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Cambodia's Recently Launched Corporate Bond Market

In 2007, Cambodia enacted the Law on the Issuance and Trading of Non-Governmental Securities (“2007 Securities Law”), which paved the way for corporations to issue both debt and equity securities to the public and contributed to steady progress in the Cambodian equity market, with the country’s first initial public offering in 2012 and a total of three state-owned enterprises and two corporations currently listed on the Cambodia Securities Exchange (CSX), the sole securities market operator in Cambodia.

The debt market, however, has been inactive, partly due to the absence of additional subordinating regulations to enforce the 2007 Securities Law. Without a robust securities market, Cambodian businesses had to resort to the more costly conventional financing options offered by commercial banks.

In the past few months, the corporate bond market’s regulatory landscape has quickly developed, with the Securities Exchange Commission of Cambodia (SECC), the governmental agency tasked with regulating the securities sector, issued a series of Prakas (ministerial regulations), including:

- ▶ Prakas 009 on Public Offering of Debt Securities, dated August 17, 2017
- ▶ Prakas 010 on Accreditation of Bondholder Representatives, dated August 17, 2017
- ▶ Prakas 011 on Accreditation of Credit Ratings Agencies, dated August 17, 2017
- ▶ Prakas 016 on Implementation of Listing Rules for Debt Securities of CSX, dated December 26, 2017
- ▶ Prakas 017 on Implementation of Market Operating Rule of CSX, dated December 26, 2017

Cambodia is pushing its corporate bond market ahead of its sovereign bond market. These regulations enable corporations to publicly offer debt securities and subject them to the SECC’s tight regulatory oversight.

Defining “Public Offering” and “Debt Securities”

A “public offering” of debt securities is defined by Prakas 009 as any offering of debt securities that is not considered as a “private placement,” which refers to an offering of debt securities that is made in less than 12 months to no more than 30 people and is not publicly announced in any form or by any means.

The 2007 Securities Law defines “debt securities” broadly to include any instrument that evidences the money deposited with or owed by the person issuing the instrument. However, as the Cambodian corporate bond market is in the early stages, Prakas 009 only introduces three fairly simple debt securities, as follows:

- ▶ **Plain bond.** A bond that has a fixed coupon rate and a specified maturity date. A plain bond does not have enhancements, additional calls, or put options and is not secured or guaranteed.

- ▶ **Secured bond.** A bond that is secured with an asset, excluding asset-backed securities.
- ▶ **Guaranteed bond.** A bond with interest and principal payments guaranteed by a third party.

Other types of debt securities, such as a convertible bonds, can only be issued to the public with prior approval from the SECC, or if permitted by a separate regulation.

Requirements for Public Offering of Debt Securities

Under Prakas 009, a company wishing to make a private placement of debt securities must file related documents to the SECC both prior to and upon completion of the debt securities offering.

On the other hand, a company wishing to make a public offering of debt securities must be registered as a public limited company with the Ministry of Commerce and comply with various corporate governance, disclosure, minimum capital, and other requirements set by the SECC in Prakas 009 and by the CSX in Prakas 016.

Under Prakas 016, the company must have a minimum equity of KHR 2 billion (approx. USD 500,000), except in the case of the issuance of secured bonds. The total amount of debt-securities to be issued must be at least KHR 1 billion (approx. USD 250,000), or at least KHR 500 million (approx. USD 125,000) for secured bonds. The company would also need to hire an underwriter and a range of advisors.

In September 2017, the National Bank of Cambodia (NBC) adopted Prakas B7-017-300 on Conditions for Banking and Financial Institutions to be Listed on the Cambodian Securities Exchange. The Prakas sets additional requirements for banks and financial institutions that intend to issue securities to the public, including requiring prior approval from the NBC and minimum equity of KHR 60 billion (approx. USD 15 million), and prohibiting the issuing of equity securities equal to more than 20 percent of their voting shares or debt securities worth more than 20 percent of their total assets.

Accreditation of Bondholder Representatives and Credit Rating Agencies

Prakas 010 and Prakas 011 set accreditation procedures for bondholder representatives and credit ratings agencies, and impose requirements and obligations on them. These two Prakas complement Prakas 009, which requires companies intending to make public offerings of debt securities to obtain a credit rating from an accredited credit rating agency and to appoint a bondholder representative to obtain SECC approval.

Under Prakas 010, only commercial banks, securities firms, securities registrars, securities transfer agents and paying agents, and custodian banks are permitted to apply for accreditation from the SECC to become a bondholder representative.

Under Prakas 011, any local company can apply to become a credit ratings agency, provided it meets the minimum capital, corporate governance, and other requirements. The SECC will issue and publish a list of international credit rating agencies that are qualified to provide credit rating services in the Cambodian securities sector.

Prakas 009 also includes transitional provisions that provide alternative solutions to avoid a regulatory deadlock in the event that there are no accredited bondholder representatives and/or credit rating agencies.

The spate of new banking regulations in 2017 are a promising sign for Cambodia’s nascent banking industry, laying the groundwork for a robust corporate bond market, which is the latest in a series of measures aimed at driving the country’s fast-paced economic development. 🏗️