IX

Viet Nam Bond Market Challenges and Opportunities

This chapter discusses some of the real and perceived challenges facing the Viet Nam bond market and its participants, and also describes the possible mitigating factors or market developments that could address these challenges in an appropriate manner.

A. Challenges in the Viet Nam Bond Market

1. As Assessed by the Vietnam Bond Market Association

According to an assessment by the VBMA, a number of specific challenges continue to exist in the Viet Nam bond market:

i. limited Institutional Investor base,
ii. insufficient range of financial instruments or products as hedging tools,
iii. very limited universe of potential issuers for corporate bonds,
iv. inconsistencies and gaps in the regulatory framework for the bond market,
v. deficiencies in the offering and issuance process for corporate bonds,
vi. weak disclosure requirements and limited access to key information,
vii. limited regulatory capacity,
viii. limited liquidity and little or no secondary market trading for corporate bonds,
ix. lack of credit agency services,
x. no provisions for the representative of bondholders, and
xi. limited liquidity in the secondary market also affecting repo and securities lending.

These challenges are consistent with typical issues experienced by a smaller bond market as part of its development. Some of the challenges are further explained below. In response, the 2017 Roadmap addresses many of the stated challenges (see Chapter X.B for details).

2. Need for the Repo Market to Be Developed

Among the issues above mentioned by market participants, one is that the repo market has been developed significantly over the past few years but still has room for improvement. Cited as an underlying issue, the liquidity of the government bond market needs to be further enhanced, in order to accommodate a more active market, particularly for repo transactions.

Among the market feedback, the specific items mentioned include the need to (i) establish a legal and accounting framework conducive for repo, including a common interpretation of the applicable tax treatment; (ii) improve the trading system for repos to better facilitate transactions; (iii) improve the clearing and settlement system and practices for government securities; and (iv) further improve the primary dealer system and its role in the repo market.

Some of the challenges listed have already been identified by policy bodies and regulatory authorities, and are expected to be addressed under the bond market roadmap.

3. Small Market's Listing Scale and Limited Bond Types and Issuers

The listing scale (actual size per bond issuance) of each particular bond type is still limited, which results in difficulties for investors in choosing bond types and issuer names to trade. Hence, the whole bond market's listing scale should be increased.

4. Imbalance in Bond Maturity Terms

In recent years, the government has been increasing the number and types of issues of super-long bonds to improve the government bond market. At the same time, an imbalance in the maturity terms for new government bonds issued in the primary market can still be observed.

The average maturity of government bonds increased from 2.8 years at the end of 2013 to 5.0 years at the end of June 2016, as the government has been targeting long-term investors such as insurance companies and pension funds. On the other hand, the government has reduced the issuance of bonds with shorter maturities. At the same time, about 80% of bonds are still held by banks which prefer government bonds with shorter maturities. This continuous demand and more limited supply in shorter-term instruments creates a shortage at the shorter-maturity end of the market. However, it is expected that the government will continue to pursue its focus on longer-term investors to expand their share and balance the issuance volume across all maturities.

5. Insufficient Regulatory Framework for Private Placements

In the corporate bond market, except for a few issues listed on HNX and HOSE, a significant portion is considered to be issued via private placement. Despite an obligation to report issuances to the MOF, it is not easy to grasp the outstanding balance in the market since there is no official registration or a deposit obligation with VSD for privately placed corporate bonds. Once issued, it is difficult to obtain information on issuing companies, their issuances, issue price, coupon rate, and so on. As a result, there is almost no secondary market.

Despite mentions of Institutional Investors and private placements in existing regulations, the regulatory framework is also currently insufficient to allow a flourishing of the private placement market, including a professional investors only market. One key issue is that the current regulations do not distinguish between institutional securities investors and professional investors. Even private placement bonds issued for professionals can be sold to nonprofessional investors such as individuals. Since sale and resale restrictions are not legally maintained, problems remain from the perspective of investor protection.

Also, as there are no CRAs in the country, many corporate bonds do not get a credit rating. This point becomes a big issue as the issuance of corporate bonds develops further and the secondary market is developed.

The 2017 Roadmap provides for specific prescriptions for a professional market and issuance of private placements to replace existing regulations soon. As clearly stated in the roadmap, private placement bonds should be listed on the exchange (as profile listing) and produce a specified amount of disclosure information, and the securities should be registered in VSD. The proper announcement of planned issuances is also expected to be mandated.

Please also see Chapter X for a glimpse at the proposed development steps contained in the roadmap.

6. Language of Issuance Documentation

In the near future, in order to share common market practices and standards with the professional bond markets in other ASEAN countries, the use of English for disclosure documents should be allowed in the private placement market for professional investors in Viet Nam (please also refer to Chapter III.G).

B. Opportunities in the Viet Nam Bond Market

To address some of the challenges mentioned in the previous section, a number of the planned and envisaged developments in the Viet Nam bond and securities markets are reviewed in this section.

1. Roadmap for the Development of the Viet Nam Bond Market

The Prime Minister signed Decision No. 1191/2017/QD-TTg on Approving the Bond Market Development Roadmap, 2017–2020 and Vision Toward 2030 on 14 August 2017. This roadmap laid out in specific detail objectives and planned activities for the bond market in Viet Nam, while committing policy bodies, regulatory authorities, and market institutions to changes to the legal and regulatory framework, processes, and market practices. Many of the objectives in the roadmap clearly take note of the existing challenges in the Viet Nam bond market (also see section A) and, hence, these challenges are expected to be addressed in the near future.

Please see Chapter X.B for a comprehensive review of the stated objectives and planned solutions contained in the roadmap.

2. ASEAN+3 Multi-Currency Bond Issuance Framework

For more detailed information on AMBIF, please refer to section C.3 in Chapter X.

3. Merger of Hochiminh Stock Exchange and Hanoi Stock Exchange

The two stock exchanges in Viet Nam are expected to be merged in 2018. According to the plan to merge HOSE and HNX, the merger will result in the Vietnam Stock Exchange, headquartered in Ha Noi. All shares listed on HNX will be moved to HOSE, while the bonds and derivative market will be located in Ha Noi. After the merger, the government will keep its 100% stake in the Vietnam Stock Exchange.

The merger is expected to simplify and significantly boost listing and trading activities in the exchange bond market.