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Myanmar News: Yangon Stock Exchange

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On 9 December 2015, Myanmar launched the Yangon Stock Exchange. A total of six companies have been approved to list on the new stock exchange, with trading expected to begin in February or March next year. After the democratic opposition won a landslide election victory in the general parliamentary elections in early November, this is another, at least symbolical step towards the creation of a free economy in Myanmar.

Please find below a short summary on the history, listing criteria as well as the potential difficulties of the Yangon Stock Exchange.

1. History

When Myanmar's military stepped aside in favor of a quasi-civilian government in 2011 and major parts of the international sanctions were lifted in 2012, first plans for a fully-fledged stock exchange were forged.

The Yangon Stock Exchange is the country's third attempt to establish a proper stock exchange after two unsuccessful earlier ventures: the Rangoon Stock Exchange, established in the 1930s, which closed down when Myanmar's public companies were nationalized by the military government in 1962, and the 1996 established Myanmar Securities Exchange Centre, which listed only two securities.

In May 2012, an initial agreement was signed by the state-owned Myanma Economic Bank, the Daiwa Securities Group and the Japan Stock Exchange. This undertaking was quickly followed by the enactment of the Securities and Exchange Law in 2013, which authorizes the establishment of the Yangon Stock Exchange and provides the conditions for the forming of the Securities Exchange Commission as well as a regulatory framework for securities trading.

On this basis, the three parties incorporated the Yangon Stock Exchange Joint Venture Company Limited with an initial capital of USD 32,000,000.00. The Myanmar Economic Bank holds approximately 51%, the Daiwa Securities Group 30.25% and the Japan Stock Exchange 18.75% of the company's shares.

On 9 December 2015, the day of the official launch of the Yangon Stock Exchange, only six companies were approved and are expected to start trading in February or March 2016: the First Myanmar Investment Company, First Private Bank Limited, Great Hor Kham Public, Myanmar Agribusiness Public Corporation, Myanmar Citizens Bank and Myanmar Thilawa SEZ Holdings Public.

2. Yangon Stock Exchange Listing Criteria

The Yangon Stock Exchange issued the following criteria for a public company to list on the Yangon Stock Exchange in accordance with Article 41 (b) of the Securities and Exchange Law:

1. The company shall be incorporated as a company limited by shares in accordance with the Companies Act, conducting its business in line with a public company's features and procedures.
2. The company shall have at least 100 shareholders.
3. The paid-up capital of the company at the date of application shall be at least Myanmar Kyat 500 million.
4. The company shall be profitable in the two financial years preceding the date of application.
5. The company shall have a stable income and conduct business in accordance with the existing laws of Myanmar.
6. The Board of Directors and the heads of the company shall be of good character and not been convicted by a court of law and/or facing any lawsuits. They shall perform their duties and responsibilities always in accordance with the laws.
7. The Board of Directors and the heads of the company shall not act in a deceptive way for the interest of the company and/or their own interest.
8. The directors shall refrain from any business which has the same interests as the company, except with the approval of the shareholders.
9. The company, the Board of Directors and the heads of the company shall not be included in the black list of any public and/or government organization.
10. Bookkeeping and audits of the company shall be undertaken in accordance with the Myanmar Accounting Standards and Myanmar Standards on Auditing.
11. The company shall fulfill its tax duties in accordance with the existing tax laws of Myanmar.
12. Relevant corporate information and all facts of relevance to the public shall be disclosed by the company and submitted to the Securities Exchange Commission of Myanmar and the Yangon Stock Exchange. The information and facts shall further be disclosed and announced to the public in a timely manner. When disclosing corporate information,

the company shall prescribe precisely all matters which have a considerable impact on investment decisions of the investors, such as risk factors for potential loss and basic potential business activities.

13. The company shall set up effective internal controls to comply with laws, rules and regulations by appointing compliance officers.
14. The company shall have a business plan containing a business design, business process environment and risk factors.
15. The company shall set up a system to prevent insider trading.
16. The company shall operate continuously and stable in accordance with good corporate governance, internal management and internal control systems.
17. The company shall have rational expectations for achieving a profit base upon stable revenue.

Please note, that the above listing criteria are minimum standards to be referred to as a general guideline for a listing on the Yangon Stock Exchange. The **Yangon Stock Exchange** will grant listing permissions only on a case by case basis, after receiving an application and confirming a company's eligibility in consideration of the interests of the general public.

Some of the criteria are however rather vague (e.g. *The Company shall have a stable basic income and conduct business in accordance with the existing laws of Myanmar*) and it will be seen whether they pass practical trial.

3. Potential Difficulties

While the Yangon Stock Exchange certainly has the potential to attract Myanmar and foreign investors alike – especially as it was launched just after the democratic opposition won a landslide election victory in the general parliamentary elections in early November –, it might very well face similar difficulties as other stock exchanges in Southeast Asia (e.g. in Laos, Cambodia, which struggle with the limited interest of foreign investors and insufficient listings caused by overregulation corporate governance and foreign investments).

Amongst the largest hurdles may be the current legal framework, which still prevents foreign investors from owning shares in Myanmar companies. This may change with the announced revision of the Companies Act, but the bill is still debated in parliament. Even with the Companies Law, it would however still be unclear whether foreign investors would be allowed to invest in listed companies that are active in sectors restricted to foreign investment (e.g. jade and gemstones businesses).

Finally, the Yangon Stock Exchange is at least technically subject to US sanctions, as its majority shareholder, the Myanma Economic Bank, is sanctioned by the US Treasury Department's Office of Foreign Assets Control. Similarly, some of the securities companies hoping to receive final licenses remain sanctioned.

It is thus likely that institutional investors will refrain from using the Yangon Stock Exchange until the US Treasury Department's Office of Foreign Assets Control has decided on its status as a sanctioned entity.

Please do not hesitate to contact us for further guidance and information.

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