

# The Vietnam securities market

Vietnam is a country in transition, and the development of a securities market and how this is viewed by various participants is important for its future growth. **NGUYEN THE THO** and **IAN EDDIE** report.

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Vietnam commenced economic renovation (doi-moi) and embarked on market-orientated reforms in the mid-1980s that led to initial proposals to develop a securities market in the early 1990s. However, implementation of these proposals faced repeated delays due to official resistance and a lack of suitable companies to list.

In November 1996 the Vietnamese Government decided to establish the State Securities Commission (SSC). On July 11, 1998 the Government issued Decree No. 48/1998/ND-CP on the securities and securities market to serve as the highest legal framework to shape the securities market in Vietnam. On the same day the Government issued decision No. 127/1998/QD-TTg on the establishment of two Securities Trading Centres (STCs), one in Hanoi and the other one in Ho Chi Minh City (HCMC) (*Vietnam Economic Times*, Sep 4, 2000). Following these pronouncements, the general regulatory framework for administration of the securities market was established.

Despite the establishment of this framework there remain many issues that continue to limit further development of the securities market. These issues include: developing a sufficient range and quantity of equity and debt instruments; disclosure and transparency of financial information; education of Vietnamese investors; technological infrastructure necessary for the operation of the STCs; and training and development of staff of the SSC and financial institutions.

Until now, there has not been a close link between the equitisation process of State Owned Enterprises (SOEs) and the

development of the STCs. The main source of supply for listing on the STCs comes from equitised companies. During the period 1999–2002, the equitisation program has been sped up rapidly and by first quarter 2002, a total of 889 SOEs had been equitised, of which 70% have sold more than 65% of their shares to non-state shareholders (World Bank 2003).

In order to plan for the further development of Vietnam's securities markets, a survey of participants in the securities market was undertaken. This paper reports the results of this survey of market participants, focusing on the priorities to be addressed for the further development of Vietnam's securities market. Also the paper provides some general background information on the current status and development of Vietnam's securities markets.

## Background to securities market development in Vietnam

Vietnam's securities market was officially launched with the establishment of the HCMC Securities Trading Centre (HCMC STC) on 20 July 2000. The first securities trading session occurred on 28 July 2000. Though valued as a positive sign in the reform process, after two years of operation, the most significant achievement of Vietnam's fledging securities market has been the generation of liquidity for listed companies. This has provided a helping hand in the equitisation of SOEs. The securities market has also stimulated public investment.

Understanding among the public, especially among investors, has improved significantly thanks to their participation in securities trading. However, the first securities market

TABLE 1 VIETNAM'S SECURITIES MARKET AFTER TWO YEARS OF OPERATION

Year	Market Cap (VND Billion)	Trading Value (VND Billion)	Listed Companies		Listed Bonds				Market Cap to GDP (%)
			No of Listed Corps	Value of Listed Shares (VND Billion)	No of Listed Gov. Bonds	Value of Listed Gov. Bonds (VND Billion)	No of Listed Corp. Bonds	Value of Listed Corp. Bonds (VND Billion)	
2001 <sup>a</sup>	1596.55	690	6	338.84	3	1100.00	2	157.71	0.37
2002 <sup>b</sup>	4145.04	1748	17	878.63	25	3108.7	2	157.71	0.92

**Note:** 2001<sup>a</sup> (from 20 July 2000 to 20 July 2001); and GDP = GDP in year 2000; 2002<sup>b</sup> (from 20 July 2001 to 20 July 2002); and GDP = GDP in year 2001; VND = Vietnam Dong; Cap = Capitalisation; Corp = Corporation

**Source:** HCMC STC 7/2001; SSC 2001; *Vietnam Securities Journal*, No 7, 2001 HCMC STC 7/2002; SSC 2002; *Vietnam Economic Times*, 27/7/2002

operates on a very limited scale as presented in Table 1.

It can be seen from Table 1 that the size of the current market is small. In the first year, only six listed companies with a total of 33,884,000 shares were listed, with total par value of VND 338.84 billion, of which 71% were eligible for trading but only 44% of these eligible shares were deposited (HCMC STC 2001). In the second year, these figures rose to 17 listed firms, with a total of 87,863,000 shares listed, with total par value of VND 878.63 billion. Further, in the first year there were only five bonds of which three were Government bonds and two were Bank for Investment and Development of Vietnam (BIDV) bonds. The total par value was VND 1257.71 billion.

By 20 July 2002, the number of bonds increased to 27 (25 government bonds and two BIDV bonds), which were tradeable on HCMC STC with a total par value of VND 3266.41 billion. Market capitalisation by 20 July 2001 was very small, with a total value of VND 1596.55 billion (US\$ 105 million at exchange rate on 20 July 2001) and market capitalisation/GDP was only 0.37%. These figures have slightly increased as at 20 July 2002, with a total value of VND 4145.04 billion, with market capitalisation/GDP rising to 0.92%.

Trading volume was small with 13.7 million shares and 500,000 bonds transacted. Trading value stood at VND 690 billion on 20 July 2001, of which share trading accounted for 90%, government bond trading 1% and

trading of BIDV bonds 9%. Up to 20 July 2002, trading volume shares represented the majority with 43.5 million trades, while the remaining one million trades were in bonds. The total trading value was VND 1748 billion, of which share trading value stood at VND 1657 billion and accounted for 94.8%, with bond trading 5.2%. SSC data indicated that on average, after two years of operation Vietnam's securities market showed VND 5.2 billion (US\$340,000) worth of securities trading a session (*Vietnam Economic Times* 27/7/2002).

The number of investors opening accounts at securities firms for securities trading increased from 5847 on 20 July 2001 to 12,000 on 20 July 2002. However, the number of active accounts was much smaller. Individual investors represent most of this figure, with institutional investors accounting for 97 of the accounts. The number of accounts held by foreign investors was even lower, at 33.

From the above figures, it is argued that the securities market is small in scale compared with the country's economic demand and potential. Vietnam's securities market has not had all key industries represented. An additional concern is that the market lacks the presence of large listed and blue chip companies. Meanwhile the market has not really been used as a source for raising capital. The securities companies have not yet fulfilled their joint role, in consulting with investors and assisting joint stock companies to become listed.

A limited number of major investors are holding large amounts of tradeable shares and this will likely cause the market to be dependent on these people. However, because the market is small it is also vulnerable to actions of major investors. Further, the Vietnamese public only has a vague idea of the role, function and operation of a securities market, having been exposed to a centrally planned economic environment for several decades.

The SSC and the HCMC STC, in an attempt to manage the market, have taken steps to introduce price ceilings for trading orders of the listed shares, just before the giving of the orders. The reason given by the SSC for doing this is that it will avoid overly high premium prices on the first day of trading to protect investors. In addition, the share price band was regulated at  $\pm 2\%$  against the reference price. The readjustment of the trading band from  $\pm 5\%$  down to  $\pm 2\%$  has proved to be appropriate. So far, the steps have worked well in stabilising the market. On 13 June 2001, the SSC amended these regulations and the trading band was regulated at  $\pm 7\%$ . The increase of VN Index has been quite constant. Compared with the first day session (28 July 2000), the share price index has risen to peak at 571 points on 25 June 2001 compared with the original VN Index of 100 points on the first day of trading.

Looking at the movement of VN Index, investors may be optimistic about the stock market. However, the share price increase does not reflect the

real growth of listed companies, but the increase is attributable to the demand to buy shares, which has pumped up the share prices. After reaching a peak, the VN Index has since dropped to around 200 points and even further to 197 on 28 July 2002, discouraging many investors.

This can be explained by the fact that in the early stages, demand exceeded supply for securities, leading to price increases without any unusual positive news about the performance of listed companies. There also remain concerns regarding the effectiveness of information disclosure standards to ensure fairness and meet the public demands for information. The trading system was not able to meet the market demand, as it was only capable of one type of order, a limited one. In addition, there is a lack of an official market for the trading of shares in Small and Medium Enterprises (SMEs) capitalised between VND 5 billion and VND 10 billion.

The operation of the securities market was not in line with the equitisation process of State Owned Enterprises (SOEs) to attract participation of enterprises having financial potential, thus creating pressure on both the supply and demand for securities.

The landmark establishment of the HCMC STC, although not yet perfected, has symbolic meaning in Vietnam. After two years of operation, the results achieved in this new market certainly have not satisfied all expectations. There are weaknesses and shortcomings in the trading system. However, in general, this is an important development in the building process of the modern financial system of Vietnam in the period of the change from a centrally planned economy to a market economy. A number of reasons may explain this. Firstly, the establishment of the securities market in a fairly simple form can be considered a sign of confirmation of the development of the market structures in general and the financial market structure in particular. Secondly, the securities market is established on the basis of the market economy within which the financial markets have developed to some degree. Thirdly, in

the long term, the existence of one structure of a financial entity as the basic organisational structure in the system is one of the key conditions to ensure stability.

Until now, Vietnam's securities market has not brought into play its function of capital mobilisation. Market capitalisation, the number of listed securities, the number of investors, trading volume and value are very small. In addition, the HCMC STC has only made its duty circulation, but not mobilisation of capital. Although there are some objective reasons to explain this situation, it also is one of a series of weaknesses of the whole system. So this problem needs to be evaluated carefully in every aspect, especially in terms of the perceptions of market participants of the factors contributing to a strategy for Vietnam's securities market development.

### **Perception of market participants of securities market development in Vietnam**

A survey of market participants' perceptions conducted in Vietnam in 2001 involved 500 survey questionnaires (200 for the policymakers and regulators, 250 for the domestic investors and 50 for foreign investors or managers of foreign financial institutions) which were distributed at random among the market participants. A total of 341 responses were collected. Of these, 57 unusable responses were identified because questions in some sections were not completed. The survey questionnaire returns represented an overall response rate of 68.2% and a useable response rate of 56.8%.

A summary of results (Nguyen 2003) reveals that policy makers and regulators, both domestic and foreign investors, expressed "strong important" and "very important" perceptions regarding most of the selected factors about the strategy for Vietnam's securities market development. Most respondents indicated that a regulatory framework, supply of securities, market transparency and disclosure of information, and the role of auditing, in the securities market were "very important".

The role and functions of professional bodies were of "little importance" among respondents. While foreign investors generally indicated a high degree of agreement, the perceptions of domestic investors about this factor were neutral. This suggests that knowledge and practical experience of foreign and domestic investors affect their perceptions in the infancy stage of Vietnam's securities market and indicates that much needs to be done to improve the knowledge and experience of domestic investors.

The survey results revealed that generally, regulators and both domestic and foreign investors expressed agreement on the main reasons why Vietnam's securities market has not yet been fully developed.

The only exception was the lack of a credit rating agency. The strongest degree of agreement was that there was a shortage of listed securities for trading on the STC. Other reasons, such as securities firms' lack of experience, limited information disclosure, absence of policies for encouraging investors and issuers, lack of a market for trading securities of SMEs, and legally complicated regulations, showed agreement by the three groups.

They felt these reasons were obstacles that impacted on the current limited development of Vietnam's securities market, and results confirm the current situation of Vietnam's securities market. Similarly, a shortage of listed securities for trading on the HCMC STC was seen by policy makers and regulators as having "strong agreement". Other reasons such as "securities firms' lack of experience", "limited information disclosure", "lack of appropriate methods for setting IPO price", "accounting standards are not clear", "auditing standards are not adequate" and "securities market is not transparent and convenient" were met with "strong agreement" by both foreign and domestic investors.

These were the reasons why investors have not yet actively invested in Vietnam's securities market. Most foreign investors "strongly agreed" with reasons of accounting and auditing standards being different from International Accounting Standards

TABLE 2 RANKING BY MARKET PARTICIPANTS OF PRIORITY SOLUTIONS FOR VIETNAM'S SECURITIES MARKET DEVELOPMENT

Priority Solutions	Rank
<b>1. Legal Framework</b>	
(S 1) Modify Current Securities Regulations	<b>8</b>
(S 2) Promulgate New Securities Law	<b>3</b>
<b>2. Supply and Demand for Securities</b>	
(S 3) Increase Supply for Securities	<b>1</b>
(S 4) Increase Demand for Securities	<b>6</b>
<b>3. Market Participants</b>	
(S 5) Develop Financial Intermediaries	19
(S 6) Establish and Develop Institutional Investors	<b>5</b>
(S 7) Increase number of Educated Investors	12
<b>4. Securities Market Infrastructure</b>	
(S 8) Improve Trading, Depository and Clearing System	13
(S 9) Establish the OTC Market for SMEs	<b>7</b>
<b>5. Market Transparency</b>	
(S 10) Enhance Quality of Information Disclosed	<b>2</b>
(S 11) Enhance Knowledge and Quality of Accounts and Auditors	11
(S 12) Establish Credit Rating Agencies	18
<b>6. Policies and Measures for Encouraging Market Development</b>	
(S 13) Move Away from Merit Regulation to Disclosure System	20
<b>7 Market Supervision and Enforcement</b>	
(S 14) Strengthen and Improve Market Supervision	<b>9</b>
<b>8. Role of Education and Training</b>	
(S 15) Provide Education and Training for Investors	16
(S 16) Teach Securities Market in Universities	15
(S 17) Improve Publications on Securities Market in the Media	<b>4</b>
<b>9. Harmonisation with International Standards</b>	
(S 18) Adopt International Accounting Standards	14
(S 19) Adopt International Auditing Standards	<b>10</b>
(S 20) International Integration of the Securities Market	17

(IASs), as well as foreign exchange control and tax policies discouraging foreign investors. Further, “restrictions on foreign ownership and trading of securities” were also perceived as impacting on investment by foreign investors.

For most factors relating to the development of Vietnam’s securities market, the views of policy makers and regulators and both foreign and domestic investors were generally “important” and “very important”. This may indicate that further securities market development in Vietnam by 2010 should encourage the achievement of priority solutions such as: promulgate new securities law, increase supply of securities, enhance quality of information disclosure and market transparency.

It is also significant that harmonised accounting and auditing standards

based on IASs are needed to attract foreign investment, and improve the quality of information disclosure to develop Vietnam’s securities market and integrate Vietnam into the international economy. The ranking of the priority solutions related to factors of the strategy for Vietnam’s securities market development is presented in Table 2.

The rank in bold figures indicates the top 10 priority solutions from the survey of market participants that need to be considered to develop the securities market in Vietnam during the period 2001–2010. With regard to the legal framework factor, the three groups noted that current securities regulations needed to be improved (ranked eight) and a new securities law promulgated (ranked three) to win the investors’ confidence. This indicated that the legal framework was a key priority. The

results confirm that regulations and laws are needed to provide for healthy and efficient securities markets in Vietnam. Moreover, the ranking for the supply and demand for securities factor indicated the top priority of the issue in relation to Vietnam’s securities market development.

In transition economies such as Vietnam, the main source of securities supply is from privatisation or equitisation of SOEs. The supply of securities is ranked one and the demand for securities is ranked six. Once the programs of SOE equitisation are speeded up and linked with securities market development, then supply and demand for securities increase because of the availability of shares and the fact that investors have opportunities to own securities. This will allow for increased market participation in general and provide for more investors and institutional investors in particular, which is a top priority solution, according to the results (ranked five).

The development of institutional investors in the securities market will increase demand for securities, create new sources of investment capital, provide for an efficient and stable securities market, increase market liquidity and strengthen corporate governance. The factor relating to market participants is common in the development of securities markets in emerging markets, especially in transition economies. However, in relation to securities market infrastructure, a well-functioning securities market provides confidence to potential investors and companies to raise new equity capital. It also ensures that individual and institutional investors have confidence that a fair, efficient and liquid market will be available if they decide to trade their securities.

The establishment of a securities market for SMEs or OTC (ranked seven) in Vietnam is one of the priority solutions relating to the securities market infrastructure. This should be considered to enable SMEs to expand their capital base in order to restructure and modernise. The results indicate that market transparency, especially



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- opening and operating a trading board for the Hanoi Securities Trading Center (STC);
- developing market surveillance and inspection procedures for the Hanoi and Ho Chi Minh City STCs;
- enforcing corporate governance;
- setting up an independent securities

depository centre;

- devising a legal framework for public offerings, backdoor listings and mergers and acquisitions; and,
- setting up a capital market resource centre.

The Institute looks forward to commencing this project mid-June with a team of 4 SIA consultants to remain in-country until October, 2003. For more details contact our International Manager on (61 2) 8248 7513.

the enhancement of the quality of information disclosed (ranked two) and the strengthening of market supervision (ranked nine), are priority solutions to the development of the securities market in Vietnam.

The results indicate the situation relating to the development of securities markets in Vietnam and that attention is needed to reduce business malpractice, protect investors and improve the efficiency of the securities market. The shortage of human resources is a serious problem in Vietnam as the securities industry and related securities markets are expanding.

Therefore, the factor relating to the role of education and training, especially publications on securities market in the media, is one of the top priority solutions (ranked four) to resolve this problem. Finally, harmonisation with international standards is an important factor for long-term development of the securities market in Vietnam.

**CONCLUSION**

The evidence from this survey provides policy makers with a basis for formulating and implementing a strategy for Vietnam's securities market development.

However, experience in transition economies and the current situation of Vietnam's securities market indicates that because of social, economic and cultural issues, the priority solutions in each factor of the strategy for securities market development in Vietnam will need to be addressed.

Implementing the priorities identified

by perceptions of the three parties surveyed will ensure that a robust and efficient securities market is developed in Vietnam by 2010.

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