

DIGITALES ARCHIV

ZBW – Leibniz-Informationszentrum Wirtschaft
ZBW – Leibniz Information Centre for Economics

Book

ASEAN+3 bond market guide 2017 : Brunei Darussalam

Provided in Cooperation with:

Asian Development Bank (ADB), Manila

Reference: (2017). ASEAN+3 bond market guide 2017 : Brunei Darussalam. Mandaluyong City, Philippines : Asian Development Bank.
doi:10.22617/TCS178920-2.

This Version is available at:

<http://hdl.handle.net/11159/944>

Kontakt/Contact

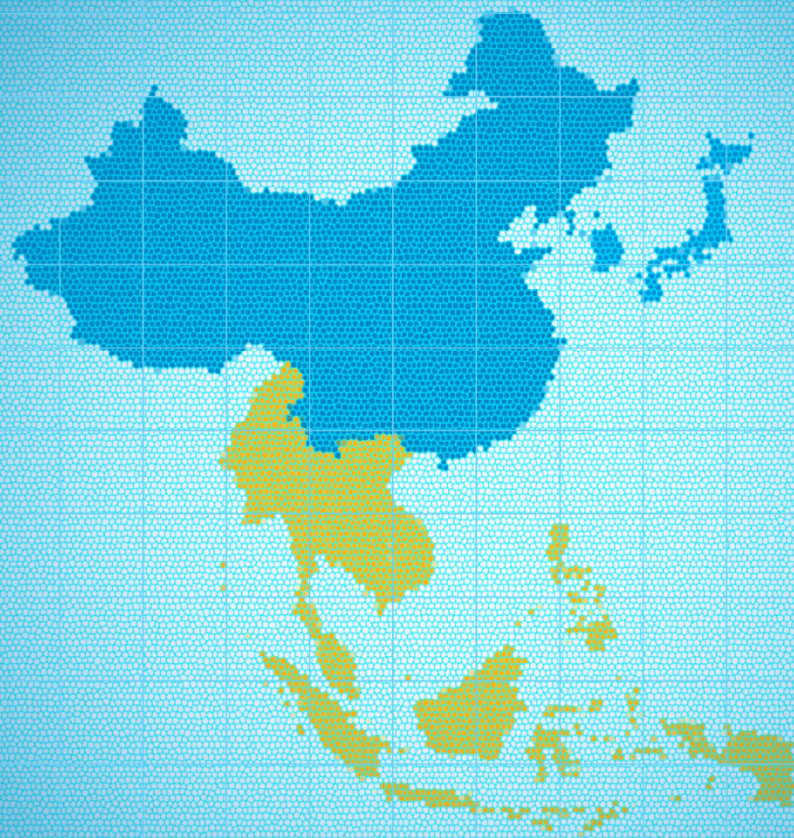
ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
24105 Kiel (Germany)
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)
<https://www.zbw.eu/>

Standard-Nutzungsbedingungen:

Dieses Dokument darf zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden. Sie dürfen dieses Dokument nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen. Sofern für das Dokument eine Open-Content-Lizenz verwendet wurde, so gelten abweichend von diesen Nutzungsbedingungen die in der Lizenz gewährten Nutzungsrechte.
<https://savearchive.zbw.eu/termsfuse>

Terms of use:

This document may be saved and copied for your personal and scholarly purposes. You are not to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public. If the document is made available under a Creative Commons Licence you may exercise further usage rights as specified in the licence.



ASEAN+3 BOND MARKET GUIDE 2017

BRUNEI DARUSSALAM

ASEAN+3 BOND MARKET GUIDE 2017

BRUNEI DARUSSALAM



Creative Commons Attribution 3.0 IGO license (CC BY 3.0 IGO)

© 2017 Asian Development Bank
6 ADB Avenue, Mandaluyong City, 1550 Metro Manila, Philippines
Tel +63 2 632 4444; Fax +63 2 636 2444
www.adb.org

Some rights reserved. Published in 2017.

ISBN 978-92-9257-885-5 (Print), 978-92-9257-886-2 (e-ISBN)
Publication Stock No. TCS178920-2
DOI: <http://dx.doi.org/10.22617/TCS178920-2>

The views expressed in this publication are those of the authors and do not necessarily reflect the views and policies of the Asian Development Bank (ADB) or its Board of Governors or the governments they represent.

ADB does not guarantee the accuracy of the data included in this publication and accepts no responsibility for any consequence of their use. The mention of specific companies or products of manufacturers does not imply that they are endorsed or recommended by ADB in preference to others of a similar nature that are not mentioned.

By making any designation of or reference to a particular territory or geographic area, or by using the term “country” in this document, ADB does not intend to make any judgments as to the legal or other status of any territory or area.

This work is available under the Creative Commons Attribution 3.0 IGO license (CC BY 3.0 IGO)
<https://creativecommons.org/licenses/by/3.0/igo/> By using the content of this publication, you agree to be bound by the terms of this license. For attribution, translations, adaptations, and permissions, please read the provisions and terms of use at <https://www.adb.org/terms-use#openaccess>

This CC license does not apply to non-ADB copyright materials in this publication. If the material is attributed to another source, please contact the copyright owner or publisher of that source for permission to reproduce it. ADB cannot be held liable for any claims that arise as a result of your use of the material.

Please contact pubsmarketing@adb.org if you have questions or comments with respect to content, or if you wish to obtain copyright permission for your intended use that does not fall within these terms, or for permission to use the ADB logo.

Notes:

Corrigenda to ADB publications may be found at <http://www.adb.org/publications/corrigenda>

ADB recognizes “Brunei” as Brunei Darussalam.

In this report, international standards for naming conventions—International Organization for Standardization (ISO) 3166 for country codes and ISO 4217 for currency codes—are used to reflect the discussions of the ASEAN+3 Bond Market Forum to promote and support implementation of international standards in financial transactions in the region. ASEAN+3 comprises the Association of Southeast Asian Nations (ASEAN) plus the People’s Republic of China, Japan, and the Republic of Korea.

The economies of ASEAN+3 as defined in ISO 3166 include Brunei Darussalam (BN; BRN); Cambodia (KH; KHM); the People’s Republic of China (CH; CHN); Hong Kong, China (HK; HKG); Indonesia (ID; IDN); Japan (JP; JPN); the Republic of Korea (KR; KOR); the Lao People’s Democratic Republic (LA; LAO); Malaysia (MY; MYS); Myanmar (MM; MMR); the Philippines (PH; PHL); Singapore (SG; SGP); Thailand (TH; THA); and Viet Nam (VN; VNM). The currencies of ASEAN+3 as defined in ISO 4217 include the Brunei dollar (BND), Cambodian riel (KHR), Chinese renminbi (CNY), Hong Kong dollar (HKD), Indonesian rupiah (IDR), Japanese yen (JPY), Korean won (KRW), Lao kip (LAK), Malaysian ringgit (MYR), Myanmar kyat (MMK), Philippine peso (PHP), Singapore dollar (SGD), Thai baht (THB), and Vietnamese dong (VND).

Contents

Tables and Figures	v
Foreword	vi
Acknowledgments	vii
Abbreviations	viii
I. Overview	1
A. Introduction	1
B. Brunei Darussalam Financial Sector Blueprint, 2016–2025	2
C. Regional Cooperation	3
II. Legal and Regulatory Framework	4
A. Legal System	4
B. Official Language	5
C. Legislative Structure	5
D. Brunei Bond Market Regulatory Structure	6
E. Regulatory Framework for Debt Securities and <i>Sukuk</i>	7
F. Debt Securities and <i>Sukuk</i> Issuance Regulatory Processes	7
G. Continuous Disclosure Requirements in the Brunei Bond Market	12
H. Self-Regulatory Organizations in the Brunei Bond Market	13
I. Licensing and Registration of Market Participants	13
J. Rules Related to Bond and <i>Sukuk</i> Listing, Disclosure, and Trading	14
K. Market Entry Requirements (Nonresidents)	14
L. Market Exit Requirements (Nonresidents)	14
M. Regulations and Limitations Relevant for Nonresidents	15
N. Regulations on Credit Rating Agencies	16
III. Characteristics of the Brunei Bond Market	17
A. Definition of Securities	17
B. Types of Bonds, Notes, and <i>Sukuk</i>	18
C. Money Market Instruments	18
D. Segmentation of the Market	18
E. Methods of Issuing Bonds and Notes (Primary Market)	19
F. Governing Law and Jurisdiction (Bond, Note, and <i>Sukuk</i> Issuance)	19
G. Language of Documentation and Disclosure Items	20
H. Registration of Debt Securities and <i>Sukuk</i>	20
I. Listing of Debt Securities	20
J. Methods of Trading Bonds, Notes, and <i>Sukuk</i> (Secondary Market)	20
K. Bond and Note Pricing	20
L. Transfers of Interest in Bonds and Notes	20
M. Market Participants	21
N. Definition of Investor Classes	22
O. Credit Rating Requirements	23
P. Market Features for Investor Protection	23
Q. Bond or <i>Sukuk</i> Trustee	25

R. Bankruptcy and Insolvency Provisions	25
S. Event of Default and Cross-Default	25
IV. Bond, Note, and Sukuk Transactions and Trading Market Infrastructure	26
A. Trading of Bonds, Notes, and <i>Sukuk</i>	26
B. Trading Platforms	26
C. Mandatory Trade Reporting	26
D. Market Monitoring and Surveillance in the Secondary Market	26
E. Bond Information Services	27
F. Yields and Yield Curves	27
G. Repurchase Market	27
H. Securities Borrowing and Lending	28
I. Interest Rate and Fixed-Income Futures	28
V. Description of the Securities Settlement System	29
VI. Bond Market Costs and Taxation	30
A. Costs Associated with Bond, Note, and <i>Sukuk</i> Issuance	30
B. Ongoing Costs for Issuers of Corporate Bonds, Notes, and <i>Sukuk</i>	31
C. Costs for Deposit and Withdrawal of Bonds, Notes, and <i>Sukuk</i>	31
D. Costs Associated with Bonds, Notes, and <i>Sukuk</i> Trading	31
E. Costs for Settlement and Transfer of Bonds, Notes, and <i>Sukuk</i>	32
F. Taxation Framework and Requirements	32
VII. Market Size and Statistics	34
VIII. The Brunei <i>Sukuk</i> Market	35
A. Current Status of the Islamic Bond Market in Brunei Darussalam	35
B. The Nature of <i>Sukuk</i>	35
C. Legal Implications for Investors	35
D. <i>Sukuk</i> Issuance in Brunei Darussalam	36
E. Regulatory Framework for <i>Sukuk</i>	36
F. Infrastructure for <i>Sukuk</i>	36
IX. Brunei Bond Market Challenges and Opportunities	37
A. Challenges in the Brunei Bond Market	37
B. Opportunities in the Brunei Bond Market	37
X. Recent Developments and Future Direction	39
A. Recent Major Developments	39
B. Future Direction	39
Appendixes	
1 Practical References	41
2 Glossary of Technical Terms	42

Tables and Figures

Tables

2.1	Examples of Securities Market Legislation by Legislative Tier	5
2.2	Authorities Involved in Regulatory Processes by Issuer Type	7
6.4	Duties and Taxes Related to Debt Securities and <i>Sukuk</i> in Brunei Darussalam ..	32

Figures

1.1	Local Currency Bonds Outstanding In Brunei Darussalam	2
2.1	Regulatory Process Map—Debt Securities Issuance In Brunei Darussalam	8
4.1	Government <i>Sukuk</i> Yield Curve	27

Foreword

The Asian Development Bank (ADB) is working closely with the Association of Southeast Asian Nations (ASEAN) and the People's Republic of China, Japan, and the Republic of Korea—collectively known as ASEAN+3—to develop local currency bond markets and facilitate regional bond market integration under the Asian Bond Markets Initiative to strengthen the resilience of the region's financial systems.

Thanks to the efforts of member governments, local currency bond markets in ASEAN, the People's Republic of China, and the Republic of Korea have grown rapidly, with the total outstanding amount of bonds reaching more than USD10 trillion in 2016. Despite this remarkable development, intraregional investment in bond markets has remained subdued. As ADB has estimated that developing Asia will need to invest USD26 trillion from 2016 to 2030 (or USD1.7 trillion per year) in infrastructure, it is critical to mobilize the region's vast savings for the enormous investment needs. The markets in ASEAN+3 need to be more harmonized and integrated. Also, the regional efforts should support the developing member countries at early stages of market development.

The ASEAN+3 Bond Market Forum (ABMF) was established with the endorsement of the ASEAN+3 finance ministers in 2010 as a common platform to foster the standardization of market practices and harmonization of regulations relating to cross-border bond transactions in the region. As an initial step, ABMF published the ASEAN+3 Bond Market Guide in 2012, which was welcomed as the first official information source offering a comprehensive explanation of the region's bond markets.

Since publication of the ASEAN+3 Bond Market Guide, bond markets in the region have continued to develop. ABMF recognizes the need for revisions to the guide to reflect these changes, though it is never an easy task to keep up with rapid changes in the markets. This report is an outcome of the strong support and kind contributions of ABMF members and experts, particularly from Brunei Darussalam. The report should be recognized as a collective good to support bond market development among ASEAN+3 members. It is our hope that the revised ASEAN+3 Bond Market Guide will facilitate further development of the region's bond markets, contribute to increased intraregional bond transactions, and promote efficient allocation of capital within the region.



Yasuyuki Sawada
Chief Economist and Director General
Economic Research and Regional Cooperation Department

Acknowledgments

The ASEAN+3 Bond Market Guide was first published in 2012 as the initial output of Phase 1 of the ASEAN+3 Bond Market Forum (ABMF).¹ Across the region, domestic bond markets, including the bond market in Brunei Darussalam, have experienced tremendous development over the past 5 years. Now in Phase 3, ABMF would like to share, in the public domain, information on these developments by also publishing a Brunei Darussalam Bond Market Guide.

The ABMF Sub-Forum 1 team—comprising Satoru Yamadera (Principal Financial Sector Specialist, Asian Development Bank, Economic Research and Regional Cooperation Department); Kosintr Puongsophol (Financial Sector Specialist, Asian Development Bank, Economic Research and Regional Cooperation Department); and Asian Development Bank consultants Shigehito Inukai and Matthias Schmidt—would like to stress the significance and magnitude of the contribution made by the ABMF national member for Brunei Darussalam and the Autoriti Monetari Brunei Darussalam (AMBD). As the policy body and regulatory authority, AMBD invested significant time in the compilation of information, resulting discussions, and follow-up. AMBD also reviewed and provided inputs on the Brunei Darussalam Bond Market Guide over the course of ABMF Phase 3.

The ABMF team would like to acknowledge that the Brunei Darussalam Bond Market Guide is also the result of consultations with ABMF international experts who contributed their time and viewpoints on the bond market in Brunei Darussalam and its development.

No part of this report represents the official views or opinions of any institution that participated in this activity as an ABMF member, observer, or expert. The ABMF Sub-Forum 1 team bears sole responsibility for the contents of this report.

June 2017

ASEAN+3 Bond Market Forum

¹ ASEAN+3 refers to the 10 members of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China, Japan, and the Republic of Korea.

Abbreviations

ABMF	ASEAN+3 Bond Market Forum
ADB	Asian Development Bank
AMBD	Autoriti Monetari Brunei Darussalam
AMBIF	ASEAN+3 Multi-Currency Bond Issuance Framework
ASEAN	Association of Southeast Asian Nations
ASEAN+3	Association of Southeast Asian Nations plus the People's Republic of China, Japan, and the Republic of Korea
BND	Brunei dollar (ISO code)
CMSL	Capital Markets Services Licence
CMSRL	Capital Markets Services Representative Licence
CSD	central securities depository
IFI	Islamic financial institution
MTN	medium-term note
OTC	over-the-counter
RTGS	real-time gross settlement
SAB	Syariah Advisory Body
SF1	Sub-Forum 1 of ABMF
SF2	Sub-Forum 2 of ABMF
SMO	Securities Markets Order, 2013
SRO	self-regulatory organization
SFSB	Syariah Financial Supervisory Board
USD	United States dollar (ISO code)

USD1 = BND1.3832 as of 31 May 2017 (Source: AMBD)

Overview

A. Introduction

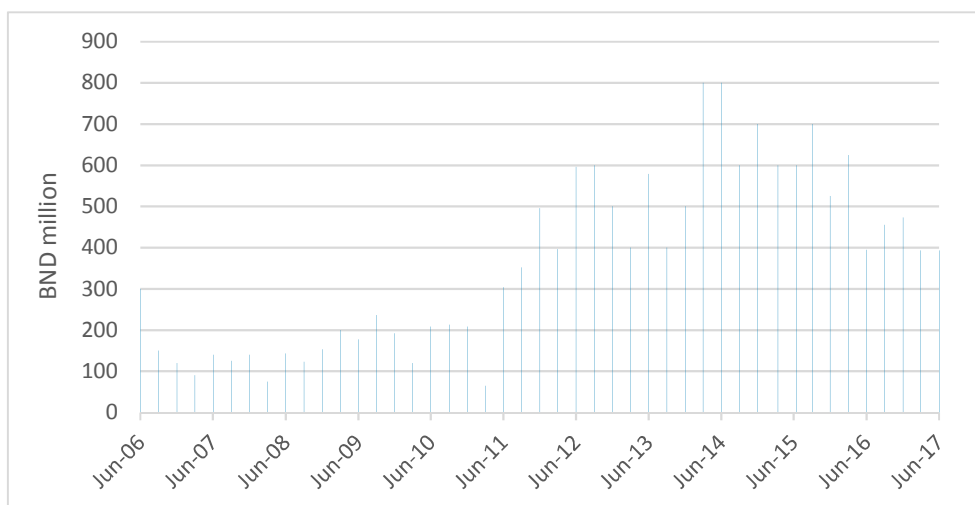
Brunei Darussalam is diversifying its economy through the development of new industries in order to gradually reduce its economic reliance on the oil and gas sector. The Government of Brunei Darussalam has spelled out its development goals over the next several decades in a policy document entitled Wawasan Brunei 2035 (Brunei Vision 2035). Wawasan Brunei 2035 envisages Brunei Darussalam's financial sector playing a central role in transforming the domestic economy by providing financial intermediation for the development of the overall economy and contributing at least 8% of national gross domestic product by 2035. The government's program of economic reform to achieve diversification and growth of Brunei Darussalam's economy will create new opportunities across the financial sector for banks, insurance companies, and in the capital market.

To this end, the Autoriti Monetari Brunei Darussalam (AMBD) has developed the Brunei Darussalam Financial Sector Blueprint, 2016–2025 to highlight ways in which Brunei Darussalam will build upon existing, and establish new, relationships with international investors, financial institutions, and financial centers, particularly in relation to the provision of Islamic financial services.

Although the domestic capital market is currently less advanced than the banking and insurance segment, there is considerable growth potential. Historically, *sukuk* (Islamic bonds) issuances in Brunei Darussalam have mostly been sovereign *sukuk* denominated in Brunei dollars. Since 2006, the government has maintained a continuous program of *sukuk* issuance with progressively longer maturities. The objective of the current program is to both develop Brunei Darussalam's yield curve as a benchmark for corporate *sukuk* and provide a safe and liquid investment instrument for domestic financial institutions. As the country further develops in line with Wawasan Brunei 2035, there will be increased need to finance major national construction and industrial projects, providing significant scope for raising funds through the capital market.

Brunei Darussalam has been a pioneer in issuing short-term *sukuk* with maturities of 1 year or less. Through June 2017, a total of 146 government *sukuk* using the principle of *al-ijarah* (issuance based on underlying assets) had been issued, bringing the cumulative amount issued to BND10.97 billion, with an outstanding amount of BND393.2 million as of 30 June 2017 (Figure 1.1).

The principal legal and regulatory frameworks for the securities markets industry are the Securities Markets Order, 2013 (SMO) and the Securities Markets Regulations, 2015 (SMR).

Figure 1.1: Local Currency Bonds Outstanding in Brunei Darussalam

Note: Data for selected dates through 30 June 2017.
Source: Autoriti Monetari Brunei Darussalam.

The SMO is comprehensive legislation, enacted in June 2013, covering all activities in the capital market. The SMO provides a framework for the licensing and supervision of market operators such as securities exchanges; clearing houses; credit rating agencies; and market intermediaries whose activities include dealing in securities, fund management, and financial advice.

The SMO also contains provisions for the registration of public offerings of securities such as bonds and continuous disclosure obligations designed with investor protection in mind (e.g., insider dealing to deter market abuse).

B. Brunei Darussalam Financial Sector Blueprint, 2016–2025

Wawasan Brunei 2035 sets out an economic vision for Brunei Darussalam over the next 2 decades, while the Brunei Darussalam Financial Sector Blueprint, 2016–2025 will guide the development of the financial sector over the next decade. The blueprint established the strategic framework within which AMBD will be working with other government ministries and stakeholders to achieve key objectives.

As Islamic finance continues to grow internationally and regionally, Brunei Darussalam can leverage its rich Islamic traditions and culture, political stability, and favorable ties with international partners to evolve into an Islamic finance hub serving the fast-growing Association of Southeast Asian Nations (ASEAN) region. The growth of this service line is central to diversifying Brunei Darussalam's economy.

Capital markets, including equity and debt markets, play a central role in promoting economic activity through facilitating and diversifying companies' access to finance. The launch of the Brunei Securities Exchange is expected to promote economic growth and business expansion by providing Bruneian businesses with alternative funding routes (instead of bank loans). Not only will the development of a securities market in Brunei Darussalam expand the country's capital market platform and trigger greater foreign investment opportunities and inflows, the Brunei Securities Exchange

will also align to the national strategy of diversifying the economy away from hydrocarbons.

Within this strategic framework, there will be opportunities for local and international financial institutions to play a role as market participants such as dealers, brokers, market analysts, investment advisers, and underwriters. Financial institutions may also take part as institutional investors. In addition, the framework will create demand for ancillary service providers such as legal firms, audit firms, and corporate secretaries to support listing activities.

C. Regional Cooperation

AMBD's participation in various regional and international cooperation forums offer opportunities for expanded market access. This includes participation in the ASEAN Capital Market Forum, Asian Bond Markets Initiative, ASEAN Working Committee on Capital Market Development, Islamic Financial Services Board, and International Organisation of Securities Commissions. These forums provide platforms for dialogue and meetings with other regional and international organizations that support the development of capital markets.

For more information on recent initiatives and developments with relevance for the Brunei bond market, kindly also refer to Chapters IX and X.

Legal and Regulatory Framework

A. Legal System

Brunei Darussalam has an English common law legal system that was inherited from the British Residential system. The Constitution of Brunei Darussalam sets out the governing authorities along with their respective functions, including the power to make laws. The full list and contents of laws can be found on the Brunei Darussalam Attorney General's Chambers website. The Syariah legal system, introduced during the reign of the first Sultan of Brunei Darussalam, is integral to societal discipline and has exclusive jurisdiction over Islamic matrimonial and family matters.

The Application of Laws Act (Chapter 2) states that the "common law of England and the doctrines of equity together with statutes of general application in force in England as of 25th April 1951, shall be in force in Brunei Darussalam subject to if local circumstances and customs permit."

The Brunei Darussalam judiciary consists of a three-tiered court system: (i) the Supreme Court, comprising the High Court and the Court of Appeal; (ii) the Intermediate Court; and (iii) the Subordinate Court, comprising the Magistrate Courts, Juvenile Court, and the Small Claims Tribunal. Appeals from the Subordinate Courts go to the High Court. While all appeals from the Intermediate Court and the High Court go to the Court of Appeal. The Court of Appeal is the final appellate court for all criminal cases. The parties to civil cases may agree to refer the final appeal on a civil matter to the Judicial Committee of the Privy Council in London. In February 2016, the Commercial Court was established as a specialist court to deal and expedite the hearing of commercial cases, including those relating to contracts, the export and import of goods, insurance, banking and financial services, and the operation of markets and exchanges.

The Brunei Darussalam Arbitration Centre came into operation in May 2016 and provides the services and administration for arbitration and mediation to domestic and international users in relation to commercial disputes, and serves as an alternative to civil court proceedings. The Arbitration Order 2009 and the International Arbitration Order 2009, which both came into force on 23 February 2010, provide the legal mechanism for domestic and international arbitration as well as the recognition and enforcement of arbitral awards. The order adopts the United Nations Commission on International Trade Law's Model Law on International Commercial Arbitration. Both pieces of legislation follow the principle that the courts of Brunei Darussalam may support but not interfere with the arbitration process. Brunei Darussalam is a party to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards adopted by the United Nations Conference on International Commercial Arbitration (New York Arbitration Convention) providing for the direct recognition and enforcement of arbitral awards in 156 countries.

B. Official Language

Bahasa Melayu is the official language in Brunei Darussalam, but English is widely used in the country. All laws, rules, and regulations in Brunei Darussalam are also published in the English language.

C. Legislative Structure

The legal infrastructure for regulating the capital market in Brunei Darussalam comprises primary legislation, subsidiary legislation, and regulatory direction:

- [1st tier] Constitution of Brunei Darussalam
- [2nd tier] Primary legislation (key legislation for the securities market)
- [3rd tier] Subsidiary legislation (rules and regulations)
- [4th tier] Directions (notices and directives issued by AMBD)
- [5th tier] Guidelines (issued by AMBD)

Table 2.1 illustrates the legislative structure outlined above.

Table 2.1: Examples of Securities Market Legislation by Legislative Tier

Legislative Tier	Content or Significant Examples
Constitution of Brunei Darussalam	<ul style="list-style-type: none"> Constitutional Matters I—Constitution of Brunei Darussalam Constitutional Matters III—Constitutional (Financial Procedure) Order
Primary legislation	<ul style="list-style-type: none"> Autoriti Monetari Brunei Darussalam Order, 2010 Securities Markets Order, 2013 Syariah Financial Supervisory Board Order, 2006
Subsidiary legislation	<ul style="list-style-type: none"> Securities Markets Regulations, 2015 Securities Markets (Compoundable Offences) Regulations, 2015 Securities Markets (Fees) Regulations, 2015
Directions (notices)	<ul style="list-style-type: none"> Notice on Exemption from Public Offering Registration Requirement, 2014 AMBD Notice No. CMU/N-1/2016/5—Notification on Private Offerings and Exempt Securities and Transactions Notice on Withdrawal of Exemptions Granted Under the Repealed Securities Order, 2001; and Mutual Funds Order, 2001

Source: Compiled by ADB consultants for SF 1 based on information provided by Autoriti Monetari Brunei Darussalam.

The primary legislation sets out the main regulatory provisions. The Securities Markets Order, 2013 (SMO) came into force on 25 June 2013 and provides for the licensing and regulation of securities markets activities, including the bond market and related institutions and participants in Brunei Darussalam market segments.

Regulations are made to supplement provisions of the primary legislation. The SMR came into effect on 1 February 2015 and provides detailed rules for implementation of the various general provisions under the SMO. The Securities Markets (Compoundable Offences) Regulation, 2015 makes provision for the compounding of

offences under the SMO, whereas the Securities Markets (Fees) Regulation, 2015 sets out the applicable fees.

Directions are specific instructions from AMBD to a regulated person (as defined under the SMO) or a financial institution (as defined under the Autoriti Monetari Brunei Darussalam Order, 2010) to ensure compliance. It can exist either in the form of a notice or a directive. Notices are issued in relation to a class of specified persons, whereas a directive would usually impose the requirements on a particular person. These are legally binding in nature and noncompliance will be an offense. To date, AMBD has issued two notices under the SMO: (i) the Notice on Exemption from Public Offering Registration Requirement, 2014; and (ii) the Notice on Withdrawal of Exemptions Granted Under the Repealed Securities Order, 2001 and Mutual Funds Order, 2001.

D. Brunei Bond Market Regulatory Structure

The capital market in Brunei Darussalam is governed by the laws and regulations regulated and enforced by AMBD. In the absence of a self-regulatory organization (SRO), AMBD also supports the development of market infrastructure needed to facilitate growth of the debt securities and *sukuk* market in Brunei Darussalam.

1. Autoriti Monetari Brunei Darussalam

AMBD acts as the central bank of Brunei Darussalam. It was established on 1 January 2011 under the Autoriti Monetari Brunei Darussalam Order, 2010 with four principal objectives:

- (i) achieve and maintain domestic price stability;
- (ii) ensure the stability of the financial system, in particular by formulating financial regulations and prudential standards;
- (iii) assist in the establishment, functioning, and oversight of efficient payment systems; and
- (iv) foster and develop a sound and progressive financial services sector.

AMBD continues to play a vital role through its developmental, regulatory, and supervisory functions. It will continue to work closely with market participants to provide a conducive environment and the infrastructure needed for the sector to grow.

2. Brunei Securities Exchange

The development of the Brunei Securities Exchange is currently underway and is a high priority for the Government of Brunei Darussalam and AMBD. A securities exchange is a key piece of infrastructure needed to support growth of the capital market in Brunei Darussalam.

3. Syariah Financial Supervisory Board and Syariah Advisory Body

Brunei Darussalam has a two-tiered Syariah governance structure:

- (i) The first tier comprises the centralized Syariah Financial Supervisory Board (SFSB) for which AMBD is the secretariat. The SFSB was established under the Syariah Financial Supervisory Board Order, 2006, which provided for control of the administration and dealings of financial institutions concerning Islamic products. Any new Islamic product must be approved by the SFSB in accordance with *Hukum Syara'* (Islamic law) before being transacted. The SFSB has a mandate to ascertain the

application of Islamic law on any financial matter; issue rulings on matters referred to it; and advise on any Syariah issues relating to Islamic financial business, activities, or transactions.

- (ii) The second tier comprises an internal Syariah Advisory Body (SAB) within each Islamic financial institution (IFI). IFIs and SABs are to consult with the SFSB, through AMBD, on Syariah matters relating to any business that is based on Syariah principles. SABs are responsible for IFIs' adherence to and implementation of SFSB guidelines and regulations.

E. Regulatory Framework for Debt Securities and *Sukuk*

Generally, any issuance of securities in Brunei Darussalam, including debt securities and *sukuk*, are governed by Part V (Public Offering) under the SMO where any public offerings are required to be registered with AMBD, unless they are considered exempt securities and transactions under section 117(b) of the SMO.

F. Debt Securities and *Sukuk* Issuance Regulatory Processes

Generally, any issuance, whether in Brunei dollars or a foreign currency, of corporate bonds, notes, or *sukuk* shall meet the public offering registration requirements as set out in section 116(1) of the SMO, unless the type of securities or transactions are exempted under section 117(b) of the SMO.

1. Regulatory Processes by Issuer Type

Table 2.2: Authorities Involved in Regulatory Processes by Issuer Type

Type of Issuer	AMBD
Resident issuer	
Resident nonfinancial institution	X
Resident financial institution	X
Resident issuing FCY-denominated bonds and notes	X
Nonresident issuer	
Nonresident nonfinancial institution	X
Nonresident financial institution	X
Nonresident issuing FCY-denominated bonds and notes	X

AMBD = Autoriti Monetari Brunei Darussalam, FCY = foreign currency.

Note: "X" indicates approval is required.

Source: ADB consultants for SF1.

Table 2.2 provides an overview of regulatory processes by corporate issuer type and identifies which regulatory authority or market institution will be involved. In order to make the issuance process by issuer type more comparable across ASEAN+3 markets, the table features common issuer-type distinctions that are evident in regional markets.² Not all markets will distinguish all such issuer types or prescribe

² ASEAN+3 refers to the 10 members of ASEAN plus the People's Republic of China, Japan, and the Republic of Korea.

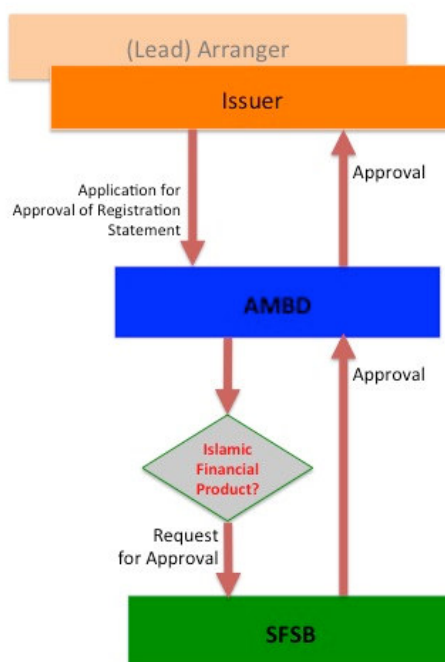
approvals. Sovereign issuers are typically exempt from corporate issuance approvals but, at the same time, may be subject to different regulatory processes.

There are no differences between the regulatory process for domestic and foreign issuers. All applications go directly to AMBD for its approval.

2. Overview of Regulatory Processes

The general regulatory process map in Figure 2.1 may help with the navigation of the applicable regulatory processes to be applied to any issuance of bonds, notes, or *sukuk*. Any application submitted to AMBD requires two supporting documents: (i) the Registration Statement and (ii) the prospectus. Any *sukuk* issuance will require additional endorsement from the SFSB.

**Figure 2.1: Regulatory Process Map—
Debt Securities Issuance in Brunei Darussalam**



AMBD = Autoriti Monetari Brunei Darussalam, SFSB = Syariah Financial Supervisory Board.
Source: ADB consultants for SF1 based on information provided by the Autoriti Monetari Brunei Darussalam.

The individual regulatory processes, as may be applicable, are explained in subsequent sections.

3. Regulatory Process in Case of a Nonresident Issuer

There are no separate processes for nonresident issuers. The steps outlined in section 4 apply to any applications for the issuance of debt securities and *sukuk*.

4. Regulatory Process for Public Offers

The regulatory framework in Brunei Darussalam is geared toward the issuance of securities via a public offering. Such issuances are subject to the approval from AMBD. The appointment of an underwriter for public offers is not mandatory under the law.

The application to AMBD and approval process involves a number of steps that are explained in greater detail below.

Step 1—Submission of Application for Approval to AMBD

According to section 116(1) of the SMO, any person who wishes to sell or make an offer to sell securities through a public offering shall first submit an application to AMBD. In making the application, the following documents are to be submitted:

- (i) covering letter;
- (ii) registration form for debentures;
- (iii) prospectus; and
- (iv) fee of BND500 for filing the Registration Statement.

The applicant is also required to comply with any other requirements under the SMO. The actual approval process is contained in a multitude of sections under the SMO (and SMR), with the actual approval being granted pursuant to section 122 of the SMO.

As for the Registration Statement, it shall contain all such necessary information as investors and their professional advisers would reasonably require and expect to find therein. This will enable them to make an informed assessment of the

- (i) assets and liabilities, financial position, profits and losses, and prospects of the issuer; and
- (ii) rights attaching to the securities.

Additionally, it shall also contain other information or documents as may be necessary with respect to

- (i) the terms of the offering, including the identity of any underwriter and the method of offering;
- (ii) information about the business and operations of the issuer;
- (iii) the identity of directors, senior management, promoters, and auditors;
- (iv) capitalization and indebtedness of the issuer;
- (v) risk factors;
- (vi) securities market data regarding any trading history of the issuer's shares;
- (vii) use of the proceeds of the offering;
- (viii) pending litigation;
- (ix) management discussions and analysis of financial conditions and results of the issuer's business operations;
- (x) forecasts of estimated profits or losses for the year ending immediately before the date of the prospectus and the year ending immediately after the date of the prospectus;

- (xi) a certificate from the issuer's auditor stating any changes in directors and auditors during the last 3 years, indicating the reasons for any changes; and
- (xii) audited financial statements for the years and periods required by AMBD.

Furthermore, the Registration Statement for any debenture public offering shall also contain the following information:

- (i) rights and restrictions related to the transfer of the debentures;
- (ii) return on the debentures;
- (iii) property or other collateral used as security for repayment, if any;
- (iv) debenture holder's representative, if any;
- (v) encumbrances on the property of the company that issues securities in case of unsecured securities;
- (vi) outstanding debt from previous issues of debentures;
- (vii) procedure, time, and place of payment;
- (viii) procedures for the conversion of rights, if any; and
- (ix) any other necessary information that AMBD may require.

Step 2—Approval from AMBD

AMBD will review the application and issue a formal written approval or rejection letter with regard to the bond, note, or *sukuk* issuance within 40 calendar days. AMBD may require further clarification or additional information from the applicant.

Regulations do not stipulate a specific time frame for which the issuance approval is valid; however, Part II (Securities Registration and Prospectus Requirements), Section 12(5) of the SMR states that the prospectus is valid for 12 months from the time of its publication. Regulation 12(1) of the SMR requires issuers to make the prospectus available to the public as soon as practicable after it has been approved.

5. Regulatory Process for Shelf Registration

As set out in section 127(1) of the SMO, a person may issue, offer for subscription or purchase, or make an invitation to subscribe or purchase securities, when at the time of the issue, offer, or invitation there is in force

- (i) a Shelf Registration Statement as updated by a form of supplementary shelf prospectus, and
- (ii) additional forms and information relating to all matters in which AMBD shall require by way of regulations made under this Order with respect to a shelf registration and form of supplementary shelf prospectus, additional forms, and information.

An eligible issuer may use a short-form Registration Statement for ongoing or shelf registrations of its securities, in which the issuer registers a relatively large amount of different types of securities that it may then issue from time to time as needed.

A Shelf Registration Statement and a prospectus become effective upon approval of the AMBD and permit take-downs of the securities without additional approval provided the filing information is updated as instructed by the AMBD.

There are no specific regulations on the time frame within which the take-downs (or tranche issuances) will need to be completed; instead this may be determined by AMBD administratively, as stipulated in section 3(1) of the SMR.

6. Regulatory Process for Private Offering

The following are some of the exempt transactions as set out in section 117 of the SMO that are designated as private offerings:

- (i) **Pure buy-and-hold private offering.** The sale of securities by an issuer to fewer than 50 persons in Brunei Darussalam during a 12-month period may be considered a private offering in respect of which no public advertisement for the offer to sell such securities is permitted and such securities sold to these investors must be held for investment for a period of at least 2 years.
- (ii) **Private offering to Professional Investors.** The sale of securities to any number of the specific classes of investors defined in section 20 of the SMO, and such other persons as AMBD may by regulation determine as qualified buyers, is also considered a private offering.

Please refer to Chapter III.N for a description of the applicable investor classes.

All transactions that are exempt transactions within the meaning of section 117 of the SMO are exempted from the requirement to file with AMBD the Registration Statement as well as the prospectus as outlined in section F.4 of this chapter. In such cases, AMBD only requires a notification of the offering using a form prescribed as per AMBD Notice No. CMU/N-1/2016/5—Notification on Private Offerings and Exempt Securities and Transactions.

7. Obligations after Approval and after Issuance

Under the current regulatory framework, post-issuance reporting obligations apply to public offers only and are detailed below.

(a) Public Offers

The person who obtains AMBD's approval for the issuance of any debt securities and *sukuk* through a public offering will be required to report monthly (end-of-month reporting) on the debt securities and *sukuk* with regard to

- (i) country risk,
- (ii) type of security,
- (iii) currency,
- (iv) coupon rate,
- (v) maturity,
- (vi) indicative bid,
- (vii) indicative offer, and
- (viii) yield to maturity.

(b) Private Offerings

For any issuance conducted by way of private offering, the issuer shall be required to report on a monthly basis (end-of-month reporting) the following information on non-sovereign debt securities and *sukuk*:

- (i) product name,
- (ii) product type,
- (iii) issuer,
- (iv) issue date,
- (v) tenor, and
- (vi) maturity.

8. Issuance Process Specific for a Domestic Financial Institution

There is no separate regulatory process for domestic financial institutions. The regulatory process is the same as described in section F.4 of this chapter.

9. Regulatory Process for Foreign-Currency-Denominated Debt Instruments and *Sukuk*

There is no separate regulatory process for foreign-currency-denominated debt instruments and *sukuk*. The regulatory process is the same as described in section F.3 of this chapter.

G. Continuous Disclosure Requirements in the Brunei Bond Market

AMBD has implemented the following continuous disclosure requirements for public offers and private offers.

1. In the Case of a Public Offering

As per paragraph (7) from section F of this chapter, any person who has obtained AMBD's approval for the issuance of any debt securities or *sukuk* through a public offering will be required to report on a monthly basis (end-of-month reporting) on the debt securities or *sukuk* with regard to

- (i) country risk,
- (ii) type of security,
- (iii) currency,
- (iv) coupon rate,
- (v) maturity,
- (vi) indicative bid,
- (vii) indicative offer, and
- (viii) yield to maturity.

2. In the Case of a Private Offering

An issuer of private debt securities or *sukuk* through a private offer would have to submit to AMBD a report on a monthly basis (end-of-month reporting) containing the following information:

- (i) product name,
- (ii) product type,
- (iii) issuer,
- (iv) issue date,
- (v) tenor, and
- (vi) maturity.

H. Self-Regulatory Organizations in the Brunei Bond Market

At present, there are no SROs in the Brunei bond market. Any SRO would have to meet the requirements stated in Part IV on Self-Regulating Organizations in the SMO.

I. Licensing and Registration of Market Participants

The licensing and/or registration of capital market participants is described below.

1. Capital Market Participants

A company or corporation, and individuals of such companies or corporations that conduct business in any regulated activities, as in Part II Activities Constituting Investment Business, Schedule—Securities and Investment Business, in Brunei Darussalam are required to hold a Capital Markets Services Licence (CMSL) or a Capital Markets Services Representatives Licence (CMSRL), respectively.

CMSL and CMSRL are only valid for a period of 12 months. Nevertheless, AMBD may extend the licence tenure to 36 months for a CMSL holder and to 24 months for a CMSRL holder as an incentive to raise the standards of corporate governance and market conduct.

The regulated activities provided in Part II Activities Constituting Investment Business, Schedule—Securities and Investment Business of the SMO are as follows:

- (a) dealing in investments;
- (b) arranging deals in investments;
- (c) safekeeping and administration of assets;
- (d) managing securities;
- (e) providing investment advice;
- (f) establishing collective investment schemes; and
- (g) using computer-based systems for giving investment instructions.

A CMSL will only be granted to a company or corporation incorporated in Brunei Darussalam or a foreign branch. They must be fit and proper, as set out in section 157(5) of the SMO. In assessing whether the CMSL applicant is fit and proper, several criteria will be considered, as specified in regulation 29(2) of the SMR, which are as follows:

- (a) honesty, integrity and reputation;
- (b) competence and capability;
- (c) financial soundness; and
- (d) requirements relating to competencies of representatives.

A CMSL applicant is required to satisfy the minimum financial requirements set by the AMBD for any regulated activities as specified in regulation 33 of the SMR.

A CMSRL applicant is required to satisfy the requirements of Part VII of the SMO and the conditions set out in regulation 40(1) of the SMR. In assessing the competency of the applicant to carry out a regulated activity, the applicant's educational and professional background, working experience, and previous track record will be considered.

A CMSRL applicant is required to pass the relevant licensing examination set by AMBD. The examination result of the applicant is valid for 3 years from the date of

passing the licensing examination set by AMBD. A CMSRL holder may be exempted from taking the licensing examination every 3 years by undertaking a minimum of 20 points of continuing professional development³ in a year, on or before the anniversary date of the licence.

J. Rules Related to Bond and *Sukuk* Listing, Disclosure, and Trading

Any rules and regulations, such as Listing Rules and Trading Rules, that will be used by market operators or SROs will require approval from AMBD.

For information on disclosure rules and obligations, please refer to sections F.7 and G in this chapter. Information on trading related rules can be found in Chapter IV.

K. Market Entry Requirements (Nonresidents)

Nonresidents are principally able to participate freely in the Brunei bond market. Details can be found below.

1. Nonresident Issuers

There is no distinction in the requirements under the SMO between resident and nonresident issuers. Nonresident issuers, which are also called foreign issuers, may issue debt securities or *sukuk* denominated in either Brunei dollars or a foreign currency in Brunei Darussalam, subject to the approval of AMBD (see section F in this chapter). There is no restriction for nonresident issuers to open and maintain accounts in Brunei dollars or a foreign currency with licensed onshore banks in Brunei Darussalam.

2. Foreign Investors

There are no specific market entry requirements for foreign investors to invest in the Brunei bond market, including *sukuk*. Foreign investors may invest in Brunei Darussalam in any form, including the purchase of debt securities or *sukuk* denominated in either Brunei dollars or a foreign currency. However, prior to investing in securities in Brunei Darussalam, investors are required to open an account with a bank in Brunei Darussalam.

L. Market Exit Requirements (Nonresidents)

The sections below contain details on the applicable exit requirements for nonresidents.

1. Nonresident Issuers

Any nonresident issuer who wishes to exit the market must submit to AMBD the following documents

³ Continuing Professional Development (CDP) comprises trainings and other such activities accredited by a specific CDP Board. Courses offered by the Centre for Islamic Finance, Business and Management are one example of CDP.

- (i) Board of Director's resolution, and
- (ii) any notice or statement provided to clients on the closure of the business.

2. Foreign Investors

There are no specific market exit requirements for foreign investors. There are no restrictions for foreign investors to repatriate funds from the divestment of domestic assets or profits and dividends arising from investments in Brunei Darussalam.

M. Regulations and Limitations Relevant for Nonresidents

The applicable regulations and possible limitations for nonresidents are provided below in brief, grouped according to the key topics of interest for nonresidents.

There are no currency controls in Brunei Darussalam.

1. Foreign Currency Limitations

There is no restriction on the amount of foreign currency that may be remitted into or out of Brunei Darussalam by nonresidents. Any person receiving an amount in a foreign currency from abroad may deposit the funds into a foreign currency account maintained with a licensed onshore bank.

However, any person carrying physical currency or bearer negotiable instruments valued at BND15,000 (or its equivalent in a foreign currency) or more while traveling in and out of Brunei Darussalam is required to declare it upon entry or exit at control posts. The failure to declare contravenes section 37(1) of the Criminal Asset Recovery Order and the person would be liable to a fine not exceeding BND50,000, imprisonment for a term not exceeding 3 years, or both.

2. Local Currency Limitations

Outbound remittance of Brunei dollars may be converted into a foreign currency either with a licensed onshore bank or a licensed money remittance company prior to remittance.

Similarly, any person carrying physical currency or bearer negotiable instruments valued at BND15,000 (or its equivalent in a foreign currency) or more while traveling in and out of Brunei Darussalam would have to declare it upon entry or exit at control posts.

3. Foreign Currency Funding

Nonresidents may obtain foreign currency financing from licensed onshore banks provided the availability of foreign currency funding at the banks, subject to applicable anti-money-laundering and combating-the-financing-of-terrorism requirements being met.

4. Local Currency Funding

Nonresidents who are not financial institutions may obtain Brunei dollar financing from licensed onshore banks subject to the bank meeting prudential requirements and internal limits for the purpose of financing real-sector activities in Brunei Darussalam such as manufacturing, trade, and other commercial activities.

N. Regulations on Credit Rating Agencies

This section covers the regulations and requirements applicable to credit rating agencies operating in Brunei Darussalam and their business. For the actual credit rating requirements in the Brunei bond market, and the application of such credit ratings in the issuance process for bonds, notes, and *sukuk*, please refer to Chapter III.O.

At present, there are no credit rating agencies operating in Brunei Darussalam.

Characteristics of the Brunei Bond Market

Historically, Brunei Darussalam's *sukuk* issuances have mostly been sovereign *sukuk*. Since 2006, the Government of Brunei Darussalam has maintained a continuous program of *sukuk* issuance with progressively longer maturities. Domestic issuance of *sukuk* is limited, but demand is still high.

The characteristics specific to the Brunei bond market are described in more detail in this chapter.

A. Definition of Securities

The definition of securities in Brunei Darussalam can be found in the Schedule to the SMO.

1. Securities Markets Order, 2013

Securities as defined under Schedule—Securities and Investment Business, Part I include the following

- (i) shares,
- (ii) debenture,
- (iii) government and public securities,
- (iv) instruments creating entitlements to shares or securities,
- (v) certificates representing securities,
- (vi) units in collective investment scheme,
- (vii) options,
- (viii) futures, and
- (ix) contracts for differences.

An additional definition for debenture is provided in section 115 of the Schedule, which is intended to apply to Part V (Public Offering) of the SMO only.

2. Definition of Debenture

Debenture includes debenture securities, bonds, notes and any other evidence of indebtedness of a company for borrowed moneys, whether or not constituting a charge on the assets of the company, but shall not be construed as applying to any of the following:

- (a) any instrument acknowledging or creating indebtedness for, or for money borrowed to defray the consideration payable under, a contract for sale or supply of goods, property or services or any contract of hire in the ordinary course of business;
- (b) a cheque, banker's draft, or any other bill of exchange or a letter of credit;

- (c) a banknote, guarantee or an insurance policy;
- (d) a statement, passbook or other document showing any balance in a current, deposit, or savings account;
- (e) any agreement for a loan where the lender and borrower are signatories to the agreement and where the lending of money is in the ordinary course of business of the lender, and any promissory note issued under the terms of such an agreement;
- (f) any instrument or product or class of instruments or products as AMBD may recommend, as prescribed by order published in the Gazette.

B. Types of Bonds, Notes, and *Sukuk*

The types of bonds, notes, and *sukuk* available in the Brunei bond market are described below.

1. Brunei Government Sukuk Al-Ijarah

Brunei Government Sukuk Al-Ijarah is an Islamic bond in which the issuance is based on underlying assets. The *sukuk* certificates are currently available in 91-day and 364-day maturities only.

2. Corporate *Sukuk*

To date, there has been only one corporate issuance of *sukuk* in 2006. The *sukuk* was a 6-year Sukuk Al-Ijarah worth BND100 million that was issued to finance major capital investment projects.

C. Money Market Instruments

Money market instruments are short-term debt instruments issued by either the Government of Brunei Darussalam or the private sector. Money market instruments are generally limited to instruments with a maturity of less than 1 year.

1. Instruments issued by the Government

The Brunei Government Sukuk Al-Ijarah is short-term in nature with a maximum tenor of 1 year. These *sukuk* are available to banks in Brunei Darussalam.

2. Other Money Market Instruments

AMBD is considering developing additional money market instruments to further support the domestic money market and, subsequently, to support the development of Islamic financial markets in Brunei Darussalam.

D. Segmentation of the Market

Brunei Government Sukuk Al-Ijarah is the only type of *sukuk* available in the domestic bond market. The total amount of outstanding *sukuk* at the end of 2016 stood at BND473.2 million. Detailed information on the outstanding value and new issuances of Government Sukuk Al-Ijarah can be found on the website of AMBD.

Appropriate links are also provided in Chapter VII and Appendix 1.

E. Methods of Issuing Bonds, Notes, and *Sukuk* (Primary Market)

Methods of issuance available in the Brunei bond market are explained in this section.

1. Government Securities Offering

AMBD, acting as an agent of the Government of Brunei Darussalam, issues Brunei Government Sukuk Al-Ijarah through an auction and is entrusted to handle all matters pertaining to the issuance and the administration of these securities.

There are two types of bidding allowed for the Brunei Government Sukuk Al-Ijarah as listed below.

a. Competitive Bidding

Primary Market Participants are required to submit a bid and specify the quantity and the yield or price.

b. Noncompetitive Bidding

Primary Market Participants may submit bids by specifying the desirable quantity only.

2. Debenture Issuance Programme

The SMO contains provisions for a “debenture issuance programme,” which is defined as follows:

“Debenture issuance programme” means any scheme or arrangement by an entity for the issuer of debentures or units of debentures where only part of the maximum amount of aggregate number of debentures or units of debentures under the programme is offered initially and a further tranche or tranches may be offered subsequently.

Corporate issuers would, hence, be able to utilize these provisions for their future issuances.

F. Governing Law and Jurisdiction (Bond, Note, and *Sukuk* Issuance)

The governing law and jurisdiction for a bond, note, or *sukuk* issuance is of significance since potential issuers may consider issuing under the laws or jurisdiction of a country or market other than the place of issuance. The choice of governing law or contractual preferences of stakeholders may affect the accessibility to a specific investor universe that may otherwise not be accessible if a bond, note, or *sukuk* were issued under the laws of the place of issuance.

There is no legal restriction that the governing law and jurisdiction for a bond, note, or *sukuk* issuance in the Brunei bond market must be governed by the laws of Brunei Darussalam. The choice of governing law and jurisdiction is at the preference of the issuer, taking into account the availability of expertise and cost.

G. Language of Documentation and Disclosure Items

Contracts or agreements in the context of a bond, note, or *sukuk* issuance; the issuance documentation and disclosure items; and all applications, approvals, and correspondence with regulatory authorities and market institutions can be in English in Brunei Darussalam.

H. Registration of Debt Securities and Sukuk

The typical functions associated with a registration concept, such as provision of bond information, continuous disclosure, and the determination of a fair market price, are carried out by institutions that are mandated for such functions, including AMBD and information vendors. Their roles and the corresponding functions are explained elsewhere in this bond market guide.

For details on the AMBD approval process of the Registration Statement, please see Chapter II.F.

I. Listing of Debt Securities

At present, there is no listing provision for debt securities listing. However, Brunei Darussalam is preparing for the establishment of the Brunei Securities Exchange, for which relevant respective working groups are laying down the necessary framework, including the preparation of listing rules, trading rules, clearing rules, depository rules, and delivery-versus-payment rules.

J. Methods of Trading Bonds, Notes, and Sukuk (Secondary Market)

The over-the-counter (OTC) market is the main trading venue for Brunei Government Sukuk Al-Ijarah issued in Brunei Darussalam. At the moment, Brunei Government Sukuk Al-Ijarah are traded in the OTC market between participants via telephone or other electronic platforms.

K. Bond and Note Pricing

In the absence of bond pricing agencies in Brunei Darussalam, quotes may be obtained from the Primary Market Participants.

L. Transfers of Interest in Bonds and Notes

Generally, the transfer of any Brunei Government Sukuk Al-Ijarah is processed and managed by the appointed depository.

M. Market Participants

1. Issuers

The Government of Brunei Darussalam is the main contributor to the *sukuk* market. Corporates are also allowed to issue debt securities or *sukuk*, although there have been no recent corporate issuances.

2. Investor Base

Brunei Government Sukuk Al-Ijarah are offered to Primary Market Participants, which are mainly made up of the domestic financial institutions, which include banks and insurance companies, and statutory bodies in Brunei Darussalam.

Please also see sections K, L, and M in Chapter II for applicable regulations for nonresidents.

3. Parties Involved in Debt Securities and *Sukuk* Issuance

The parties involved in debt securities and *sukuk* issuance are briefly reviewed in this section. Credit rating agencies are separately mentioned in Chapter II.N. Some of the terms used for the roles and functions of market participants in this context are specific to the Brunei bond market.

a. Primary Market Participants

Institutions can apply to be Primary Market Participants for the Brunei Government Sukuk Al-Ijarah Programme, where the application will be assessed by the relevant authorities. Primary Market Participants are allowed to tender their biddings for Brunei Government Sukuk Al-Ijarah in the primary market and conduct transactions with each other.

b. Arranger or Lead Arranger

The appointment of an (lead) arranger is not mandatory under Brunei bond market regulations, including for foreign issuers aiming to offer debt instruments and *sukuk* issued in the Brunei bond market.

At the same time, using an (lead) arranger may be practical, in particular if the issuers intend to distribute the debt securities or *sukuk* to a larger audience or introduce a new type of debt securities instrument. The (lead) arranger will structure the debt securities or *sukuk* proposal, help obtain necessary approvals for *sukuk*, and assist the issuer in compiling issuance documentation and lodge a prospectus with AMBD.

c. Paying Agent

The paying agent is responsible for the cash flow involved in a bond, note, or *sukuk* transaction, specifically in receiving the proceeds from the issuance on behalf of the issuer and remitting the proceeds to the issuer, as well as the payment of interest or consideration and redemption amounts to investors. The function includes the withholding of taxes and duties as may be applicable.

AMBD acts as the paying agent for Brunei Government Sukuk Al-Ijarah.

d. Syariah Adviser

The appointment process of Syariah Advisers for financial institutions is set out in section 15 of Syariah Financial Supervisory Board Order, 2006. The appointment of Syariah Advisers must be approved by the SFSB.

e. Law Firms and Accounting or Audit Firms

Law firms and accounting or audit firms who service capital market participants in Brunei Darussalam are not required to be registered with AMBD. They are registered with their respective supervising agencies (e.g., the Revenue Division of the Ministry of Finance in case of audit firms.)

N. Definition of Investor Classes

In Brunei Darussalam, the following are the specific classes of investors as provided under section 20 of the SMO:

- (a) Accredited Investors include
 - (i) an individual
 - A. whose net personal assets exceed in value BND2 million (or its equivalent in a foreign currency) or such other amount as AMBD may prescribe in place of the first amount; or
 - B. whose income in the preceding 12 months is not less than BND300,000 (or its equivalent in a foreign currency) or such other amount as AMBD may prescribe in place of the first amount;
 - (ii) a corporation with net assets exceeding BND10 million in value (or its equivalent in a foreign currency) or such other amount as AMBD may prescribe, in place of the first amount, as determined by
 - A. the most recent audited balance-sheet of the corporation; or
 - B. where the corporation is not required to prepare audited accounts regularly, a balance-sheet of the corporation certified by the corporation as giving a true and fair view of the state of affairs of the corporation as of the date of the balance-sheet, which date shall be within the preceding 12 months;
 - (iii) the trustee of such trust as AMBD may prescribe, when acting in that capacity; or
 - (iv) such other person as AMBD may prescribe.
- (b) Expert Investors include
 - (i) a person whose business involves the acquisition and disposal, or the holding, of securities, whether as principal or agent;
 - (ii) the trustee of such trust as AMBD may prescribe, when acting in that capacity; or
 - (iii) such other person as AMBD may prescribe.

- (c) Institutional Investors include
- (i) a bank licensed under the Banking Order, 2006 (S45/2006) or Islamic Banking Order, 2008 (S96/2008);
 - (ii) a finance company licensed under the Finance Companies Act (Chapter 189);
 - (iii) a person registered under the Insurance Order, 2006 (S48/2006) or Takaful Order, 2008 (S100/2008);
 - (iv) a company licensed under the International Trusts Order, 2000 (S55/2000);
 - (v) the Perbadanan Tabung Amanah Islam Brunei established under section 3(1) of the Perbadanan Tabung Amanah Islam Brunei Act (Chapter 163);
 - (vi) the Government of His Majesty the Sultan and Yang Di-Pertuan;
 - (vii) a statutory authority established under any written law;
 - (viii) a pension fund or a collective investment scheme;
 - (ix) the holder of a Capital Markets Services Licence granted under this Order;
 - (x) the trustee of such trust as AMBD may prescribe, when acting in that capacity; or
 - (xi) such other person as AMBD may consider as an institutional investor based on the knowledge and experience of that person in securities including his ability to hire specialists with corresponding knowledge and experience, volume of his net assets, or net assets under his management or other similar criteria.

For all intents and purposes, these specific classes of investors can be regarded as qualified buyers or professional Investors.

O. Credit Rating Requirements

This section covers the applicable credit rating requirements for bonds and notes issued in the Brunei bond market. For details on the underlying regulations for credit rating agencies and their operations, please refer to Chapter II.N.

At present, there are no credit rating requirements for debt securities and *sukuk* issuances in Brunei Darussalam.

P. Market Features for Investor Protection

This section reviews a number of topics that have a bearing on the protection of investors in the Brunei bond and *sukuk* markets, in particular retail (or nonprofessional) investors.

1. Investor Complaints

AMBD has set up the Financial Consumer Issues Unit to review complaints regarding any matter that relates to licensed financial institutions.

2. Retail Investors

Under section 253 of the SMO, AMBD is mandated to establish an Investor Compensation Scheme, in which the principal objects of this scheme are to set up and

manage a scheme to provide compensation for eligible investors where a regulated person is in financial distress.

3. Foreign Investors

Foreign investors are afforded similar safeguards as those made available to retail investors.

4. Bondholder Rights

Under section 153A of the Companies Act (Chapter 39), a bondholder of a company may apply to the courts for an order to

- (i) direct or prohibit any act or cancel or vary any transaction or resolution;
- (ii) regulate the conduct of the affairs of the company in the future;
- (iii) authorize civil proceedings to be brought in the name of or on behalf of the company by such person or persons and on such terms as the court may direct;
- (iv) provide for the purchase of the shares or debentures of the company by other members or holders of debentures of the company, or by the company itself;
- (v) in the case of a purchase of shares by the company, provide for a reduction accordingly of the capital of the company; and
- (vi) provide that the company be wound up.

In cases where an order that the company be wound up is made pursuant to subsection (2)(f), the provisions of the Insolvency Order, 2016 (S11/2016) relating to the winding up of a company shall, with such adaptations as are necessary, apply as if the order had been made on an application duly made to the court by the company.

5. Trust Agent or Bond Trustee

There are no specific regulations or guidelines on the appointment of a bond trustee and the drawing up of a trust deed for bonds, notes, and *sukuk* issuers, but this is still subject to revision in the near future. Brunei Darussalam is in the final stages of the promulgation of the Trusts Companies Order, 2017 and Trusts Companies Regulations, 2017, which provide for the licensing and regulation of trust companies.

For more details on the bond trustee function, please also see section Q in this chapter.

6. Prevention of Fraud

Section 128 of the SMO provides for misleading statements and practices in relation to a prospectus.

7. Ethics

Sections 25 and 26 of the SMO 2013 provide for the promotion of high standards of integrity and fair dealing.

8. Investor Compensation Scheme

AMBD, under section 253 of the SMO, is given the statutory mandate to establish a body called the Investor Compensation Scheme, the principal objects of which are to set up and manage a scheme to provide compensation for eligible investors in cases where a regulated person is in financial distress.

Q. Bond or *Sukuk* Trustee

Although it is not an express requirement, all bonds, notes, and *sukuk* issuers are expected to enter into a Trust Deed with an appointed Bond Trustee. This would form part of the supporting document needed for the registration process with AMBD.

At the moment, there are no specific requirements for a Trust Deed in the regulations but AMBD is currently working on the Bond Trustee Requirements.

When the Trusts Companies Order, 2017 and Trusts Companies Regulation, 2017 become effective, all trust business, including the provision of services with respect to the creation of an express trust, will need to be licensed.

R. Bankruptcy and Insolvency Provisions

The bankruptcy and insolvency framework can be found in the Companies Act (Chapter 39) and the Insolvency Order 2016 (S1/2016).

S. Event of Default and Cross-Default

Generally, the descriptions of events of default are negotiated and described in the bond documentation or prospectus, or in the case of a Trust Deed, in the trust instrument.

Bond, Note, and *Sukuk* Transactions and Trading Market Infrastructure

A. Trading of Bonds, Notes, and *Sukuk*

Brunei Government *Sukuk* Al-Ijarah are tradeable in the secondary market among Primary Market Participants, either directly or through securities houses. Most transactions take place over the telephone or through other electronic platforms.

B. Trading Platforms

1. Over-the-Counter Market

There is no common trading platform used in the OTC market. Trading may be conducted directly among Primary Market Participants via phone, or Bloomberg or other such global trading system providers, or an in-house trading system.

2. Registered Electronic Facilities

Pursuant to Section 71 of the SMO, operators of a trading facility used in or accessed by trading participants in Brunei Darussalam, including those for bond, note, and *sukuk* trading, must be licensed or have a licence endorsed by AMBD.

Trading of *sukuk* can also be done via Bloomberg's E-Bond System, which is made available to Primary Market Participants subscribing to the system. Bloomberg Tradebook Singapore Pte. Ltd. is currently being recognized by AMBD as a trading facility under section 70 of the SMO.

C. Mandatory Trade Reporting

The Bloomberg trading platform as one of the regulated entities under the SMO, is required to provide ongoing monthly reporting to AMBD on the volume and value of government and public securities issued by AMBD and traded on the Bloomberg E-Bond System. OTC trades by market participants who are not subscribed to Bloomberg are also required to be reported to AMBD.

D. Market Monitoring and Surveillance in the Secondary Market

AMBD currently monitors the Bloomberg E-Bond System under Bloomberg Tradebook Singapore Pte. Ltd. Additionally, AMBD conducts secondary market surveillance, focusing on the instruments and participants in the OTC market under their purview.

E. Bond Information Services

Information on Brunei Government *Sukuk* Al-Ijarah, including an issuance calendar and auction results, is readily available from the AMBD website.⁴

Additional information on the Brunei bond market, its institutions, and its instruments is available through the *AsianBondsOnline* website.⁵

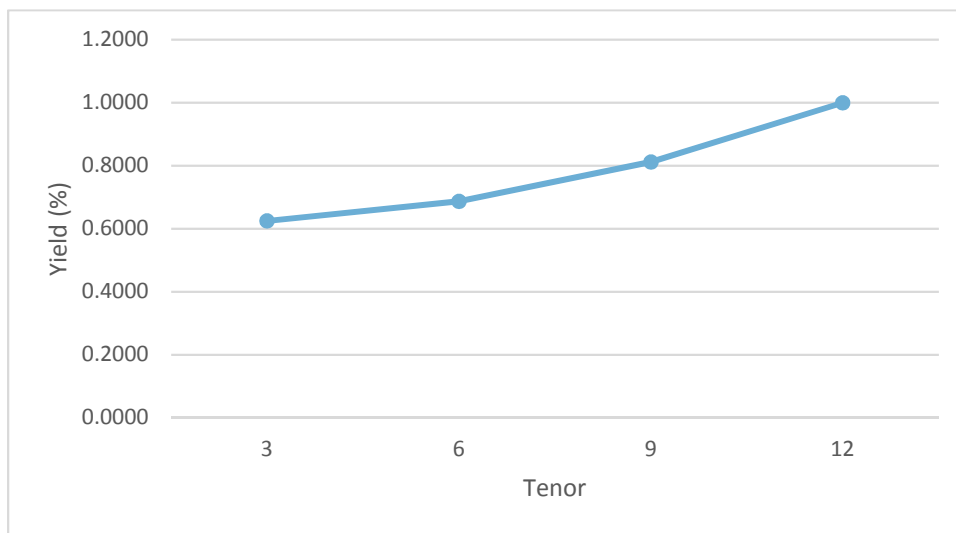
F. Yields and Yield Curves

Information on yields and yield curves for government securities issued in the Brunei bond market is available from a number of market institutions, typically through their websites. Similar data are also available from commercial data vendors and securities information services.

1. Government *Sukuk* Yield Curve

For Brunei Government *Sukuk* Al-Ijarah, yield curves are calculated by AMBD and made public after the auction process. An example is shown in Figure 4.1.

Figure 4.1: Government *Sukuk* Yield Curve



Note: Data as of 30 June 2017.

Source: Autoriti Monetari Brunei Darussalam.

G. Repo Market

1. Repurchase Market Overview

The repurchase (repo) market is being developed in the Brunei bond market. There are plans to establish bilateral repo between AMBD and Primary Market Participants for the purpose of using *sukuk* as collateral to promote liquidity in the banking system.

⁴ For an example of available information, please see <http://www.ambd.gov.bn/Lists/News/Displayitem.aspx?ID=275>

⁵ See <https://asianbondsonline.adb.org/Brunei.php>

OTC and private repo transactions between Primary Market Participants are also allowed.

2. Acceptance of Standards

The adoption of the Global Master Repurchase Agreement for conventional repo or other Islamic equivalent agreement for Islamic repo is being considered.

3. Specific Repurchase Practices

There are plans to allow Brunei Government Sukuk Al-Ijarah for repo transactions in the interbank market.

H. Securities Borrowing and Lending

There are plans to allow securities borrowing and lending in Brunei Darussalam, including for debt instruments and *sukuk*.

I. Interest Rate and Fixed-Income Futures

Interest rate futures are currently not available in the Brunei bond market.

Description of the Securities Settlement System

This chapter, as included in the original ASEAN+3 Bond Market Guide published in 2012, has been discontinued in favor of a more comprehensive and updated description in the Phase 2 Report of ABMF Sub-Forum 2 (SF2), Information on Transaction Flows and Settlement Infrastructures, dated 13 June 2014. The SF2 Phase 2 report contains information on the post-trade features of the Brunei Darussalam bond market, its market infrastructure and settlement systems, interest payment and redemption practices, as well as market and message standards (pp. 89–93). In addition, the SF2 Phase 2 report contains detailed infrastructure and transaction flow diagrams for Brunei Darussalam (pp. 325–35).

The SF2 report is available at www.asianbondsonline.adb.org as well as through a number of mirror sites.⁶

⁶ See <http://www.adb.org/publications/asean3-information-transaction-flows-and-settlement-infrastructures>

Bond Market Costs and Taxation

This chapter details the typical types of costs to be incurred by issuers and investors in the Brunei bond market, with an emphasis on costs associated with bond, note, and *sukuk* issuance and settlement.

For ease of reference, the descriptions of the types of costs are given in the context of the actions to be taken by issuers or investors (as explained in this document), and follow the life cycle of a bond, note, or *sukuk* in the Brunei bond market.

A. Costs Associated with Bond, Note, and *Sukuk* Issuance

These costs refer to charges incurred as a result of debt securities or *sukuk* issuance, as charged by regulatory authorities and market institutions.

1. Application Approval from Autoriti Monetari Brunei Darussalam

Issuers are subject to a fee of BND500 upon submission of the Registration Statement for public offering of securities. The relevant provision within the SMO is Part V (Public Offering).

2. Principal Adviser Fee (Optional)

The appointment of a Principal Adviser in the Brunei bond market is not mandatory. The Principal Adviser is, among other roles, responsible for the submission of applications and supporting information to the relevant regulatory authorities. The Principal Adviser will charge a fee, which should be expected to follow established market practice and may be subject to negotiations between the issuer and the Principal Adviser.

3. Underwriter Fee (Optional)

Issuers are not required by law to appoint an underwriter in Brunei Darussalam; often, the Principal Adviser performs the role of an underwriter as well. However, some offers of bonds, notes, and *sukuk* may require the services of one or more underwriters to place the debt securities or *sukuk* with institutional investors or distribute the issuance to retail investors.

Underwriters charge a fee, typically commensurate with the effort and risk of taking over part or all of a bond, note, or *sukuk* from the issuer. This fee or service charge should be expected to follow established market practice and may be subject to negotiations between issuer and underwriter(s).

4. Syariah Adviser Fee (Mandatory in Case of Sukuk Issuance)

In the case of a *sukuk* issuance, the issuer is required to appoint a Syariah Adviser who will advise the issuer on the suitability of the type and structure of a *sukuk* and certify the compliance of the *sukuk* with Syariah principles, which have been approved by the Syariah Advisory Council.

Syariah Advisers command a service fee, which should be expected to follow established market practice and may be subject to negotiations between the issuer and the Syariah Adviser.

5. Agent Fees

In the Brunei bond market, the appointment of agents in the context of a bond, note, or *sukuk* issuance is not mandated. A facility agent will administer the issuance process of debt instruments and *sukuk* into the market, while a paying agent is responsible for handling the cash flow at issuance, for benefits arising from the issue, and upon redemption. The trustee holds the fiduciary responsibility toward the bondholder or *sukuk* holder, and acts in the case of default or distress.

Facility and paying agents, as well as the trustee, are remunerated for their services based on market practice.

B. Ongoing Costs for Issuers of Corporate Bonds, Notes, and Sukuk

Resident and nonresident (foreign) issuers in the Brunei bond market tend to appoint a commercial bank as the paying agent for their corporate bonds, notes, and *sukuk*. This service provision may result in charges, such as interest payment and redemption fees.

C. Costs for Deposit and Withdrawal of Bonds, Notes, and Sukuk

In the absence of a local central securities depository, the Government of Brunei Darussalam has appointed an external depository agent as the custodian of the Brunei Government Sukuk Al-Ijarah. Under the existing program, there is no service fee imposed on market participants. It is expected that such a program will be replaced once the new central securities depository (CSD) is established.

D. Costs Associated with Bonds, Notes, and Sukuk Trading

As the trading of Brunei Government Sukuk Al-Ijarah is only applicable among Primary Market Participants, there are no trading fees apart from the charges imposed by the appointed depository.

E. Costs for Settlement and Transfer of Bonds, Notes, and Sukuk

1. Transaction Fee (Transfer Fee)

AMBD collects a transaction fee (transfer fee) for each settlement transaction in the AMBD real-time gross settlement (RTGS) system through the settlement account maintained by RTGS participants.

F. Taxation Framework and Requirements

Brunei Darussalam has one of the lowest tax regimes in the region as there is no sales, payroll, capital gains, manufacturing, or personal income tax.

Section 269 of the SMO exempts the following persons from paying income tax; capital gains tax; or other taxes being levied, withheld, or collected:

- (i) a collective investment scheme conducting management of securities;
- (ii) a CMSL holder conducting management of securities;
- (iii) the collective investment scheme itself;
- (iv) any person who receives dividends or earnings that are attributable to any unit share, partnership interest, debt, or securities; and
- (v) any fees or other earnings received in the capacity of a licensee.

Table 6.1: Duties and Taxes Related to Debt Securities and Sukuk in Brunei Darussalam

Type of Tax	Type of Debt Instrument or Service	Type of Investor or Institution	Tax Rate (% or amount)
Business Income Tax	All debt securities	All investors	Exempt
Withholding Tax	All debt securities	5 classes of investors ^a	Exempt
Capital Gains Tax	All debt securities	All investors	n.a.
Stamp Duty	All debt securities	Transactions involving collective investment schemes	Exempt
		All other investors	As per Stamp Act ^b
Value-Added Tax	All debt securities	All investors	n.a.

n.a. = not applicable.

^a Which for all intents and purposes covers all bond market participants.

^b Please see <http://www.agc.gov.bn/AGC%20Images/LOB/PDF/Cap34.pdf>

Source: Compiled by ADB consultants for SF1 from public domain sources.

1. Business Income Tax

Any dividends or earnings attributable to debt securities or *sukuk* are exempt from income tax in Brunei Darussalam.

2. Withholding Tax

If an issuer of debt securities or *sukuk* can qualify as one of the five classes of people listed in section 269 of the SMO (as outlined in text above), that issuer will be entitled to an exemption from withholding tax.

3. Capital Gains Tax

There is no capital gains tax levied on any dividends or earnings attributable to debt securities and *sukuk* in Brunei Darussalam.

4. Stamp Duty

Although there are no exemptions from stamp duty provided under the Stamp Act (Chapter 34), such exemptions are provided under the SMO.⁷

Section 269 of the SMO provides that, notwithstanding the Stamp Act, stamp duty is not chargeable on any of the following:

- (i) instruments relating to transfers of any property to or by any collective investment scheme,
- (ii) instruments relating to transactions in respect of any collective investment scheme interest; and
- (iii) instruments relating in any way to the assets or activities of a collective investment scheme.

5. Goods and Services Tax or Value-Added Tax

Neither a goods and services tax nor a value-added tax is applicable in Brunei Darussalam.

6. Double Taxation Agreements

Avoidance of Double Taxation Agreements are bilateral tax treaties signed between Brunei Darussalam and other countries or economies that serve to lessen the tax burden on companies when operating in Brunei Darussalam and the other signatory's jurisdiction. Brunei Darussalam has signed Avoidance of Double Taxation Agreements with Bahrain; the People's Republic of China; Hong Kong, China; Indonesia; Japan; the Republic of Korea; Kuwait; the Lao People's Democratic Republic; Malaysia; Oman; Pakistan; Qatar; Singapore; Tajikistan; United Arab Emirates; the United Kingdom; and Viet Nam.

7. Tax Concessions or Exemptions for Nonresident Investors

Tax exemptions for nonresident investors are not applicable since Brunei Darussalam does not apply capital gains and withholding taxes on the income or considerations from debt securities and *sukuk*, respectively.

⁷ For further information, the Stamp Act (Chapter 34 of the laws of Brunei Darussalam) may be found at <http://www.agc.gov.bn/AGC%20Images/LOB/PDF/Cap34.pdf>

Market Size and Statistics

The original ASEAN+3 Bond Market Guide was published in April 2012 and included several pages of bond market statistics, including historical data such as bond holdings, bondholder distribution, outstanding amounts, and trading volumes. Not surprisingly, this data became stale soon after publication.

Since the ASEAN+3 Bond Market Guide is most likely to be updated only on a biennial basis, it is not the best channel for the dissemination of market statistics. Hence, a chapter comprising bond market statistics has been discontinued and replaced with a list of recommended sources for detailed, accurate, and current information sources on the Brunei bond market. These sources are listed below in alphabetical order.

- *AsianBondsOnline* (an ASEAN+3 initiative led by ADB)
<https://asianbondsonline.adb.org/brunei.php>
 - Market-at-a-Glance
 - Market structure
 - News
- Autoriti Monetari Brunei Darussalam
<http://www.ambd.gov.bn/Site/Home.aspx>
 - Brunei Government Sukuk Al-Ijarah (short-term issuance calendar)
 - Brunei Government Sukuk Al-Ijarah (brief summary)

The Brunei *Sukuk* Market

A. Current Status of the Islamic Bond Market in Brunei Darussalam

Virtually all bond issuance in Brunei Darussalam has been in the form of *sukuk*. On the issuance side of the *sukuk* market, there has been limited activity to date, although since 2006, the Government of Brunei Darussalam has maintained a continuous program of *sukuk* issuance with progressively longer maturities. Since 1993, there have been only two instances of a significant issuance to the public by a commercial enterprise. In 1993, the Islamic Bank of Brunei (now known as Bank Islam Brunei Darussalam) made an initial public offering of shares. In 2005, the first corporate *sukuk* was issued by Brunei Liquefied Natural Gas while the Islamic Development Bank of Brunei Berhad served as the arranger.

B. The Nature of *Sukuk*

Sukuk can be defined as certificates of equal value which evidence undivided ownership or investment in the assets using Syariah principles and concepts endorsed by the Syariah Advisory Body.

A prerequisite for *sukuk* is compliance with Islamic or Syariah principles. A *sukuk* is structured so that it involves an exchange of Syariah-compliant assets for financial consideration that allows investors to earn profits and rentals from transactions in the future.

Sukuk currently issued by the Government of Brunei Darussalam use the concept of *al-ijarah*.

C. Legal Implications for Investors

Sukuk represent ownership claims on a pool of assets, or rights to receivables or participation. *Sukuk* may be issued as offers to retail investors, public offerings, private offerings, as well as offers to nonresident (foreign) entities.

The various transaction contracts that form the genesis of a *sukuk* issue have different legal implications for investors. *Sukuk* investors should therefore be fully apprised of and knowledgeable about their rights and obligations under the various underlying Islamic concepts and principles, which are explained below.

1. Rights to an Underlying Asset and its Cash Flow

For *sukuk* that represent the ownership of assets, their usufruct, or services (of the underlying asset), the claim embodied in the *sukuk* is not just a claim on the underlying

asset used in the *sukuk* transaction, but also the right to the cash flow and proceeds from the sale of the asset. For example, with Brunei Government Sukuk Al-Ijarah, the *sukuk* are akin to trust certificates establishing undivided ownership of the leased asset and the right to the cash flow arising from it.

2. Rights to Cash Flow from the Contract of Exchange but Not the Asset

For *sukuk* issued as evidence of indebtedness arising from the sale of the asset based on contracts of exchange, the claim is on the obligations stemming from the applied contract of exchange, and not ownership of the physical asset, as ownership has been transferred to the obligor.

3. Rights to Undivided Interest in Specific Investments

This underlying type of *sukuk* is not applicable to the Brunei bond market.

D. Sukuk Issuance in Brunei Darussalam

Brunei Government Sukuk Al-Ijarah are zero-coupon bonds with a maturity of less than 1 year.

E. Regulatory Framework for Sukuk

AMBD supervises the Islamic capital market including the issuance of *sukuk* in Brunei Darussalam. In fact, regulations on the issuance of *sukuk* do not materially differ from those of other debt instruments that are considered as public offerings. However, it will require approval from the Syariah Financial Supervisory Board.

F. Infrastructure for Sukuk

In Brunei Darussalam, *sukuk* are traded OTC. In the absence of a common trading platform, trading is conducted directly among Primary Market Participants via phone or Bloomberg, or other such global trading system providers, or through an in-house trading system.

Brunei Bond Market Challenges and Opportunities

This chapter discusses some of the actual and perceived challenges facing the bond market in Brunei Darussalam and its participants. This chapter also aims to describe the possible mitigating factors or market developments that could address these challenges in an appropriate manner.

A. Challenges in the Brunei Bond Market

1. Financial Infrastructure Development

Financial infrastructure in Brunei Darussalam is still at an early stage of implementation. Brunei Darussalam is making rapid progress and huge efforts in establishing the necessary infrastructure, such as the CSD and the Brunei Securities Exchange, to support the development of the capital market, particularly the debt securities and *sukuk* market.

2. More Demand Than Supply of *Sukuk*

The demand for Brunei Government Sukuk Al-Ijarah remains strong and this demand will continue to be supported by the strong liquidity in the financial system. The market is encouraged to seek alternative funding by issuing debt securities or *sukuk* to foster more product development and thus increase investment opportunities.

B. Opportunities in the Brunei Bond Market

1. Monetary and Financial Stability

Brunei Darussalam has established a stable monetary and competitive fiscal environment, supported by AMBD's progressively robust regulatory framework. Such is a prerequisite for strong economic and financial development. The World Economic Forum has consistently ranked Brunei Darussalam highly as a destination renowned for a stable macroeconomic environment.

The cornerstone of Brunei Darussalam's monetary policy remains the Currency Interchangeability Agreement with Singapore, which is buttressed by the Currency Board framework, as prescribed by the Currency Order, 2004. These longstanding arrangements—the Currency Interchangeability Agreement has been in place since 1967—anchor the Brunei dollar to the Singapore dollar. The Currency Board framework is a highly credible arrangement that promotes fiscal discipline. Underpinning the macroeconomic stability of Brunei Darussalam with a credible anchor currency supported by prudent fiscal policy has served Brunei Darussalam well in creating a conducive investment environment protected by the rule of law and a modern infrastructure aimed at supporting the growth of the financial sector.

As such, the private placement segment of the Brunei bond market could present opportunities for both nonresident issuers and investors to issue debt securities, including note issuance programs such as MTN, with a defined expectation toward issuance documentation and rapid time-to-market in the absence of regulatory approval requirements.

2. Islamic Finance Hub

Brunei Darussalam has the potential to compete within one of the global financial sector's fastest-growing services: Islamic finance. Brunei Darussalam's political, social, and (increasingly) economic framework aligns to Islamic teachings and principles, providing the country with a competitive edge. This is exemplified by the national commitment to the Melayu Islam Beraja philosophy that has been in practice for 600 years, contributing to political and social stability. Brunei Darussalam is well-positioned to leverage its capacity to provide niche Islamic financial services to international clients and capitalize on its membership and location in the fast-developing ASEAN region.

3. Islamic Regulatory Framework to Meet International Standards

In a globalized financial services sector shaped by ever-increasing complexities and financial instruments, having in place a regulatory framework that meets international standards is critical to any country's ambition to become a financial hub. While Brunei Darussalam's existing legal framework is broadly adequate for the domestic market, AMBD is undertaking many initiatives to align the remaining gaps relative to international standards.

In Islamic finance, AMBD is participating in the Islamic Financial Services Board working groups for the formulation of standards and guidelines. This will help promote the development of a prudent and transparent Islamic financial services industry in Brunei Darussalam through introducing new (or adapting existing) international standards consistent with Syariah principles for adoption.

4. ASEAN+3 Multi-Currency Bond Issuance Framework

The implementation of the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) is expected to benefit not only AMBIF issuances but also the Brunei bond market at large. The Brunei bond market continues to generate significant interest and is likely to attract attention and opportunity to invest in AMBIF bonds, notes, and *sukuk* from new institutional (professional) investor types in Brunei Darussalam and from other regional markets.

Recent Developments and Future Direction

A. Recent Major Developments

Recent major developments are considered those that have occurred in the Brunei bond market or been announced since the first publication of the ASEAN+3 Bond Market Guide for selected economies in April 2012.

1. Developing Financial Infrastructure

Significant advances have been made in recent years in developing the core financial infrastructure in Brunei Darussalam. In November 2014, AMBD completed its first phase with the launch of the RTGS system and subsequently established an Automated Clearing House in May 2016. AMBD's RTGS system is the first in ASEAN to be implemented using SWIFT's new ISO20022 MX message standards, which positions Brunei Darussalam well to take advantage of ASEAN economic integration. The Automated Clearing House system also adopted the ISO20022 standard. Such developments are intended to pave the way for international integration in future.

AMBD has introduced the Fintech Unit with responsibility for the regulatory and development strategies needed to facilitate the use of financial technology (Fintech) in the financial sector of Brunei Darussalam. One of the first initiatives of the Fintech Unit was the issuance of the Fintech Regulatory Sandbox Guidelines, which promotes Fintech and gives flexibility to prospective Fintech companies in Brunei Darussalam, including capital market participants, to test their prototypes within the confinement and predetermined requirements of the regulatory sandbox.

2. Auction System for Brunei Government Sukuk Al-Ijarah

AMBD has recently started to utilize the Bloomberg auction system for the issuance of Brunei Government Sukuk Al-Ijarah. The new platform acts as an interim solution to automate the *sukuk* auction process.

B. Future Direction

Market participants in the Brunei bond market are looking forward to a number of policy initiatives and proposed market developments in the near future. This section is intended to provide an overview of those initiatives and developments that have already been announced.

1. Central Securities Depository System

AMBD is implementing a CSD to bring under domestic control all the management of *sukuk* issues and enable secondary market trading. The CSD will provide safekeeping of securities and operate as a registration and securities settlement system, to enable auction settlement and trading of Brunei Government Sukuk Al-Ijarah and, potentially,

corporate bonds. Within these systems, exchanges of title and payment will occur simultaneously via a real-time interface with the RTGS (delivery-versus-payment) in order to eliminate settlement risk from the transaction. The CSD is also expected to adopt the new ISO20022 standard to facilitate cross-border linkages.

2. Development of the *Sukuk* Market

There are plans to expand the domestic *sukuk* program. AMBD, as an agent of the Government of Brunei Darussalam for *sukuk* issuance, will introduce longer-term Brunei Government Sukuk Al-Ijarah and other suitable forms of *sukuk*. This would facilitate the development of the secondary market and support the creation of a government securities yield curve as a benchmark rate for corporates and other institutions to issue *sukuk*.

3. Adopting ISO Standards for *Sukuk*

Parallel to the further development of domestic financial infrastructure, AMBD also plans to adopt ISO standards such as ISO 6166 (International Securities Identification Number) and ISO 10962 (classification of financial instruments) to help give domestic *sukuk* and other potential securities more exposure and visibility in the global financial marketplace. AMBD has plans to become a National Numbering Agency that will be responsible for issuing standards for securities registered in Brunei Darussalam. Adopting international standards allows for easier facilitation of cross-border linkages for the development of the bond market not only in Brunei Darussalam but also in ASEAN+3.

4. Establishment of the Brunei Securities Exchange

The aspiration is for the characteristic features of the Brunei Securities Exchange to be unique to Brunei Darussalam. Fundamentally, the vision of the exchange is to be simple in terms of design and yet have comprehensive rules based on international standards and best practices in order to cater for various investment products. In addition, with Brunei Darussalam being an Islamic country, a core objective of the exchange is to provide for the needs of Muslim investors. *Sukuk*, being one of the common types of Syariah-compliant securities, may potentially be listed on the Brunei Securities Exchange. Companies will also have the opportunity to be listed, provided they are able to meet the listing rules of the exchange, which are currently being prepared.

5. Syariah Governance Framework

In terms of the Syariah-compliant financial infrastructure, a key initiative currently developed by AMBD is the Syariah Governance Framework. The purpose of this framework is to help ensure that the structure, processes, products, and services of IFIs are in accordance with Syariah principles. In addition, the Syariah audit will be conducted on a continuous and periodical basis to ensure that existing Islamic products and services continue to comply with Syariah principles. Another initiative will be to provide a product approval guideline that will provide a set of procedures for IFIs to follow when determining the category of approval required from the SFSB and AMBD for new Islamic financial products or any enhancement or variation made to an existing product.

Appendix 1

Practical References

For easy access to further information about the market features described in the Bond Market Guide for Brunei Darussalam—including information on the policy bodies, regulatory authorities, and securities market-related institutions—interested parties are encouraged to utilize the following links (all websites available in English):

AsianBondsOnline (an initiative of the Asian Development Bank)
<https://www.asianbondsonline.adb.org/brunei.php>

Autoriti Monetari Brunei Darussalam
<http://www.ambd.gov.bn/Site/Home.aspx>

Autoriti Monetari Brunei Darussalam—Short-Term Government *Sukuk* Issuance Calendar
<http://www.ambd.gov.bn/2016-short-term-government-sukuk-al-ijarah-issuances-calendar>

The Islamic Financial Services Board
<http://www.ifsb.org>

Attorney General's Chambers—Legislation Online
<http://www.agc.gov.bn/AGC%20Site%20Pages/Legislation.aspx>

Ministry of Finance, Revenue Division—Withholding Tax Rates
<http://www.mof.gov.bn/index.php/type-of-taxes/withholding-tax/wht-rate>

Appendix 2

Glossary of Technical Terms

Accredited Investor	Investor class in Brunei Darussalam
Arranger	Market term for the investment bank appointed to organize the issuance of debt securities or <i>sukuk</i>
Bahasa Melayu	National language of Brunei Darussalam
Expert Investor	Investor class in Brunei Darussalam
Fintech	Summary term for innovative technology solutions in the financial markets
Hukum Syara'	The laws of Islam according to the Syafeite, Hanafi, Maliki, and Hanbali sect of Ahlis Sunnah Waljamaah
ISO20022	Standard of the International Standardisation Organisation for electronic data interchange between financial institutions
over-the-counter	Organized market for the trading of debt securities and <i>sukuk</i> , with transactions for both listed and unlisted securities
Primary Market Participant	Participant in primary market auctions and distributions of government securities, similar to but without the privileges of a primary dealer
Principal Adviser	Role for investment bank to advise potential issuer on funding strategies, including the issuance of debt securities and <i>sukuk</i>
Prospectus	Key disclosure document for debt securities and <i>sukuk</i> offerings in Brunei Darussalam
Registration	Refers to the registration of securities to be issued with AMBD for the purpose of obtaining approval for said issuance
Registration Statement	Document to be submitted to AMBD for the approval of securities issuance
shelf prospectus	Key disclosure document for debt securities and <i>sukuk</i> offerings under the shelf registration concept in Brunei Darussalam
<i>Sukuk</i>	<i>Sukuk</i> represent the Islamic equivalent of bonds. <i>Sukuk</i> are structured to comply with Syariah law by involving Syariah-compliant assets in the investment.

Sukuk Al-Ijarah	Sukuk Al-Ijarah is the most commonly used <i>sukuk</i> structure, whereby the transaction involves the buying of an asset by a special purpose vehicle (SPV) and this SPV will lease the asset, allowing the other party to be able to use the benefit from the asset. The SPV may issue <i>sukuk</i> certificates to be sold to the investors at principal price. At maturity, the <i>sukuk</i> issuer will receive the rental and pay the investors back the principal amount plus rental.
Syariah	Islamic law (official spelling used in Brunei Darussalam)
Syariah Adviser	In the context of the financial market, has the function of advising financial institutions and other organizations on the structuring of products in compliance with Islamic law
Wawasan Brunei 2035	Program of development goals to be achieved by the year 2035 set out by the Government of Brunei Darussalam; includes goals for the financial and capital markets

Source: ADB consultants for SF1.

ASEAN+3 Bond Market Guide 2017 Brunei Darussalam

ASEAN+3 Bond Market Guide is a comprehensive explanation of the region's bond markets. It provides information such as the history, legal and regulatory framework, specific characteristics of the market, trading and transaction (including settlement systems), and other relevant information. The Bond Market Guide 2017 for Brunei Darussalam is an outcome of the support and contributions of ASEAN+3 Bond Market Forum members and experts, particularly from Brunei Darussalam.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



ASIAN DEVELOPMENT BANK
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
www.adb.org