

## CAPITAL MARKETS ISSUES

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The capital markets environment remains healthy and positive. The markets continue to grow in breadth, depth, maturity and experience. The role of the regulator, the SSC, and key policy driver, the MOF, remains open and constructive, despite there being no shortage of new difficulties, challenges, and issues that require inter-ministerial communication. The working group has had substantial access to both SSC and MOF, to discuss issues of concern to the markets.

### Key Developments

The working group would like to applaud the following key developments:

- Establishment by the Prime Minister of a new 'monetary and financial policy advisory committee' to better study the impact of the markets on the economy, and vice-versa.
- Enforcement of the obligations on Public Companies, to register, and adopt disclosure practices (there are now 1000 of these), and further moves to create a formal and regulated OTC market
- Continued progress towards the establishment of sound government bond markets, with better communication by the Treasury and MOF, the formation of the Vietnam bond forum, and development of liquidity in the secondary market.
- The beginnings of a corporate bond market
- Continued development of capital markets institutions
- Substantial capital raised in the debt markets (40tr dong in 2007?)
- Substantial capital raised in the equity markets (40tr dong in 2007?)
- Continued affirmation of the equitisation pipeline
- Clarity on the future taxation environment, with the passing of the law on PIT.

### Outstanding Challenges

It is axiomatic of course that capital markets development is an ongoing task, with continuing sets of challenges. The working group would draw attention to the following areas of study in the future:

- Macro economic policy: the working group would like to emphasise that, having accepted the role of markets in the development of Vietnam, Vietnam needs to accept that markets can affect the real economy, in addition to being a tool of economic policy-making, and that these relationships need to be studied closely. A recent example of this would be the effects of flows of foreign investment capital on exchange rate and monetary policies.
- Equitisation: the current legislation sets out the need for a public auction, with shares sold at a variety of prices. The working group feels there may now be sufficient maturity to move towards 'bookbuild' price setting, and fixed price public offers, as happens in most other countries. Amongst many advantages, this would ensure that foreign investors paid no less than domestic investors.
- Proliferation of licences: notwithstanding the working group's great evaluation of the development of new institutions, it is also true that the number of newly licensed securities companies in particular, and financial sector entities in general, is high. The working group believes that there will need to be consolidation, and possibly market disruption, if the issue of new licences continues at this pace. In the

meantime, the market is suffering from very uneven profitability, and big human resource stresses.

- The debt markets remain hampered by the absence of a credit rating agency (notwithstanding the questionable role these agencies have played in recent years in international markets).
- The environment for foreign investors: despite good progress in general, there remains uncertainty over the regulatory environment for foreign investors in two areas. First, the regulation of fund management and securities groups present in Vietnam, via representative offices; and Second, the need for clarity in how the new enterprise and investment laws reflect on foreign ownership of listed companies. While this is clearly a matter for Government, the Working Group would be happy to consult with the SSC on this.

#### **Questions for the Vietnamese Government Representatives**

- Could the government please provide some guidance as to how it is building the capacity to analyse, monitor, and formulate macro-economic responses, to increasingly rapid movements in financial and other markets, that are now beginning to appear?
- Could the government please provide guidance as to what it sees as the principal challenges in coming years in the financial markets, so that the Working group might know where to focus its efforts?