

Overview

A. Introduction

The Viet Nam bond market has seen significant changes and steady progress over the past 10 years. It exhibits notable maturity among the developing countries of the Mekong River basin. Viet Nam's bond market size reached 20% of gross domestic product (GDP) in 2014, reflecting its impressive development.

In comparison with other Association of Southeast Asian (ASEAN) members, the bond market of Viet Nam as a share of GDP is still far below that of Thailand (70%) and still trails that of the Philippines (30%); at the same time, it exceeds the relative market size of Indonesia's bond market at 10% of GDP.

In Viet Nam, government bonds dominate the debt market, followed by corporate bonds, government-guaranteed bonds, and then municipal bonds. Government bill and bond maturities vary from less than 1 year to 30 years. Corporate bonds and convertible bonds have been issued in the market since 2005 and 2006, respectively.

Public sector bonds are typically purchased at auction by insurance companies, banks, and individuals, and are held until maturity. In addition to auction, government bonds are also issued via underwriting conducted by the issuers themselves. A number of licensed securities companies are authorized to provide a full range of securities services including underwriting, brokerage, advisory, portfolio management, and trading.

Viet Nam's bond and capital markets have improved significantly as the government continues to initiate reforms and pass enabling legislation. Local government bonds—denominated in both Vietnamese dong and United States dollars—are issued in large lots, while streamlined procedures continue to ease corporate bond issuance.

In August 2017, Viet Nam published the Decision Approving the Roadmap for Developing the Bond Market, 2017–2020 and Vision Toward 2030 (see also section B). Among the medium- and long-term development objectives contained in the roadmap is to focus on the development of the government securities market, as well as the corporate bond market, in line with development of the state economy.

Since the Viet Nam bond market generates a lot of interest from potential market participants in ASEAN+3 and abroad, a brief review of milestones in the market's development since its creation in 2000 is provided in the next section.

B. Market Development Milestones

1. 2000–2009: Early Stage of the Viet Nam Bond Market Development

When the Viet Nam securities market started in 2000 with the opening of the Ho Chi Minh City Securities Trading Center (HoSTC), government bonds were the only major products listed for trading on the market.

In 2003, Decree No. 144/2003/ND-CP 28/11/2003 on Securities Market and Securities Companies was enacted, providing a regulatory framework for the new securities market. In September of the same year, the State Securities Commission (SSC), in close partnership with the Asian Development Bank (ADB), issued the 10-Year Capital Market Roadmap to Build Sophisticated Capital Markets in Viet Nam, with the development of the bond market as one of its key aims. The roadmap was implemented in phases: Phase 1 was implemented through 2006, Phase II from 2007 to 2009, and Phase III from 2010 to 2012. The outline of the roadmap and activities in the individual phases can be found on the ADB website. Since then, Viet Nam's bond market has developed significantly as the government continues to initiate reforms and pass enabling legislation.

In 2004, the SSC—established in 1996—was placed under the jurisdiction of the Ministry of Finance (MOF). In the same year, the Vietnam Association of Securities Business (VASB) was formed.

March 2005 saw the commencement of trading on the Hanoi Securities Trading Center (HASTC). In addition, the government's first international bond issuance in October 2005 was a resounding success when Viet Nam launched its maiden sovereign bond issue (denominated in US dollars) and the proceeds from the sovereign bond were used to finance key refinery, power, and cargo ship projects. The government's second and third international bonds were issued in 2010 and 2014, respectively. Since 2005, local government bonds denominated in both Vietnamese dong and US dollars have been issued in large lots. Also in 2005, corporate bond issuance was conditionally accepted by the government.

Before 2006, government bonds were issued via auction at both HASTC and HoSTC. Since 2006, in accordance with Decision No. 2276/QD-BTC of the MOF on the Centralization of Bidding on Government Bonds, all government bond issuance via auction has been exclusively conducted by HASTC, which changed its name to the Hanoi Stock Exchange (HNX) in June 2009.

In July 2006, the Vietnam Securities Depository (VSD) commenced operation. In the same year, the Vietnam Bond Market Forum (VBMF) was created; it was upgraded to the Vietnam Bond Market Association (VBMA) in 2009.

In May 2006, Decree No. 52/2006/ND-CP on Issuance of Enterprise Bonds for the Issuance of Private Placement Bonds (Separate Issuance) came into effect. According to this decree, a preliminary examination of the issuance proposal and an approval by the regulatory authority was not necessary at the time of issuance, and the issuer was obliged only to report to the MOF within 15 days after issuance. As a result, not only state-owned enterprises but also private enterprises were issuing private placement bonds.

In January 2007, the Law on Securities was promulgated, replacing the 2003 Decree on Securities Market and Securities Companies. In August of the same year, the HoSTC changed its name to the Hochiminh Stock Exchange (HOSE).

In February 2009, the government issued the first USD-denominated government bonds to domestic investors to attract domestic savings. Prior to 2009, government bonds were allowed to be listed and traded on both HOSE and HASTC. From September 2009, government bonds were exclusively listed and traded on HNX. This change was made in accordance with Decision No. 86/QD-BTC on the Approval of the Plan on Building a Specialized Government Bond Market, wherein HNX was assigned as the only organizer of the secondary market for government bonds in Viet Nam.

Also in 2009, HNX created the Unlisted Public Company Market and established an electronic bond trading system for government bonds. The new system was built with a transaction model suitable for the government bond market in Viet Nam. The new trading platform was also able to publish basic public-bond-related information (e.g., issuers, exchange members, prices, schedules, and settlement). It also allowed the identification of repurchase (repo) transactions for the first time. This helped enhance transparency and increase liquidity in the government bond market. Securities companies and commercial banks were also able to trade directly on this platform, with bonds being deposited at VSD.

2. 2010–2017: Steady Progress in Market Development

Before 2010, government bonds were issued by two agencies, the State Treasury (VST), which is one of the professional and specialized ministerial units in the MOF, and the Vietnam Development Bank (VDB). Under the new electronic-bond-trading system, from 2010 onward, the VST was authorized by the government to carry out government bond issuance as the sole issuing agency, also providing HNX with early notice on plans for capital mobilization, as well as quarterly and annual reports. In addition, the VDB and two other institutions, the Vietnam Bank for Social Policy (VBSP) and the Vietnam Expressway Corporation (VEC), became significant issuers of quasi-government, or government-guaranteed, bonds.

The new Law on Credit Institutions (No. 47/2010/QH12) was enacted in June 2010, which introduced a single borrower limit to avoid the concentration of credit. Corporate bond ownership and investment by banks were deemed to be equivalent to loans granted by banks, and the total credit amount extended to a single borrower was not to exceed 15% of the bank's capital, or 25% when including all extensions of credit to related parties.

In December 2010, a state-owned enterprise offered to postpone the repayment of its private placement bonds but was refused by the creditor. Ever since that instance, the market for private placements in Viet Nam has remained inactive. In response, the government promulgated Decree No. 90/2011/ND-CP in October 2011, which covered the issuance of private placement corporate bonds. The decree made it mandatory to submit bond issuance plans, including business information on and the financial conditions of the issuer, to be approved by the supervisory and/or regulatory authority of the issuer as a prerequisite for issuing private placement bonds. As a result, the information disclosure obligation for private placements was strengthened, particularly for state-owned enterprises (SOEs).

In 2011, the revised Law on Securities was promulgated. In 2012, HNX introduced the Electronic Bidding System for public bonds.

In 2013, the MOF set a target ratio of government bonds outstanding to GDP of 38%, to be achieved by 2020. In March of that year, HNX upgraded its information and trading system and launched the Government Bond Benchmark Yield Curve in order to provide a highly exact bond benchmark yield curve to the market, which would help investors make better investment decisions. The so-called G-bond yield curve has

become an important indicator in the government bond market with an initial maximum maturity of up to 15 years; the curve was lengthened to 20 years in 2015.

In September 2014, HNX signed a memorandum of understanding with Bloomberg to launch an electronic bond trading system, allowing HNX to connect its infrastructure to the international information system of Bloomberg, which would allow institutions to trade on the Bloomberg system and send the trading results to HNX's government bond trading system. The connection was yet to be in place in 2018.

The Electronic Bond Trading System (E-BTS) officially went live in June 2015 to enable domestic and foreign investors to easily access and join the government bond market. E-BTS was web-based and offered a complete version of the HNX trading platform, with a full range of trading products, utilities, and trading data.

Earlier that year, HNX introduced a set of so-called G-Bond indexes, consisting of a composite index, and 2-year, 3-year, and 5-year variations; these indexes for the government bond market were aimed at measuring the development of the local government bond market. The indexes helped enhance transparency and assist local and international investors in making bond transaction decisions.

Also in 2015, the HNX system was enhanced to issue and trade longer- and shorter-coupon bonds and zero-coupon bonds, and to accommodate one additional noncompetitive bidding session for any issue; this had been requested by issuers in case market demand for such an issue was still available and the issuer was still interested to fulfill funding needs.

In June 2016, HNX introduced the web-based automatic bidding system (E.ABS) in its effort to improve primary market access and broaden the investor base of the government bond market. E.ABS allows for members' flexible participation in the bidding process, reduces the length of bidding time, and applies lower brokerage fees.

In August 2017, the listed derivatives market was officially launched on HNX and four VN30 Index futures contracts were listed. The VN30 Index tracks the performance of the 30 largest companies on HOSE by market capitalization. The launch of a 5-year G-bond futures contract is planned but not yet effective. The derivatives market was intended to complement the capital market at large in Viet Nam, helping to improve the investor base and attract more foreign institutional investors in order to promote liquidity in the underlying market. To trade derivatives, seven securities companies were approved to become members of the Derivatives Market of HNX and connect with its derivatives trading system.

To date, corporate bonds are listed and traded in the stock trading system on both HOSE and HNX. Due to there being only a handful of listed corporate bonds, almost all corporate bonds are held by investors through transactions in the over-the-counter (OTC) market.

C. Conversion of State-Owned Enterprises and Strengthening of Disclosure Information

1. Conversion of State-Owned Enterprises

In Viet Nam, the conversion of SOEs into shareholding companies with stock certificates started in 1992. This development was the real beginning of the securities (or capital) market in Viet Nam.

Article 166 of the Law on Enterprises (No. 60-2005-QH11), promulgated in July 2006, set the obligation to transfer SOEs to a limited liability company or a shareholding company within 4 years.

In addition, between 2007 and 2010, the government planned to convert 900 out of 1,500 SOEs to shareholding companies. However, due to a sluggish stock market and the slowdown of the domestic economy after 2008, the conversion of SOEs into shareholding companies progressed slowly. Eventually, many SOEs were converted into so-called "limited liability companies with one member," with the government as the sole owner.

Viet Nam aims to enter the ranks of upper-middle-income countries by 2035. Part of the efforts toward this goal was the privatization of SOEs; hence, the government announced in December 2011 policies regarding the about 1,300 SOEs that existed at the time to (i) reduce the number of SOEs to 692 companies, and (ii) by 2015, convert 573 SOEs into shareholding companies. However, the conversion of SOEs has not always been successful.

2. Unique Definition of Public Company and Large-Scale Public Company

The Law on Securities carries a unique definition of a "public company" in Viet Nam. Under the law, companies with more than 100 shareholders will become public companies even if their shares are not listed on an exchange. According to Article 25 of the law, a public company means a shareholding company which belongs to one of the following three categories:

- i. a company which has made a public offer of shares;
- ii. a company which has shares listed on a securities exchange or a securities trading center;
- iii. a company which has shares owned by at least [100] investors excluding professional (institutional) securities investors, and which has paid-up charter capital of VND10 billion or more.

At the same time, Circular No. 52/2012/TT-BTC stipulates the unique definition of a "large-scale public company" in Viet Nam. In summary, it refers to a public company with paid-up charter capital of VND120 billion or more, and with no less than 300 shareholders, in accordance with the list announced by the SSC.

3. Strengthening of Disclosure Information of Public Companies and Large-Scale Public Companies

The Law on Securities imposes on public companies (see previous section) periodical disclosure requirements. Also, pursuant to Circular No. 52/2012/TT-BTC and Circular No. 155/2015/TT-BTC, the same level of rigid information disclosure is imposed on both listed enterprises and large-scale public companies.

According to the law, public companies must periodically disclose information about any one or a number of the following matters: its annual financial statements audited and its biannual financial statements, verified by an independent auditing organization or an approved auditing organization, and its quarterly financial statements, among other information.

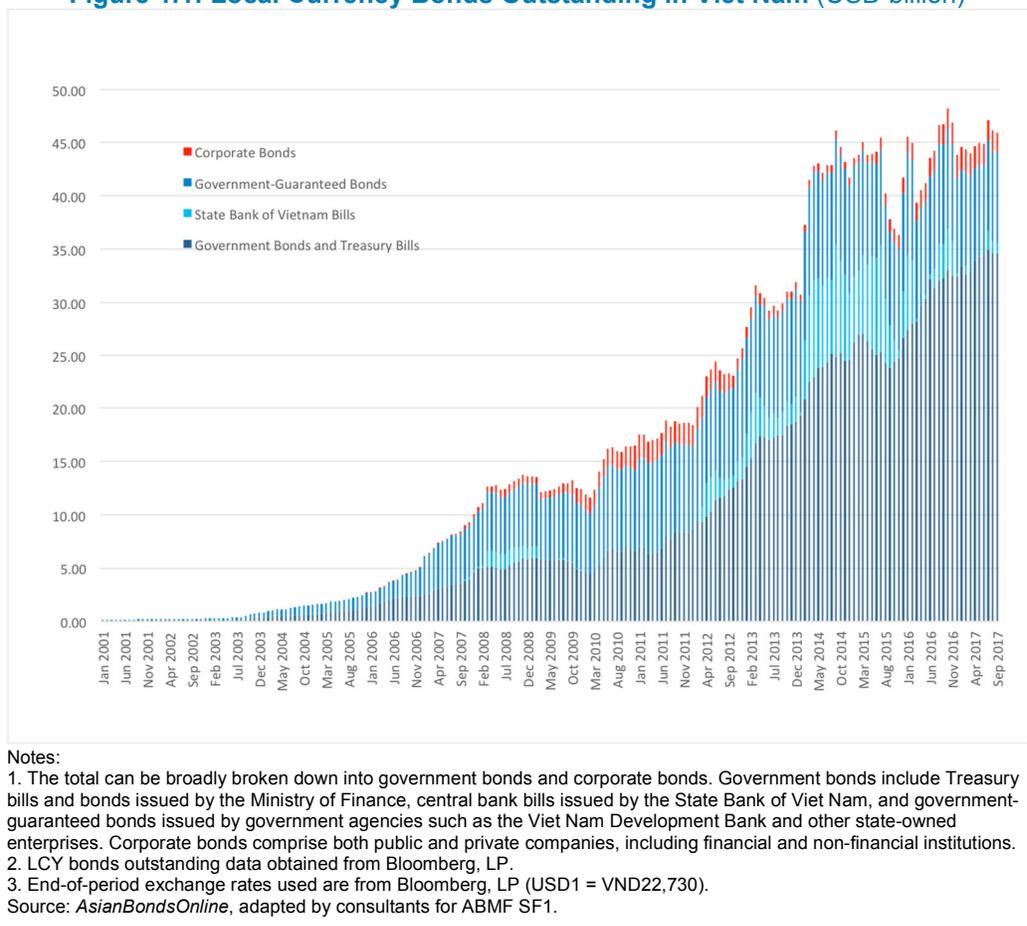
Similarly, the circulars stipulate that a listed organization or a large-scale public company must disclose information about its annual financial statements already audited by an approved auditing organization. In addition, a listed organization or a large-scale public company must prepare and disclose information, such as its semi-

annual financial statements (for the first 6 months of a financial year), which have been verified by an approved auditing organization in accordance with the auditing standards, within 5 working days from the date on which the approved auditing organization signs the verification report. The listed organization or large-scale public company must also disclose its quarterly financial statement or the reviewed quarterly financial statement, if so available.

D. Current Viet Nam Bond Market Overview

The Viet Nam bond market consists of two market segments: the OTC market and the exchange market. Traditionally, most bonds were traded in the OTC market bilaterally by phone or some other measure. However, in recent years, the proportion of the exchange market has been growing. More than 90% of all bonds issued in Viet Nam are government-sector bonds (Figure 1).

Figure 1.1: Local Currency Bonds Outstanding in Viet Nam (USD billion)



Corporate bonds listed on HNX and HOSE are traded on these two exchanges, although trading volumes and values are still very small compared with those of unlisted bonds. Unlisted corporate bonds are traded in the OTC market.

Government bonds—comprising central government bonds, government-guaranteed bonds, and municipal bonds—and foreign-currency-denominated bonds are listed and traded in the specialized government bond market, which is operated by HNX.

All government bond trading is done via HNX's electronic bond system, through the following methods: as an electronic order, a request for quote order, and the put-through method. More than 90% of bond trading is done via the put-through method, where the trading counterparties agree on a trade outside the exchange, then capture trade details into the exchange system for electronic trade matching.

At the same time, bond ownership transfers are not valid unless bond transactions are recorded on HNX's electronic bond system and settled at VSD.

VSD is the central securities depository for all bonds listed on HNX and HOSE. All bond transactions are settled in VSD. Cash settlement for government bond transactions has been implemented via SBV, the central bank of Viet Nam, since 1 August 2017. BIDV had been designated as the only cash settlement bank in the Viet Nam bond market before August 2017.

E. Roadmap for Developing the Bond Market, 2017–2020 and Vision Toward 2030

With the Roadmap for Developing the Bond Market, 2017–2020 formally adopted in Decision No. 1191/QĐ-TTg in August 2017 (henceforth, the 2017 Roadmap), the MOF and the SBV set the stage for a significant revamp of the country's bond market over the next few years. The decision states that, in the next 3 years, the policy framework for the bond market will be further improved while the primary and secondary markets, intermediary institutions, and market services will be developed further. Key among the initiatives contained in the roadmap is the goal to increase the size of the existing bond market to 45% of GDP in 2020 and to 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% of GDP in 2020 and 20% in 2030.

In summary, the roadmap aims to establish and develop the bond market in line with the development of the economy and in sync with other components of the financial markets including the interbank money-credit market. Its objectives include developing the bond market both in breadth and in depth, ensuring systemic safety, following international standards and best practices, modernizing the bond market's infrastructure to enhance fund-raising capabilities, and allowing the bond market to become an important channel for the raising of medium- and long-term funds with reasonable costs. Among the initiatives, developing the government bond market will be the priority and the foundation for the development of the bond market, boosting the development of the corporate bond market to support enterprises in raising funds (especially medium- and long-term funds), and helping to enhance corporate management and information disclosure. Overall, developments are expected to enhance and ensure the transparency and publicity of information, protecting the lawful interests of market participants.

A detailed list of individual objectives and proposed solutions contained in the roadmap is provided in Chapter X.B.

F. Regional and Global Cooperation

1. Cooperation under the ASEAN Integration Framework

In addition to their contribution to ASEAN Economic Community plans, Viet Nam's policy bodies and regulatory authorities participate in a range of ASEAN and ASEAN+3 initiatives for the bond (or securities) market.

These initiatives include the ASEAN+3 Bond Market Forum (ABMF), a platform for dialogue between public and private sector stakeholders, which focuses on the development of the local currency bond markets in the region through both regulatory initiatives and standardization or harmonization of market practices. HNX, VBMA, and VSD are member institutions of ABMF.

The ASEAN Capital Markets Forum (ACMF), made up of the region's regulatory and supervisory authorities for the capital market, has been working on a number of regional policy initiatives, recently summarized in the ACMF Vision 2025.

Among these initiatives, the ACMF Action Plan, 2016–2020 contains the ACMF Market Development Program, which will be a common platform to coordinate capacity building programs and efforts to optimize resources and avoid duplication of programs, with a particular focus on the so-called CLMV economies (Cambodia, the Lao People's Democratic Republic, Myanmar, and Viet Nam). ADB is a partner with ACMF in these efforts.

2. ASEAN Exchanges Chief Executive Officers' Meeting

In October 2016, the 25th ASEAN Exchanges Chief Executive Officers' Meeting was convened in Ha Noi, which marked the second time HNX had hosted the event. The meeting gathered together officials from 10 stock exchanges representing 9 ASEAN countries. ASEAN exchanges have managed to implement practical collaboration activities such as joint promotion programs and the networking of brokers and listed companies in ASEAN markets. In the same month, the 3rd ASEAN Broker Networking event was successfully held by HNX, with the participation of 137 delegates from 42 Vietnamese brokers and 33 firms in the ASEAN region. The event set up 70 bilateral meetings among ASEAN and Vietnamese brokers to assist them in understanding the ASEAN investment environment and in exploring cooperation opportunities.

3. United Nations Sustainable Stock Exchanges Initiative

On 18 May 2015, HOSE and HNX joined the United Nations Sustainable Stock Exchanges initiative as part of its regional dialogue in Bangkok hosted by the Stock Exchange of Thailand.