of Secretary-General, Deputy Secretary-General, directors of divisions, deputy directors of divisions, heads of sections, heads of working units, and a certain number of professional and administrative staff.

Officials and officers who are appointed and recruited in the Office shall perform their roles and duties in accordance with Regulation on Civil Servant Personnel Management.

Officials and officers of the Office shall have good ethics and professional qualifications at a certain level and shall be highly responsible for performing their assigned roles and duties.

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*Box A1.1 continuation***Articles 14. Rights and Duties**

The Office shall have the following rights and duties:

1. To study, interpret and implement strategic plans, policies and decisions approved by the Commission, in regard with development activities on securities and the securities market;
2. To study securities-related rules and regulations, and then propose them to the Commission for consideration and approval;
3. To study and formulate an annual operation plan and budget plan, and propose the plans to the Commission for consideration and approval;
4. To study and improve roles, duties and the organization structure of the Office, to propose the appointment or removal of senior officials and employees equivalent and below any positions of Deputy Secretary-General, and any personnel recruitment in order to propose them to the Commission for consideration and approval;
5. To study and consider application documents for securities public offering, and then to propose them to the Commission for consideration and approval;
6. To manage and supervise securities public offerings in an orderly, transparent, fair and consistent manner and to protect the investors' legitimate rights and benefits.
7. To study and consider an application documents for the establishment of securities business licenses and a securities exchange, and then to propose them to the Commission for consideration;
8. To manage and supervise operations of the issuing companies, securities companies, and the securities market in a stable, transparent, fair and efficient manner;
9. To organize an examination and grant Securities Practitioner Licenses, and to supervise the licensed securities practitioners;
10. To collect, compile and analyze the information data on securities and securities market, and to make a report to the Commission at a regular basis;
11. To disseminate regulations, information and knowledge on securities and the securities market to the public;
12. To study and propose the awards to be granted toward individuals and organizations who have significantly contributed to the development in the areas of securities and securities market;
13. To study and consider in the process of settling disputes and denunciations in activities of securities and the securities market, based upon its stated rights;
14. To implement measures against violators in activities of securities and the securities market, as specified by the Commission;
15. To coordinate with other related agencies in order to promote efficient operations in the field of securities and the securities market;
16. To study and propose the international cooperation plan in the field of securities and the securities market, including exchange of information, to the Commission and carry out the said cooperation plan;
17. To publicize and organize training sessions in the field of securities and securities market for the staff of the Office and securities-related practitioners;
18. To carry out other rights and duties as specified by the Commission.

**Part III****Securities Issuance and Public Offering****Section 1****Securities Issuance****Article 15. Criteria for Securities Issuance**

Any companies [sic] established in accordance with Lao Enterprise Law, wishing to issue securities for public offering, shall meet the following criteria:

1. Being established in any kind of company, except for a sole limited company;
2. Having a minimum paid-up charter capital at the time of registering for public offering at least two billion kip in book value;
3. Having sound financial performances; having not accumulated losses; being profit-making in the year preceding the year of such registration for offering; and its financial statement shall be audited by an external certified auditing firm. Additional conditions for offering bonds to the public, the enterprise shall not have overdue debts over than one year up to the year of registration for offering;
4. Other criteria and conditions as stipulated by the Office.

The Commission shall be granted the authority to formulate the regulations concerning overseas issuance and public offerings of any companies located in Lao PDR and any companies wishing to make an public offerings in Lao PDR.

**Article 16. Application Documents for Securities Public Offering**

The application documents shall include the following documents:

1. An application form of IPO as defined by the Office;
2. A certified copy of the company's business registration certificate;
3. The company's charter; the list and curriculum vitae of principal shareholders and members of the Board of Management;
4. Financial statements of the three most recent consecutive years which are audited by an approved external auditing company;
5. Decisions of the General Shareholder's Meeting or an authorized agency approving the plan for offering and use of capital received from the offering of securities to the public;
6. The commitment of underwriting;
7. The prospectus;
8. Other documents as specified by the Office.

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*Box A1.1 continuation***Article 17. The Prospectus**

The prospectus shall include the following information:

1. Brief information on the issuer; including the Company's name, organizational structure, business activities, property, financial situation, the Board of Management or the company's owner, General Director and shareholders' structure;
2. Information on the offering and securities to be offered; including conditions for offering, risk factors, a number of shares and price per share to be offered, the plan of issuance and use of capital received from the offering;
3. The financial statements of the three most recent consecutive years or financial statements from the date of newly establishing a company which shall be audited by an approved external auditing company;
4. The list of an approved external auditing company, a financial advisory company, and a legal consultancy company;
5. Methods of securities subscription and offering;
6. Other information as stipulated by the Officer.

**Article 18. Decision on Securities Offering License**

The Office shall examine the application documents and notify the applicant of its decision in writing within 45 working days as from the date of receiving the complete and correct application documents.

In case of receiving the valid documents, the Officer shall grant the Certificate of Public Securities Offering to the applicant.

In case of refusal, the Office must respond the applicant in writing and clarify the reasons thereof.

**Article 19. Characteristics of Securities**

Securities offered to the public shall have the following characteristics:

1. Securities shall be tradable and transferable;
2. Securities shall be denominated in Lao Kip or another currency as stipulated by the Office;
3. The par value of share shall not exceed [KN]100,000 and the par value of bond shall not be less than [KN]1 million.
4. Other characteristics as stipulated by the Office.

**Article 20. Securities Depository Book**

The securities depository book shall include the following information:

1. Information on the securities holder;
2. The issuer's name and business registration certificate;
3. Type of securities;
4. Amount and par value of the securities;
5. Date of securities offering and a securities code that is registered at the Office;
6. Terms and conditions on dividend or interest payment;
7. Terms and conditions of principal repayment in case of bond securities;
8. Authorized signature and official stamp of the securities companies;
9. Instructions on how to use the Securities Depository Book;
10. Other contents as prescribed by the Office.

**Section 2****Securities Public Offering****Article 21. Public Announcement of the Issuance**

The issuer is required to make a public announcement of its offering on the national mass media and directly advertise its offering to a group of minimum 30 investors excluding institutional investors or other forms as stipulated by the Office.

The issuer must submit the report on its offering price to the Office for a sale approval after completing the public announcement of its offering.

Information and contents to be advertised shall be consistent with and the same as contents written in the Prospectus as defined in Article 17 of this Decree.

The issuer shall complete the public announcement of its offering within 60 days from the date of receiving the Certificate of Public Securities Offering.

**Article 22. Distribution of Securities**

The issuer and the underwriter must conduct a distribution mechanism that allows investors to subscribe securities. In case where the amount of securities subscribed exceeds the amount of securities allowed to issue, the issuer or the underwriter shall have to sell out the securities underwritten to investors proportionately with their purchasing registration.

The issuer shall complete the distribution of securities within 90 days from the date of receiving the Certificate for Public Securities Offering. In case where the issuer cannot complete the distribution of securities to the public within such time limit, the Office shall consider the extension of this period, upon receiving an official request from the issuer, which shall not be more than 30 days.

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*Box A1.1 continuation*

The money for subscription of securities shall be transferred into a blocked bank account until the issue is completed and reported to the Office. The money in such an account shall not be withdrawn without an approval from the Office.

The issuer shall report the offering result to the Office in writing within 10 days from the date of completing the offering of securities.

The underwriter shall issue the Securities Depository Book to the buyers within 30 days from the date of completing the offering and receiving the Certificate for Securities Offering Completion from the Office.

**Article 23. Foreign Participation**

Foreign investors shall be allowed to invest in securities in compliance with the relevant regulations as stipulated by the Commission.

**Article 24. Suspension of the Public Securities Offering**

The Office shall have the right to suspend the public securities offering in the following cases:

1. Provision of any inaccurate information or omission of any important contents in the Prospectus that may cause damages to investors;
2. The distribution of securities is not conducted in compliance with Article 21 and 22 of this Decree.

**Article 25. Cancellation of the Public Securities Offering**

The Office shall have the rights to cancel the offering and prohibit the sale of such securities in the case that an issuer shall not overcome the causes leading to the suspension of the public securities offering as stated in Article 24 of this decree and violate any relevant regulations as stipulated by the Commission.

The issuer must refund the money to the investors and re-collect the distributed securities from the investors within 15 days from the date of the offering cancellation. If the issuer fails to do so within this time limit, the underwriter shall have to pay damages to the investors in accordance with the terms committed with the investor.

**Part IV****Securities Companies****Article 26. Establishment of Securities Companies**

A person and organization who is willing to establish a securities company shall submit application documents to the Office.

A securities company shall be established in a limited liability company, except for a sole limited liability company.

**Article 27. Criteria for a Securities Business License**

A person and organization who is willing to establish a securities company shall meet the following requirements:

1. Having an appropriate office location and adequate technical facilities for securities businesses;
2. Having a minimum legal paid-up charter capital as stipulated by the Commission;
3. Having its directors and practitioners who have qualifications and experience in the field of securities-related businesses, finance-banking, and qualified for being granted the securities practitioner certificate by the Office as specified in Article 42 of this Decree;
4. Having a reasonable business plan;
5. Other requirements as stipulated by the Office.

**Article 28. License Application Documents**

The application documents for securities business license include:

1. The application form as specified by the Office;
2. The agreement for establishing a securities company;
3. The company's charter;
4. Certificates related to the qualifications, work experience and securities practitioner certificate of proposed administrators, and principal shareholders;
5. The list of shareholders and their proportion of shareholding;
6. A certificate of financial status related to principal shareholders that is audited by an approved external auditing company. In the case of individuals as the shareholders, their bank deposit certificate(s) that are certified by a relevant bank shall be submitted;
7. A business plan for the first 3 business years;
8. Other documents as stipulated by the Office.

An applicant shall pay fees accordingly to regulations as specified by the Office.

**Article 29. License Decision**

The Office shall consider the application documents and inform the applicant of the result in writing within 60 days as from the date of receiving full and complete application documents for a license.

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*Box A1.1 continuation*

The applicant shall be granted the Establishment and Operation License only if it satisfies all requirements as stated in Article 27 of this decree.

In case of refusal, the Office shall give a written response to the applicant stating the reasons thereof. The unsuccessful applicant shall be able to re-submit the application documents after any causes which make the Office not able to issue a securities business license have been overcome.

After receiving the approval for a license, the applicant shall apply for an enterprise registration certificate and tax registration certificate in compliance with applicable laws and has to undertake business operations within 90 days after receiving the enterprise registration certificate.

**Article 30. Scope of License**

A securities company shall operate its securities business activities partially or fully, as follows:

1. Brokerage;
2. Dealing on own accounts;
3. Financial and securities investment advisory;
4. Underwriting;
5. Other securities businesses as authorized by the Commission.

**Article 31. The Securities Company's Charter**

Each securities company shall have a charter that specifies:

1. Its corporate name that shall have a word "securities company" in front and "limited" or "public" at the end;
2. Its corporate address;
3. Its purposes;
4. The amount of its registered capital;
5. The classes and amount of its authorized shares and shareholders' structure;
6. Full names, addresses and nationalities of the company founders;
7. Governance structure;
8. Meeting and voting;
9. Method of dividend distribution;
10. Dispute settlement method; and
11. Method of liquidation.

The company's charter shall have the legal effect only after the securities company has a written approval of the Office.

**Article 32. Changes that have to be Approved**

A securities company is required to obtain an approval in writing from the Office for the following changes:

1. Decrease of its paid-up charter capital;
2. Changes of address of the head office, branches or representative office;
3. Changes of its corporate name;
4. Changes of principal shareholders' structure;
5. Other changes as stipulated by the Office.

**Article 33. Merger of Securities Companies**

A merger of securities companies shall be subject to Article 159 and 187 of the Enterprise Law.

A securities company wishing to merge with another securities company shall submit its application documents to the Office. The Office shall consider the application and notify the applicant in writing within a maximum period of 60 days from the date of receiving a full and complete application documents.

The new company established by the merger must proceed with the formalities of application for granting securities business license in accordance with Article 28 of this Decree.

**Article 34. Securities Companies Established by Foreign Investors**

Foreign investors are allowed to establish a joint venture securities company with domestic investors. The share of capital contributed by foreign investors in a joint venture shall not exceed 51 percent of the total outstanding shares.

**Article 35. Granting a Securities Business License for the Branch of Foreign Securities Companies**

A foreign securities company wishing to establish its branch in the Lao PDR shall meet the following requirements:

1. Satisfying adequate requirements set out in Clause 1, 3, 4 and 5 of Article 27 of this Decree;
2. Having a minimum legal paid-up charter capital as specified by the SEC;
3. Having sound financial performance;
4. Receiving a permission certificate issued by a concerned supervision authority of its native country at the time of submission.

The applicant shall submit application documents as set out in Article 28 of this Decree and provide the following additional documents:

1. Certified copy of its enterprise registrations;

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*Box A1.1 continuation*

2. Permission certificate issued by a concerned supervision authority of its native country allowing it to establish its branch in Lao PDR;
3. Certified copy of the company's charter and its branch's charter;
4. The list of staff in each position;
5. The agreement or official document certifying the responsibilities and obligations of the parent company over the business operations undertaken by its branch;
6. Other documents as stipulated by the Office.

**Article 36. Scope of License Regarding a Branch of a Foreign Securities Company**

A branch of a foreign securities company is allowed to undertake the securities businesses:

1. Securities brokerage;
2. Securities dealing on its own account;
3. Other kinds of securities businesses as granted by the Commission.

**Article 37. Representative Offices of Foreign Securities Companies**

Foreign securities company wishing to establish its representative office in Lao PDR shall submit an application documents to the Ministry of Planning and Investment.

Representative offices are allowed to carry out the following scope of license:

1. Being a coordination office and undertaking a marketing study;
2. Promoting the technical cooperation regarding the development of securities and securities market in the Lao PDR;
3. Other activities as stipulated in applicable laws.

**Article 38. Accounts and Financial Statements of Securities Companies**

Each securities company shall implement accounting rules and standards as prescribed in the Law on Enterprise Accounting.

Each securities company shall carry out and complete an annual external audit within the first quarter of the following financial year, and submit an audit report to the Office and publish a report of its financial situation to the public within April of each year.

**Article 39. Suspension of the Establishment and Operation License of the Securities Company**

The Office shall have the right to suspend business operations of the securities companies in the following circumstances:

1. Failing to implement the Law on Enterprise Accounting and a reporting regime as stipulated by the Office;
2. Violating provisions of any concerned regulations regarding securities and securities market;
3. Having evidence that a securities company conducts its business operations in a manner that may cause potential impact on the investors' legitimate rights and benefits;
4. Violating any clauses stipulated in Article 58 of this Decree;
5. Violating applicable laws and regulations of the Lao PDR.

**Article 40. Revocation of the Securities Business License**

A securities' firm may be revoked from its business license in any of the following cases:

1. Based upon the application request submitted by a securities company in accordance with the resolutions of its shareholders' meeting;
2. The application documents for issuance of or supplement to the securities business license includes any incorrect information that may cause any severe impact on the capital market system and its sound business operations;
3. A securities company may merge with another securities company, leading a loss of its legal entity status;
4. Violating provisions on prudential requirements as stipulated by the Office;
5. Being dissolved or bankrupt.

Upon the revocation of its securities business license, the Office shall be responsible to make a public announcement on a national newspaper and on its electronic communication media for 10 consecutive days.

**Article 41. Liquidation upon Revocation of a Securities Business License**

A securities company whose securities business license is revoked and terminated as described in Article 40 of this Decree shall implement a method of liquidation in the following cases:

1. If its securities business license is revoked in accordance with the decisions of the shareholders' meeting, a method of liquidation shall be subject to the provisions in Law on Enterprise.
2. If its securities business license is revoked due to its violation of applicable laws and regulations, its financial difficulties and business instability, the Office shall appoint a liquidation committee, comprising of representatives from relevant agencies, in order to implement any necessary liquidation process. The Office shall formulate a regulation regarding liquidation.
3. In case of dissolution and bankruptcy of securities companies by the court's decision, a method of liquidation shall be made in accordance with Law on Bankruptcy of Enterprise.

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*Box A1.1 continuation***Article 42. Securities Practitioner Certificate**

Individuals wanting to be a securities practitioner shall be employed by a securities company and receive a Securities Practitioner Certificate. The Office shall grant the Securities Practitioner Certificate to individuals who meet the following requirements:

1. Having adequate legal and civil behavior capacity;
2. Shall not be sentenced by the court of offences related fraud, deception, falsification of document, taking or giving bribe, corruption or money laundering;
3. Holding a university degree or above in the field of finance-banking, business administration, law, accounting or economics;
4. Having passed a securities-related examination organized by the Office.
5. An individual who owns a professional certificate of securities and the securities market from a relevant authority of its native country may obtain the Lao Securities Practitioner Certificate by passing an examination of applicable laws of Lao PDR organized by the Office.

**Article 43. Revocation of Securities Practitioner Certificate**

A securities practitioner shall be subject to revocation of the Securities Practitioner Certificate in the following cases:

1. The application documents for issuance of or supplement to the securities practitioner certificate includes any incorrect information ;
2. Violating the provisions on securities professional practitioners;
3. Not conducting any securities practice for 3 consecutive years.

**Part V****Securities Exchange****Section 1****Establishment****Article 44. Establishment of a Securities Exchange**

A centrally organized securities exchange shall be established in a limited liability company, except for a sole limited liability company, and the establishment shall be decided by the Office.

A person and organization who is wishing to establish a securities exchange shall meet the following requirements:

1. Having an appropriate location and office;
2. Having adequate, modern and secure technical facilities for securities business operations;
3. Having its directors, audit committee and key staff who have qualifications and experience in the field of securities business;
4. Having a reasonable business plan and adequate capital;
5. Other requirements as stipulated by the Office.

**Article 45. License Application Documents**

The applicant shall submit the application documents for a securities exchange license to the Office.

The application documents include:

1. The application form as specified by the Office;
2. The agreement for establishing a securities exchange;
3. The exchange's charter;
4. Certificates related to the qualifications and experience of proposed administrators and principal shareholders;
5. The list of shareholders and their proportion of shareholding;
6. A certificate of financial status and other necessary documents related to principal shareholders;
7. A business plan for the first 3 business years after the establishment;
8. Other documents as stipulated by the Office.

An applicant shall pay fees according to regulations as specified by the Office.

**Article 46. Organizational Structure of a Securities Exchange**

The organizational structure of a securities exchange shall include the shareholders' meeting, Board of Directors, Audit Committee, Governance Committee, Securities Depository Center, Payment Supporting Fund, and other divisions.

The appointment of the Chairman of its Board of Directors and its Chief Executive Officer shall be decided and approved by the Commission.

**Article 47. The Exchange's Charter**

The charter of a securities exchange shall have the contents in consistence with Article 82 as set out in Law on Enterprise.

The charter shall have legal effect only if the securities exchange has a written approval from the Office.

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*Box A1.1 continuation***Article 48. Rights of the Securities Exchange**

The securities exchange shall have the following rights:

1. To promulgate the regulations on securities listing, securities trading, information disclosure and trading members upon approval from the Office.
2. To organize, manage and regulate the securities trading activities at the Securities Exchange.
3. To temporarily discontinue, suspend or, cancel securities trading in accordance with its applicable regulations.
4. To approve or cancel the listing of securities and monitor listed companies' implementation of listing requirements on the Securities Exchange;
5. To approve or cancel the membership of the securities companies at the Securities Exchange;
6. To supervise and monitor securities trading activities, to investigate any suspected transactions, and fine trading members at the Securities Exchange. Such said fine shall not exceed KX100 million;
7. To supervise the information disclosure of listed companies and trading members at the Securities Exchange;
8. To provide market information and information relating to listed securities;
9. To act as a conciliator upon request of trading members when any disputes arise relating to securities trading activities;
10. To collect fees in accordance with the regulations upon an approval from the Office;
11. Other rights as approved by the Office.

**Article 49. Duties of the Securities Exchange**

The securities exchange shall have the following duties:

1. To ensure that securities trading activities in the market are conducted in a public, equal, orderly and efficient manner;
2. To comply with the reporting and auditing regimes in accordance with applicable laws;
3. To publish information relating to securities trading activities taking place in the Securities Exchange, listed securities and trading members;
4. To provide information and coordinate with competent state agencies in the investigation, and prevention and fight against violations of the provisions on securities and the securities market;
5. To carry out dissemination and investor education regarding securities and the securities market;
6. To pay damages to trading members in case of failure to perform duties resulting in damages to trading members, except for force majeure cases;
7. To act as a center in regard with clearing and settlement on behalf of buyers and sellers, including transfer agent for securities among traders;
8. Other duties as approved by the Office.

**Article 50. Trading Members**

Securities firms licensed according to this Decree shall be eligible to register as trading members of the Securities Exchange upon conditions, procedures and provisions as provided in its regulation on trading members. Trading members shall operate in compliance with applicable regulations of the Securities Exchange.

**Article 51. Securities Listing**

An issuer shall be eligible to list their securities in the Securities Exchange. The issuer shall have to meet requirements on capital, business operation and financial capability, and the number and structure of shareholders as stipulated by the Securities Exchange. The issuer submitting the application documents for listing shall be responsible for the accuracy, honesty and adequacy of the listing documents in accordance with Regulation on securities listing as specified by the Securities Exchange.

The listed organizations shall operate in compliance with applicable regulations of the Securities Exchange.

**Article 52. Securities Trading Activities**

The Securities Exchange shall organize listed securities transactions according to the concentrated order-matching method in order to ensure a transparent, fair and efficient market operation.

Securities listed in the Securities Exchange shall be traded only at the securities companies being trading members of the Securities Exchange.

**Article 53. Reporting Regime**

The Securities Exchange shall have to report its business operation activities including financial performance to the Office, as follows:

1. A quarterly report shall be submitted not later than the 30th of the following month;
2. An audited annual report shall be submitted within 7 days after the completion of an external auditing performance.

**Article 54. External Audit**

The Securities Exchange shall annually be audited by an independent external auditing company which is in the list of external auditing companies as approved by the Office. An audit report shall be certified in written by an auditing organization and completed within the first quarter of the following financial year.

**Section 2****Securities Depository Center****Article 55. Securities Depository Center**

The Securities Depository Center shall be a part of the Securities Exchange and perform the following duties:

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*Box A1.1 continuation*

1. To register and deposit securities;
2. To transfer securities ownership to the holders;
3. To make clearing and settlement relating to securities transactions;
4. To prepare and issue the list of securities holders upon the issuer' request;
5. To provide other services relating to the distribution of dividends and the request of organizing the shareholders' meeting upon the request of public companies and issuers;
6. Other duties as approved by the Office.

## Article 56. Payment Supporting Fund

The payment supporting fund shall be a part of the Securities Exchange in order to prevent any potential payment risks regarding cash settlement. Each trading member shall contribute to the fund accordingly to the rate of contribution as stipulated in applicable regulations of the Securities Exchange.

## Article 57. Cash Settlement

Each trading member shall appoint any commercial bank as their correspondent bank in order to manage cash accounts and perform the payments of money concerning to securities transactions. The agreement on such said business partnership shall be created and approved by the Office.

The Bank of the Lao PDR shall serve as the designated settlement bank among trading members of the Securities Exchange.

**Part VI****Prohibited Acts, Information Disclosure, Report Regime, Inspection and Settlement of Disputes**

## Article 58. Prohibited Acts regarding Securities Transactions

Individuals and organizations shall be prohibited from undertaking the following securities-related activities:

1. The issuing company advertises the securities public offering and distribute the securities prior to having obtained an approval from the Office;
2. The securities company performs any operation activities in order to manipulate the actual securities prices, amount and characteristics, which may cause negative damages to the securities market or may take advantage over the investors and its clients; buys or sells any unauthorized securities; and buys or holds securities exceeding a holding proportion limit as stipulated by the Office;
3. Individuals or organizations which are not licensed securities companies undertake any securities businesses without having obtained an authorization from the Office;
4. Securities listed in the Securities Exchange are traded outside the Securities Exchange;
5. Insiders use inside information to buy or sell securities for his own or for a third party; disclose and provide inside information to a third party to buy or sell securities basing on the inside information; and disclose the clients' information negatively or abusing the rights to buy and sell securities on behalf of its clients without their permission;
6. Individuals or organizations who know or possess internal information and use the information for the benefit of their securities-related activities;
7. Individuals or organizations manipulate the security prices which are not consistent with the actual market condition by undertaking securities transactions without transferring the ownership attached to those securities; or conspiring with each other to buy or sell securities to thereby create false supply of and demand for securities; or buying, selling or enticing others to continuously buy or sell securities in order to manipulate the securities prices;
8. Individuals or organizations create and disseminate false information that seriously affects the securities market and investment transactions, prior to receiving an approval from the Office;
9. Legal persons open accounts in the name of individuals to buy or sell securities.
10. Institutions are named "Securities Company" or "Securities Exchange" or "similar words" without an authorization from the Office;
11. Individuals or organizations takes advantage of a securities business license for money-laundering purposes;
12. Individuals or organizations open accounts in the name of another individual or organizations to buy or sell securities;
13. Individuals or organizations perform any obstacles against inspection and auditing activities undertaken by the Office, the Internal Audit Committee and an external auditor, by refusing and delaying to provide information and cooperative supports;
14. An external auditor has direct interests or hold more than 0.1% of total share amount in a public company at the time that it performs an auditing service for the public company;
15. The securities company have direct interests or hold more than 0.1% of total share amount in an issuer at the time that it performs an underwriting service for the issuer;
16. The securities company uses the clients' deposited money or securities or both on behalf of the clients without their permission;
17. Individuals or organizations fail to provide and publish information on securities transactions in a full and timely manner, which may cause damage to investors' interests;
18. Other prohibited acts as stipulated by the Office.

## Article 59. Information Disclosure of an Issuing Company

An issuer is required to conduct the disclosure of information via any means of the mass media or via an information communication system of the Office. The publication of information shall include:

1. Quarterly financial statement which is audited by an internal auditor;
2. An annual financial report which is audited by an certified external auditing organization;
3. An annual business report;

*continued on next page*

*Box A1.1 continuation*

4. Other information as stipulated by the Office.

In addition to the disclosure of information to the Office, listed companies are required to disclose information in accordance with regulations as stipulated by the Securities Exchange.

**Article 60. Reporting Regime**

The issuers, securities companies and the Securities Exchange are required to report to the Office according to regulations as prescribed by the Office.

**Article 61. Inspection**

The Office shall inspect the issuers, securities companies and the Securities Exchange on the basis of scheduled inspections and ad hoc inspections whenever necessary.

The issuers, securities companies and the Securities Exchange shall facilitate and provide information to the Office at the time of performing its inspection activities.

**Article 62. Rights and duties of Inspectors of the Office**

Inspectors of the Office shall have the following rights and duties:

1. To inspect the implementation of rules and regulations regarding securities and securities market in order to ensure a stable, transparent, fair and efficient market;
2. To examine the accounts, books, documents, electronic data, and other records concerning securities-related transactions;
3. To require administrators and employees to provide all information on any matter relating their administration and operations;
4. To enter any premises where a violation of applicable law and regulations is suspected to have been committed and seize documents or other property connected with the suspected commission of the violation;
5. To meet with the board of directors and administrators of the said organizations in order to make assessment on the implementation of this Decree and other relevant regulations related to securities and securities market;
6. To implement any measures and sanctions against violators of applicable regulations related to securities and securities market;
7. To exercise other rights and perform other duties as stipulated by the Office.

**Article 63. External Auditor**

Each issuer, securities company and Securities Exchange shall be audited by an independent external auditing organization. Such an auditing organization shall be certified and authorized by the Office.

An audit on the issuer, securities company and Securities Exchange shall be performed and completed within the first quarter of the following financial year and an audit report shall be published to the public.

**Article 64. Settlement of Disputes**

If any dispute arises from operations in securities and securities market, such dispute shall be settled amicably between the Parties hereto by mutual discussions. In case no settlement can be reached by consultation, the parties may submit the case of such an arising dispute to the Office for mediation.

In case reconciliation fails, the parties may bring the dispute to an arbitrator or to the court for settlement in accordance with applicable laws.

Regarding the request to the Office to act as a mediator to settle the arising dispute, the parties shall bear the costs of the arbitration as stipulated by the Office.

**Part VII**

**Awards and Sanctions**

**Article 65. Awards to Persons Who Have Performed Well**

Any person or organization who has outstanding performance in operation, development and management activities in the field of securities and securities market, and prevent infringement of this Decree and relevant regulations regarding securities and securities market will be rewarded and receive other policy by applicable regulations.

**Article 66. Sanctions against Violators**

Any person or organization who violates the provisions in this Decree shall be subject to the following sanctions and penalties; namely, being warned in writing, being fined, suspending or revoking a securities business license, revoking the Securities Practitioner License, and being subject to legal proceedings [based on] the character and scope of their violation.

*continued on next page*

*Box A1.1 continuation*

**Part VIII**

**Final Provisions**

Article 67. Implementation

The Commission and Office shall implement this Decree.

Ministries, ministerial equivalents, and the related sectors of the economy shall disseminate and strictly implement this decree.

Article 68. Effectiveness

This decree shall enter into force after 30 days as from the date of signature.

Any regulation, provisions that conflict with this decree shall be repealed.

FOR AND ON BEHALF OF THE GOVERNMENT

PRIME MINISTER

(Signature and seal)

Bouasone Bouphavanh



## Appendix 2: Part II. Disclosure by Bond-Listed Corporation

### Box A1.2 Part II. Disclosure by Bond-Listed Corporation

#### Disclosure Regulation of Lao Stock Exchange, January 2011:

##### Article 27. Objectives

The purpose of this Part is to stipulate the matters necessary for reporting and disclosing the business details of the companies that have listed the corporate bonds on the LSX.

##### Article 28. Definitions

- (1) The term “a bond-listed corporation” shall mean the issuer of the bonds listed in the LSX.
- (2) The term “a listed bond” shall mean a bond issued pursuant to the Law and listed on the LSX.

##### Article 29. Material Business Details to be Reported

(1) In case where a bond-listed corporation, which has also listed a stock on the LSX, has disclosed the matter specified in [Article 7] in relation to the stocks, it shall be deemed that such a bond-listed corporation has made a disclosure in accordance with this Part. [sic]

(2) When coming under any of the following items, a bond-listed corporation shall report such fact or details of decision made to the LSX on the same day the incidence [sic] has occurred:

1. Cases where the bill or check issued was dishonored or the transaction with the bank has been suspended or prohibited;
2. Cases where the business operation, in part or whole, has been suspended;
3. Cases where the causes for dissolution has occurred;
4. Cases where the decision on merger with another company, business transfer or acquisition, split-off, merger after split-off has been made;
5. Cases where a lawsuit that will have material influence on the listed bonds has been launched;
6. Cases where the auditor’s opinion in [sic] the external certified audit report is qualified, adverse or disclaimer of opinion.

(3) When coming under any of the following items, the bond-listed corporation shall report such facts or details of decision made to the LSX by the next day of occurrence of the causes:

1. Case where the bond has been redeemed before its maturity;
2. Case where the notification of calling of a meeting of bondholders has been sent;
3. Case where the decisions made at the meeting of bondholders has been notified;
4. Case where the principal of listed bond has not been paid; and
5. In addition, case where significant events relating to the rights, yields or handling of listed bond have occurred.

##### Article 30. Unfaithful Disclosure

(1) When a bond-listed corporation does not report the matters to be disclosed pursuant to [Article 29] or submits the report after the reporting deadline, or reverses or changes the details already reported, such cases shall deem to be an unfaithful disclosure. However, this provision shall not be applied to the case where a bond-listed corporation, which has listed a stock, comes under the unfaithful disclosure by breaching [Article 7].

(2) In case where a bond-listed corporation comes under the unfaithful disclosure, the LSX shall release such fact through its disclosure media, etc.

##### Article 31. Mutatis Mutandis Application

The provisions of [Article 2(3), Article 4, Article 5, Article 6, Article 24, Article 25 and Article 26] shall apply to a bond-listed corporation.

# Appendix 3: Law on the Promotion and Management of Foreign Investment in the Lao People's Democratic Republic

## Box A1.3 Law on the Promotion and Management of Foreign Investment in the Lao People's Democratic Republic

### LAW ON THE PROMOTION AND MANAGEMENT OF FOREIGN INVESTMENT IN THE LAO PEOPLE'S DEMOCRATIC REPUBLIC

#### Article 1:

The Government of the Lao People's Democratic Republic encourages foreign persons, either individuals or legal entities, to invest capital in the Lao People's Democratic Republic (hereinafter "the Lao PDR") on the basis of mutual benefit and observance of the laws and regulations of the Lao PDR. Such persons hereinafter shall be referred to as "foreign investors."

#### Article 2:

Foreign investors may invest in and operate enterprises in all fields of lawful economic activity such as agriculture and forestry, manufacturing, energy, mineral extraction, handicrafts, communications and transport, construction, tourism, trade, services and others.

Foreign investors may not invest in or operate enterprises which are detrimental to national security, the natural environment, public health, the natural culture, or which violate the laws and regulations of the Lao PDR.

#### Article 3:

The property and investment in the Lao PDR of foreign investors shall be fully protected by the laws and regulations of the Lao PDR. Such property and investments may not be requisitioned, confiscated or nationalized except for a public use purpose [sic] and upon payment of prompt, adequate and effective compensation.

### SECTION II: FORMS OF FOREIGN INVESTMENT

#### Article 4:

Foreign investors may invest in the Lao PDR in either of the following forms:

- (1) A Joint Venture with one or more domestic Lao investors; or
- (2) A Wholly Foreign-Owned Enterprise.

#### Article 5:

A Joint Venture is a foreign investment established and registered under the laws and regulations of the Lao PDR, which is jointly owned and operated by one or more foreign investors and by one or more domestic Lao investors. The organization, management and activities of the Joint Venture and the relationship between its parties shall be governed by the contract between its parties and the Joint Venture's Articles of Association, in accordance with the laws and regulations of the Lao PDR.

#### Article 6:

Foreign investors who invest in a Joint Venture must contribute a minimum portion of thirty percent (30%) of the total equity investment in that venture. The contribution of the venture's foreign party or parties shall be converted in accordance with the laws and regulations of the Lao PDR into Lao currency at the exchange rate then prevailing on the date of the equity payment(s), as quoted by the Bank of the Lao PDR.

#### Article 7:

A wholly Foreign-Owned Enterprise is a foreign investment registered under the laws and regulations of the Lao PDR by one or more foreign investors without the participation of domestic Lao investors. The enterprise established in the LAO PDR may be either a new company or a branch or representative office of a foreign company.

#### Article 8:

A foreign investment which is a Lao branch or representative office of a foreign company shall have Articles of Association which shall be consistent with the laws and regulations of the Lao PDR and subject to the approval of the Foreign Investment Management Committee of the Lao PDR.

#### Article 9:

The incorporation and registration of a foreign investment shall be in conformity with the Enterprise Decree of the Lao PDR.

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*Box A1.3 continuation*

### **SECTION THREE: BENEFITS, RIGHTS AND OBLIGATIONS OF FOREIGN INVESTORS**

**Article 10:**

The Government of the Lao PDR shall protect foreign investments and the property of foreign investors in accordance with the laws and regulations of the Lao PDR. Foreign investors may lease land within the Lao PDR and transfer their leasehold interests; and they may own improvements on land and other moveable property and transfer those ownership interests. Foreign investors shall be free to operate their enterprises within the limits of the laws and regulations of the Lao PDR. The Government shall not interfere in the business management of those enterprises.

**Article 11:**

Foreign investors shall give priority to Lao citizens in recruiting and hiring their employees. However, such enterprises have the right to employ skilled and expert foreign personnel when necessary and with the approval of the competent authority of the Government of the Lao PDR. Foreign investors have an obligation to upgrade the skills of their Lao employees, through such techniques as training within the Lao PDR or abroad.

**Article 12:**

The Government of the Lao PDR shall facilitate the entry into, travel within, stay within, and exit from Lao territory of foreign investors, their foreign personnel, and the immediate family members of those investors and those personnel. All such persons are subject to and must obey the laws and regulations of the Lao PDR while they are on Lao territory. Foreign investors and their foreign personnel working within the Lao PDR shall pay to the government of Lao PDR personal income tax at a flat rate of ten percent (10%) of their income earned in the Lao PDR.

**Article 13:**

Foreign investors shall open accounts both in Lao currency and in foreign convertible currency with a Lao bank or foreign bank established in the Lao PDR.

**Article 14:**

In the management of their enterprises, foreign investors shall utilize the national system of financial accounting of the Lao PDR. Their accounts shall be subject to periodic audit by the Government's financial authorities in conformity with the applicable Lao accounting regulations.

**Article 15:**

In conformity with the law and regulations governing the management of foreign exchange and precious metals, foreign investors may repatriate earnings and capital from their foreign investments to their own home countries or to third countries through a Lao bank or foreign bank established in the Lao PDR at the exchange rate prevailing on the date of repatriation as quoted by the Bank of the Lao PDR. Foreign personnel of foreign investments may also repatriate their earnings, after payment of Lao personal income taxes and all other taxes due.

**Article 16:**

Foreign investments subject to this law shall pay a Lao PDR annual profit tax at a uniform flat rate of twenty percent (20%), calculated in accordance with the provisions of the applicable laws and regulations of the Lao PDR. Other Lao taxes, duties and fees shall be payable in accordance with the applicable laws and regulations of the Lao PDR. For foreign investments involving natural resources exploitation and energy generation, sector-specific taxes and royalties shall be prescribed in project agreements entered into between the investors and the Lao Government.

**Article 17:**

Foreign investments shall pay a Lao PDR import duty on equipment, means of production, spare parts and other materials used in the operation of their investment projects or in their productive enterprises at a uniform flat rate of one percent (1%) of their imported value. Raw materials and intermediate components imported for the purpose of processing and then re-exported shall be exempt from such import duties. All exported finished products shall also be exempted from export duties. Raw materials and intermediate components imported for the purpose of achieving import substitution shall be eligible for special duty reductions in accordance with the Government's applicable incentive policies.

**Article 18:**

In highly exceptional cases and by specific decision of the Government of the Lao PDR, foreign investors may be granted special privileges and benefits which may possibly include a reduction in or exemption from the profit-tax rate prescribed by Article 16 and/or a reduction in or exemption from the import-duty rate prescribed by Article 17, because of the large size of their investments and the significant positive impact which those investments are expected to have upon the socio-economic development of the Lao PDR. In the event of the establishment of one or more Free Zones or Investment Promotion Zones, the Government shall issue area-specific or general regulations or resolutions.

**Article 19:**

After payment of its annual profit tax, a foreign investor shall devote a portion of its profit each year to various reserve funds necessary for the operation and development of the enterprise in order to continuously improve the enterprise's efficiency, in accordance with the policies and the Articles of Association of the enterprise.

**Article 20:**

Foreign investments approved under this law shall at all times be operated in accordance with the laws and regulations of the Lao PDR. In particular, foreign investors shall take all measures necessary and appropriate to ensure that their investments' facilities, factories and activities protect the natural environment and the health and safety of the workers and the public at large, and that their investments contribute to the social insurance and welfare programs for their workers in conformity with the policy and the laws and regulations of the Lao PDR.

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*Box A1.3 continuation***Article 21:**

In the event of disputes between foreign parties within a foreign investment, or between foreign investors and Lao parties, the disputants should first seek to settle their differences through consultation or mediation. In the event that they fail to resolve the matter, they shall then submit their dispute to the economic arbitration authority of the Lao PDR or to any other mechanism for dispute resolution of the Lao PDR, a foreign country or an appropriate international organization which the disputants can agree upon.

**SECTION FOUR: THE ORGANIZATION OF FOREIGN INVESTMENT MANAGEMENT****Article 22:**

The Government of the Lao PDR has established a State organization to promote and to manage foreign investment within the Lao PDR titled the Foreign Investment Management Committee (hereinafter called “the DDFI”). [NOTE: The DDFI now conducts business under the name DDFI]. The DDFI is responsible for administration of this law and for the protection and promotion of foreign investment within the Lao PDR.

**Article 23:**

All foreign investments established within the Lao PDR shall be assisted, licensed and monitored through the “one-stop-service” of the DDFI, acting as the central focal point for all Government interactions with the investors, with the collaboration of the concerned ministries and the relevant provincial authorities.

**Article 24:**

A foreign investment shall be considered to be legally established within the Lao PDR only upon the investor’s receipt of a written foreign investment license granted by the DDFI.

**Article 25:**

A foreign investor which seeks a license for a foreign investment shall submit to the DDFI an application and such supporting documentation as the DDFI may prescribe by regulation. The DDFI may grant preliminary approval-in-principle for investment projects being specially promoted by the Government.

**Article 26:**

Upon receipt of a completed application and supporting documentation, the DDFI shall screen them, make a foreign-investment licensing decision, and notify the applicant of that decision within 60 days of the application’s submission date. Within this same overall 60-day period, concerned ministries and provincial authorities consulted by the DDFI for their views shall have a maximum of 20 days in which to reply.

**Article 27:**

Within 90 days of receiving its foreign investment license from the DDFI, a foreign investor shall register that license and commence operation of its investment in conformity with the implementation schedule contained in the investment’s feasibility study and with the terms and conditions of the license granted by the DDFI, and in accordance with the laws and regulations of the Lao PDR.

**Article 28:**

The DDFI has responsibility to coordinate with other concerned ministries and provincial authorities in monitoring and enforcing the implementation of a foreign investment in conformity with the investment’s feasibility study and with the terms and conditions of the investment license, and in accordance with the laws and regulations of the Lao PDR. The concerned ministries and provincial authorities have the responsibility to perform their respective monitoring and enforcement obligations.

**Article 29:**

If a foreign investor violates the agreement and the terms and conditions of its foreign investment license, or the laws and regulations of the Lao PDR, the investor shall be notified of the detected violation and shall be instructed to promptly desist. In the event the investor fails to desist, or in case of a serious violation, the investor’s foreign investment license may be suspended or revoked, and the investor may additionally be subject to other sanctions under the applicable laws and regulations of the Lao PDR.

**SECTION FIVE: FINAL PROVISIONS****Article 30:**

This law shall come into force 60 days after its ratification. Upon the entry into force of the present law, the foreign investment law of the Lao People’s Democratic Republic No. 07/PSA dated 19 April 1988 shall cease to have effect, without prejudice to the rights and privileges granted to, and the obligations imposed upon, foreign investments under the law No. 07/PSA. Notwithstanding this provision, a foreign investor which received its license under the prior law may elect to petition the DDFI in writing, within 120 days of the coming into force of this law, to become subject to the terms of this law. The DDFI may grant such petitions at its discretion. For a foreign investor whose petition is granted, the rights and benefits previously granted and the obligations previously imposed under the law No. 07/PSA shall thereafter prospectively cease to have effect.

**Article 31:** The Government of the Lao PDR shall, by decree, issue detailed regulations for the implementation of this law.

Vientiane, 14 March 1994  
 President of the National Assembly  
 Signed : Saman Viyaket

# Appendix 4: Law on the Promotion of Foreign Investment No. 11/NA (2004)

## Box A1.4 Law on the Promotion of Foreign Investment No. 11/NA (2004)

### National Assembly

No. 11/NA

Vientiane Capital City, Date: 22 October 2004

### Law on the Promotion of Foreign Investment

No. 11/NA

#### Article 1: Objectives

The Law on the Promotion of Foreign Investment determines principles, regulations and measures regarding the promotion, protection and management of foreign investment in the Lao PDR aiming at enhancing relationships, economic cooperation with foreign countries, and utilisation of financial resources and knowledge to enhance production capacity for purpose of industrialisation and progressive modernisation, as well as to contribute to gradually improving the people's living conditions, and to strengthen and to develop the country.

#### Article 2: Definitions

“Foreign investment” means the importation of capital which includes assets, technology and expertise into the Lao PDR by foreign investors for business purposes.

“Foreign investor” means a foreign individual or juristic entity investing in the Lao PDR.

“Domestic investor” means Lao individuals or juristic entities, or aliens or stateless persons residing in the Lao PDR who are shareholders or take part in joint ventures with foreign parties.

“Asset” means currency, materials and intellectual property.

“Foreign enterprise” means a 100% foreign-owned enterprise, a joint venture and an enterprise established under a business cooperation contract incorporated in the Lao PDR.

#### Article 3: Promotion of Foreign Investment

Foreign investors may invest in all business sectors in the Lao PDR, except in business activities which are detrimental to national security or cause a negative impact on the environment in the present or long term, or are detrimental to health or national traditions.

The State promotes foreign investors investing in business sectors and areas of investment as provided in Article 16 and 17 of this law by establishing policies on customs, taxes, regulations, measures and provision of information, services and other facilities to foreign investors.

#### Article 4: Protection of Foreign Investment

Assets and investment of foreign investors in the Lao PDR shall be fully protected by laws and regulations of the Lao PDR without seizure, confiscation or nationalisation, except if necessary for public purpose, in which case the foreign investors shall be compensated in accordance with laws and regulations.

### Chapter II

#### Forms of Foreign Investment

#### Article 5: Forms of Foreign Investment

Foreign investors may invest in the Lao PDR in the following forms:

1. Business Cooperation by contract;
2. Joint Venture between foreign and domestic investors;
3. 100% foreign-owned enterprise

#### Article 6: Business Cooperation by Contract

A Business Cooperation by contract is business between domestic and foreign juristic entities without establishing a new juristic entity in the Lao PDR.

The objectives, forms, business terms, rights and obligations, liabilities and benefits of each party shall be determined by contract.

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*Box A1.4 continuation*

## Article 7: Joint Ventures

A Joint Venture is an enterprise established and registered under the laws of the Lao PDR, operated and jointly owned by foreign and domestic investors. The organisation, management, operation and the relationship between the shareholders of the Joint Venture are set out in an agreement made by both parties and in the Articles of Association of such Joint Venture.

Foreign investors investing in a Joint Venture shall contribute at least thirty percent (30%) of the Joint Venture's registered capital. Capital contributed in foreign currency shall be converted into Kip based on the exchange rate of the Bank of the Lao PDR on the day of the capital contribution.

## Article 8: 100% Foreign-Owned Enterprise

A one hundred percent (100%) foreign-owned enterprise is an enterprise in which the investment in the Lao PDR is made by a foreign investor only. Such enterprise may be incorporated as a new juristic entity or as a branch of a foreign enterprise.

## Article 9: Registered Capital

The registered capital of a foreign enterprise shall not be less than thirty percent (30%) of its total capital. During the business operation of a foreign enterprise, the assets of the enterprise shall not be less than its registered capital.

## Article 10: Representative Offices

A foreign juristic entity incorporated under the law of other countries may establish a representative office in the Lao PDR to collect information, study the feasibility of investment, and coordinate for the purpose of applying for investment.

Representative offices or agents which operate for commercial purposes do not come under this Law.

## Article 11: Investment Term

The investment term of a foreign enterprise depends on the nature, size and conditions of the business activities or project but will not exceed fifty (50) years and may be extended with the approval of the Government. However, the investment term of a foreign enterprise shall be for a maximum of seventy five (75) years.

### **Chapter III Rights, Benefits and Obligations of Foreign Investors**

## Article 12: Rights and Benefits of Foreign Investors

Foreign investors shall have the following rights and benefits:

1. To receive support from the Government in establishing and operating their business in accordance with the laws and regulations;
2. To obtain protection of rights and legitimate interests related to business operations;
3. To own assets;
4. To receive benefits from the lease of or a concession over land such as the right to use, sell or use assets associated with the leased land or concession as security to any persons or financial institutions or for the purpose of joint venture, to sublease the right to use land, to transfer the land lease or concession agreement in accordance with the lease term, to use the land lease agreement or concession in Joint Ventures or as security with other persons. The details of the rights, benefits and obligations of foreign investors related to the land lease or concession shall be in compliance with the Land Law and other relevant laws;
5. To use foreign labourers, if necessary, but shall not exceed 10% (ten percent) of the enterprise's labour;
6. Foreign investors and their families, foreign professionals and employees of a foreign enterprise will be provided with facilities such as multiple-entry visas and long-term residence in the Lao PDR with the agreement of the Government; and will have the right to request Lao nationality in accordance with the Nationality Law;
7. To receive protection of their intellectual property which has been registered by the relevant authorities in the Lao PDR;
8. To transfer/repatriate profits, capital and other income after full payment of duties, taxes and other fees in accordance with regulations and laws, to their home countries or a third country through a commercial bank located in the Lao PDR;
9. To open a Kip account and a foreign currency account with commercial banks located in the Lao PDR;
10. To request an equitable decision from or to file a complaint to the relevant authorities when their business operations have been affected;
11. To obtain other rights and benefits as provided in the Laws.

## Article 13: Obligations of the Foreign Investors

The obligations of foreign investors are:

1. To operate business activities in accordance with their licence, procedures set out in their feasibility study, any contract and laws and regulations;
2. To maintain accounts in accordance with the Enterprise Accounting Law of the Lao PDR. If necessary, an internationally recognised accounting system may be used with approval of the Ministry of Finance. To submit a report on business performance and an annual financial report to the Committee for

*continued on next page*

*Box A1.4 continuation*

Promotion and Management of Investment and other relevant authorities;

3. To fully pay duties, taxes and other financial obligations related to the business operations in a timely manner;
4. To facilitate the organisation and activities of the mass organisations in their enterprises;
5. To give priority in recruiting to Lao workers, to train and upgrade professional skills and transfer technology to Lao workers;
6. To address social security matters, health care and safety of employees in their enterprises;
7. To protect the environment, and ensure that business activities do not cause an adverse impact on the public, national security or social order;
8. To maintain a reserve in accordance with laws and regulations;
9. To maintain insurance and social security policies in accordance with laws and regulations related to insurance and social security;
10. If an enterprise is relocated, the enterprise shall inform the relevant authorities and shall maintain its location in normal working condition;
11. To report on the performance of business operations to the Committee for Promotion and Management of Investment and other relevant authorities;
12. To perform other obligations as set out in the laws and regulations.

Article 14: Personal Income Tax of Foreign Employees

Foreign employees working in a foreign investment enterprise shall pay personal income tax at the rate of ten percent (10%) of their total income to the Lao Government, except employees of a country with which the Lao Government has signed a Double Taxation Agreement.

**Chapter IV  
Incentives for Foreign Investment**

Article 15: Incentives for Foreign Investment

The State will consider granting incentives for foreign investment in accordance with the sectors and zones of investment promotion as provided in Article 16 and 17 of this Law.

Article 16: Promoted Activities

The Government determines promoted activities as follows:

1. Production for export;
2. Agricultural and forestry activities, agro-forestry and handicraft processing activities;
3. Activities relating to industrial processing, industrial activities using modern technology, scientific study and analysis activities and development, activities in relation to protection of the environment and biodiversity;
4. Human resources development, skills development and protection of people's health;
5. Construction of infrastructure;
6. Production of raw materials and equipment to be supplied to key industrial activities;
7. Development of tourism and transit services.

Article 17: Promoted Zones

The Government specifies three promoted zones based on geographical location and socio-economic conditions. The zones are as follows:

Zone 1: Mountainous, plain and plateau zones with no economic infrastructure to facilitate investments.

Zone 2: Mountainous, plain and plateau zones with a certain level of economic infrastructure suitable to accommodate investments to some extent.

Zone 3: Mountainous, plain and plateau zones with good infrastructure to support investments.

The details of the promoted zones will be determined by the Government.

Article 18: Incentives Related to Duties and Taxes

Foreign enterprises investing in activities within the promoted sectors and zones determined in Article 16 and 17 of this Law will be entitled to the following duty and tax incentives:

Investments in Zone 1 will be entitled to a profit tax exemption for 7 years and thereafter will be subject to profit tax at the rate of ten percent (10%).

Investments in Zone 2 will be entitled to a profit tax exemption for 5 years, and thereafter will be subject to a reduced profit tax rate of half of fifteen percent (15%) for 3 years, and thereafter a profit tax rate of fifteen percent (15%).

Investments in Zone 3 will be entitled to a profit tax exemption for 2 years and thereafter will be subject to a reduced profit tax rate of half of twenty percent for 2 years and thereafter a profit tax rate of twenty percent (20%).

Profit tax exemption starts from the date of the foreign enterprise's commencement of business operations. For some tree plantation activities, profit tax exemption commences from the date the enterprise starts making a profit.

Once the profit tax exemption period is over, the foreign investment enterprise shall pay profit tax in accordance with the laws and regulations.

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*Box A1.4 continuation*

In addition to the incentives mentioned above, the foreign investment enterprises shall be entitled to the following incentives:

1. During the tax exemption period and during the tax reduction period, the enterprise is entitled to an exemption of minimum tax;
2. The profit used for the expansion of licensed business activities will be exempted from profit tax during the accounting year;
3. Exemption of import duties and taxes on equipment, spare parts, vehicles directly used for production, raw materials which do not exist domestically or exist but are insufficient, semi-finished products imported for manufacturing or for processing for the purpose of export; and
4. Exemption of export duty on export products.

Raw materials and semi-finished products imported for manufacturing or assembly for import substitution will be exempted from import duties and taxes or will be subject to reduced rates of import duties and taxes.

Special economic zones, industrial zones, border trade areas, and other specific economic zones shall follow the laws and regulations of such specific areas.

## **Chapter V**

### **Application for a Foreign Investment License**

#### Article 19: Application for Foreign Investment

Application for foreign investment in the Lao PDR shall go through the one-stop service of the Committee for Promotion and Management of Investment (“CPMI”).

Foreign investors wishing to invest in the Lao PDR shall submit an application to CPMI at the central or provincial levels with attachments such as copies of passport and resumé of the foreign investor; feasibility study or business plan; background information on the investor in the case of a juristic entity; and a Joint Venture Agreement in the case of a Joint Venture.

#### Article 20: Examination of a Foreign Investment Application

Upon receipt of a complete application in accordance with Article 19 of this Law, the CPMI shall coordinate with relevant sectors and local authorities when necessary to examine and to respond in writing to the foreign investor pursuant to the following timeframes:

- Projects which fall in the list of promoted activities – fifteen working days;
- Projects which fall in the list of open activities with conditions – twenty-five working days;
- Projects which involve the grant of a concession – forty-five working days.

Foreign investors who are qualified under this Law will obtain a foreign investment licence, an enterprise registration certificate, and a tax registration certificate at the same time from the CPMI at the place where the foreign investors are licensed; thereafter they will be considered as enterprises established in conformity with the laws of the Lao PDR.

Within 90 days from the date of receipt of an investment licence, the foreign enterprise shall commence investment activities in accordance with the steps in the feasibility study provided in the foreign investment licence application and in conformity with laws and regulations of the Lao PDR. If such timeframe is not followed, the foreign investment licence may be withdrawn.

## **Chapter VI**

### **Management of Foreign Investment**

#### Article 21: Management Authorities Related to Foreign Investment

Management authorities related to foreign investment are:

1. The Committee for Promotion and Management of Investment at central and provincial levels;
2. Relevant sectors and sections.

#### Article 22: Rights and Duties of CPMI at the Central Level

The Committee for Promotion and Management of Investment at the central level is established by the Prime Minister, located at the Committee for Planning and Investment and has the following rights and duties:

1. To develop strategies, incentives to promote and attract foreign investments, and propose them to the Government for approval;
2. To issue decisions, orders, instructions, and notifications regarding the protection and promotion of foreign investments;
3. To prepare a plan and a list of investment projects that are available for foreign investments;
4. To disseminate policies, laws and regulations; provide information and facilitate foreign investors;
5. To consider issuing or withdrawing a foreign investment licence within its scope of rights and duties, particularly within projects involving the grant of a concession;
6. To supervise and coordinate with the sectors and local authorities in implementing the Law on the Promotion of Foreign Investment;

*continued on next page*



*Box A1.4 continuation*

7. To monitor, inspect, assess, and report to the Government on the business operation of foreign investment enterprises;
8. To be a focal point in supporting, promoting and solving problems occurring in relation to the business operation of foreign investment enterprises;
9. To organise the annual meeting of CPMI and consultative meetings with foreign investors; and
10. To exercise and perform other rights and duties as prescribed in the laws and regulations.

## Article 23: Rights and Duties of CPMI at Provincial Levels

The Committee for Promotion and Management of Foreign Investment at provincial levels is established by the Chairman of the CPMI at the central level. The CPMI at the provincial level acts as a support to the provincial governors, the capital city governor, the Special Zone head, and the CPMI at the central level in promoting and managing foreign investment. The CPMI at the provincial level located at the Provincial Planning and Investment Divisions and has the following rights and duties:

1. To implement strategic plans and policies to promote and attract foreign investments at their local levels;
2. To disseminate policies, laws and regulations, provide information and facilitate foreign investors;
3. To consider issuing or withdrawing foreign investment licences within their scope of rights and duties;
4. To coordinate with various relevant sectors in implementing the incentive policies within the approved projects and in implementing the decisions, orders, instructions and notifications of the higher level authorities;
5. To monitor, inspect, assess, and report to the provincial governors, the capital city governor or the Special Zone head, and CPMI at the central level regarding foreign investment;
6. To act as a focal point in solving problems related to foreign investment;
7. To organise the CPMI annual meetings at provincial levels and consultative meetings with foreign investors;
8. To exercise and perform other rights and duties as prescribed in the laws and regulations.

## Article 24: Rights and Duties of Other Relevant Sectors and Sections

The relevant ministries, organisations equivalent to ministries, and other relevant sectors shall assist in the promotion and management of foreign investments in accordance with their rights and duties as follows:

1. To coordinate with the CPMI at the central level in drafting laws, regulations, policies and plans in relation to foreign investment;
2. To prepare a plan and list of foreign investment projects to attract foreign investment to their sectors, to disseminate information to attract and promote investment;
3. To participate in the process of consideration and approval of investment projects;
4. To supervise the sectors both at central and local levels in implementing incentive policies and in revising procedures regarding implementation of investment projects;
5. To inspect and assess business operations of foreign investment enterprises and partners' business cooperation contracts within their scope of rights and duties, and then report to the higher authorities;
6. To exercise and perform other rights and duties as prescribed in the laws and regulations.

The administrative authorities and sectors at the local level described above shall coordinate with the CPMI at the local level within the scope of rights and duties described in this Article.

## **Chapter VII**

### **Dispute Resolution**

## Article 25: General Principles

If a dispute arises in relation to business operation, the parties shall mediate, arbitrate, or file a petition to the court.

## Article 26: Mediation of Disputes

Disputes related to business operation which cannot be mediated by the parties amicably shall be submitted for mediation to the CPMI that has issued the licence.

If the CPMI is not able to mediate such dispute, such dispute shall be submitted to the Economic Dispute Resolution Committee for arbitration.

## Article 27: Filing of a Case

The parties to a dispute related to business operation which cannot be mediated may bring the case to the Committee for Economic Dispute Resolution or the People's Court for consideration in accordance with court procedures.

*continued on next page*

*Box A1.4 continuation*

### **Chapter VIII**

#### **Policies Toward Those Who Have Performed Well and Measures Against Violators**

##### Article 28: Policies Toward Those Who Have Performed Well

Individuals or organisations who have had outstanding achievements in implementing this law and in contributing to national socio-economic development will receive awards as deemed reasonable.

##### Article 29: Measures Against Investors Who Violate the Law

Individuals or juristic entities who violate this Law shall be subject to penalties based on the seriousness of the violation in the form of warnings, suspension, withdrawal of their foreign investment licence, or being sued in a court of law.

##### Article 30: Measures Against Other Violators

Individuals who violate investment laws and regulations by abusing their power or position to hinder or obstruct the promotion and approval of investment, falsify documents, mislead investors, receive bribes, or commit any acts causing damage to the State or investors shall compensate for such damages, and shall be subject to disciplinary and other measures in accordance with the laws of the Lao PDR.

### **Chapter VIII**

#### **Final Provisions**

##### Article 31: Implementation

The Government of the Lao People's Democratic Republic shall implement this Law.

##### Article 32: Effectiveness

This law will become effective sixty days from the date of the issue of a Promulgating Decree of the President of Lao People's Democratic Republic.

Thereafter, the Law on the Promotion and Management of Foreign Investment No. 01/94/NA, dated 14 March 1994 shall cease to have effect, without prejudice to the rights and privileges granted to, and the obligations imposed upon, foreign investments under the Law No. 01/94/NA.

Foreign investors who have been licensed under the Law No. 01/94/NA and wish to obtain incentives provided by this amended Law on Promotion of Foreign Investment shall submit an official written request within 120 days from the date this law become effective to the Committee for Planning and Investment for consideration.

The Chairman of the National Assembly

# Appendix 5: Presidential Decree Law No. 01/P, 17 March 2008 on Governing the Management of Foreign Exchange and Precious Metals

## Box A1.5 Presidential Decree Law No. 01/P, 17 March 2008 on Governing the Management of Foreign Exchange and Precious Metals

### Presidential Decree Law No. 01/P, 17 March 2008 Governing the Management of Foreign Exchange and Precious Metals

- In reference to the Constitution of the Lao People's Democratic Republic, No. 25/LNA, date 6 May 2003;
- In reference to the Law on the Government of the Lao People's Democratic Republic, No.02/LNA, date 6 May 2003;
- In reference to the Law on the Bank of the Lao People's Democratic Republic, No. 05/LNA, dated 14 October 1999.

#### The President Of the Lao People's Democratic Republic issues the Decree Law:

#### Section I General Provisions

##### Article 1. Purposes

This Decree Law is issued to determine the regulations and principles governing foreign exchange and precious metals. It aims to maintain the stability of the exchange rate between the local currency, the Kip, and the foreign currencies: to promote the circulation of merchandise-money within the country, to protect the independence of the national currency and to stabilize its value, to broaden the external economic relation and cooperation that aim to contribute to the national socio-economic development of the Lao PDR.

##### Article 2. Definitions

Terms used in this Decree Law are defined as follows:

- "Currency" means the Lao national currency whose unit of value is Kip;
- "Foreign exchange" means the bank notes, the traveler's checks, other commercial papers expressed in foreign currencies and precious metals, which are acceptable for international settlements;
- "Exchange rate" means price of currency in Kip required to buy or sell one unit of the foreign currency.
- "Legal person" means a business entity;
- "Commercial paper" means all types of bank checks and payment orders, bills of exchange, promissory notes, other documents or means for debt settlement equivalent to foreign exchange that can be tradable or used for the international settlements;
- "Cash in foreign exchange" means the bank notes, the traveler's checks and other documents which are equivalent to cash;
- "Precious metal" means gold which may be used as a means for international settlement;
- "Commercial bank" means a licensed corporate entity conducting a banking business in accordance with the laws of the Lao PDR;
- "Resident of the Lao PDR" means:
  - (1). A person, a legal person being either a Lao or a foreigner residing in the Lao PDR conducting a licensed and registered business there in accordance with the laws of the Lao PDR; and a representative office of the aforementioned legal person located abroad;
  - (2). A Government organization, a civil society organization of the Lao PDR operating both inside and outside the Lao PDR;
  - (3). A Lao citizen residing in the Lao PDR;
  - (4). A Lao citizen residing abroad for less than one year;
  - (5). A Lao diplomatic personnel working at the Lao Embassy, Lao Consular and international organization abroad;
  - (6). A Lao citizen studying and receiving a medical treatment abroad;
  - (7). A foreigner or a non-citizenship individual having been lived permanently in the Lao PDR [sic];
  - (8). A foreigner working in the Lao PDR for more than one year, other than the diplomatic personnel of the foreign embassy and consular or international organization.

*continued on next page*

*Box A1.5 continuation*

- “Non-resident of the Lao PDR” means:

- (1). A person, a legal person residing abroad;
- (2). A foreign embassy, a consular, an international organization and their personnel; a foreign advisor, a foreign expert working in the Lao PDR, including their family members;
- (3). A foreigner living in the Lao PDR for less than one year;
- (4). A foreigner studying, traveling, visiting and receiving a medical treatment in the Lao PDR;
- (5). A representative office of a foreign legal person residing in the Lao PDR;
- (6). A Lao citizen living abroad for more than one year.

In case of encountering difficulty in classifying a person or a legal person to any of the foregoing category, a recommendation shall be addressed to the Governor of the Bank of the Lao PDR for consideration.

### Article 3. The Use of Foreign Exchange

A person, a legal person shall not directly pay nor receive in foreign exchange for the goods and services rendered to them or by them, nor settle the debts in foreign exchange within the Lao territory, except for the case where the Bank of the Lao PDR has proposed [such] and approved by the Government.

A holder of foreign exchange who [needs] to make payment within the Lao PDR shall change [the foreign currency] to Kip at a commercial bank or at an authorized foreign exchange bureau by the Bank of the Lao PDR.

Those who need to use foreign exchange for any of the objectives stipulated in Article 5 of this Decree Law may purchase foreign exchange at a commercial bank or a foreign exchange bureau in accordance with the regulations of the Bank of the Lao PDR.

The price mark-up of a good and a service, including the value of financial obligations to the Government, shall be made in Kip, except for the case where the Bank of the Lao PDR has proposed [such] and approved by the Government.

## Section II

### Foreign Exchange Trading

#### Article 4. Purchase and Sale of Foreign Exchange

A person, a legal person shall purchase or sell foreign exchange through a commercial bank or a licensed foreign exchange bureau by the Bank of the Lao PDR.

A commercial bank has the right to buy banknotes, traveler’s checks and commercial papers equivalent to foreign exchange that may be tradable or used for the international settlements. A licensed foreign exchange bureau has the right to buy banknotes and traveler’s checks equivalent to foreign exchange from the public in accordance with the regulations of the Bank of the Lao PDR.

A commercial bank may participate in trading the foreign exchange in the inter-bank market and may sell foreign exchange to the public in accordance with the regulations promulgated by the Bank of the Lao PDR.

The Bank of the Lao PDR shall manage the inter-bank market operations and may participate in trading foreign exchange with the objective to increase the official foreign reserve and to conduct the monetary policy.

#### Article 5. Objectives of Sale and Use of Foreign Exchange

The sale of foreign exchange by commercial banks and the use foreign exchange by both resident and non-resident of the Lao PDR shall be carried out in accordance with the regulations issued by the Bank of the Lao PDR and its aims:

1. To pay for imported goods;
2. To pay for services related directly to import-export goods, such as transit transportation, insurance and transit warehousing charges;
3. To repay the foreign debts in accordance with the agreement approved by the Government or by the organization authorized by the Government;
4. To give an aid to a foreign country in accordance with the approval of the Government or the organization authorized by the Government;
5. To repatriate of profits, dividends, initial investments, interests, service charges of the foreign investors, and wages of foreign workers back to their home countries, or to transfer to a third country as stipulated in the Law Governing the Promotion and Management of the Foreign Investment in the Lao PDR;
6. For investment abroad with the Government approval;
7. For national budget expenditures;
8. For other spending targets in accordance with regulations of the Bank of the Lao PDR including medical treatment, studying, and visiting abroad.

The sale of foreign exchange by the licensed foreign exchange bureaus shall be carried out based on the following targets:

1. Sell to state-owned commercial bank or the Bank of the Lao PDR;
2. Sell to the general public in accordance with the regulations of the Bank of the Lao PDR.

#### Article 6. Right to Purchase Foreign Exchange

A person, a legal person, a government organization, civil society organization locating in the Lao PDR may purchase foreign exchange from a commercial bank in accordance with the regulations of the Bank of the Lao PDR, to be used for the objective as stipulated in the Article 5 of this Decree Law.

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*Box A1.5 continuation***Article 7. Exchange Rate**

The Bank of the Lao PDR uses [a] market-oriented exchange system guided by state.

In case of financial crisis or unavailable market information for the purchase and sale of foreign currency, the Bank of the Lao PDR shall study and recommend, and submit to the Government for approval the exchange rate quotation to be implemented by commercial banks and foreign exchange bureaus.

The Bank of the Lao PDR shall study the exchange rate and recommend to the Government a regime that [is] deem[ed] suitable [to] the current stage of national socio-economic development from time to time.

**Section III****Opening and Using Bank Deposit Accounts in Foreign Currency by Residents and Non-residents of the Lao PDR****Article 8. Opening and Using a Bank Deposit Account in Foreign Currency by a Resident and a Non-resident of the Lao PDR**

A person, a legal person as a resident, and a non-resident of the Lao PDR who legally earns foreign exchange may open a bank deposit account in foreign currency at a commercial bank within the Lao PDR and shall receive interest in foreign currency in accordance with the regulations of the commercial bank, and shall use the currency account in accordance with the Articles 3 and 5 of this Decree Law.

**Article 9. Right to Hold and Use Foreign Exchange of Individuals [sic]**

A person, as a resident and a non-resident of the Lao PDR, may hold foreign exchange, deposit it at a commercial bank within the Lao PDR, and use it in accordance with Articles 3 and 5 of this Decree Law.

**Article 10. Opening and Using Bank Deposit Accounts in Kip of Non-residents of the Lao PDR**

A non-resident of the Lao PDR may open a bank deposit account in Kip earned from selling foreign exchange to a commercial bank or a foreign exchange bureau at a commercial bank within the Lao PDR, and may use the balance in the account to repurchase foreign exchange.

**Article 11. Opening and Using a Bank Deposit Account in a Foreign Country of a Resident of the Lao PDR**

A person, a legal person as a resident of the Lao PDR, may open and use a bank deposit account in a foreign country with the approval of the Bank of the Lao PDR for the following objectives:

1. For the transit business such as: transportation by land, by air, by sea and by post; for insurance, tourism, labor exportation and contracting a construction project abroad;
2. For an externally borrowing and debt settlement [sic];
3. For the establishment of a branch or a representative office abroad, and for the operation of foreign exchange business abroad as approved by the concerned authorities;
4. For other objectives as approved by the concerned authorities.

A resident of the Lao PDR as approved to open a bank deposit account abroad has the duty to report the use of the account to the Bank of the Lao PDR in accordance with the regulations set by the Bank of the Lao PDR.

**Article 12. The Management of the Foreign Currency Bank Deposit Accounts Opened within the Lao PDR and Abroad**

The Bank of the Lao PDR shall set the rules regulations on the opening and usage of foreign currency bank deposit accounts by residents and non-residents of the Lao PDR held within the Lao PDR and abroad.

The commercial banks which accepted the application to open the foreign currency deposit accounts of residents and non-residents of the Lao PDR, and the Kip deposit accounts of the non-residents of the Lao PDR, shall examine the utilization of those accounts in accordance with this Decree Law and the regulations issued by the Bank of the Lao PDR.

The Bank of the Lao PDR shall supervise the services on foreign exchange [deposits] of the Government, commercial banks, and international financial institutions in accordance with this decree law and the specific regulations issued by the Bank of the Lao PDR.

**Article 13. Supervision of the Earnings in Foreign Exchange**

A person, a legal person resident in the Lao PDR dealing with international businesses, having revenues in foreign exchange, shall repatriate those revenues to the Lao PDR in accordance with the regulations of the Bank of the Lao PDR. The revenues shall be deposited in their bank account held at a commercial bank, and the utilization of the money in the account shall be complied with Articles 3 and 5 of this Decree Law.

A person, a legal person as a resident of the Lao PDR, dealing with local businesses that are allowed to charge in foreign exchange, shall deposit the foreign exchange in their bank account held at a commercial bank, and the utilization of the money in the account shall be complied with Articles 3 and 5 of this Decree Law.

All fiscal revenues in foreign exchange shall be deposited in the Government's account held at the Bank of the Lao PDR. Whenever in need [of] domestic payment, [this] shall be sold to the Bank of the Lao PDR at the daily exchange rate of the inter-bank market's trading.

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*Box A1.5 continuation***Article 14. Bringing Cash in Foreign Currency and Precious Metals and in Kip In or Out of the Lao PDR**

A resident, a non-resident of the Lao PDR may bring cash in Kip, foreign currency, and precious metals in or out the Lao PDR in accordance with the regulations issued by the Bank of the Lao PDR from time to time.

Customs officers at an immigration check-point shall inspect the declaration of Kip, foreign currency, and precious metals to be brought in or out of the Lao PDR.

**Section IV****Foreign Exchange Business of a Commercial Bank and a Foreign Exchange Bureau****Article 15. Licensing the Operations of Foreign Exchange Business**

The Bank of the Lao PDR shall issue and revoke the license for the operations of foreign exchange business of a commercial bank and a foreign exchange bureau.

A person, a legal person intended to run [a] foreign exchange business, shall complete a license application form and shall meet all requirements issued by the Bank of the Lao PDR from time to time.

A commercial bank and a licensed foreign exchange bureau shall operate their foreign exchange business within the limit stipulated in their license and shall comply with the laws, this Decree Law and other relevant regulations of the Lao PDR.

**Article 16. The Notice of Foreign Exchange Rate**

A commercial bank and a licensed foreign exchange bureau shall disseminate their exchange rates in a transparent manner that can be seen by customers and shall exchange on such rates.

**Article 17. Lending in Foreign Exchange of a Commercial Bank**

A commercial bank may lend the money to a person or a legal person or a resident of the Lao PDR in foreign exchange as agreed in accordance to the contracts between the commercial banks and the customers under the Law of Lao PDR.

**Article 18. Fund Mobilization in Foreign Exchange**

Commercial banks and other financial institutions licensed to run [a] foreign exchange may mobilize deposits, [and] issue bonds and commercial papers in foreign exchange to mobilize funds from the general public as approved by the Bank of the Lao PDR.

**Article 19. Bringing Foreign Currency In or Out of the Lao PDR by Commercial Banks and Other Financial Institutions**

Commercial banks and other financial institutions licensed to run [a] foreign exchange business may bring foreign currency in or out of the Lao PDR for their own business operation purposes in accordance with the current regulations issued by the Bank of the Lao PDR. The foreign exchange bureaus are not permitted to bring foreign currency in or out of the Lao PDR.

The customs officers at an immigration check-point shall inspect the declaration of foreign currency [brought] in or out of the Lao PDR by commercial banks and other financial institutions.

**Article 20. Monitoring and Reporting on Foreign Exchange Business**

Commercial banks, other financial institutions, and foreign exchange bureaus licensed to run foreign exchange shall be supervised by the Bank of the Lao PDR and shall comply with the current reporting regime issued by the Bank of Lao PDR.

**Section V****Borrowing Funds and Grants****Article 21. External Borrowing of the Government**

The Ministry of Finance, the Bank of the Lao PDR, other concerned Ministries, and ministerial equivalents shall study and recommend to the Government any external borrowing. The Ministry of Finance and the Bank of the Lao PDR may be delegated by the Government to sign a loan contract or to issue a Government guarantee.

The Ministry of Finance shall implement the loan contracts and supervise the use of the Government loans including the loans to state enterprises.

The Bank of the Lao PDR shall hold the Government's account, provide services, and monitor the repayment of Government external debts.

**Article 22. External Borrowing and the Management of External Commercial Credit**

The Bank of the Lao PDR shall consider approving, supervising and monitoring the external borrowing of a person or a legal person residing in the Lao PDR.

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*Box A1.5 continuation*

The Bank of the Lao PDR shall coordinate with other concerned macro-public organizations to manage commercial credit.

**Article 23. External Lending**

The Ministry of Finance, the Bank of the Lao PDR, other concerned Ministries, and ministerial equivalents shall study any external lending and recommend to the Government.

External lending of the legal persons from the state and private sectors shall be approved by the Bank of the Lao PDR.

**Article 24. Management of Grants****1. Management of External Grants**

The Ministry of Finance shall centrally manage and compile the total external grants including the grants from non-government organizations in physical and cash values. The grants in foreign exchange shall be centrally placed in the account opened at the Bank of the Lao PDR.

Government agencies receiving grants from non-governments organization shall report to the Ministry of Finance and the concerned agencies to compile.

**2. Management of Grants Given to Foreign Countries**

The Ministry of Finance shall monitor and compile the grants given to foreign countries by the Government, legal persons, and civil society organizations in the Lao PDR.

**Section VI****Investment****Article 25. Foreign Investment**

A person, a legal person investing in the Lao PDR, shall open accounts at a commercial bank incorporated in the Lao PDR for monitoring the fund [brought] in foreign currency and the usage of fund for business operations. The transfer of funds in foreign currency for investment in the Lao PDR shall be made through the banking system in accordance with the type of currency stipulated in the investment license and in accordance with the Law of the Lao PDR.

The investment in kind is the value of the equipment and tools that investors bring and pay foreign countries, then legally brought into the Lao PDR for the purpose of licensed business operations. Equipments and tools imported by utilising the foreign currency from the Lao PDR shall not be counted as investment in kind.

The Ministry of Planning and Investment shall monitor the investment of foreign investors in order to ensure the implementation of investment license and the Law on Foreign Investment Promotion and Management in the Lao PDR.

The Bank of the Lao PDR shall monitor and confirm the actual fund brought in as a reference for repatriating from the Lao PDR the principals, interests, profits, dividends and others related to the investment. Foreign investors who are unable to produce adequate evidence for their investment shall not be authorized by the Bank of the Lao PDR to repatriate the fund from the Lao PDR.

A person, a legal person licensed to invest in the Lao PDR shall declare their fund and prove the evidence of their fund brought in each time to the Bank of the Lao PDR.

**Article 26. Fund Borrowed by Foreign Investors in the Lao PDR**

After the transfer of the full registered capital as stipulated in the investment license has been complete, a foreign investor in the Lao PDR may borrow funds from the local banks in accordance with the Law of Commercial Banks of the Lao PDR.

**Article 27. Transfer of Fund to Foreign Countries**

A foreign investor may transfer his/her profits, dividends from business operations, and other legal incomes to his/her own country or a third country through the banking system in accordance with the law of the Lao PDR.

In the case where the investment period has expired, or the investment activities are partially or completely closed, the foreign investor may repatriate his/her investment fund to his/her own country or to a third country in accordance with the law of the Lao PDR.

**Article 28. Investment in a Foreign Country of a Resident of the Lao PDR**

A resident of the Lao PDR who intends to invest directly or indirectly in a foreign country shall be approved by the concerned authorized organization(s). Upon this approval, the transfer of fund to be invested abroad shall be approved by the Bank of the Lao PDR.

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*Box A1.5 continuation*

## **Section VII Supervision of Precious Metal Business**

### **Article 29. Creation and Supervision of Precious Metal Business**

The Bank of the Lao PDR shall license and supervise an enterprise for importing and exporting the precious metals which are internationally accepted as a means of payment and raw materials for producing jewelry domestically.

A person or a legal person desiring to establish an export-import enterprise for precious metals, which are internationally accepted as a means of payment, shall submit the creation application form and shall comply with the current requirements issued by the Bank of the Lao PDR.

The Ministry of Industry and of Commerce shall license and supervise an enterprise for producing and selling the jewelry made from precious metals, including the importation and exportation of jewelry, precious stones, and precious metals mined and manufactured in the Lao PDR.

### **Article 30. The Bank of the Lao PDR's Business on Precious Metal**

The Bank of the Lao PDR may buy and sell precious metals which are internationally accepted as a means of payment in domestic and foreign markets, and may import or export the precious metals for monetary policy purposes of the Government.

## **Section VIII Forecasting the Balance of Payment**

### **Article 31. Compiling Revenue and Expenditure in Foreign Currency**

The Bank of the Lao PDR shall compile the statistical revenue and expenditure in foreign currency of the national economy.

Ministries, ministerial equivalents, provinces, municipality, and social organizations shall compile the report of statistical data in foreign currency of enterprises and organizations under their supervision, and cooperate with the Bank of the Lao PDR staff who prepares the balance of payment.

### **Article 32. Payments to Foreign Countries**

Settlement for imports and exports, international services, borrowing, grants, investments, interests, profits, dividends and revenue, and expenditure incurred between the Lao PDR and foreign countries shall be processed through the banking system in accordance with the Law of the Lao PDR.

## **Section IX Monitoring, Favor Policy for the Good Implementer and Measures Taken for the Violator [sic]**

### **Article 33. Monitoring**

Ministries, ministerial equivalents, municipality and provincial authorities shall monitor regularly the departments, enterprises and individuals under their supervision the implementation of this decree law.

### **Article 34. Favor policy for Good Implementers**

Individuals [and/or] organizations that implement successfully this Decree Law shall be praised properly in accordance with regulations issued by the Bank of the Lao PDR.

Individuals [and/or] organizations that successfully monitored and supplied the evidence of the violation of this Decree Law and informed the concerned authority to seek the penalty of those who violate [the Decree Law] shall be rewarded in compliance with the regulations issued by the concerned authority.

### **Article 35. Measure for Violators**

Individuals [and/or] organizations who violate this Decree Law shall be warned, fined, and prosecuted in accordance with the laws depending on the severity of the case [sic].

### **Article 36. Warning**

Individuals [and/or] organizations who violate this Decree Law for the first time with low degree of severity shall be warned and recorded in writing by the concerned authorities at the place of violation.

Moreover, the violator shall comply with the regulations in accordance with the Law of the Lao PDR.

### **Article 37. Penalty**

If individuals or organizations continue to violate the Decree Law after the warning, or they violate the decree law for the first time with high degree of severity, the violators shall be fined 50% of the value of the violation.

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*Box A1.5 continuation*

In case that the violator has been fined but continued the violation, the violator shall be fined 100% of the value of the violation and the amount of money or precious metals used in the violation shall be confiscated to the Government budget. If the violator is a person or a legal person operating a business, his/her license shall be revoked.

In case of violation that is highly severe and heavily damages the economic, financial and monetary system of the country, the violator shall be prosecuted in accordance with the laws.

**Section X  
Final Provisions****Article 38. Implementation**

Ministries, ministerial equivalents, provinces, Vientiane municipality and the related sectors of [the] economy shall disseminate and strictly implement this Decree Law.

**Article 39. Effectiveness**

This decree law supersedes Presidential Decree Law No. 01/OP dated August 9, 2002

This decree law is effective from the date of signature. Any decrees, regulations previously promulgated conflicting with this decree law shall be void.

The President of the Lao PDR  
(Signature and Seal)  
Chummaly Xaiyasom

