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Vietnam Securities Market Aims High in 2018

Review of 2017

Vietnam's securities market completed a successful 2017, reaching its peak of the last 10 years and gaining the highest growth among the securities markets in the Asian region.

Among the macro-level factors supporting such an impressive growth were the stable domestic GDP growth rate expected at 6.7 percent; low interest rates and an inflation rate at less than four percent; the stable exchange rate; increasing foreign direct investment (FDI) flows as well as the gradually improving business environment. It was well noted that due to the government's strong commitments in 2017 on solutions to investment barriers, initiatives for private businesses, and an action plan to accelerate initial public offerings (IPOs) as well as the capital exit of large state-owned enterprises (SoEs), Vietnam's securities market has attracted huge capital flows, especially of foreign capital, since early in the year, which created a strong foundation for an impressive development year in 2017.

Some remarkable figures for illustration can be named as follows:

Stock market

- Indices: As of 29 December 2017, VN Index reached 984.24 points, an increase of 48 percent compared to the year-end 2016 – the highest level within the last 10 years. The HNX index closed at 116.86 points, an increase of 46 percent compared to the same period of 2016 – in year end 2016 HNX stood at 80.12 (Figure 1).

- Market capitalization: The market cap reached nearly VND 3.36 quadrillion, an increase of 73 percent compared to year-end 2016 and equivalent to 74.6 percent of GDP (surpassing the target for 2020 of 70 percent of GDP set by the government in the Strategic Development Plan 2016-2020 for Vietnam's Securities Market).

- Trading volume: The total average trading volume of stocks per section reached VND 4.98 trillion, an increase of 63 percent compared to the average volume for 2016.

- Listing and registration activities: Presently, there are 731 listed stocks and listed investment funds on the two stock exchanges : Hochiminh Stock Exchange (HOSE) in Hochiminh City and Hanoi Stock Exchange (HNX) in Hanoi.*[1] Also 679 stocks are registered on the Unlisted Public Companies Market (UPCoM) exchange, with the total listing and registration value of VND 959 trillion, an increase of 30 percent compared to 2016. The business results of the listed companies (as of the first nine months of 2017) improved considerably in comparison with 2016. (Turnover and net profit increased by 18 percent and 23 percent respectively).

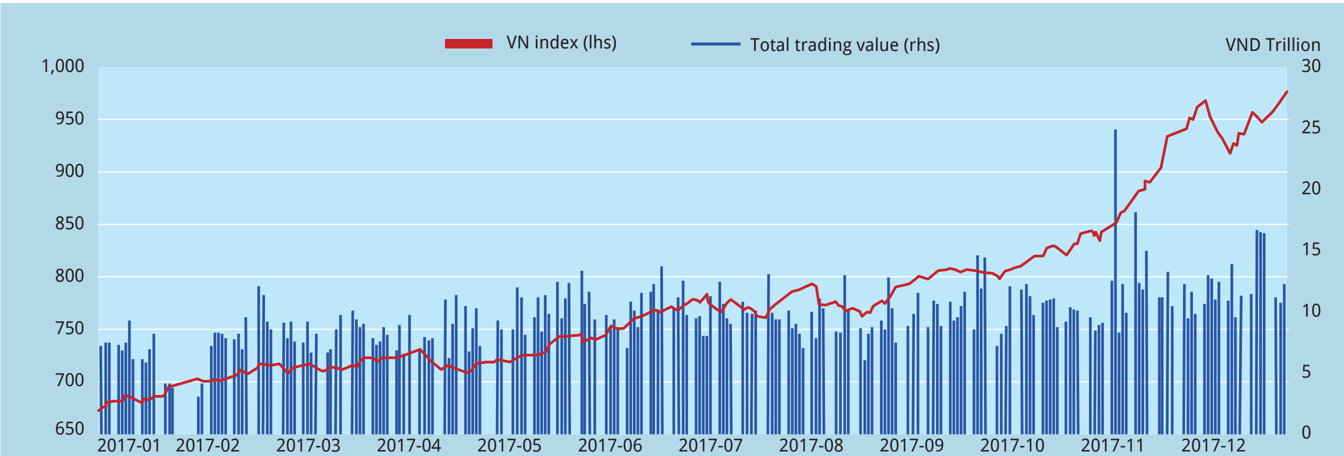
- Investment activities: Vietnam's securities market witnessed an impressive return of foreign investors, with their investment portfolios up sharply to USD 31.4 billion, an estimated increase of 81 percent compared to 2016. The total number of trading accounts reached 1.9 million.

Government bond market

- Market Cap: There are 612 bonds listed with a total market value of VND 1.015 quadrillion (equal to 23 percent of GDP).

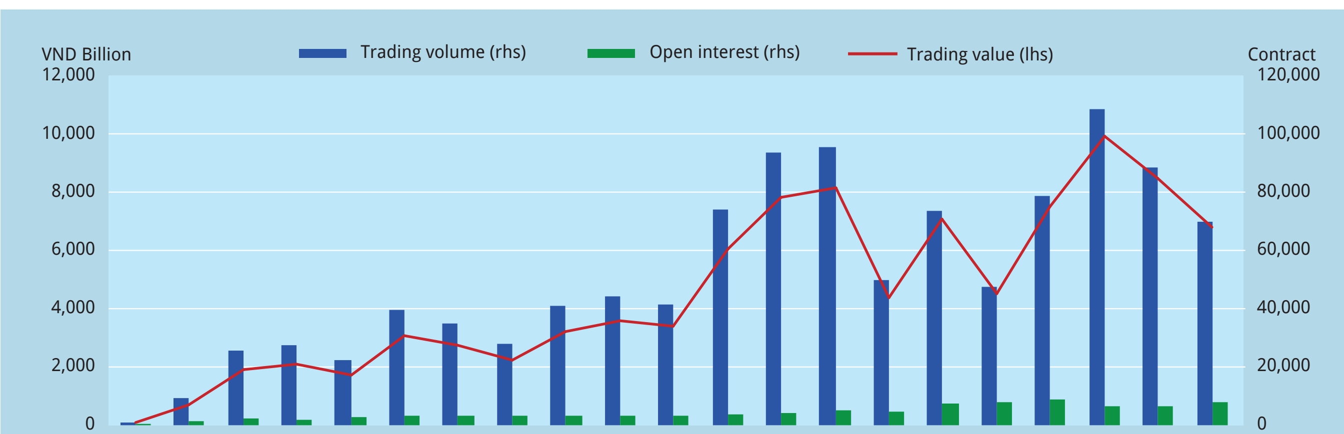
- Trading volume: The average trading volume was VND 8.89 trillion per trading section, an increase of 38 percent compared to 2016. The market gained an in depth development with the total value of repo transactions up by 72 percent compared to 2016, which accounted for 48 percent of the total market trading volume (as end of November 2017).

Figure 1: The VN Index Chart in 2017



Source: State Securities Commission

Figure 2: Weekly Trading Volume and Value of the Derivatives Market



Note: From 10 August to 29 December 2017
Source: State Securities Commission

- Maturity range: Average maturity of outstanding bonds increased from 8.7 years to 13.5 years between 2016 and 2017. The percentage of bonds with maturities from 20 to 30 years increased considerably, accounting for 25 percent of the total issuance volume.*[2] For the first time, the government succeeded in mobilizing more than VND 27 trillion of government bonds at 30-year maturity, which contributed greatly into the public debt restructuring plan. The winning interest rates decreased over all maturities.

Table 1: Trading Data of the Derivatives Market

Criteria	Unit	August	September	October	November	December	Total
Trading volume	Contract	58,444	131,903	238,330	320,064	357,612	1,106,353
Trading value	VND Bil	4,362	10,299	19,370	28,484	33,781	96,297
Open Interest volume	Contract	2,166	3,275	3,949	8,122	8,077	25,589

Note: From 10 August to 29 December 2017
Source: State Securities Commission

Derivatives market

The derivatives market only started operation in early August 2017, with the first product of the VN-30 Index futures, but it has shown impressive development in both the number and value of contracts.

- Trading volume: As of 29 Dec 2017, there were 1,106,353 contracts were set up within the last four months, reaching the total notional value of more than VND 96 trillion. On average, trading volume was around 10,954 contracts per day, with the notional value of the contracts reached around VND 953 billion per trading section (Table 1). The contract number and the trading volume increased by 51 percent and 59 percent respectively per month (Figure 2).

- Trading accounts: Presently there are around 15,000 trading accounts set up, double the number of the initial month of operation. However, the majority of accounts belonged to individual investors, while accounts of the domestic institutional investors were at a very modest level, mainly focused on dealing activities. There is implicitly potential room for market development in the future.

Toward 2018 with Higher Achievements

The year 2018 can be seen as a crucial year in the Market Development Strategy 2016-2020 (approved by the government in 2012), as it will be the turning point for the State Securities Commission (SSC) not only to review, update and attain the main targets set in the current Strategy, but also to set up a higher vision in a new Strategy toward 2030. In the period 2018-2019 the following will be the main areas of concentration for the SSC.

Set up the second generation of the Securities Law

With the aim to create a comprehensive legal framework as well as to enhance the surveillance and supervision activities of regulators in the securities market, the Ministry of Finance (MoF) has submitted to the government the documents to revise and set up a new Securities Law, which is expected to be considered by the government and submitted to the National Congress by late 2018. The current Securities Law was approved by the National Congress in 2006 and revised in 2010. In recent years, some important laws relating to the securities field have been updated and revised, such as the Enterprise Law 2014, Investment Law 2014, Civil Law 2015 and the Law on Administrative Violations and Punishment 2012. Therefore, incorporating the improvements of the current laws in a new second generation, Securities Law is crucial work to meet the changing facts, in addition to increasing requirements in the market as well as encouraging an environment of international integration. The new Securities Law will be set up based on the following orientation:

- Enhance the SSC's empowerment in supervision and surveillance activities, set up clear regulations on the responsibilities of the related organizations in the collaboration process (in the fields of banking, taxation, business registration etc.)
- Adjust and update regulations on market products, foreign investors, listed and public companies, and services of market intermediaries.
- Enhance regulations on information disclosure in the securities market with the aim to improve transparency and fairness.
- Enhance the structure and operation of the stock exchanges towards a single national exchange, of the Vietnam Securities Depository (VSD) and of the securities firms and asset management companies based on international standards for corporate governance and risk management.
- Set up and update regulations relating to intermediaries such as credit rating agencies, evaluation firms, asset management companies, and independent audit firms to enhance their capabilities and responsibilities in the securities market.

Establish a single national stock exchange (merging the current two stock exchanges)

Following the Restructure Plan approved by the Prime Minister in 2012, the setting up of a synchronous market (merging two current stock exchanges) was one among the four main pillars of the Restructure Plan. The other pillars are the investor base, market products and institutional organizations.

During the 20 years since establishment and development of the securities market, Vietnam had to maintain the two exchanges in Hanoi and Hochiminh City – the two main economic hubs of the country – due to various factors. Nowadays, as the technological advances close the geographic gap and mergers of stock exchanges is on the rise around the world and in the region, the merging of HOSE and HNX into one single bourse – Vietnam's Stock Exchange – is highly feasible and crucial to creating the best conditions for the market as a whole and to pushing it into a higher development phase, especially in the context of regional integration.

Under the newest plan submitted to the government by the MoF in late 2017, the merging of the two exchanges might be carried in two stages: (1) the first stage (2017-2019) – establish a single Vietnam Stock Exchange based on the merging of the HOSE and HNX, while maintaining the same operating markets in each exchange - subsidiaries. The trading of large-size listed companies, investment funds and covered warrants (expected to operate in 2018) would be in Hochiminh City. Meanwhile, trading of small sized listed companies and registered public companies, derivatives and bond products would be provided in Hanoi. (2) the second stage (from 2020): Based on synchronous technology infrastructure, the single bourse will include the specialized market for listed and registered companies in Hochiminh City, while the specialized market for government and corporate bonds, derivatives products will be in Hanoi.

Once the Prime Minister issues final approval on the merging plan of the two stock exchanges, it will be done through three steps: merging the organizations of the two exchanges, then introducing the market technology infrastructure, and finally adopting a synchronous management system for different market segments, including the stock, bond and derivatives markets.

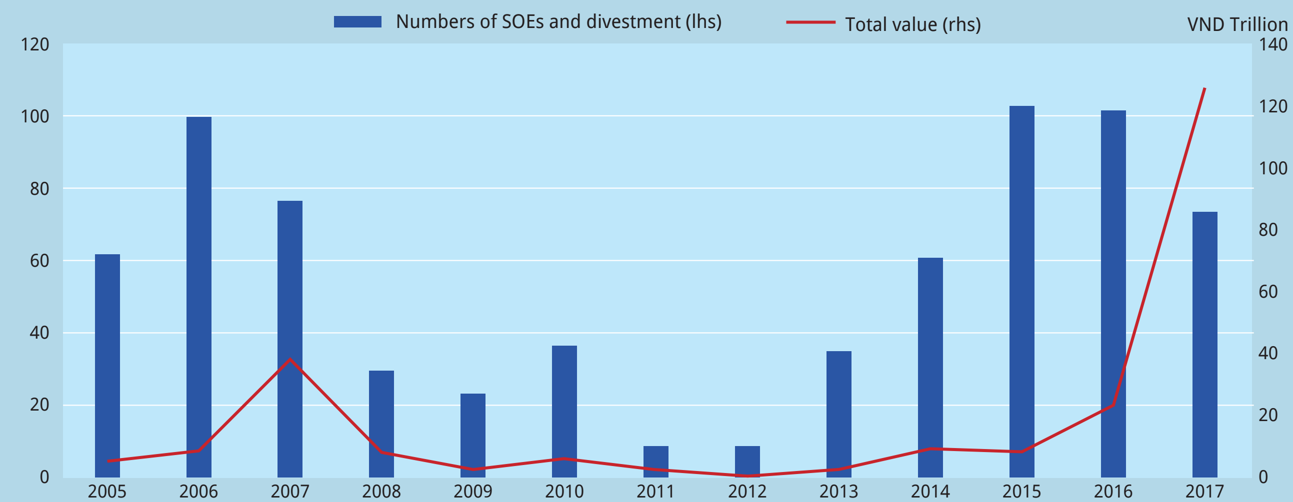
Vietnam's government recognized the establishment of a single national stock exchange as a means not only to benefit all related market participants, but also to strengthen the status and credibility of the Vietnam Stock Exchange as well as to create opportunities for cooperation with other exchanges around the world.

Improve the quantity and quality of the market products

Stock market:

The important policies and initiatives for the stock market include (1) accelerate the equitization process of the SoEs in association with their registration in UpCom and listing on the stock exchange; (2) SSC, in coordination with MoF, set up the book-building procedure for equities selling in SoEs; (3) research and set up mechanism for mortgage management and services of mortgage-backed securities trading in VSD; (4) set up market maker system for listed market; (5) set up procedure guidance for FDI companies which are converted into public shareholding companies to list on the stock exchange; (6) enhance the supervision of information disclosure of listed and public companies, especially on capital use and corporate governance; (7) participate in the Project on International Accounting Standards Application in Viet-

Figure 3: The Equitization and Divestment Process of Vietnam's SoEs



Source: State Securities Commission

nam led by MoF.

The UpCoM – trading market for public but not yet listed companies in Vietnam – is expected to be a highlight of 2018. In addition to the outstanding achievement of the listed market, UpCoM witnessed a sharp increase in 2017. At the end of 2017 there are 681 companies registered in UpCoM with total capitalization of more than VND 600 trillion, double the figure at the end of 2016 with 417 companies. Market liquidity increased sharply, average total trading volume reached 11.6 million stocks per trading section, and total trading value reached VND 218 billion per trading section, increases of 35 percent in trading volume and 71 percent in value compared to last year.

The establishment of UpCom in 2009 was aimed to step by step narrow the grey market of unlisted public companies and to push the transaction and liquidity of equitized but not yet listed stocks of SoEs and public companies. During recent years, with the aim to increase the transparency of public companies and to protect small and individual investors, the government issued several policies, such as Prime Minister's Decision No 51, which require all public companies that have not yet met listing requirements to register in UpCom within one year after their IPO completion. Moreover, following Decree 126/2017/ND-CP issued in 2017 within 90 days after the IPO completion, equitized companies should complete company re-registration, stock custody in VSD, and trading registration in UpCoM. In May 2017, HNX issued a code of principles to classify registered companies in UpCom based on capitalization criteria. All such new regulations are expected to push the equitized SoEs to UpCoM, to enhance their transparency and to create a qualified supply source for Vietnam's securities market in 2018.

The SoE restructure program has been carried by Vietnam's government for nearly 20 years, and closely links with restructuring, renovation and equitization in the SoE sector. In the SoE equitization process, the securities market plays an important supporting role matching the supply side (SoEs to be equitized) and the demand sides (investment demand from public investors) and providing equitized companies with chances for listing/registration on the exchanges.

Vietnam's government recently has voiced various clear messages on the equitization and divestment of SoEs such as strong determination to (1) equitize SoEs, especially the large sized SoEs; (2) apply modern corporate governance principles and public, transparent information disclosure; (3) instruct SoEs to follow the market mechanism; (4) improve the supervision of state-owned capital use in equitized companies; (5) sharply decrease state ownership in equitized SoEs; (6) allow large stake selling for foreign strategic partners; (7) require equitization in association with listing/registration in the securities market.

In 2017, equitization and divestment through two the stock exchanges were pushed sharply. The number of equitization auctions reached 73, with total value sold of around VND 125 trillion (Figure 3). Despite the fact that the number of auctions was lower than in 2016 (102 auctions in 2016), the total value sold was 5.7 times larger (2016 total value of VND 22 trillion only).

With the government's strong emphasis on equitization and divestment, in 2018 it is expected that some big-name SoEs, such as MobiFone, Infrastructure Investment and Development Cooperation, and Hanoi Housing Investment and Development Cooperation, will be equitized. The total number of SoEs to be equitized and divested in 2018 are 64 and 181 companies respectively. Therefore, 2018 will be seen to have the highest concentration of big IPOs, restructuring and divestment activities of large SoEs in the period 2018-2020.

Bond market:

Within the next two years an important task for MoF and SSC will be to develop the corporate bond market. Currently, the bond market in Vietnam mainly comprises government bonds (accounting for 84-85 percent of market share), while the corporate bond sector is still very limited, accounting for only 15-16 percent of market share. The following are the main challenges for the corporate bond market in Vietnam:

- **Very small market size compared to the regional average development scale:** At present the corporate bond market accounts for only 5.27 percent of GDP – quite a small share compared to the average of 22 percent in ASEAN+3 corporate bond markets.*[3]

- **A basic foundation of the legal framework has been established, however, some regulations not suitable for the corporate bond market might require amendment or supplementary mechanisms:** At present, the regulations for public offering of securities (both stock and bond issuances) require at least 100 investors excluding professional investors. It seems very hard to comply with this regulation in the case of bond issuance due to the small size of the current market and the primary role of the professional investors in the market.

- **Lack of effective credit rating agencies (CRAs) and services has hampered the corporate bond issuances, leading to the under-development of the corporate bond market:** the existence of the CRAs have been seen as a crucial factor for the effective development of the corporate bond market. CRAs play an important role in the evaluation process of the issuer's financial performance, improving the disclosure transparency of the issuances and providing a standardized reference on the risks and benefits of the issuances for investors. Decree 88/2014 issued in 2014 by MoF is considered the first legal foundation for the establishment of CRAs in Vietnam. It stipulates the requirements, structure, operating mechanism as well as the code of conduct for CRAs. It is expected that MoF will soon reveal detailed regulations that create more favorable conditions to encourage the establishment of domestic CRAs, such as the additional services and activities besides CR service that CRAs might provide domestic companies. For the success of the CRAs, there should depend on some conditional factors such as: a sound accounting/auditing system to support disclosure transparency of companies and a knowledgeable and well-trained staff with high-standard of integrity, as profits of the credit rating business are linked closely to credibility and trust.

- **The absolute dominance of private placement issuances with illiquid OTC trading market makes information transparency even worse:** The potential issuers are discouraged from seeking funding in the market due to the insufficient information and high cost of private placement issuance compared to their traditional funding channel via bank loans, while potential investors are not provided with systematic, transparent and reliable information.

- **The market products are simple, undiversified and not attractive enough to draw investor attention, with a high concentration in middle-term maturities:** The issuance maturity is quite clearly segmented depending on the funding purpose of the issuers. Short-term maturities (one to two year terms) belong to securities companies to meet their demand for short-term investments or lending to customers. Meanwhile, local commercial banks and reputable large scale private companies often issue 10-year maturities for refinancing and main business purposes respectively. The major maturities are in three to five year terms, accounting for nearly 60 percent of the total issuance market.*[4]

- **The dominance of commercial banks in the local investor base (more than 75 percent), with very modest role for long-term institutional investors in the market (less than four percent):** Under the main feature of Asian bank-based intermediation, it is understandable that banks are normally the major corporate bond buyers in Vietnam in this initial stage of the market.*[5] On one hand, with current scrutiny set by the State Bank of Vietnam (SBV) for local commercial banks in order to enhance the risk and capital management under the application of Basel II, local banks might not easily invest in corporate bonds without tighter constraints.*[6] This will affect to the demand side of the market. However, on the other hand, to meet the criteria of Basel II's capital adequacy requirements (CARs), many large local banks should accelerate their long-term bond issuance schedule for refinancing purposes, so they will also push the supply side of the market. In this situation, the enhancement of institutional investors like pension funds and investment funds is essential for further effective development of the market. The constraints applied on bank borrowings also encourage local companies to look for alternative long term funding channels rather than relying on traditional relationship-based bank loans.

  The modest market investment by pension funds is partially explained by the lack of regulations on the activities of voluntary pension funds (defined contribution, DC type) in Vietnam.*[7] With the issuance of Decree 88/2016 in June 2016 by MoF in coordination with Ministry of Labors, Invalids and Social Affairs (MoLISA), the basic regulation of the mechanism and activities of DC-type pension funds was set up, and this is expected to motivate deeper involvement in the market by institutional investors.

- **The insufficient supporting infrastructure for corporate bond market development:** Currently, there is no electronic system to support online registration, International Securities Identification Number (ISIN) code for the bond issuers; no reference quotes/bond pricing system to support OTC trading; and no centralized bond information mechanism to support issuers and investors (Table 2). The quality and synchronization of the market infrastructure has been considered as a main factor for the successful development of the corporate market due to its specialties of the risk levels of the corporate issuances, round lot OTC trading and the main involvement of professional investors.

- **The limited awareness and knowledge among local issuers, financial intermediaries and investors of the importance of the corporate bond market:** In general, local companies do not have good enough corporate governance systems. Therefore, issuance and continuous disclosure and information transparency are still very limited, which in turn creates negative impacts on the success of bond issuances. As a result, many local companies do not pay enough attention to or hesitate to choose bond issuance over traditional bank borrowings.

  The Development Strategy to 2020 specifies the following quantitative targets for the bond market in Vietnam: (1) Market size: enhance the market size, market depth and

Table 2: Comparison between Bond Market Infrastructure in Vietnam and the Region

	Common corporate bond market infrastructure in the region and in the world	Vietnam bond market infrastructure	
		Corporate bond sector	Government bond sector
1	Electronic registration system/Online application submission system	No	Not required
2	Standard auctioning system or Online	No	Yes, the standard auctioning system run by HNX
3	ISIN code system	No	Yes, but used internally by VSD
4	Profile Listing system (on exchange)	No	Yes, the Info Bond system run by HNX
5	OTC electronic trading platform (mainly follows the interdealer model)	Yes Reuter's and Bloomberg's systems can be used as an alternative tool, however, low efficiency for corporate bond trading.	Yes The trading platform of HNX allows the market participants to do the OTC based trades.
6	Settlement system	Yes · For listed corporate bonds: DVP system via VSD · For unlisted corporate bonds: direct payment at the issuing companies or via transferring agencies	
7	Reference price quotations/bond pricing system	No Due to the lack of CRAs, there is no reference yield curve for CB market and no CB index. No bond pricing agencies	Yes, in HNX Benchmark curve for Government Bonds (GBs) GB index. Electronic screen on the reference bond pricing for main maturities of GB provided by HNX
8	Bond information system (at national level)	No Bond issuance statistics are collected and stored in the Issuance Department, SSC and in the Department of Financial Institutions and Banking, MoF	Yes Supplied by the synchronized auctioning, trading and information platform for GB in HNX

Source: HNX report on the Development of Corporate Bond Market in Vietnam (2015).

liquidity (with target stock market capitalization of 70 percent of GDP and bond market capitalization of 36 percent of GDP by 2020, of which the government sector comprises 31 percent of GDP and the corporate sector seven percent of GDP). In the long-term Vietnam's corporate bond market should gradually reach the average size of ASEAN corporate bond markets, 21.7 percent of GDP; and (2) Market liquidity: reach a turnover ratio (outright trading volume/total outstanding volume) of 30 percent.

To realize the above targets, the major issues that MoF and SSC have to deal with within 2018-2019 include: (1) adjust the current legal framework (specifically, Decree No 90 on corporate bond issuance issued in 2011) and standardize issuance activities; (2) apply the regional experience with developing a specialized corporate bond platform for professional investors only;[*8] (3) set up a national information dissemination system on corporate bonds, as a base for gradually developing an effective infrastructure system to support issuance, trading and bond information dissemination; (4) set up initiatives to develop qualified CRAs to support corporate bond issuance. A Project on the Corporate Bond Market Development in Vietnam, which deals with the above-mentioned issues, has been carried by SSC since 2016 and is expected to get final approval from MoF in 2018.

Derivatives market:

In 2018 HNX bears the task to develop further effective derivatives products, such as Government Bond Futures and other stock indices futures, which combine the major listed stocks in both HOSE and HNX to prepare for the merging of the two exchanges in the near future.

Besides, to increase the liquidity and efficiency of the newly operating market, SSC should create initiatives for local securities firms to play the market maker role and improve the capacity and supporting technology system to supervise and identify potential speculative activities and frauds in both the underlying and derivatives market, with the final aim to protect the individual and minor investors as well as to protect the market stability.

Setting up a synchronous and comprehensive technology infrastructure

The enhancement of the informatics and technology system, with the aim to support market trading activities at max level, is a crucial point to push Vietnam's securities market to a higher development stage. A new synchronous and comprehensive technology infrastructure will be set up within SSC, Vietnam's stock exchange and VSD, and local securities firms to meet various market demands, especially in the context of the up-coming regional integration of banking and finance.

Strengthen supervision and surveillance power and activities to guarantee market transparency and fairness

Implement regulations on penalties for violations in the securities field, which are stipulated in the Criminal Code 2015 and its amendments and to be enacted from January 2018; implement regular inspection activities in securities firms, auditing companies and listed/registered companies; and enhance close cooperation among the related organizations with the aim to detect and prevent fraud and punish strictly violations in the securities market, and guarantee the sustainability of the market.

Following its fabulous development in 2017 with impressive facts and figures, Vietnam's securities market has surpassed many regional markets to become the fastest growing market in the region. International and domestic investors are expected to bring further achievements in the year 2018, which will be marked with the potential big IPOs divestments of big-name SoEs, which in turn will enlarge the market capitalization of Vietnam's securities market. All the progress can be seen as obvious evidence of the firm commitment of Vietnam's government in general and of SSC in particular to enhance the quality as well as the prestige of Vietnam's securities market in international financial markets.

Notes

*1 HOSE and HNX started operation respectively in 2000 and 2005.

*2 Of which the 20-year maturity accounted for 10 percent and 30-year maturity accounted for nearly 15 percent.

*3 The report on the development of Corporate Bond Market in Vietnam, Hanoi Stock Exchange, 2015, pp.16

*4 BaoViet report on the Vietnam's Corporate Bond Market in the first 9 months of 2016 (slide 11)

*5 Deutsche Bank. "What's behind recent trends in Asian corporate bond markets" Jannary 2014, pp.2

*6 In 2016 SBV issued Circular 22/2016 on the corporate bonds purchased by the local credit institutions, which requires the credit rating on the issuances/issuers and the internal control rules on the credit limits. From now on, the outstanding bonds purchased by the local banks will be categorized as an item in the total outstanding credit provided by the banks and should comply with the SBV regulations on the credit limits and capital adequacy requirements. SBV also required the experimental application of Basel II for ten large local banks since February 2016.

*7 Only the Government Social Security Fund (government-owned agency) involves in the market, but in the government bond market only due to the high-rating products investment constraint.

*8 Korea and Malaysia are the regional top 2 specialized corporate bond markets for the professional investors which gained considerably impressive achievements. In Korea, the corporate bond sector accounts for 60.7 percent of the total value of the bond market. In Malaysia, the figure for the corporate bond sector accounts for 41 percent of the total bond market. ("2017 Report on Vietnam's Bond Market" – MoF)

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