

1. Stock issuance

The long-term funding to the Government and enterprises is one of main and important functions of the securities market. For Vietnam, in the transit to the market mechanism, most of enterprises had not paid attention to the funding from stock issuance until the Government gave a green light to equitization of state-owned enterprises (SOEs) by its Decision 202/CT dated June 8, 1992. According to Decree 44/1998/NĐ-CP dated July 28, 1998, enterprises select its capital sources by issuing stocks. When an enterprise wants to investment in a project, joint venture, cooperation, etc., it will need long-term funding from its equity and loan capital. Based on the enterprise's development cycle (start-up, growth, and recession), investment strategy, management method, and role of investment in social activities, companies issue stocks or bonds. Share selling will increase equity capital while bond issuance heightens long-term debt. Each

its equity capital. We consider a company's balance sheet as follows:

Asset	Liabilities and equity
A. Current asset	A. Liabilities
B. Fixed asset	B. Equity
	1. Preferred stock
	2. Common stock
	3. Excessive capital
	4. Retained earnings
Total	Total

The company's authorized capital depends on the amount of preferred and common stocks:

Authorized capital = face value of stock x total issued stocks

The company's excessive capital is gained from the difference between the initial face value and the real price in the additional issue.

Until now, the Ministry of Finance has not given detailed guidance for accounting system of joint stock businesses.

For example: The SSC allowed HAPACO to issue 1 million new stocks with preferred price of

Authorized capital = (1,008,000 + 1,000,000) x 10,000 = VND 20.087

billion

Excessive capital = (40,000 - 10,000) x 1,000,000 = VND30 billion instead of

Excessive capital = (50,000 - 10,000) x 1,000,000 = VND40 billion if the issue price was VND50,000/stock

The above analysis shows HAPACO issues only 1 million new stocks to increase its authorized capital by VND10 billion and generate an excessive capital of VND30 billion, 1.5 times the authorized capital. This is a problem that shareholding companies, especially listed ones

SOME MEASURES TO ENHANCE STOCK ISSUANCE

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funding method will affect the company's business performance, equity use, and risk. As a result, the company is required to analyze and consider what is an optimal selection. Regarding current laws on public stock issuance, the Government promulgated Decree 48/1998/NĐ-CP dated July 11, 1998 concerning securities and the securities market and the State Securities Committee (SSC) issued Circular 02/2001/TT-UBCKNN on Sep. 28, 1001. After one year of operation, the HCMC Securities Trading Center (STC) has listed 12 companies as compared to 80 competent companies among 720 equitized SOEs.

We will analyze the characteristics of companies' stock issuance below.

Stock issuance: The company will receive funding in case of first stock issuance or additional issuance to the public. The former issuance is the case where the company starts up and creates authorized capital and in the second case, it wants to increase

VND50,000 each for old shareholders. In the stock market, the price of a HAPACO stock was VND99,000 before Dec. 17, 2001. The transaction of HAPACO stocks in December 2001 was as follows:

Day HAP stock	3	5	7	10	12	14	16	17	21
Matching price (VND)	99,000	0	99,000	0	0	97,500	55,000	S	56,000
Volume	2,400	0	100	0	0	100	28,300	S	42,000

S: the SSC decides to stop trading in HAPACO stocks

In the 210th session, the Securities Trading Center stopped trading in HAP stocks in order to determine the reference price by floating the price band, so the price of HAP reduced to VND55,000. As a result, an irregular general meeting of the company's shareholders was held on Dec. 22, 2001 to lower the price of new stocks from VND50,000 to VND40,000. This leads to a change in the company's capital structure:

Suppose the cost of issue is zero

are required to consider when issuing additional stocks. After the New Lunar Year holiday, when the STC resumed its operations, the price of various stocks on the market tended to drop. On Feb. 27, 2002 the price of

HAP stock plummeted to VND40,900 close to the preferred price (VND40,000), therefore the company Management Board and STC decided to stop trading in HAP stock in consecutive sessions from March 1 to 6, 2002 and gave a bonus of 20% reduction to new investors. This caused a drop in issue price from VND40,000 to 32,000.

As a result, the performance of STC has great effects on additional issue of shareholding companies. These companies require a secondary

stock market which operates firmly for their stocks. This market will make proper assessment of stock real value. It is also a supporting tool for companies' to select optimal kind of securities for issue.

From the STC establishment to Jan. 31, 2002, there were 12 kinds of stocks listed at the center with a total value of VND527, 578,650,000 as shown in the following table:

Stock	Face value	Amount of listed stocks	Total value (mil.)
REE	10,000	15,000,000	150,000
SAM	10,000	12,000,000	120,000
HAP	10,000	1,008,000	16,128
TMS	10,000	2,200,000	30,800
LAP	10,000	1,909,840	19,098.4
SGH	10,000	1,766,300	17,663
CAN	10,000	3,500,000	35,000
DPC	10,000	1,567,280	15,872.8
BBC	10,000	5,600,000	56,000
TRI	10,000	3,790,300	37,903
GIL	10,000	1,650,000 *	16,500 *
BTC	10,000	1,261,345	12,613.45

Source: Stock Investment Magazine, Ministry of Planning and Investment, 2000, 2001, 2002

*: Authorized capital of the company is VND17 billion (1,700,000 shares) but only 1,650,000 stocks are issued.

2.Shortcomings in stock issue

In Vietnam, the top legal documents concerning companies' stock and bond issuing and listing include government decrees, the National Assembly has not yet passed any law on securities and the securities market. As a result of this, these documents lack uniformity. For example, the Companies Law stipulates that stocks include common and preferred ones but the Circular 01/1998/TT-UBCK dated Oct. 13, 1998 by the SSC concerning public issue of stocks and bonds did not specify these two securities. This causes difficulties to companies when they issue securities and choose the kind of securities to issue and affects shareholders' interests and dividend distribution. The Companies Law also has provisions on rights of free stock transfer and shareholders' participation in the general meeting. However, most of companies' charters restrict shareholders' stock transfer and their participation in the general meeting.

-Not distinguishing conditions of stock issuing from stock listing:

According to Decree 48/1998/NĐ-CP dated July 11, 1998 and Circular 01, those securities which have been issued on the primary market but

have not meet conditions for listing are not affected by the Decree. The evidence reveals that all stocks traded at the STC are re-registered for listing. On Sep. 28, 2001, Circular 02/2001/TT-UBCK was issued to rectify shortcomings and limitations of Circular 01 and remove obstacles of stock listing to companies when taking part in the securities market.

-Effects of SOE equitization on

As such, the equitization process remains slow. It has not yet created favorable conditions for stock issue on the securities market, especially high quality stocks. In addition, some equitized SOEs do not want to list their stocks on the market because they cannot understand full benefits in stock listing. All listed stocks on the Vietnam securities market are derived from equitized SOEs, not mentioning TRIBICO. The process of SOE equitization is thus very important to the early stage of Vietnamese securities market.

- Not appreciating the primary market

The Securities Trading Center is a model of low-level secondary market in comparison with the current securities exchange of other countries. Most of legal documents concerning securities and the securities market promulgated by the Government and SSC make provisions only on activities in the secondary market. In the meanwhile, on the primary market, the stock issue has not been strictly controlled. The issue of unlisted stocks and bonds is ruled by the Ministry of Finance's regulations while that of equitized SOEs is affected by Decree 44/1998/NĐ-CP dated June 29, 1998. The non-sate joint stock companies wonder what legislation affects their securities issue. As a result, the appearance of Vietnam securities market does not really attract shareholding companies to seek funding from securities issue.

-Volatility in the secondary market:



The Vietnam securities market has recorded promising achievements for one year of operation: facilitating the liquidity of various kinds of securities and thus making positive contributions to SOE equitization and capital mobilization; attracting more investors from the public; increasing the quantity and quality of listed companies; and expanding services for securities dealing. However, the market still encounters a lot of challenges and limitations. It has a modest scale with a few kinds of listed securities, so it is easily impacted by external and psychological factors. The legal frame is not sufficient and integrated. This leads to confusion in controlling the market and stabilizing environment for long-term solutions instead of short-term measures such as increasing the trading band from $\pm 2\%$ to $\pm 7\%$ on June 13, 2001 and then reducing to $\pm 2\%$ on Oct. 10, 2001; limiting the purchase order at 2,000 stocks and then expanding to 5,000. The VN-Index soared sharply in the first six months of 2001, and peaked at 571.04 points on June 25, 2001 and the HAP stock ranked first on the price list with VND146,000 on June 20, 2001. As a result, the volatility in the STC have greatly affected investors' decisions on the Vietnam securities market and in the long run supplementary stock issue of listed companies, for example, only HAPACO did it to mobilize capital.

3. Measures to improve stock issue

First, to perfect the legal framework for stock issuing, listing and dealing on the securities market.

As for legislation on securities and the securities market, the Government decree has such advantages as flexibility, easy adjustment, supplementation, and amendment in line with changes in the early stage of the market evolution. Nevertheless, legal documents used to stabilize the market in the past were mainly short-term measures, so the market balance has not yet been secured. The Government is thus required to implement more effective solutions to perfect the legal framework for the securities market as follows:

- The Decree 48/1998/NĐ-CP should be amended to expand conditions for stock issuing and listing. At present, many enterprises are selling a great amount of their shares on the OTC market. In respect of listed companies, they

should be given favorable conditions for their additional issue, for example, the HAPACO additional issue really faced a lot of difficulties and cumbersome procedures. Finally, a law on securities shall be promulgated to promote the transaction on the securities market.

- In addition, the Decree 44/1998/NĐ-CP on SOE equitization should be rectified, especially for limitations on stock purchase of legal entities and individuals from equitized SOEs whose dominant and special shares belong to the State. These limitations have reduced stock li-



quidity in the past.

- The information about the market activities must be given further details. Although there are now available magazines, newspapers, newsletters and websites, the information remains general and can hardly help investors assess and analyze the market trends.

Second, to accelerate SOE equitization to create goods for the securities market

The birth of the securities market has contributed to improving the validity of Decree 44/1998/NĐ-CP dated July 28, 1998 on SOE equitization. Nevertheless, its operations have revealed no consolidation between Decree 48/1998/NĐ-CP and Decree 44/1998/NĐ-CP. In particular, the Government should issue a decree on equitization of foreign-invested enterprises.

Third, to stabilize the STC with a view to enhancing the liquidity of listed stocks. This is a precondition

for stock trading. The center will provide services to facilitate the market requirements. The center's operations will significantly speed up stock trading and help determine stock prices in additional issues. The Government should amend and issue regulations on stock trading and supporting services as follows:

- To change regulations on stock dealing to create favorable conditions for investors to get easy access to the market.

- To fix an appropriate trading band in the long run instead of depending on the market changes.

- To supplement functions to securities companies so that they really become experts to regulate the market. To improve the state management on stock trading activities in terms of incentives given to securities companies. The stock issue has not been underwritten, thus reducing effectiveness of each issue and restraining additional issues of securities companies.

Fourth, to publicize the knowledge about securities and the securities market

The investment in stocks is rather new to Vietnamese. The SSC should therefore organize training courses in securities and the securities market as well as workshops for investors, for example, in partnership with universities, colleges, ministries and relevant agencies to open long and short term courses, full time or part time. This will help promote investment in the securities market. ■