

TCR:BHU 26084

**ASIAN DEVELOPMENT BANK**

**TECHNICAL ASSISTANCE COMPLETION REPORT**

**ON THE**

**CAPITAL MARKET AND**

**STOCK EXCHANGE CENTER DEVELOPMENT**

**(TA 1699-BHU)**

**TO THE**

**KINGDOM OF BHUTAN**

**November 1995**

### **CURRENCY EQUIVALENT**

(As of 13 October 1995)

Currency Unit	—	Ngultrum (Nu)
Nu. 1.00	=	\$0.029
\$1.00	=	Nu. 33.96

- (i) The Ngultrum is tied at parity with the Indian Rupee.
- (ii) For the purpose of calculations in this Report, a rate of \$1.00 = Nu 33.96 has been used.

### **ABBREVIATIONS**

RMA	—	Royal Monetary Authority
RSEB	—	Royal Stock Exchange of Bhutan
SEC	—	Securities Exchange Commission

### **NOTES**

- (i) The fiscal year (FY) of the Government ends on 30 June.
- (ii) In this Report, "\$" refers to US dollars.

# TA COMPLETION REPORT

Division: IWFI

<b>TA NO./NAME:</b> No.1699-BHU Capital Market and Stock Exchange Development Study				<b>TA AMOUNT APPROVED:</b> US\$224,250	<b>SOURCE:</b>  TASF
				<b>REVISED AMOUNT:</b> None	
<b>EXECUTING AGENCIES:</b> The Royal Monetary Authority (RMA)				<b>TA AMOUNT UNDISBURSED:</b> US\$26,421.30	<b>TA AMOUNT UTILIZED:</b> US\$197,828.70
<b>DATE:</b>	<b>APPROVAL:</b> 15-May-92	<b>SIGNING:</b> 14-Oct-92	<b>FIELD:</b> Mr.J.J. Kolosky 18-Nov-92 Mr. E.R. Astin 4-Jan-93	<b>CLOSING:</b> <b>ORIGINAL:</b> Mar-94	<b>ACTUAL:</b> Sep-95

## TA DESCRIPTION (Background/Rational)

1. The Bank has supported the development of the financial sector in Bhutan since it became a member of the Bank in 1983.
2. Considering the limited money market and non-existence of capital market in Bhutan, the Royal Monetary Authority (RMA), functioning as a Central Bank under the Ministry of Finance, began discussions with the Bank in 1989 on developing a capital market and creating a Stock Exchange Center.
3. To enhance and deepen the structure of the financial system in Bhutan, RMA requested the Bank to provide technical assistance for capital market development.

## TA OBJECTIVE AND SCOPE

1. The objective of the technical assistance (TA) is to provide the services of experts (securities market and regulatory experts) to act as advisors to the Government of Bhutan for the establishment and enhancement of capital markets, the consideration of issuing bonds for government borrowings, and the creation of a Stock Exchange Center ( the Center).
2. The scope of the TA is described below:
  - (a) Reviewing the existing market conditions and enabling legislation and suggesting measures to improve them.
  - (b) Assisting to establish the Center and promulgating relevant regulations.
  - (c) Providing potential brokers with basic training and hands-on experience in-country as well as arranging suitable training programs in selected stock exchanges in the Asian region for key Government officials.

## TA INPUTS EVALUATION (Adequacy of Formulation/Terms of Reference/Performance of Consultants/Other Inputs/Review Missions/Inputs of Recipients)

1. Terms of Reference (TOR) were generally comprehensive and adequately designed to meet the objectives of the TA. Some modifications such as an extension of consultant contract and fund reallocation were made to address developments in the field which contributed to a better focused implementation.
2. A total of 165 person-days of consulting services were provided under the TA. The training program consisted of 4 courses for 8 participants. The summary of the components is described in Appendix 1.
3. Project implementation and performance of the consultants were found to be satisfactory by the review mission held from Oct. 23 to Nov. 3, 1994.

**TA OUTPUT EVALUATION** (Reports Generated/Institution Building/Training/Analysis of Quality and Comparison with Terms of Reference)

1. RSEB was established on Oct. 11, 1993 and started trading activities thereafter. As of Oct. 21, 1994, 16 trades of three listed and four quoted companies, totaling 28,147 shares and amounting to Nu.19.51 million (\$0.57million equivalent), have taken place. In addition, RSEB undertook in the same period, three primary auctions of the RMA-bills amounting to Nu.450 million (\$13 million equivalent). Secondary trading of the RMA-bills on the RSEB amounted to Nu. 520,000 (\$15,080 equivalent). Although this was a modest volume for the first year of operations, it was the level expected at the beginning of the TA.
2. Market integrity is a high priority for the RMA, which acts as Bhutan's Securities Exchange Commission (SEC). The technical aspects of the RSEB operations had been executed without problems and the order-driven computer system had provided immediate feedback on the order by the brokers and the RSEB itself. The computerized settlement and clearing system had also operated satisfactorily.
3. All laws and regulations that affect the operations of the Exchange had been passed by the Government and implemented by RMA. Also, the rule book prepared under the TA covered the RSEB rules and listing requirements, and had been approved by the RMA Board.
4. Four financial institutions, namely, Bank of Bhutan, Bhutan Development Finance Corporation, Unit Trust of Bhutan and Royal Insurance Corporation of Bhutan, had incorporated their brokerage subsidiaries and a full-fledged accounting system for the brokers had been programmed and installed in the brokerage companies.
5. The training program was carefully reviewed and adequately designed. This was closely coordinated among the Bank, consultant and RSEB in consultation with RMA. It was completed to the satisfaction of the Bank.

**TA OVERALL ASSESSMENT/RATING**

The TA has been generally successful. The reports prepared by the consultants were adequate. Project implementation by the Executing Agency has been completed successfully within the TA budget and without any major problem.

**FOLLOW-UP ACTION AND RECOMMENDATIONS**

1. An enhancement of the expertise of the various players in the market is needed. This would entail exposure to more advanced stock exchanges in the region.
2. For further expansion of the capital market in Bhutan, there is a need to increase the supply of scrips in the market and therefore a strategy to develop the private sector is essential, which should include a privatization plan for Government-owned industrial units.

Prepared by: Toshimasa Dojima

Designation: Investment Officer

Summary of TA components

**1. Securities Market Expert (Mr. John J. Kolosky; 135 person-days)**

**a. Stock Exchange Center establishment**

- (i) Advise on all aspects of establishing a stock exchange
- (ii) Prepare the budget for the Center including planning the income structure
- (iii) Document the type of securities and instruments which could be dealt on the Stock Exchange Center
- (iv) Draft a code of conduct for the members of the Board
- (v) Advise on the organizational structure of the Center

**b. Trading**

- (i) Recommend to the Center a suitable trading and clearing system

**c. Brokers**

- (i) Recommend basic procedures to be followed by brokers
- (ii) Recommend the appropriate method for brokers to be remunerated by their clients
- (iii) Review the existing countrywide network of financial institutions

**d. Regulator**

- (i) Propose an outline structure for the supervision by RMA

**e. Training**

- (i) Arrange for key individuals of RMA, RSEB and Brokers to participate in appropriate program
- (ii) Arrange for senior person responsible for the general operations of RSEB

**2. Regulatory Expert (Mr. Ernest R. Astin; 30 person-days)**

**a. Stock Exchange Center establishment**

- (i) Draft and outline the terms of reference for the Governing Board
- (ii) Review the composition and size of the Board

**b. Rule Book**

- (i) Draft and outline a complete rule book for the Stock Exchange Center

**c. Laws, Rules and Regulations**

- (i) Review and recommend changes and enhancement in existing or required laws, rules and regulations for the purpose of providing sufficient investor protection mechanisms

Summary of Training

Course Title	Timing	Venue	Participants
Securities Trading & Market Operations	Jan. 19 - 24 1994	Bangkok	Mr. Tashi Yezer Sr. Manager RSEB Mr. Oko Tshering Office Asst. RSEB Mr. Nawang Lhunduo Depository Staff RMA Four Brokers
Study Trip to Singapore Stock Exchange	Jan. 25 - Feb. 4 1994	Singapore	Mr. Tashi Yezer Sr. Manager RSEB
Forum on Securities Market Regulation & Supervision	Jul. 11 - 13 1994	Manila	Mr. Tashi Yezer Sr. Manager RSEB
Study Trip to Singapore & Colombo Exchange	Dec. 10 - 17 1994 Dec. 18 - 23 1994	Singapore Colombo	Mr. Dubthob Wangchung Chief Exec. Officer RSEB