OVERVIEW OF VIETNAMESE SECURITIES MARKETS

MR. HOANG PHU CUONG
DEPUTY DIRECTOR-SECURITIES BUSINESS MANAGEMENT DEPARTMENT
STATE SECURITIES COMMISSION OF VIETNAM
1. Introduction of Vietnamese securities markets
2. Challenges and solutions
3. Notes on other issues an policy outlooks
SECTION I

INTRODUCTION OF VIETNAMESE SECURITIES MARKETS
Establishment of the market

- Establishment of the State Securities Commission - the regulator over the securities market (in 1997)
- Launching the operations of the Ho chi minh City Stock Exchange in July 2000;
- Launching the operations of Hanoi Stock Exchange in March 2005.
- Officially launching the operations of Vietnam securities depository center in May 2006.
Organizational structure of the market

STATE SECURITIES COMMISSIONS

- Vietnam Securities Depository Center
- Two Stock Exchanges
- Other Stakeholders

Financial institutions, including securities firms, fund management firms, banks

- Investors
- Corporations
Law and Regulations

- Securities Law (2006) and Law on amending some articles of Securities Law (2010);
- Decree 58/2012 / ND-CP of the Government on detailing and guiding the implementation of the Securities Law.
- Decree 108/2013 / ND-CP of the Government on sanctioning of administrative violations in the field of securities and securities markets.
- The Circular of the Ministry of Finance guiding the operations of the market, such as the disclosure of information, organization and operation of securities companies and organizations active fund management companies, investment funds, trading securities, custody and securities clearing.
Market index performance

- From 2000-2005: original stage. This stage in its turn could be divided into smaller stages of 2000-2003 and 2003-2005
  - 2000-2003: meteoric stage. From initial 100 points the index leaped up to 570 points in mid June 2001 but quickly fell to 200 points in early 2002 and bottomed at 130 point in April 2003
  - 2003-2005: frozen stage. very low liquidity in terms of stocks but better liquidity in terms of bonds.
- From 2005-2007: enormous and rapid growth
- From 2009-present: unstable
VN-Index performance
from late 2000 until 30/9/2014

Source: HCM Stock Exchange
Market Trading

- **Time:** Everyday weekdays (from 9h00 to 14h45);
- **Trading system:** Continuous and periodical order matching;
- **Trading priorities:** price and time;
- **Daily Price limit:** ± 7% for HOSE and ± 10% for HNX
- **Types of order:** ATO (at the opening), ATC (at the closing), MO (market order) and limit-order
- **Settlement cycle:** T + 3.
Market Trading (con’t)

- The two exchanges are not fully self-regulated as they are still under management of Ministry of Finance and State Securities Commission.
- Cross-listing between the two is not allowed.
- Margin trading is allowed while Short-selling is not.
- Ho chi minh stock exchange (HSX) is a trading platform for relatively large corporations' stock and Hanoi stock exchange (HNX) is for relatively SMEs’ stocks
Market Size

- Becoming the important capital mobilization channel for the economy
  - Mobilized VND1,000,000 trillion (≈ USD47.6 billion) for the Government; mobilized VND 700 trillion (≈ USD 33.3 billion) for the enterprises via auctions for equitization and issuing shares, fund units

- Growing Size and liquidity of the centralized securities market:
  - 663 companies, fund units listed at 2 stock exchanges (as of July 2014)
  - 574 kinds of bonds listed (as of July 2014)
  - Market capitalization reach ~33%GDP (as of July 2014)
  - Listed value: USD 55.2 billion (as of July 2014)
  - Trading value/session: USD226 million (as of July 2014)
  - (Shares + fund units: ≈USD 124.1 million; bonds: ≈ USD102M)
By the end of 2013: 301 listed companies on HSX and 377 listed companies on HNX, in total of 678 listed companies compared to 704 companies in 2012.
Total market capitalization reached VND 949 billion (approximate USD 38.2 billion), accounting for nearly 30% of GDP in 2013.
91 Securities firms. Most of them are members of exchanges

41 Fund Managers.

Securities firms are allowed to provide all or one of the businesses of financial advisory services, brokerage, proprietary trading, underwriting.

Legal capital for each of the businesses are stipulated by laws as follow:

- Financial advisory services: VND 10 bill (500.000 USD)
- Brokerage: VND 25 bill (1.200.000 USD)
- Proprietary trading: VND 100 bill (5.000.000 USD)
- Underwriting: VND 165 bill (7.800.000 USD)
Investor Base

- Most of investors are retail and individual
- Foreign investors account for 1.2%
- Institutional investors account for 0.5%

Number of investor accounts opened with securities firms
SECTION II

CHALLENGES AND SOLUTIONS
Challenges

- The equity market is characterized by a large number of listed companies with low average capitalization.
- While the equity market has so far served as a conduit for “equitization”, it has the potential to play a much more meaningful role.
- There are many rooms for improvement of financial intermediaries in the situation of mismatch between quantity and quality.
- The need of consolidating the investor base.
- The small mutual fund industry shows promising prospects for growth.

Source: World Bank
Solutions

• Listed stocks
  - Promoting the process of equitizing enterprises linked with the listing on stock markets
  - Improved corporate governance, transparency and information disclosure toward international standard.

• Investor base
  - Luring foreign investors
  - Introducing open-ended funds, ETFs, REITs

• Securities Companies
  - Consolidating, improving risk management and compliance.
SECTION III

NOTES ON OTHER ISSUES
Equitization process

- **Problems:**
  - Complicated Valuation: valuation business advantage i.e. geographic location, brand name, potential for development
  - Lack of motivation, low incentives: transparency = accountability = less job security
  - Divestment above book value

- **Speeding Up The Process**
  - 2011 Decree 59: Allow select strategic partner before or after IPO; Eliminate need to value geographic advantage
  - 2013 Decree 189: Clarification of land valuation guidelines; State audit required only for state economic group; Extend validity of valuation to 18 months from 12 months; Compulsory progress report (accountability)
  - 2014 Resolution 15: Accountability for delay; Allow divestment below book value
Foreign ownership limits

- FOLs are 49% on listed companies, except banks, which are 30%
- Foreign investors are allowed to own 100% securities companies.
Policy Outlook

- **New investment products:**
  - New stock, bond indexes, and ETFs
  - Developing regulatory and infrastructure for derivative market to introduce covered warrants, NVDR, and hedging tools
  - Establishment of rating agency to develop corporate bond market
  - Privatization and listing of large SOEs

- **Developing Institutional Investors Base**
  - Through new tax and fee mechanisms. Promoting the development of voluntary and compulsory pension funds.

- **Infrastructure:**
  - Merging HCMC and Hanoi stock exchanges
  - Developing and deploying one core system for the whole stock market.
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