

# Institutional Framework & Regulatory aspects of Capital Market Development in Bhutan

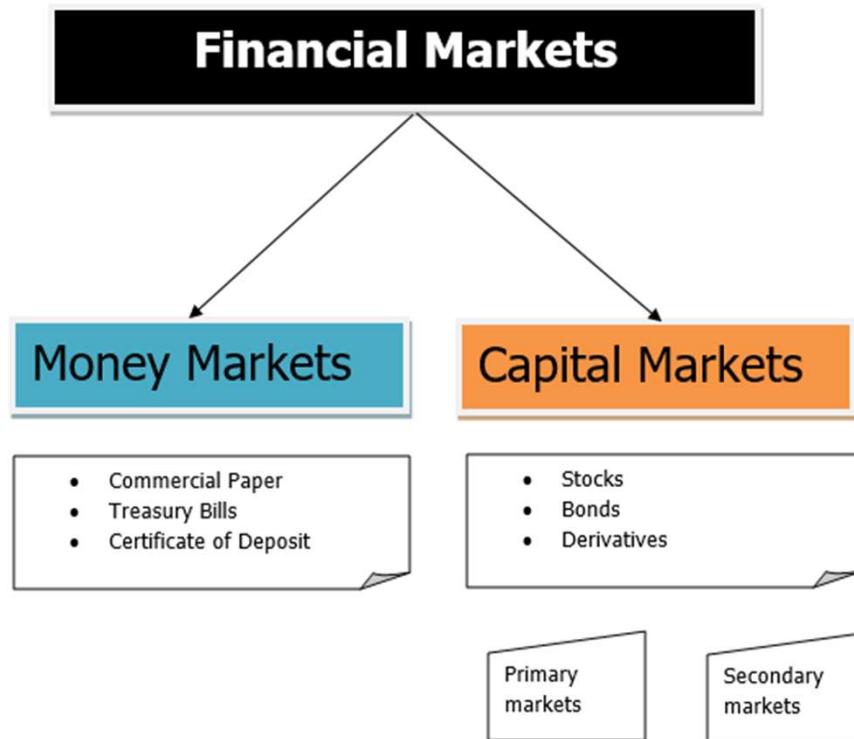
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## OUTLINE

1. Capital Market Regulatory framework in Bhutan
2. Current approach Capital Market Development
3. Issues and challenges to current approach
4. Desirable Policy Framework

# Capital Market Regulatory framework in Bhutan



## RMA/RSEB

Money Market

Capital-Secondary Market

## RoC

Corporate Regulation

Capital-Primary Market

## Governing Laws:

### Statutes:

- Companies Act, 2016
- Financial Services Act, 2011
- AML/CFT Act, 2018

### Delegated Legislations

#### *Under Companies Act:*

- Corporate Bond Regulations, 2012
- Public Issue of shares (IPO) Regulations, 2015
- Guidelines for issue of Commercial Papers, 2018

#### *Under FSA, 2011:*

- Listing/exchange rules
- Regulations for Securities Brokers
- Guidelines for CD



## Current framework

- Capital Market governed by two separate laws with two regulatory bodies and one exchange (SRO).
- Companies Act, 2016 – RoC/MoEA – Primary Market Regulation /CG/minority interest protection for all 550 companies including 22 listed Companies (post 2016)
- Financial Services Act(FSA), 2011 –RMA – Secondary Market/Financial Institutions/Market intermediaries (brokers, FMCs)
- RSEB – SRO – exchange/self regulator for 21 listed companies and stakeholder in both primary & secondary market



## Current Approach to Capital Market Development

- Separate/isolated reforms have been initiated in MoEA, RMA, RSEB, MoF on different aspects of Capital Market since 2011 –FSA enacted

- RSEB also a stakeholder in alternative market initiatives & Financial literacy programs with RMA

- Mandate given by law to RMA & MoEA –to regulate the market and advise the government on the reforms in the matters of capital market.

### Regulatory Models:

- Mandate based regulatory framework models can be found in any countries Thailand, India & Nepal (STANDALONE SEC)

- Hybrid models in Philippines, Australia, Pakistan (REGISTRY & SEC AS ONE REGULATOR)



## ...Current Approach

### Under Companies Act:

- Issued Rules on primary market like IPO, Bond, CP and approves issue of securities /review of offer documents - section 410/Chapter 6

- Debt Status– CP is popular than bond as an instrument–last bond - RSA 2017 @9.35%, CP issued by 5 Companies (DHI, DGPC, STCB, Wangchuk Grp, DWAL) @3.5% -6.75% p.a.

- Equity Status – Last IPO by GIC Bhutan Re Ltd was July, 2014 after 5 years –October, 2019 –IPO by Sherza –FMCG – 5 years tax holiday

### Financial Services Act :

- RMA issues regulations for market intermediaries like securities brokers, fund managers & they are focused on enforcement model based on probable risk/implications to the financial institutions/sector

## Issues & challenges of current approach

### *Lack of legal consistency*

- no consistent legal provisions with focused mandate given to a nodal agency – lack of wholesome reform in capital market development

### *Lack of Policy support*

- Not a single Economic/financial sector development policies focused on capital market development until recently

### *Lack of capacity*

- Not much has been done to build expertise in sustained manner, both at institutional and individual practitioner/regulator





**END OF SESSION 2**



## Desirable Policy Framework to Facilitate the Development of Capital Markets

- What are the suitable benchmarks for Bhutan to aspire to?
- Building on the issues introduced in session 2 : desirable approaches/interventions





## Way forward

RMA, MoEA,  
RSEB, MOF  
carry reforms  
in isolation

SINGLE  
NODAL  
AGENCY  
FACILITATE  
AND DRIVE  
SINGLE WAY  
FORWARD

Collaborative  
approach with  
streamlined laws  
and policies with  
RMA, MoEA,  
RSEB, MOF for  
CMD



## Logical approaches for consideration :

### Streamline laws

Amend FSA, Comp Act, RSEB rules, PFA and adopt a Securities law (have same approach to one sector in all laws) with full literacy to MPs.

### Introduce good tax law

The entry of capital into the market will have to start with entry of Good companies/performing companies into the market

### Streamline Policy

Financial Sector development should have focused approach to capital market and give its due in policy.

### Set Standards

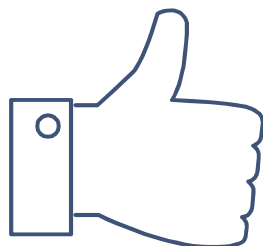
Enforcement approach to market regulations shall be consistent and sustained with focus on standards than institution or individual based.

### Stakeholders

All stakeholders –RMA, MoEA, MoF, RSEB & Fis shall come together as single minded stakeholders to develop the framework and institutional set-up.

### Have one nodal agency by law:

Responsibility and empowerment has to be by law and should vest in one nodal agency to facilitate the reforms –preferably SEC mandated body



# THANKS!

Any questions?  
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