



**HUONG THI THANH
NGUYEN**

State Securities Commission of Vietnam



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Vietnam's Securities Market - 16 years of establishment and development (2000-2016)

Overview of Vietnam's Securities Market

In the initial stage of the securities market, with the establishment of Ho Chi Minh City Stock Trading Center^{*1} on 20 July 2000, there were only 2 listed companies with total capitalization of 986 billion VND^{*2} (amounting to 0.28%/GDP in 2000). Up to end of 2015 Vietnam's stock market has 686 listed companies and listed investment funds in 2 stock exchanges in Hochiminh City (HOSE) and in Hanoi (HNX), not including 300 unlisted companies registered for trading in UpCoM in Hanoi. The total capitalization of the stock market is 1.36 quadrillion VND (an increase of 17% compared to the same period of 2014, and 1,300 times compared to 2000), equal to 34.5% of GDP 2015. The total outstanding volume of the bond market reached 24.13% of GDP. Therefore, the total capitalization of the whole capital market reached 59% of GDP 2015.^{*3}

Hochiminh Stock Exchange (HOSE)

Those companies with registered capital at least 120 billion VND and meeting the listing rules in Decree 58/2012/NĐ-

CP and Decree 60/2015/NĐ-CP are eligible to be listed on HOSE. By the end of 2015, HOSE had 307 listed stocks with total capitalization of 1.14 quadrillion VND (equal to 27.3% of GDP 2015), accounting for 88% of the total listing capitalization in Vietnam's stock market. The average trading volume per day is 1.94 trillion VND, accounting for 70% of the whole market.^{*4} Almost all the equitized blue chips in the fields of banking, real estate, oil & gas, manufacturing are listed in HOSE.

The main representative index for HOSE is VN-Index, which peaked at 1,170.76 points (in March 2007). By end of 2015, the VN-Index was at 579.03.

Hanoi Stock Exchange (HNX)^{*5}

Those companies with registered capital at least 30 billion VND and meeting the listing rules are eligible to be listed on HNX. By the end of 2015, HNX had 372 listed stocks with the total capitalization of 151 trillion VND. The average transaction volume was up from 3 billion VND/session in early 2000s to 557 billion/session in 2015.^{*6}

HNX Index is the representative indicator for the exchange performance, with a peak value of 459.36 (March 2007). The HNX Index stood at 79.96 at the end of 2015.

Apart from the two listing exchanges, the trading system UPCoM in HNX was put into operation in 2009 for unlisted public companies, with the aim to step-by-step narrow the grey market of unlisted companies and to push the transaction and liquidation of the equitized but not-yet-listed stocks

of state-owned enterprises (SOEs) and public companies. Thanks to the Decision No 51 of Prime Minister in 2014 to enhance the equitization in association with registration/listing in the stock market in 2014-2015 the UPCoM market grew significantly in both quality and quantity in comparison with the opening period. By June 2016 UP-CoM witnessed 300 enterprises registered for trading, with the total capitalization of 100 trillion VND, a 25-fold increase compared to 2009.

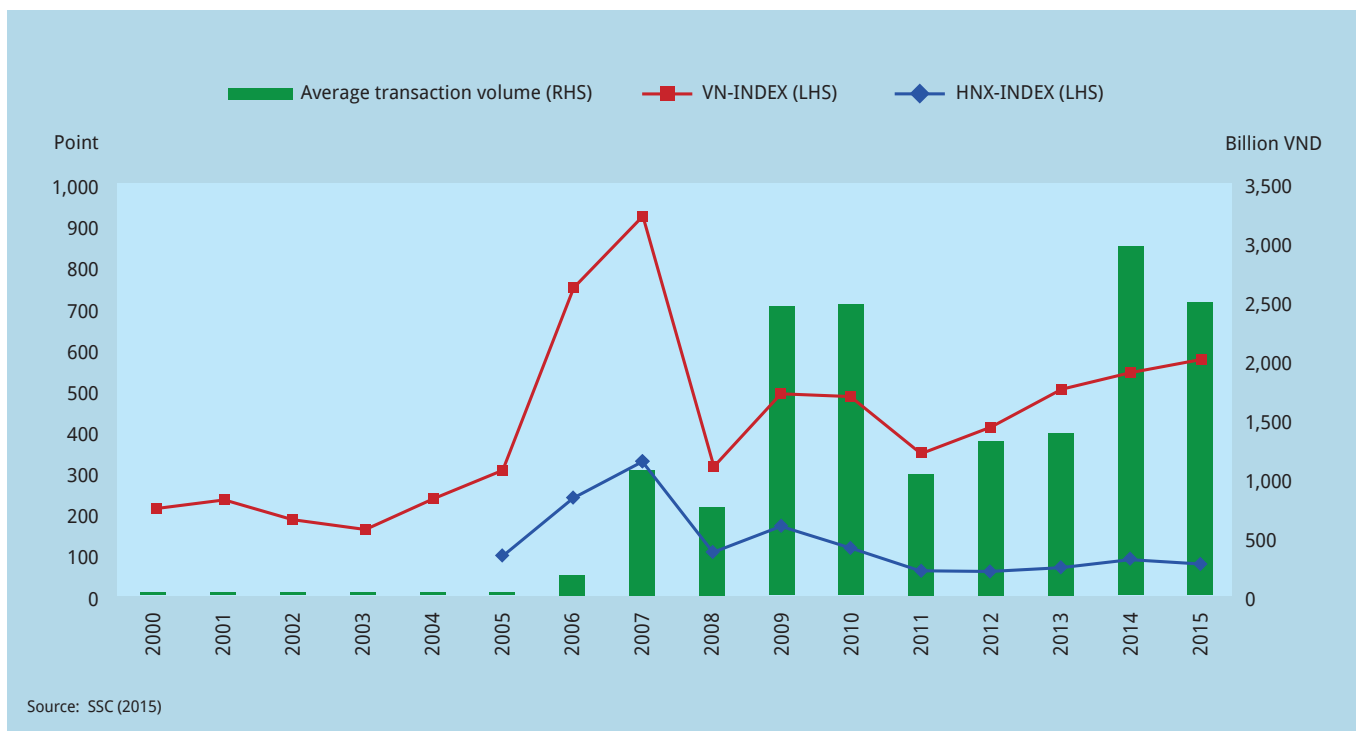
Brief Introduction to Vietnam's Bond Market

Currently, the structure of the bond market in Vietnam mainly comprises government bonds (accounting for 85%-87% market share), meanwhile the corporate bond sector is still very limited, accounting for only 13-15%.

In the period 2000-2003, the bond market is very modest in size, at less than 5% of GDP. In 2004-2009, the Ministry of Finance (MoF) decided to centralize the bond auctions of government bonds in Hanoi Stock Exchange, instead of scattering them through the networks of state and provincial treasuries and commercial banks. Besides, the SSC Vietnam has been authorized to develop the project on government bond market, with the aim to modernize it and approach the international standard.

In 2009, the specialized trading system for government bonds was put into operation on Hanoi Stock Exchange, with around 30 trading members from local big

Figure 1: Indexes and the Average Transaction Volume



commercial banks and securities companies. The auctioning, settlement and clearing system was designed systematically and synchronously, independently from the stock market. From 2013, HNX constructed the benchmark curve for the government bonds, which is considered a key reference indicator for the bond market operation.

The primary market: In the period 2010-2015 the government mobilized totally 715 trillion VND via the government bond auctions of all maturities; this was an 18-fold increase compared to the period 2005-2010. Especially, in 2012-2013, the implementation of the electronic auctioning platform in HNX led to a remarkable development of the government bond sector. The total auction volume rose from 28.31 trillion VND in 2010 up to 194 trillion VND in 2013 (nearly 7-fold). The open and transparent electronic auction format on the Exchange made it in the main issuance channel for government bonds at all maturities, with the proportion of auctions via electronic platform increasing from 49% in 2009 to 100% in 2014.⁷⁷

The maturity structure of the bond market is mainly short term. By the end of 2015, tenors of 5 years or less accounted for more than 70% of the total government bonds issued in that year. The bond market restructuring plan (started in 2012) is carried by MoF with the increasing issuance of 10-year and 15-year tenors, with the aim to encourage the participation of the

longer-term institutional investors like insurance. The year 2015 also witnessed the first issuance of Vietnam's longest maturity bonds (20-year and 30-year bonds)

The secondary market: The size of the outstanding bond market was 1.1 quadrillion VND by the end of 2015, equal to 24.13% of GDP 2015. The average growth of Vietnam's bond market reached over 30% per year and 23% of GDP in period 2010-2015, leading the emerging markets in East Asia and in ASEAN+3.⁷⁸

Market liquidity has also improved much with the average transaction volume in the period 2011-2015 increasing tenfold compared to the period 2005-2010. The average transaction per session was 3.7 trillion VND in 2015.

The investor structure: (i) *by investor type:* Commercial banks are still the major investors in the market with more than 76% share in 2015, while the government giant financial corporations like the Social Security of Vietnam, State Capital Investment Corporation (SCIC) and Depository Insurance of Vietnam hold around 15%. Due to recent government initiatives and policies the holdings of insurance companies increased from 1.18% (2011) to 8.42% in 2015.⁷⁹ (ii) *by geographic location:* foreign investors hold 6%, and local investors, including institutional ones, hold around 94% of the total bond market.

The primary and secondary dealer sys-

tem: Currently the HNX has 24 primary dealers for the government bond auction market. There are 54 trading participants in the secondary market, of which 27 are commercial banks and 27 are securities companies.

Some shortcomings: Despite remarkable development of the bond market, especially in the government sector, in comparison with other countries, Vietnam's bond market is still small with limited types of products, focusing mainly in the short term maturities. The structure of the market is not complete, the link between the specialized government bond trading platform in HNX and the interbank system under the SBV control has not yet been established. Meanwhile, derivatives products and the derivatives market, which is an important supporting market for the effective operation of the underlying stock and bond markets, are expected to be put into operation by 2017. The investor structure is undiversified, the participation of the long-term institutional investors like insurance companies or investment funds is still very modest in comparison with the overwhelming proportion of commercial banks, who prefer short-term maturities. Due to this, the issuance and trading of long-term bonds is more difficult and illiquid.

The corporate bond sector: The issuers are mainly the local big commercial banks, SOEs in finance, real estate and industri-

al fields, and some leading local private corporations. Issuance is often by private placement; maturities of 3-5 years account for 60%; and the maturities of more than 5 years account for 30% of the total issuance volume. The offering rate is often equal to the 1-year deposit rate (the average of the largest four state-owned commercial banks) plus a spread of 2-5%. In 2015, the registered issuance volume of the corporate bonds via private placements was 84.31 trillion VND and the actual issued volume was 42.76 trillion VND.

The outstanding volume of the corporate bond sector by the end of 2015 was 142.65 trillion VND, equal to 3.4% of GDP 2015.^{*10}

One of the reasons for the limited development of the corporate bond sector is the lack of a system of financial institutions acting as investment bankers to underwrite and as market-makers to match demand and supply for the corporate bond issues and to create liquidity in the market. Besides, there are no professional credit rating agencies (CRAs) in Vietnam as the Decree on the organization of the CRAs in Vietnam just issued by the end of 2014 by MoF.

The project on the strategies to develop the corporate bond market in Vietnam carried by MoF is expected to be completed by the end of 2016 and is expected to create an important foundation for the further

development of the sector from 2017.

The Achievements of Vietnam's Securities Market

Regular Amending and Improving the Legal Framework and Market Development Policies

In the initial stage, from 1998 to 2003 two government Decrees, No. 48/1988/ND-CP and later No.144/2003/ND-CP, were considered the legal documents at highest level for Vietnam's securities market, setting up the initial legal framework for the market operation. In 2007, for the first time the Law on securities market was issued and came into effect and it was upgraded and amended in 2011. During the period from 2010 up to now several important regulations and projects were established and submitted to the Prime Minister for approval, such as the Development Strategies for Vietnam's securities market in period 2011-2020; the proposal on the overall structure of the securities market; the proj-

ect on restructuring and reforming the securities market (2012); anti-crisis plan; and the project on foreign portfolio investment management, and the project on the establishment of the derivatives market and derivatives products.

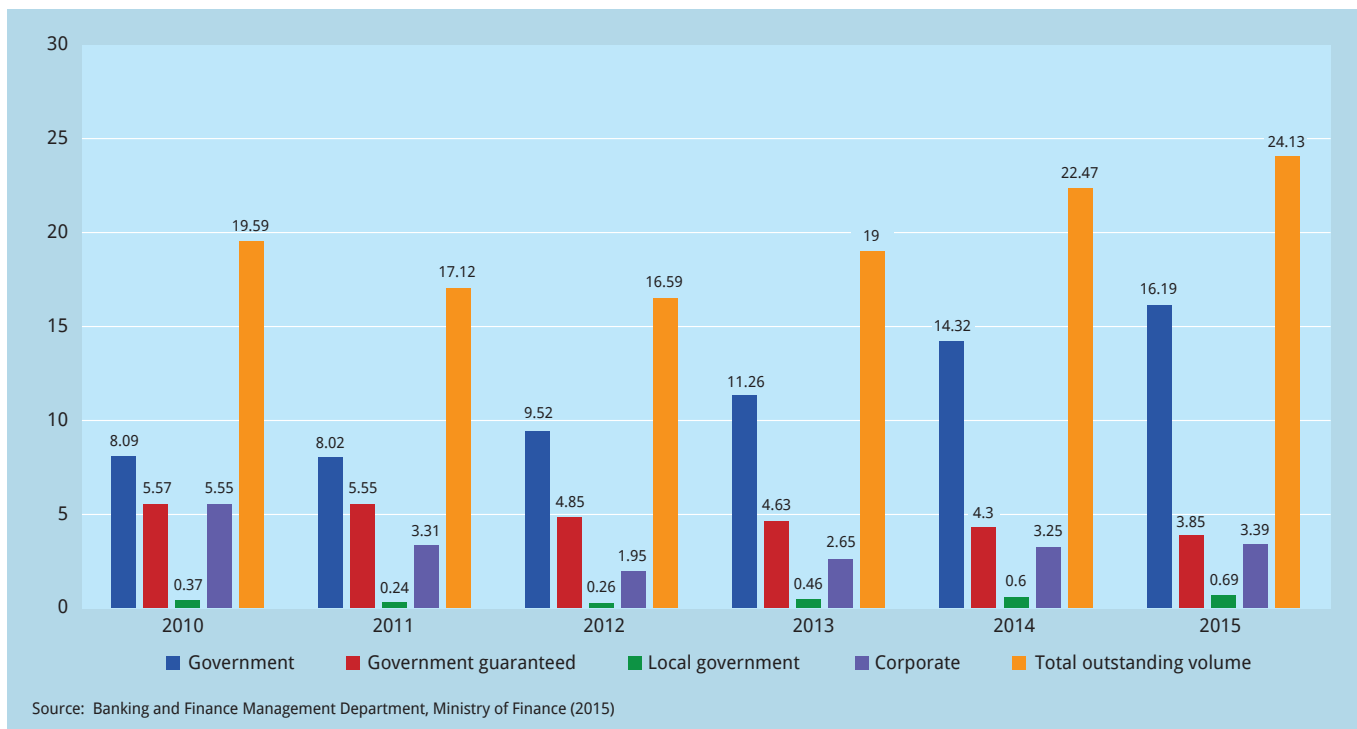
Within 16 years of development, the legal documents have gradually been extended and amended, improving both in quality and quantity. The policies and initiatives for the securities market have also been adjusted and upgraded to meet the changing market environment.

In general, up to now the Law on securities market and other legal documents created a high-level systematic and synchronous legal framework for the development of Vietnam's market, which gradually eliminated the potential conflicts with other related laws and regulations. Such legal framework helped to improve the openness and the transparency of the market, contributed to the management and supervision efficiency, step by step reached the international standards and conventions and created a foundation for Vietnam's securities market to integrate into the world and regional capital market.

Becoming an Increasingly Important Channel for Capital Mobilizing and Funding in Vietnam

The establishment of the securities market in Vietnam has created favorable

Figure 2: Bond Market Size of Vietnam, 2010–2015 (% GDP)



conditions for the government as well as enterprises to mobilize capital for investment and to expand business activities. Over 16 years of the market operation, Vietnam has mobilized nearly 1.5 quadrillion VND (not including the mobilization via the corporate bond market – 2015 figures). In the period 2011-2015 the figure reached 1.2 quadrillion VND, around four times compared to the period 2006 – 2010.

Especially, the securities market has become the main channel for government bond auctions as well as for state budget funding. The total capital mobilized through government bond auctions in the securities market, from 2005 up to end of 2015, was over 833 trillion VND.

Big domestic corporations have also explored the opportunities of IPOs as well as listings to develop and become the regional-level corporations. Specifically, the registered capital of corporations in the VN30 (the top 30 blue chips in HOSE) has grown at a rate of around 60% per year since their listing in the exchange. For example, registered capital of Vingroup and REE increased by 18 times, respectively from 800 billion VND to 15.45 trillion VND and from 150 billion VND to nearly 2.7 trillion VND. Other famous names in the VN30 pool including FPT, VNM, KDC, PVD, SSI, and HPG have averaged growth in registered capital of around 40% to 100% annually.¹¹

So far, mobilization through the securities market meets around 23% of the investment needs for the whole economy, which is equivalent to 60% of the credit supplied through the banking system.

Actively Contributing to the Economy and Banking Restructuring

In the area of public investment, the securities market became a key funding channel for the government budget.

In the area of private investment, the fairness and transparency of the securities market help it become an increasingly attractive investment channel for both institutional and individual investors in Vietnam

The restructuring of the banking system in Vietnam also gain some efficiency from the capital market. Several OTC and listed commercial banks mobilized a huge amount of capital via equity offerings during the vibrant period of the stock market in 2006-2007, which helped them to meet the SBV requirements on charter capital increase.

The listings of commercial banks also helped increasing the transparency of the shareholding structure and the activities of BoDs, reducing the cross-ownership and the agency conflicts in Vietnam's commercial banks.

Actively Supporting the Equitization of the State-owned Enterprises (SOE)

Vietnam's securities market also contributed actively in the SOE equitization and reform process. In the period 2001-2011, via the arrangements and equitization, the number of SOEs decreased from 5,655 enterprises with 100% state-owned capital (in 2001) to 1,300 enterprises (2012),¹² which are mainly in the key areas of the economy.

Despite difficulties in some periods, equitization via auctions in the two exchanges recovered in recent years, especially since 2014 with the issuance of the Prime Minister's Decision No.51/QD-TTg on the divestment and equitization of SOEs in association with compulsory registration/listing in the exchanges. In 2014, auctions in the local exchanges and via the securities firms sharply increased, with the total value of the auctions at 13 trillion VND, a four-fold increase in comparison with 2013. The equitization and listing of state-owned enterprises helped diversify the shareholding structure, thereby strengthening supervision and improving performance efficiency.

Figure 3: Stock Market Capitalization of Vietnam, 2000-2015

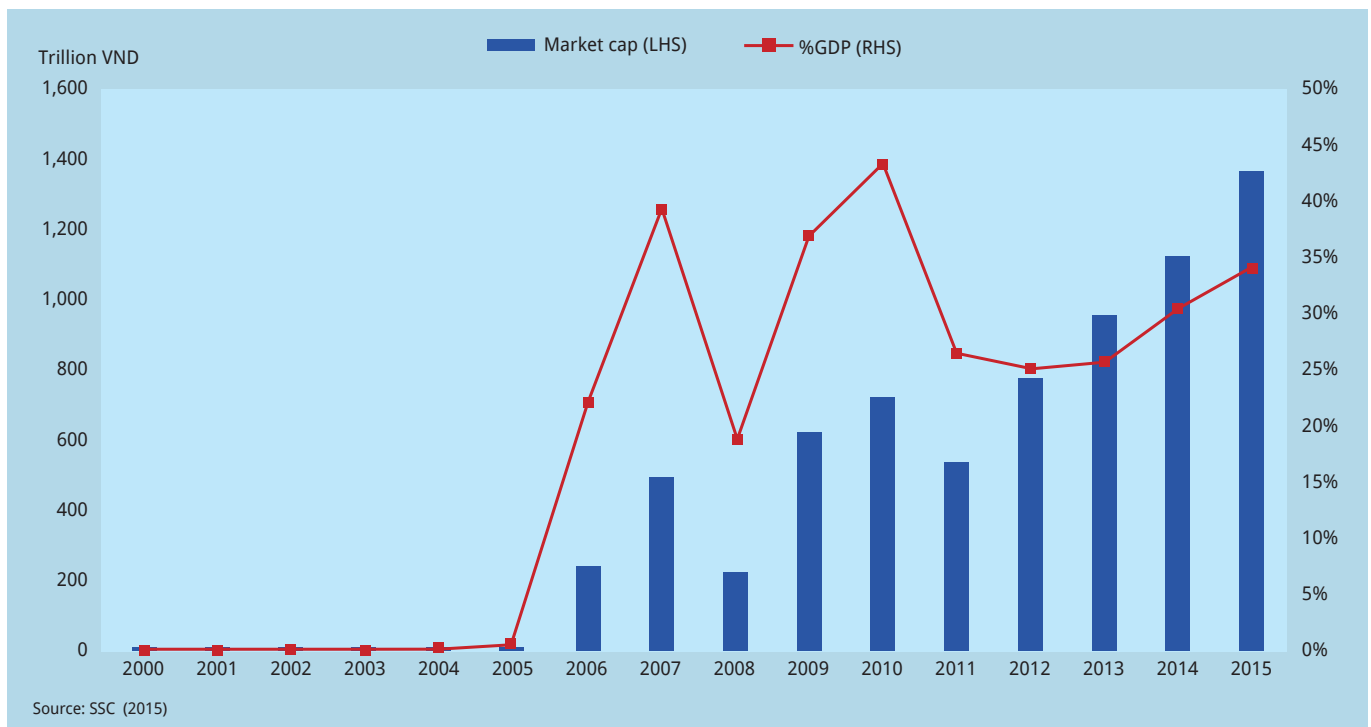


Figure 4: Issuance Activities of Vietnam's Securities Market

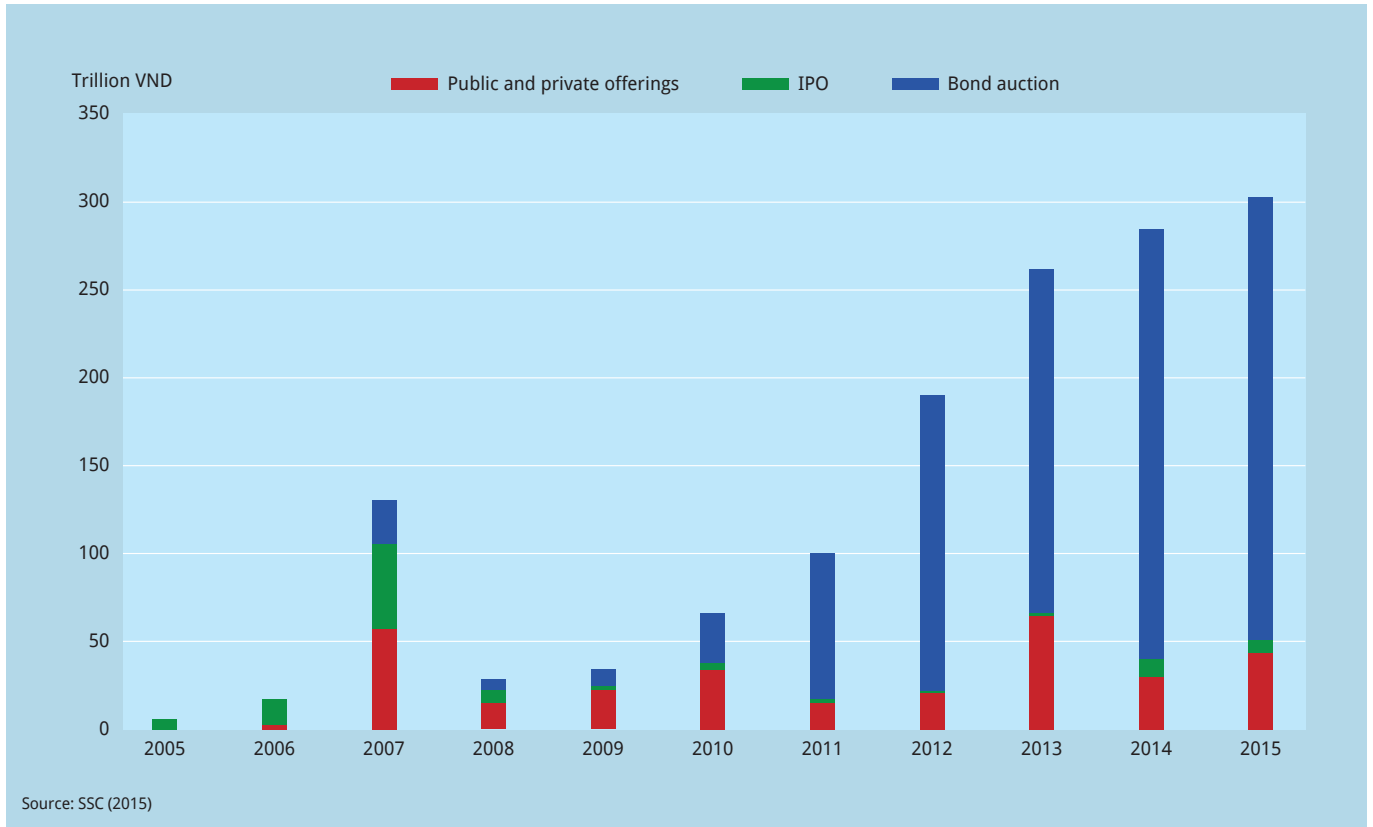
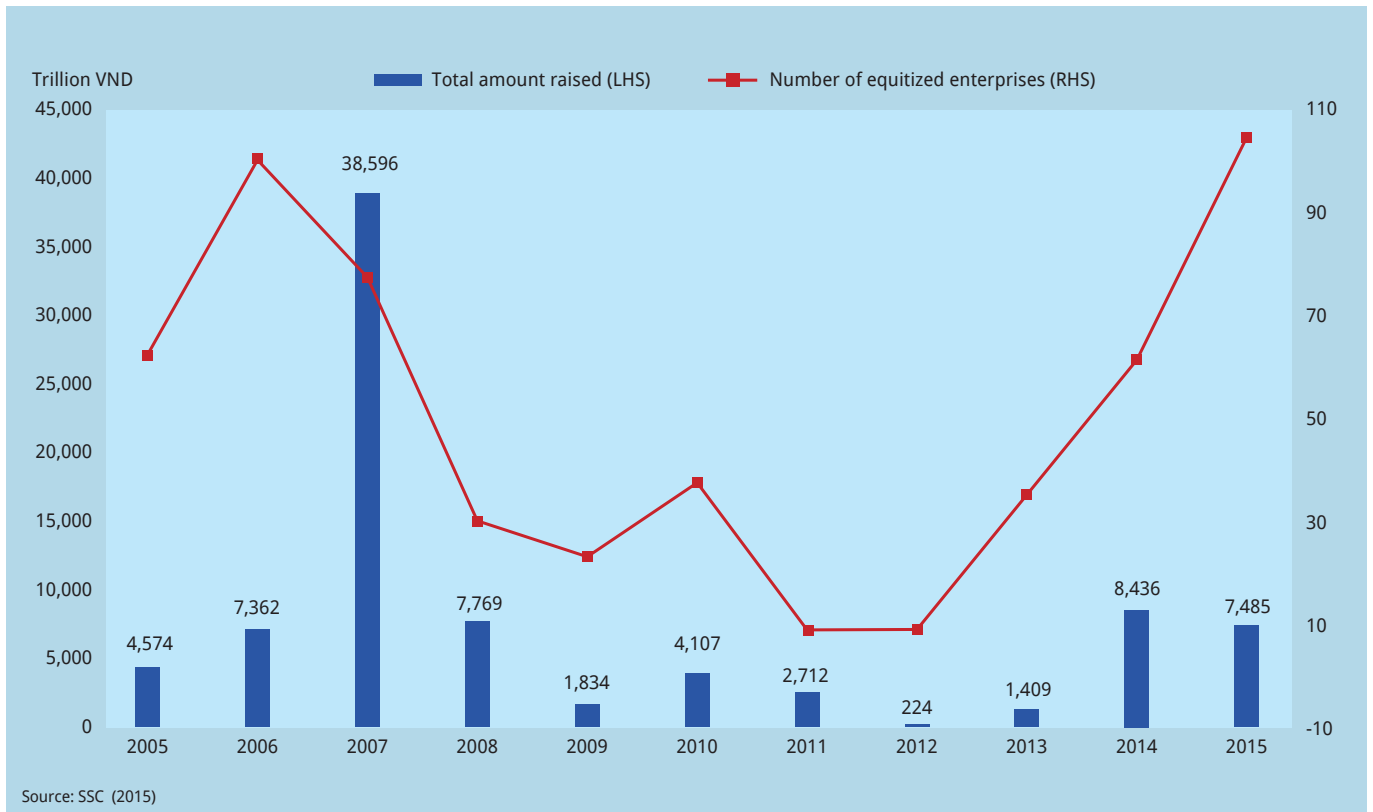


Figure 5: The Equitization Activities of Vietnam's State-owned Enterprises, 2005-2015



Setting up New Standards of Corporate Governance in Vietnam and Improving the Transparency and Openness of Listed Companies

Recognizing the important role of good corporate governance (CG), since the establishment, SSC Vietnam has been putting effort into setting up a legal framework for CG, promoting knowledge and materials on international common practices in CG (OECD), with the aim to encourage local listed and public companies to apply good practices in Vietnam.

About 686 listed companies in the two exchanges set up corporate charters that follow the standard corporate charter set by the Ministry of Finance, and 95% of listed companies issued internal control regulations. The independent directors have been appointed in several listed companies and violations on the basic rights of shareholders have been gradually reduced.

Effective Restructuring of the Securities Institutions

The number of securities companies increased sharply during the peak time of the market 2008-2010 (from only 7 securities companies in 2000 up to 105 securities companies and 47 fund management com-

panies in 2012). With such a quick pace, some small size securities companies were suffering the low-efficient performance as well as low-quality risk management. In 2012, SSC Vietnam started a restructuring plan on the local securities companies, with the aim to strengthen their financial capabilities and improve the supervision and risk management. Upon the restructuring, the number of securities companies was cut by 25% (from 105 to 79) and 24 companies were restructured, merged or liquidated. The performance efficiency of the securities companies has been improved much with the RoE increased by 12%, RoA increased by 10% and the profit increased by 33%.^{*13} They are also gradually approaching the international standards such as the capital safety standards of Basel II and the risk management and early warning system of CAMEL rating for financial institutions.

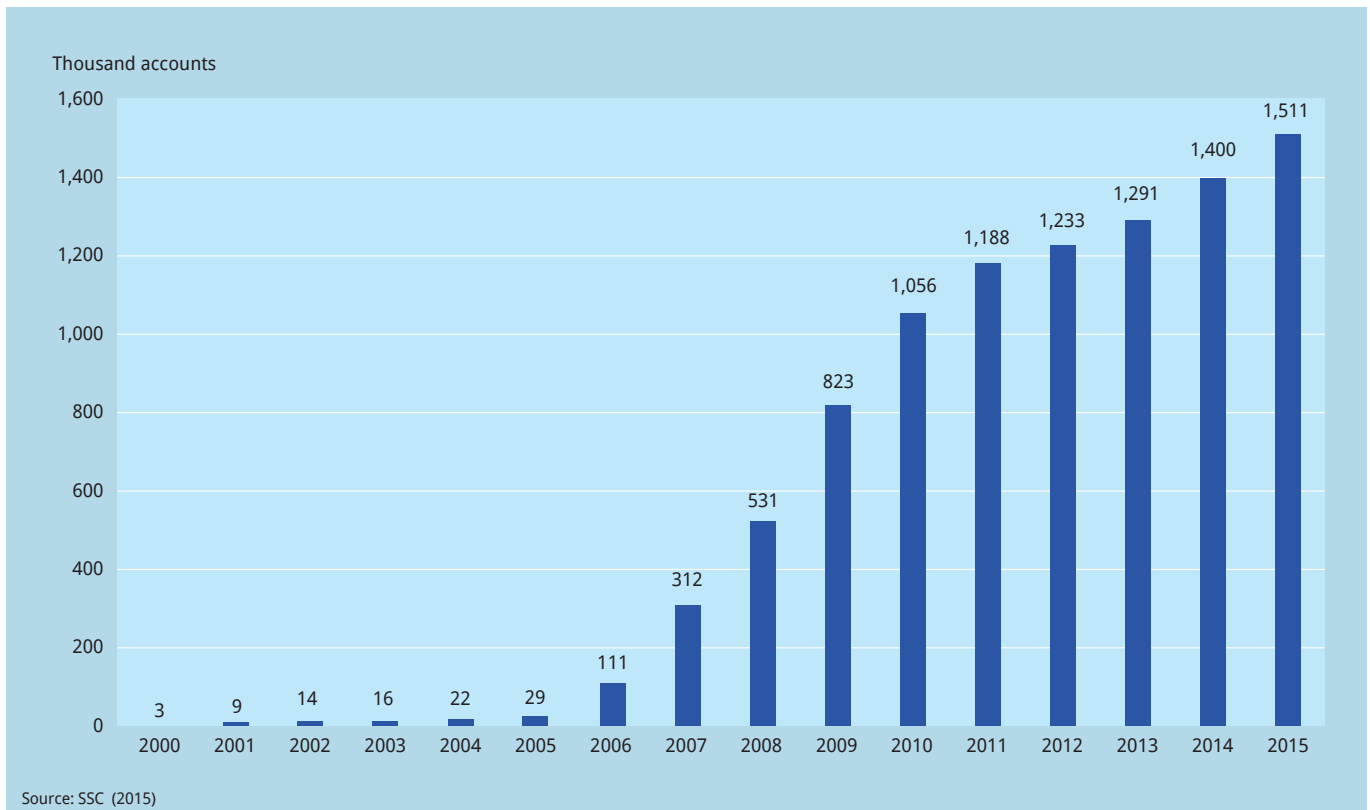
Boosting the Investor Base

With less than 3,000 trading accounts in the early days of the market, up to November 2015 there are around 1.5 million trading accounts. The number of foreign investors increased 2.2 times since Vietnam joined WTO in 2007, reaching nearly 20,000 accounts. The total volume of the foreign in-

vestor portfolios increased from 6.34 billion USD in 2009 to nearly 15 billion USD in 2015.

Among the reasons for such improvement was the issuance of Decree 60 in 2015, which allows the foreign investors to buy with no limits government and corporate bonds and listed stocks that are not on the conditional businesses list. This policy was seen as a breakthrough by the government to encourage foreign investments and their deeper involvement in the market. However, there are some key issues that need further clarification such as the detailed list of the conditional businesses following the Decree 60 and, in line with the Foreign Investment Law, how to treat the local listed companies turning into the foreign-invested companies (when the foreign investor holding in these companies is over 51%). Such a legal documentation is prepared by SSC Vietnam to solve these issues and is expected to be complete within 2016. Besides, in order to simplify the investment procedures in Vietnam's stock market, a registration system for online trading code for foreign investors is soon to be completed and put into operation by 2016.

Figure 6: The Number of Foreign Investor Trading Accounts, 2000-2015



Some Shortcomings and Challenges

Market size and products, market liquidity and depth: The stock market is characterized by a large number of listed companies with low average capitalization, with about 50% of the listed companies having charter capital of less than 100 billion VND.¹⁴ Many listed companies in the banking and insurance areas have large capitalization but low free float. On the exchanges, products are undiversified, mainly consisting of stocks and government bonds, with few investment fund units listed. The derivatives and derivatives market, which are considered effective hedging tools for investors, are expected to be in operation by 2017.

The equitization and divestment of large SOEs has been accelerated but it has not yet created a big change in corporate governance in these companies, the proportion of large SOEs offerings to external investors is still modest.

The bond market is still small compared to other countries in the region, especially in the corporate bond sector. There is a lack of professional credit rating agencies as well as a system of primary dealers and market makers.

Investor structure: There is a lack of professional long-term investors like investment funds, retirement funds and insurance companies to solidify and diversify the investor structure. The majority of participants in the market are still individual investors, who often have short term investment taste and herd behavior that make the market volatile. The financial literacy and experience of the public investors is limited, especially the understanding of shareholder rights in the corporate governance issues relating to the listed companies.

Financial institution system: There is a mismatch between the quantity and quality and inequality among the local securities companies in terms of financial capabilities, human resources, market share and services provided to the investors. For example, up to 2012, the top 20 securities companies held nearly 70% market share and top 10 fund management companies

held nearly 90% of the total asset value in the fund industry.¹⁵

The Policy Outlook for the Securities Market in Vietnam

The two important documents that created a solid and strategic foundation for the development of Vietnam's securities market for the coming years are the Strategy for the development of Vietnam's securities market in the period 2011-2020 and the Restructure plan of Vietnam's stock market and insurance market (both issued in 2012).

The specific targets set by the Development strategy include:

- Enhance market size, market depth and liquidity (with target stock market capitalization of 70%/GDP and bond market capitalization of 38%/GDP by 2020; diversify the investor base and improve the system of institutional investors).
- Enhance the market efficiency (restructure and merge the two current exchanges towards one stock exchange structure, step-by-step capitalize the stock exchange with the aim to improve the governance capabilities and attract the capital of the market participants, modernize the infrastructure, diversify the trading methods and investment products and so on).
- Continue to restructure and enhance the competitiveness of local financial intermediaries and open the market for the foreign financial institutions in accordance with the commitments roadmap and the competition level of the local institutions.
- Improve the management, supervision and surveillance capabilities of the regulation organizations.
- Join the linked market of Asean region and the world in accordance with the development roadmap, enhance the competitiveness and abilities to control and limit risks, and gradually narrow the development gap between Vietnam's securities market and other markets in the re-

gion and in the world.

To realise the important targets mentioned above, one of the orientations for Vietnam in the future is "to be active and take the opportunities to integrate into the international financial market, step-by-step approach the common international standards and conventions"

Through the integration the local institutions and investors will be able to access the high quality and diversified services and products; the local financial intermediaries can be upgraded, the local investor base can be consolidated and diversified. Besides, the local enterprises will have more access to international funding channels. The flow of indirect investments can also be supervised in a better way due to the closer cooperation among the regulatory agencies of the countries within the bilateral and multilateral frameworks.

However, opportunities always come in parallel with challenges. The challenges that Vietnam should recognize well can be (i) the local securities companies and investment fund management companies will be under tougher pressure from the competition with the large and experienced foreign securities companies and funds, who have advantages in capital, business strategies and network, professional management and technology; (ii) the potential risks of cross-border violations in the global securities markets (e.g., money laundering, fraud, insider trading) in addition to the market distortions and speculation due to the involvement of the giant foreign speculators. (iii) the challenges to complete the legal framework, market structure, and capabilities of the regulatory agencies and their staff in the context of the international integration.

Beside the tasks to take the best chances and limit the inherent risks of the integration process, Vietnam should also implement the following measures:

- Accelerate the legal framework toward the international standards.
- Continue to push the equitization process of large SOEs linked with the registration/listing in the stock market with the aim to enhance transparency and information disclosure and corporate governance of the equitized and listed companies.
- Amend the regulations and rules on the foreign ownership share in enterprises in accordance with WTO commitment.
- Implement the initiatives to encourage the domestic and foreign capital flows into the market such as the plan to promote Vietnam's securities

market from frontier to emerging market (based on MSCI market classification); promote initiatives to accelerate the participation of foreign investors; increase the freely traded stock proportion in the listed SOEs, which have a majority holding by the State.

- Promote new and diversified products and markets in parallel with their risk management.
- Complete the second stage of the Restructure plan of Vietnam's securities market in period 2011-2020 based on the four major components: stock exchanges, listed products, investor base and financial intermediaries system.

Sixteen years of construction and development of Vietnam's securities market is a long process from the early simple stage to the current infrastructure and sophisticated market, with increasingly important contribution into the country's economic reform. Although the present status is still modest compared to the long-history of the world largest markets, the obvious achievements of Vietnam's securities market prove this has been the right direction for Vietnam's government to follow and develop a free market economy.

Notes

- *1 Hochiminh Stock Trading Center changed its name to Hochiminh Stock Exchange in 2007.
- *2 1 USD = 22,295 VND (exchange rate of VCB 29/7/2016).
- *3 Summary Report on Vietnam's securities market in period 2011-2015 and the action plan for period 2016-2020 (SSC Vietnam – Jun. 2016)
- *4 Report 2015 of Hochiminh Stock Exchange (Dec. 2015)
- *5 Hanoi Stock Trading Center changed its name to Hanoi Stock Exchange in 2009.
- *6 Report 2015 of Hanoi Stock Exchange (Dec. 2015)
- *7 Report on 5-year establishment of the specialized trading platform for government bond market 2009-2014 (Hanoi Stock Exchange, 2014)
- *8 Summary Report on Vietnam's securities market in period 2011-2015 and the action plan for period 2016-2020 (SSC Vietnam – Jun. 2016)
- *9 2015 report on Vietnam bond market – Management Department on financial and banking institutions, Ministry of Finance
- *10 Report on the corporate bond market of Vietnam in 2015 – Vietcombank Securities (VCBS) (Feb. 2016)
- *11 Nguyen Thanh Long, DSc, “The important contribution of Vietnam's securities market into the economic restructure,” *Investment & Securities Newspaper* (Aug. 2015)
- *12 Nguyen Thanh Long, Dr of Science, SSC Vietnam, Research project “The restructure masterplan of Vietnam's securities market” (Dec. 2013)
- *13 Summary Report on Vietnam's securities market in period 2011-2015 and the action plan for period 2016-2020 (SSC Vietnam – Jun. 2016)
- *14 Research Project “Restructure Plan of Vietnam Securities Market”, Nguyen Thanh Long, DSc. (2013) (p139)
- *15 Research Project “Restructure Plan of Vietnam Securities Market,” Nguyen Thanh Long, DSc. (2013) (p.138 and p.144)

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HUONG THI THANH NGUYEN

Deputy Director of the Securities Research and Training Center, State Securities Commission of Vietnam

Nguyen took on the position of Deputy Director at the Securities Research and Training Center (SRTC) in 2015. Her main responsibilities are to manage research activities within the State Securities Commission of Vietnam (SSC), organize seminars on urgent policy issues, and carry out research projects on new investment products and markets. Her major areas of interest include: fixed income, asset management, REITs, private equity and derivatives. She has been a member of the Securities Research Council under the SSC since 2012.

She obtained her MBA in Banking and Finance from Birmingham University, UK. She is also a Certified International Investment Analyst (CIIA) charterholder.

THUY THI THANH NGUYEN

Deputy Head of Analysis and Forecast Division, Chairman Office, State Securities Commission of Vietnam

Nguyen reviews and submits consultancy to the legal framework on the regulation of a wide range of government activities and handles macro-economic reports and presentations and speeches given by SSC leaders. Prior to joining the SSC, she served as Deputy Head in the Strategy and New Products Department of the Hanoi Stock Exchange.

She received her Ph.D. in Economics Science from Warsaw School of Economics, Poland.