REPORT OF CAPITAL MARKET WORKING GROUP
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GENERAL REVIEW

Although there are a few signals of recovery but the Vietnam economy is still under difficult period with potential risks. The Group recognized efforts made by the Government in running the economy such as reining in inflation, stabilizing exchange rate, enriching forex reserve, restructuring banking system, and establishing VAMC to address bad debts… However, in order for good policies to be successful an appropriate and timely action plan for these policies plays a critical role. We suppose that the execution of many policies were still slow.

Vietnam stock market was experiencing recovery from 2012 until now however we think that this recovery was not based on a sustainable foundation. In general, health of listing companies is still weak, liquidity on stock market is low and foreign investors though returning to Vietnam stock market but most of them are still observing for real opportunities.

WORKING RESULTS WITH MOF/SSC

However, the Group would like to recognize the cooperation of MOF/SSC in addressing various matters relating to the capital market during last few years; especially in 2012 many suggestions from the Group were taken and addressed by MOF/SSC.

Basically MOF/SSC built up a comprehensive legal framework stipulating activities of stock market. They presented to the Government the Development Strategy of Stock Market until 2020; issued many important legal documents such as the Guidance Decree of the revised Law of Securities; new circulars on information disclosure and corporate governance; launched new indices VN30; allowed margin trading, market order and extended trading time; MOF recently issued the Circular of open-ended fund and on process to introduce regulations on real estate funds, pension funds, ETF funds; MOF/SSC are also working on the project of restructuring the stock market.

For bond market, after taking comments from the Group's members, MOF required SSC, State Treasuries and other government bodies to publish calendar for issuing Government bonds, T-Bill at the beginning of year that helps bond investors to set up their investment schedule; MOF and relevant governmental departments constructed a legal framework for and applied in practice merging multiple small government bonds into one large bond to increase size and liquidity; trading of Government bonds, T-Bill are already centralized at Ha Noi stock exchange system which expects to provide initial conditions for creation of a benchmark bond.

SUGGESTIONS

1. SOEs and Equitization

<u>A new roadmap for equitization program</u>

We suppose that so far the equitization process of state-owned enterprises (SOEs) of the Vietnam Government made some achievements. However, recently this process was slowed down partly due to the sluggish stock market. The Group is in the opinion that the stock market still needs new quality products to attract both local and foreign investors. Thus, the

Group suggests the Government to speed up the equitization process via defining a new roadmap with clear targets and timeline. The equitization of SOEs should not mostly focus on the financial perspectives but also other factors such as restructuring SOE segment.

Equitization is the backbone of sound economic policy and one only has to see what has been achieved in other Emerging Markets. The 2 principle industries that get privatized initially are Telecom and Banking. The key to a successful offering is VALUATION and the only way to achieve this is to hire independent advisers (reputed investment bankers) who can price and place out the issuance in line with global industry standards. There is always the fear of selling State assets too cheaply and getting blamed but these are the risks involved in the process and ironically the most successful privatizations have been those where the stake holder has left a bit of money on the table to attract investors. Overpricing issues usually leads to failure and furthermore a substantial percentage of ownerships in SOEs should be sold to create a liquid after market, not single digit percentages.

<u>Listing requirements after IPOs</u>
Equitization must be attached with listing requirement. Current laws stipulate that companies that made IPO must list within 12 months however this regulation is not complied strictly in reality. The Group also receives comments for the Government, SSC to enforce companies to list in stock market within a month after IPOs.

<u>The role of SCIC</u>
As the largest investor in the capital market, SCIC clearly plays a critical role and its moves are sensitive to market sentiment. The Group suggests it's necessary to clarify clearly the role of SCIC on stock market; and as we assume that SCIC plays a financial role, we recommend that SCIC needs to comply with Information Disclosure requirement as other market participants.

2. Foreign ownership
A genuine open market should have no restrictions on foreign ownership. However it is appreciated that certain entities of such national importance need to remain in control by local interests most notably government owned companies. The Group suggests a few options to address the foreign limitations as follows

- Allow foreign investors to own up to 100% stake in Vietnamese companies in respective industries in accordance to WTO commitments of Vietnam.
- Need to establish a mechanism for foreign investors to trade shares in full room companies conveniently and transparently. For that, a foreign board is a recommendation.
- Create a class of share with no voting rights exclusively for foreigners and a typical example of applying this type of non-voting shares is Thai Lan via establishing Thai NVDR Co., a 100% owned by Thai Lan stock exchange. This company is responsible for issuing and selling the Thai non-voting depository receipts (Thai NVDRs) to foreign investors. The purpose of this class of shares is to create an investment instrument that allows foreign investors to buy shares and benefit the underlying financial interests (dividend, right issues…) in local companies but at the same time the foreign investors cannot involve in company decision-making.

3. Trading regulations
<u>Trading band, liquidity</u>
Despite extending the trading hours, liquidity continues to be an issue due to the trading bands which restrict the natural movement of prices. Admittedly these bands are there to

protect investors from sharp falls but they encumber the natural workings of the market. A suggestion is regulation that would be to impose a 30 minutes halt in the trading of a security when a move up (down) reaching the ceiling (floor) of the current trading bands of 7%-10% on two stock exchanges. Then the stock shall be traded again with new reference price which is either previous ceiling or floor price before the pause. Such a pause should bring stability to the market as well as reduce the impact of current trading bands.

SSC needs to apply T+0, T+1 trading in order to increase the movement of stocks and money flows which help to improve market liquidity.

<u>Settlement</u>
Regarding the settlement issue, the Group suggests that SSC and Vietnam Securities Depositary (VSD) to take urgent steps to implement a procedure whereby depository members are required to deposit cash on the same day as the securities are received, and the time gap between cash deposit and receipt of securities on that day is minimized to the extent possible.

Currently, BIDV is appointed as the settlement bank for trades on stock market. However, BIDV is only a commercial bank like others and trades through BIDV are not guaranteed too. Thus the Group suggests transferring the role of settlement bank to State Bank of Vietnam (SBV).

<u>Restructuring securities firms</u>
The Group and MOF/SSC have discussed and agreed that, currently there are too many securities firms (105 companies) for Vietnam stock market of which only top 10 companies hold more than 50% of market share, the remaining portion for other companies is small and cannot maintain their operations. Many securities firms are almost inactive with incurred losses taking a bite out of shareholders' equity that deteriorates the firm's financial capacity and causes dangers to investors who open trading account at these firms. The losses incurred by securities firms are mainly due to proprietary trading, excessive borrowings and incautious margin lending while the risk management is weak. Thus, the Group suggests:

MOF/SSC need to boost up the restructuring process, M&A of securities firms in order to reduce the number of securities firms, focusing on improving quality and financial capacity toward a healthier market. SSC needs to supervise and enforce compliance of the regulation that requires segregation of the investor's asset and firm's asset by securities firm.

MOF/SSC should regularly check the financial capacity, corporate governance and risk management of securities firms in order to ensure safety of the overall stock market and investors' interests. The regulators should study issues regarding compensation duties, protection of assets and benefits for investors who open trading account at securities firms in case these firms lose liquidity or go bankruptcy.

4. Corporate governance, public disclosure:
Though current legal framework basically regulates public disclosure and corporate governance areas but in practice, many companies do not adhere strictly to these regulations causing difficulties to investors. The Group suggests SSC to boost up supervision, investigation and make strict penalties on violations in order to enhance law enforcements, promote awareness by market participants.

An economic calendar should be published with collective macro indicators from various formal sources such as GSO, SBV, MPI and MOF/SSC…

5. Accounting and Tax issues

The Group supposes that the taxation issues regarding securities activities are more and more becoming a critical topic and the demand of a unified taxation regulation system, specialized for securities activities, is tremendously necessary. Moreover, taxation is also an effective tool for governmental agencies to implement macro policies.

Specifically, for this time the Group suggests MOF/SSC to review the tax regulation on capital gain in transferring shares, capital in public companies (applying 0.1% tax rate on transfer value) and that in joint stock companies who are yet public ones (applying 25% tax rate on capital gain where transferor is a foreign company or 25% of transferor's overall annual profit where transferor is a domestic one). This significant disparity between the capital gain tax rates levied on transfers in public companies compared to private companies does not promote a level playing field in all economic sectors that the Government of Vietnam is striving to create, and it also has the effect of depressing investment and economic activity in the private sector. The Groups has raised this issue to MOF/SSC in previous meetings and in fact we received supports from the governmental agencies; however there are still no changes in practice.

The Group is aware that these issues are new and may be addressed only when the Law of Accounting and Vietnam Accounting Standards are revised accordingly. This may fall into jurisdictions of other governmental departments or even require approval of the National Assembly. Thus, the Group would like to suggest cooperation among governmental bodies in order to co-study, discuss and practice these accounting and tax regulations in Vietnam.