X

Recent Developments and Future Direction

A. Recent Major Developments

Recent major developments are considered those that occurred or have been announced in the Viet Nam market since the first publication of the Viet Nam Bond Market Guide in April 2012.

1. Past Plans in 2007 and 2012

While the most recent decision on the 2017 Roadmap is very comprehensive and includes a concrete process chart for the future, it is only the latest in a series of specific decisions for the securities market development.

As part of its continuous efforts for the development of the securities market, or capital market at large, the Government of Viet Nam issued in 2007 and 2012, respectively, the following:

i. **The Viet Nam Capital Market Outlook, 2007–2020**. Decision No. 128/2007/QD-TTg was passed on 2 August 2007. In this decision, as one of the specific objectives to develop a diversified capital market in order to satisfy the need for capital mobilization and investment by entities in the economy, the securities market capitalization was targeted to reach 50% of GDP by 2010 and 70% by 2020.

ii. **The Strategy for Development of Vietnam's Securities Market, 2011–2020**. Decision No. 252/2012/QD-TTg was passed on 1 March 2012 and, among other objectives, the target GDP ratio of securities market capitalization of 70% by 2020 was maintained. At the same time, a bond market development roadmap through 2020 aimed to deepen the bond market.

2. Development of Hanoi Stock Exchange Reflective of Market Progress

HNX, in particular in its role as the designated trading platform for the government bond market, has evolved in recent years in line with the overall development of the Viet Nam bond market. Some of the more significant milestones in the last 5 years include the following:

i. 2013, launch of the Government Bond Benchmark Yield Curve;
ii. 2015, introduction of E-BTS, with access via Bloomberg;
iii. 2015, addition of short sale, sell and buy back transactions;
iv. 2015, development of government bond indexes;
v. 2016, introduction of E.ABS; and
vi. 2017, launch of the listed derivatives market, including bond futures.

More information on the above developments at HNX can be found in the relevant sections of Chapter IV.

3. Government Bond Market Results in 2016

In recent years, the bond market, particularly the government bond market, has experienced remarkable progress. The developments in 2016 are a good illustration of said progress as the government bond market on HNX set a number of records in 2016, which are described below.

As of 31 December 2016, the total value of listed government bonds reached more than VND930 trillion, an increase of 23.5% year-on-year. At the same time, the 2016 results of government bond auctions in the primary market reached more than VND336 trillion (approximately USD15 billion), an increase of more than one thousand times compared to 2009.

Another success was the continuous maturity extension for government bonds. In 2016, the long-term and ultra-long-term issuances (20 and 30 years, respectively) performed very well. By the end of 2016, the average term of government bonds had reached 8.3 years, bringing the average maturity of the government debt portfolio to 5.6 years; this was 1.2 years longer than the average term at the end of 2015, when it had been 4.4 years.

In 2016, the total government bond trading value hit a record VND1,596.5 trillion (approximately USD65.2 billion), of which the outright trade and repo value reached VND991.2 trillion and VND603.2 trillion, respectively; the average trading session value amounted to VND6.35 trillion per session, an increase of 73.8% compared to 2015.

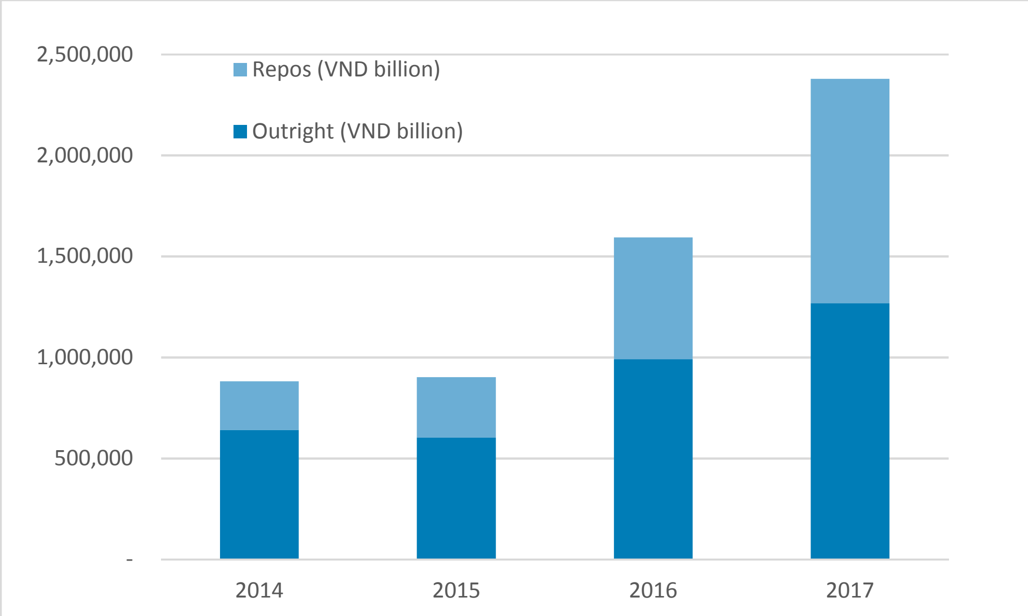
Repo trading also increased significantly. In the past, the repo trading value accounted for only 0.05% of the total market trading value; however, in 2016, repo trading exceeded the outright trading value on a number of days. This showed that market liquidity made good progress and the bond market had developed in depth.

Also, in 2016, along with the sharp decrease of interest rates (the yield for 5-year bonds fell by 175 basis points, from 6.65% to 4.9% per annum), the extension of the maturity meant a lot to the restructuring of government debt toward extending debt repayment, and reducing pressure on the peak of short-term debt and the cost of raising capital.

In 2016, foreign investors showed more interest in the Viet Nam government bond market, which was reflected by the net buying value of VND12.7 trillion, compared to net selling to the tune of VND4.4 trillion in 2015. Foreign investors increased net buying across all tenors, especially after SBV issued Circular No. 06/2016/TT-NHNN, increasing the ratio of government bonds purchasing and investment by foreign bank branches (from 15% to 35%) and state-owned commercial banks (from 15% to 25%).

In 2017, the total government bond trading value hit another record of VND2,380.6 trillion. Total outright trading value amounted to VND1,268 trillion and total repo trading value came to VND1,110.5 trillion, yet again a significant increase from the previous year (Figure 10.1).

Figure 10.1: Government Bond Market Trading Scale, 2014–2017



VND = Vietnamese dong.
Source: Hanoi Stock Exchange-Trading Scale Statistics, 2014–2017.

4. Settlement of Government Bond Transactions via State Bank of Vietnam

Effective August 2017, SBV took over the payment for transactions in government bonds that had previously been handled by a commercial bank. This transfer of the payment role significantly enhanced the risk profile and finality of government bond transactions in the Viet Nam bond market and brought this market segment in line with international best practice.

5. Recent Achievement by Vietnam Securities Depository

Some of the main objectives of the 2017 Roadmap directly relate to VSD's business operations, including (i) the shortening of the time period from bond issuance to bond listing from T+2 in 2016 to T+1 by 2025; (ii) gradually transferring the cash payment function for bond transactions from commercial banks to SBV; and (iii) coordinating with HNX to develop bond derivatives. Please see section B for the full list of bond market development objectives and proposed solutions.

In support of the vision expressed in the roadmap, VSD completed the transfer of the cash payment function for government bond transactions, government- guaranteed bonds, and municipal bonds from the commercial bank to SBV in 2017.[16]

6. Introduction of Market Maker Concept

With the promulgation of Decree No. 95/2018/ND-CP, the Government of Viet Nam formalized the concept of market makers in the Viet Nam bond market. Effective from 2019, banks and securities firms can get accredited as market makers by the MOF, provided they fulfill specified eligibility criteria. Market making will allow privileged access to government bond auctions while requiring the purchasing and placement of

[16] The information is an edited extract from Vietnam Securities Depository. 2017. *Annual Report 2017*. http://vsd.vn/CMSImage/ENGCMSIMG/CKFinderUpload/ANNUAL%20REPORT%202017%20mix.pdf

government bond quantities set by the MOF, and the continuous quoting of prices for government bonds to the market at large. The MOF will evaluate and rank market makers annually and may withdraw the accreditation if certain qualifications are no longer met.

B. Bond Market Development Roadmap Concluded in August 2017

The MOF and SBV published Decision No. 1191/2017/QD-TTg on 14 August 2017. This 2017 Roadmap is intended to guide the path for policy bodies, regulatory authorities, market institutions, and market participants toward the further improvement of the Viet Nam bond market.

Due to the significance of the stated objectives and proposed steps for further development of the Viet Nam bond market, the individual points of the roadmap are listed below for easy reference.

1. Objectives

   a. General objectives

      - developing a stable, fully-structured market with synchronous supply and demand;
      - broadening the investor base;
      - increasing the quantity and quality of market activities, diversifying products, operations;
      - ensuring the transparency and publicity of market operation;
      - making the bond market become an important channel for raising medium- and long-term funds for the economy and protecting the lawful interests of investors; and
      - actively integrating with international markets, step-by-step adopting international standards and best practices.

   b. Specific objectives

      - raising the outstanding volume of the bond market to 45% of GDP in 2020 and about 65% of GDP in 2030; the outstanding amount of government bonds, government-guaranteed bonds, and municipal bonds should be about 38% of GDP in 2020 and about 45% of GDP in 2030; corporate bonds outstanding should be about 7% in 2020 and 20% in 2030'
      - lengthening the average time to maturity of government bonds in domestic market during 2017–2020 to 6–7 years and during 2021–2030 to 7–8 years;
      - raising the daily average trading volume of government bonds, government-guaranteed bonds, and municipal bonds to 1% in 2020 and 2% in 2030; and
      - raising the proportion of government bonds held by insurance companies, the Social Security Fund, pension funds, and other non-bank institutions to 50% in 2020 and 60% in 2030.

   c. Regarding corporate bonds

      - clarify the requirements for issuance and the issuing procedure to not only encourage enterprises to issue bond but also ensure publicity, transparency of the market, and protect investors:

i. separate the requirements, dossiers for public offering of corporate bonds and the requirements, dossiers for public offering of stocks when the Law on Securities is amended to encourage enterprises to do public offering to raise funds; the goal is to require corporate bonds and stock issuers to be credit-rated by at least two qualified CRAs;
ii. check the requirement for private placement of corporate bonds and require disclosure of information, add the requirement that only professional investors are allowed to invest in corporate bonds issued by private placement; require private placement corporate bonds to be centrally registered and listed; and
iii. develop a mechanism to allow enterprises to issue corporate bonds in multiple phases (shelf-registration and/or note issuance program) to raise funds in accordance with the progress of their projects;

- require enterprises, especially large enterprises, to raise medium-term and long-term funds by issuing corporate bonds;
- encourage the diversification of corporate bonds when the market is at a higher stage of development, such as through floating-rate bonds, medium- and long-term bond issuing schemes (shelf-registration and/or note issuance programs), and securitization of home mortgages or collaterals; and
- issue statutes to guide the corporate bond issuance procedures according to market practices in order to train and instruct enterprises in the corporate bond market.

The 2017 Roadmap clearly indicates the government's intention to promote a Shelf-Registration and Note Issuance Program (MTN Program).

2. Solutions

a. Secondary market

- innovate the trading system for government bonds, government-guaranteed bonds, and municipal bonds at the exchange in accordance with the nature of put-through transactions to ensure a prompt and accurate reporting regime to create a benchmark yield curve for the market; increase the accountability of members in the secondary market in terms of transaction reporting;
- require market makers to quote two-way (bid–ask) prices for the standard government bonds benchmark issue to create liquidity for the market;
- VST shall lend bonds to market makers carrying out the obligation of quoting two-way prices for standard bonds to boost market liquidity;
- develop the yield curve and government bond index to support the assessment of the financial return of bond investing;
- draw up the Master Agreement for Repo Transactions to prepare favorable conditions for members to participate in the bond market;
- check and reduce fees relating to registering, listing, depositing and trading in the bond market in line with the nature of bond transactions;
- develop a centralized information center about corporate bonds at the exchanges to supply information about the issuance and trading of corporate bonds; and
- encourage public-offered corporate bonds to be listed on and traded on the exchanges.

b. Develop and diversify the investor base

- Vietnam Social Security: convert all loans to the State Budget to government bonds; invest in the government bonds market through public auctions in accordance with the innovating management of cash flow and VSS's investment method; when the Law on Social Security is amended, the VSS should be allowed to invest in highly-rated corporate bonds (besides deposits and buying banks' bonds);

- promote the establishment and development of the voluntary pension scheme through tax policies not only to attract long-term funds into the bond market but also to diversify the social security system;
- encourage the Deposit Insurance of Vietnam to boost buying and selling bond in both the primary and secondary markets to raise market liquidity;
- allow insurance companies, especially life insurance, to increase the proportion of investing in government bonds, distinguish between investing in credit-rated corporate bonds and investing in not-credit-rated corporate bonds to not only ensure operational safety but also attract long-term funds into the bond market;
- diversify types of investment funds including bond funds and encourage investment funds to invest in government bonds and corporate bonds;
- pilot the issuance of bonds to individual investors to establish a fund-raising channel satisfying the need for safe investments;
- encourage the participation of foreign investors by improving information disclosure, streamlining administrative procedures, checking and revising tax treatments and bond trading fees for foreign investors; study and issue foreign exchange transactions that can hedge against exchange rate risks and encourage foreign institutions to issue globally deposited certificates that are listed in foreign markets, using Viet Nam government bonds as the underlying assets;
- allow credit institutions to keep part of the required reserve in the form of government bonds when amending the Law on State Bank of Vietnam and the Law on Credit Institutions; and
- revise the policies on restricting credit institutions from holding government bonds; revise the government bond holding ratio to be flexible in each period of time in line with different development stages of the bond market and the stability of the financial-money market; if necessary, certain tradable bonds must be eliminated to better reflect the nature of credit institutions' government bonds investment.

c. Develop intermediary institutions and market services

- promote the program of reforming securities companies and fund management companies based on the principles and roadmaps prescribed in Decision No. 252/QD-TTg, dated 1 March 2011, and Decision No. 1826/QD-TTg, dated 6 December 2012, and Decision No. 254/QD-TTg dated 13 March 2013, to enhance the capability of these institutions in participating in the bond market, especially the issuing, trading, and market makers systems;
- issue policies and grant permissions for representatives of bondholders to manage bonds on behalf of investors; evaluate and check the current regulations on the establishment and operation of credit rating agencies and voluntary pension funds to amend and supplement in accordance with market developments and raise operating efficiency of these institutions in the capital and bond market;
- issue government bonds, government-guaranteed bonds, and municipal bonds only through auctions at HNX;
- modernize information technology regarding the issuing, registering, and depositing system for government bonds and government-guaranteed bonds to minimize administrative procedures and reduce the time from issuing to listing from T+2 in 2016 to T+1 in 2020 to increase liquidity of the bond market;
- transfer the bond settlement function—including government bonds, government-guaranteed bonds, and municipal bonds—from a commercial

bank to SBV to promote market development in terms of safety and efficiency, and help the SBV carry out its monetary policies (achieved in 2017); and
- set up the information disclosure system for the issuing and trading of corporate bonds at the exchanges to enhance the development of the corporate bonds market.

d. Other solutions

- strengthen the cooperation between monetary policies and fiscal policies and the connection, balance, and synchrony between the monetary market, credit market, and bond market:
  i. improve information-sharing and managing liquidity in the economy with fiscal policies (incomes, disbursements, and fund-raising for the State Budget) between SBV and the MOF to create a solid foundation for macroeconomic and financial markets development;
  ii. develop a stable money market, build a short-term benchmark rate to boost market liquidity and assist in the development of the bond market; check and revise policies on the limits and prudential ratios of credit institutions to reduce the proportion of lending in total deposits and medium to long-term lending in total short-term deposit and restrict the lending of over 15% of owners' equity of a credit institution to a single borrower to minimize the risk to the banking system, also to redirect fund-raising activities to corporate bonds issuance; and
  iii. check policies on foreign exchange to revise and improve in order to create risk management products, especially foreign exchange risk, to not only attract foreign investors to the bond market but also ensure Viet Nam's foreign exchange management;
- increase interactions with market members and enhance the operational effectiveness of the VBMA;
- organize periodic dialogues, meetings between the MOF, the SBV and market members to exchange information and agree on solutions to develop the bond market;
- conduct training for members and require members to comply with rules and regulations when participating in the bond market;
- encourage the VBMA to improve and issue the standards on market development such as code of conduct, market conventions, corporate bonds issuance guidelines, standard prospectus suitable within the legal framework to unify pricing methods, quoting methods, and trading methods in the secondary market;
- upgrade and improve the portal on bond market at the MOF to enhance publicity and transparency from policies, plans, schedules, and issuance results to enable investors to analyze and seek opportunities for investing in the bond market; and
- actively participate in international and regional programs and cooperation forums such as ASEAN, ASEAN+3, Asia–Europe Meeting, Asia-Pacific Economic Cooperation, and GEMLOC to enhance the connections with regional bond markets and to develop the local bond market.

C. Future Direction

As evidenced by 2017 Roadmap, the policy authorities in Viet Nam have recognized the issues in the government and corporate bond market segments, and have set out the prescriptions for the improvement of the bond market and capital market overall. This section reviews some of the planned or expected developments in the legal and regulatory framework resulting from the roadmap.

1. Forthcoming Amendment or Introduction of Laws to Improve the Legal Framework for the Bond Market

- The Law on Public Debt regarding the risk management of government bonds—to clarify the source of funds to redeem government bonds, municipal bonds as well as the Prime Minister's, Government's, and Minister of Finance's jurisdiction and autonomy in conducting swap and redemption of government bonds to not only manage government debt but also develop the bond market.
- Amendment of the Law on State Bank of Vietnam and the Law on Credit Institutions to allow credit institutions to use government bonds as a part of their reserves.
- Amendment of the Law on Social Insurance to allow VSS to invest in corporate bonds at a certain proportion, apart from deposits and credit institutions' bonds.
- Improve the legal framework to allow the Deposit Insurance of Vietnam to sell government bonds when necessary.
- Amendment to the Law on Securities to clarify the conditions for issuance, registration, depository, and investors holding publicly issued corporate bonds and private placed corporate bonds in terms of adequate information disclosure; all corporate bond should be registered and deposited; holders of private placed corporate bond should be professional investors to protect investors when revising the law.

2. Forthcoming Amendment of Decrees and Circulars for the Bond Market

- Decrees No. 58/2012/ND-CP (amended by No. 60/2015/ND-CP) and No. 90/2011/ND-CP, together with the Law on Securities, constitute the legal and regulatory framework for issuing corporate bonds. Like the Law on Securities, these decrees are expected to be amended soon.
- As part of the significant focus of policy bodies and regulatory authorities to further develop the government bond market in Viet Nam, Decree No. 01,2011/ND-CP is likely going to be replaced by a comprehensive decree soon. The roadmap mentions that a decree be issued to replace Decree No. 01/2011/ND-CP and its guideline documents to create the necessary legal framework for establishing market makers in the secondary market, supporting liquidity for market makers, carrying out operations to restructure the government's debt portfolio, stabilizing and developing the market, and developing new products.
- Circular No. 211/2012 may be amended or abolished in conjunction with the expected amendment of Decree No. 90/2011/ND-CP.

3. ASEAN+3 Multi-Currency Bond Issuance Framework

The introduction of AMBIF in regional markets in the course of 2015 signaled another potential opportunity for bond or note issuance activities in markets other than the original adopters (Hong Kong, China; Japan; Malaysia; the Philippines; Singapore; and Thailand).

Potential issuers have identified Viet Nam as one of the markets of particular interest, largely due to the increased focus on decentralized funding for the support of Vietnamese domestic business operations and joint ventures by ASEAN+3-based corporates.

Aimed particularly at the issuance of corporate bonds to professional investors in participating markets, AMBIF encourages domestic and regional issuers to take advantage of streamlined issuance approval processes across the region. For additional information on AMBIF, kindly refer to the ADB website.[17]

The key advantage of AMBIF for Viet Nam lies in the ability of regional issuers to tap multiple markets in addition to Viet Nam while using the same or similar approval processes. This is seen as offering an alternative for corporate issuers to issue bonds across markets instead of (or in addition to) relying on other forms of funding.

AMBIF prescribes, among other elements, the presence of a professional investor only market segment and the use of documentation in English. With the implementation of specific features stated in the 2017 Roadmap (see also section B), the Viet Nam bond market is likely to feature all of the requirements for the issuance of AMBIF bonds in the near future. Already, the SSC and HNX accept part of the supporting documentation for issuance and listing registrations in English.

[17] See *Implementation of the ASEAN+3 Multi-Currency Bond Issuance Framework: ASEAN+3 Bond Market Forum Sub-Forum 1 Phase 3 Report*, Asian Development Bank, September 2015. https://www.adb.org/publications/implementation-ambif-asean3-bond-market-forum-sf1-p3