

On Links Between Stock Markets when Vietnam Becomes a WTO Member

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On July 27, 2004, the Vietnamese PM signed the agreement on the link between Vietnamese and Singaporean finance markets comprising four principal contents:

- Building by degrees the link between HCMC Stock Trading Center and Singapore Stock Exchange (SGX)

- Listing Vietnamese companies on the SGX
- Developing the market for futures
- Training personnel for Capital and finance markets

The establishment of this link will be favorable because the Vietnamese government bonds (issued on Oct. 27, 2005 on the NYSE) has been listed and traded on the SGX.

Vietnamese companies will meet with the following problems when having their shares listed on the SGX:

- + The legal infrastructure is not standardized according to international practices: The Securities Bill approved by the NA only regulates transactions on the Vietnamese stock market and it fails to mention acts of listing and trading when the Stock markets are linked.

- + The Vietnamese economy is in its first stage of development, the stock market is very small in comparison with neighboring counterparts. Up to December 2005, the total capitalized value of the stock market equaled only 6.9% of the GDP.

- + The economy is slow to become open, ability of companies to mobilize domestic sources of capital is poor.

- + Facilities for the stock markets are limited.
- + Transparency of information disclosure is not ensured.

- + Ability of local investors to get aware of market situation and to make big investment is limited.

1. Model of bilateral link between Vietnamese and Singaporean stock markets

Based on the said agreement, the model of bilateral link between stock markets in Vietnam and Singapore is like the one between Singapore and Australia and operates according to Vietnamese regulations.

Figure 1: Model of bilateral link

Parties engaging in the link between VSE and SGX are as follows:

- VSE securities trading members companies
- SGX securities trading member companies
- VSE trading engine
- SGX trading engine
- Vietnamese Securities Depository (VSD)
- Singaporean Central Securities Depository (CDP)

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- SGX brokers
- VSE brokers
- BrokerLink partners

All transactions by Vietnamese investors relating to shares listed in the SGX or by Singaporean investors relating to shares listed in the VSE are carried out by BrokerLink and brokers in the two markets.

At present, the Securities Bill comprises 11 chapters and 136 articles. It doesn't mention the link between stock markets. It only makes a passing reference to the listing of local shares on foreign stock exchanges but set no clear regulations. To make this model feasible, relevant authorities must study the following aspects:

a. Building legal infrastructure and facilities for operations of VSE and SGX brokers: In the model, VSE brokers will play an important role in trading in shares listed on the VSE and the SGX by both local and foreign investors. The Securities Commission could keep the number of brokers to the size of linked stock market or volume traded.

b. Role and duties of VSE brokers: VSE brokers operates as securities trading member companies according to Decree 144/2003/ NN-CP. They are intermediaries between investors, BrokerLink partners, and VSE and SGX trading engines.

c. Trading routine: Regulations on trading routine is regulated by Circular 58/2004/TT-BTC given on June 17, 2004 by the Ministry of Finance. This circular sets standards of trading unit, trading mode, trading time and time zones. In the first leg of the linking tract, Vietnam will adjust the trading time based on working time of local companies, because the difference between Vietnamese and Singaporean time zones is only an hour.

d. Limits on ownership by foreign investors: In Singapore, limits on ownership by foreign individuals and investors are controlled by listed companies instead of the SGX. Investors who violate these limits could face confiscation of their shares. The Securities Bill must set clear limits on the percentage of shares held by foreign investors when engaging in linked trading. This percentage, for the time being, must be lower than limits set by Decision 238/2005/QĐ-TTg dated Sep. 29, 2005 that wanted to prevent acquisition and merger of local companies.

e. Depositing and clearing in linked trading: In Vietnam, deposit of listed Vietnamese and Singaporean shares could be made with VSD or Singaporean CDP or their trading member companies.

f. Tax on stock trading: At present, Singapore imposes no tax on dividends. From 2005 on, in-

comes from abroad received by Singaporean citizens at home enjoy tax exemption or reduction. Individual investors pay marginal tax rates corresponding to income. Thus, foreign investors who invest on shares in Vietnam through linked trading will have to pay tax to Vietnamese authorities. In this first stage, Vietnam had better give progressive exemption or reduction like Singaporean one, or ensure it for Singaporean investors.

g. Currencies used for linked trading: Singaporean shares that have their face value in the Singaporean dollar will be paid in that currencies regardless of markets where investors do their transaction and vice versa. The two markets will agree upon the exchange rate. Transactions in the VSE will be based on the rate set by the SBV at the time of transaction or the rate agreed upon with partner BrokerLink.

The ADB is studying a common Asian currency (ACU) based on the average value of hard currencies used in China, South Korea, Japan and ASEAN countries. The introduction of the ACU will facilitate transactions between the VSE and SGX.

h. Exchange control:

- As for foreign investors in Vietnam: According to Vietnamese laws and regulations, they must trust their money to, and do business through, VSE brokers who will open and operate through accounts in qualified banks. To help foreign investors do their business easier, the authorities had better allow more banks to offer this service (at present, only two state-owned commercial banks and three branches of foreign banks are allowed to do so).

- As for Vietnamese investors in Singapore: Vietnamese laws on exchange control offer no rules on overseas indirect investment by Vietnamese individuals and organizations. Thus, they must open accounts in qualified banks to transfer money abroad and turn it into indirect investments. Relevant authorities should work out necessary regulations in order to make the linked trading easier.

i. Supervision of the market: The Securities Commission must adjust Vietnamese laws to international practices in order to help Vietnam cooperate with international investigation agencies, exchange information and enforce the law against violations by both local and foreign investors. In addition, the Commission had better establish a mechanism for exchanging information between members of the stock market.■

