

One of challenges to the Vietnam's stock market establishment and development is to set up stock companies. At present, the country is in the course of giving birth to stock companies - one of the stock market components, but the speed is still slow.

The legal framework for the establishment, organization and business operation of Vietnam's stock companies has been built by the Government's Decree 48/1998/NĐ-CP on securities and the stock market and the State Security Commission - SSC's documents concerning stock companies.

The world is facing two forms of stock companies:

- Specialized companies: deal in only securities. To these companies, goods are securities, so

that their technology is so high, they have more advantages in stock analysis and put forward profitable investment solutions and they take the initiative in finding stock investment capital.

- Multi-purpose companies: deal in securities and provide financial and banking services. They will thus have more advantages in providing general services, and exploring customers and investors, so they may reduce risks and increase their ability to survive volatilities in the stock market. However, this form has a shortcoming that it cannot make the stock market grow well because the major work of a bank is to borrow and lend money to gain interests but not to invest in securities. Moreover, the stock market changes surely have impacts on the bank's op-

erations, payment capability and the public.

According to the Government Decree 48/CP, stock companies include joint stock and limited liability companies licensed by the SSC to engage in one or some forms of stock business. The Government permits and encourages credit institutions, insurance firms and corporations to set up their independent stock companies. Foreign stock dealers shall establish stock joint venture companies with Vietnamese partners in compliance with the SSC's license.

Stock companies implement an important part in the stock market, especially in Vietnam, they become indispensable to spur the stock market sustainable development.

According to regulations of the stock market in our countries and others,

the stock transaction center's members are stock companies and only these members are allowed to operate at the transaction centers. The stock companies will undertake the role as links between investors and those persons in need of capital and as channels for capital flow from the surplus area to the shortage one in the economy. They may be market makers or investors via their stock trading. In addition, they may provide necessary services to the stock market such as advising stock investments, managing investment portfolios, underwriting stock issues and generating confidence to parties in the market.

In Vietnam, the stock companies are allowed to involve in some forms of business such as brokerage, trading, managing investment portfolios, underwriting stock issues and advising stock investments. The stock companies' operational principles are as follows:

- Making honest and fair transactions for customers' benefits.

- Doing business skillfully, zealously and responsibly.

- Implementing customers' requests prior to the company's.

- Guaranteeing finance

## VIETNAM'S CURRENT PROCESS OF SETTING UP STOCK COMPANIES

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in line with the stock business commitments to customers.

- Organizing and implementing inspection and internal supervision to bring the company and its staff's operations in compliance with law.

- Having a staff including qualified stock dealers.

- Not making customers mistake prices, values and natures of securities or other activities causing losses to customers.

The stock company operates in the primary market by underwriting stock issues.

To issue stocks to the public, the issuing organization should have the underwriting of one or some agents such as stock companies if the issuer is a small company or a large one which issues a great quantity of securities.

According to the circular 01/1998/TT-UBCK on issuing stocks and bonds to the public, the issue underwriting is implemented in two forms:

- Buying the whole number of stocks and bonds to be issued and sell them to the public.

- Buying the residual stocks which is not bought by the public.

The prescribed capital of an underwriting organization shall be VND22 billion.

In the secondary market, the stock company may engage in such activities as stock brokerage, which is the major business of the stock company and its prescribed capital shall be VND3 billion. The company will carry out stock trading orders at customers' requests. The prices will be determined by comparisons in public auctions. As a result, the stock price is derived from the supply-demand relation between investors and stock dealers. The company will earn commissions based on the number of transferred stocks.

The prescribed capital

for stock trading companies is set at VND12 billion. They will operate at the stock transaction center by analyzing stocks. The analysis will be done at the company's research and analysis department or on the spot. This therefore requires high skill in stock assessment.

At the same time, the stock company may be the manager of stock investment portfolios. The portfolio management is to manage the customer's capital through dealing in and preserving stocks for the customer's benefits. The prescribed capital for this business is regulated at VND3 billion. The portfolio management is the dynamic and continuous process, first the company has to specify the customer's targets, mainly clarifying the level of risks which is acceptable to the investor and reasonably desired profits, then it will devise the strategies in line with the targets, monitor the market and keep attached to the investor's conditions, and may adjust the investment list if need be.

One of important services of the stock company is to advise stock investments. The stock investment consultation includes analyses, recommendations and announcements concerning securities. This business shall require a prescribed capital of VND3 billion. To implement this work, the stock company has to establish a department for stock research and analysis. There are two methods to analyze securities: the fundamental analysis depends on operational indicators of a company with the aim to decide on the time of buying or selling particular securities and the technical analysis pays attention to price fluctuations and the volume of securities which were transferred in the past with a view to predicting the trend and prices of stocks

in the future.

On March 27, 1999, the SSC chairman promulgated the Regulations on Stock Depository, Clearing and Registration, ruling that: The stock company is one of domestic depository members, certainly licensed by the SSC for stock depository if it has been permitted to do one of such businesses as brokerage, trading, stock underwriting or investment portfolio management. The stock company permitted for stock depository will provide services of stock depository, clearing and registration at the stock transaction center for local organizations and individuals.

If the depositor is a company, the stock company will be authorized to carry out stock depository, clearing and registration.

As mentioned above, we see the stock companies play an important role in the stock market's establishment and operation. The stock market cannot take place without them.

At present, the stock company establishment has encountered not a few subjective and objective obstacles. Some companies and banks have just finished initial procedures of setting up their stock companies. Others are still cautious and hesitant. They want to examine the facts carefully and then decide on joining. Some banks in Vietnam have expressed their interests in the new form of business and prepared to make an application for setting up their stock companies. They include Vietnam Bank for Foreign Trade, Bank for Investment and Development, Bank for Agriculture and Rural Development, Asian Commercial Joint Stock Bank, Maritime Commercial Joint Stock Bank, Saigon Industrial and Commercial Bank and so on.

Nevertheless, they remain reluctant to set up

stock companies because they lack experienced workers in stock management and business. Although their workers have been trained over the past but the training was interrupted, their ability is not even and they have no experience in this business. As a result, they obviously face troubles when entering the market.

The specification of the stock market's model, size and capability cannot yet be realized because the Vietnam's stock market has not yet operated. In addition, the market performance should be an interesting issue in the future because securities and the stock market are still unfamiliar to Vietnamese. However, when entering the market, an enterprise will earmark a large amount of its capital for this business because as regulated, its prescribed capital for the business shall be VND43 billion at least. As a result of this, enterprises have to consider if they should make direct involvements in stock trading or in the form suitable to their capability and financial situation.

Moreover, Vietnam's legal system such as Laws on Enterprises, Companies, Credit Institutions, Crime Code has not yet been integrated and still faces overlapping provisions. If the entity is a bank, its application for establishment will be examined by both the SSC and the State Bank of Vietnam.

The SSC, the State Bank of Vietnam and relevant agencies should therefore suggest the Government soon to issue policies concerning the stock company with the aim to accelerate the birth of this business form. These policies will be foundation for the construction and evolution of the Vietnam's stock market in the future.