

# DIRECTION FOR DEVELOPMENT OF OTC MARKET IN VIETNAM

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**H**à Nội Stock Trading Center came into operation on March 8, 2005 in the form of an OTC market. The center makes registration for, and trades in, unlisted shares, or shares by companies that don't want to list theirs in the HCMC Stock Trading Center. The Hà Nội Center pays more attention to shares from companies that have at least VND5 billion in their legal capital and 50 outside shareholders, and gain profit for at least one year.

## 1. Vietnam OTC market in 2005

Trade in unlisted shares in 2005 underwent three phases:

- Phase 1 (from January to August): This was a good time for shares issued by banks and famous companies (such as Vinamilk, Vinacafe, Tường An Cooking Oil, Hậu Giang Pharmaceutical, etc.). Both prices and orders to buy rose steadily. For example, the price of Tường An stocks rose from VND145,000 to 165,000 in this phase.

- Phase 2 (from late August to early November): This was a boom period and many shares sold like hot cakes. Many factors led to this situation and the main one is the fact that the frozen realty market forced many investors to move to the stock market. The peak of this phase happened before and after the Decision 238 by the PM that allowed foreign investors to hold 49% at most of shares issued by a listed company. Making investment under herd instinct and expectation of sudden rise in prices of shares after being listed made prices of most shares skyrocket in this phase. Many shares (from Eximbank, Tường An, Vinamilk and Military Bank for example) rose by 30% in this 3-month period. In addition, incentives to existing shareholders offered by listed companies that wanted to attract more investments also raised public interest.

- Phase 3 (from November to the year's end): Prices of most shares rose slowly in this phase.

Investors had more options when more state-owned companies were privatized. Investors started to pay attention to these newcomers, besides well-established brand names, such as Casumina, Hòa Bình Rubber Company and NASCO, etc. along with negotiable bonds. Companies with good performance, especially ones in banking and finance business, were the most attractive in the eyes of investors and their shares rose by 5% to 10% in the two last months of the year.

The OTC market in 2005 witnessed great success of stocks by companies in banking, pharmaceutical and light industries.

In the first three months of 2006 with soaring prices in the HCMC Stock Trading Center, those of shares traded in the Hà Nội Center also rose quickly. The highest increases were found in VHS stock (106%), VTL (73.7%) and KHP (82.6%). The HASTC Index rose over trading sessions. Up to the end of March, this in-

Table 1: Changes in prices of some OTC stocks in 2005

| Company                               | Stock       | Face value | Jan.1 | Aug. 15 | Dec 30 | Growth |
|---------------------------------------|-------------|------------|-------|---------|--------|--------|
| Import- Export Bank                   | Eximbank    | 1,000,000  | 1,080 | 1,550   | 3,050  | 182%   |
| Bank for Technology and Commerce      | Techcombank | 5,000,000  | 7,000 | 12,000  | 18,000 | 157%   |
| Saigon Commercial Bank                | Sacombank   | 10,000     | 19    | 24      | 43     | 126%   |
| Vietnam Milk                          | Vinamilk    | 100,000    | 228   | 302     | 510    | 124%   |
| Military Bank                         | MB          | 1,000,000  | 1,550 | 1,620   | 3,100  | 100%   |
| Asia Commercial Bank                  | ACB         | 1,000,000  | 2,850 | 5,800   | 5,400  | 89%    |
| Medical Import - Export               | Domesco     | 100,000    | 240   | 350     | 420    | 75%    |
| Hậu Giang Pharmaceutical              | HGP         | 100,000    | 200   | 350     | 335    | 68%    |
| East Asia Bank                        | EAB         | 2,000,000  | 3,800 | 4,330   | 6,000  | 58%    |
| Tường An Cooking Oil                  |             | 100,000    | 150   | 190     | 235    | 57%    |
| Thủ Đức Housing Development           |             | 100,000    | 250   | 300     | 360    | 44%    |
| Infrastructure Investment             | CII         | 100,000    | 120   | 145     | 165    | 38%    |
| An Giang Crops Protection             | AGPPS       | 100,000    | 160   | 180     | 220    | 38%    |
| 10 <sup>th</sup> District Electronics | TIE         | 100,000    | 170   | 250     | 210    | 24%    |
| Chương Dương Beverage                 | CDBeco      | 100,000    | 130   | 155     | 160    | 23%    |



dex reached 178.87 point. In March alone, 5,260,288 shares worth VND132 billion changed hand and 16 bidding sessions were held in those two centers for shares from 16 companies with total proceeds of VND698 billion.

These data show that the OTC market has been successful in trading in unlisted shares, especially for small- and medium- size companies that couldn't have their shares listed in the HCMC Center; and in holding bidding sessions for those shares.

The stock market is worth some US\$145 million while over US\$1 billion worth of shares are traded on the OTC market; there are some 15,000 investors in the stock market while over 200,000 investors engage in the OTC market. According to a rough estimate, the OTC market in Vietnam will expand in the near future when more and more state-owned companies are privatized and many of them are not strong enough to have their shares listed in the official market. At present, the legal infrastructure of the stock market is not perfect enough to protect investors and prevent malpractices. If this defect is not dealt with properly, the danger of market manipulation is great and investors will suffer high degrees of risk.

## 2. Directions of the OTC development

a. Organization: According to the Strategy to Develop the Stock Market up to 2010, the Hà Nội Stock Trading Center will be developed into a modern OTC market through appropriate stages. At present, a LAN network will be introduced to this center and brokerage firms could do business online. The OTC center is responsible for carrying out transactions after its members reach agreements and fulfill necessary procedures. Pricing based on agreement between brokerage firms and investors will help reduce waste of time; transaction cost and risks involved, ensure mutual confidentiality, and im-

prove supervision and control over the market by authorities.

b. Management of the OTC market: The State Securities Commission is the governmental body responsible for working out regulations, supervising the market, granting licenses to organizations registering for transactions.

Directly controlling the market is the OTC Center established by the State Securities Commission. The Center is responsible for controlling and operating the market according to regulations set by the Commission, supplying services needed for investors and brokerage firms, and keeping a close watch on changes in prices on the market.

In the coming years, the Commission will link the two centers in HCMC and Hà Nội. Besides dividing the market (companies with small capital and low liquidity will list in the Hà Nội Center), the Hà Nội Center will serve mainly small- and medium-size companies and supply commodities to the HCMC Center in the future.

## 3. Some basic measures

- Perfecting the Securities Law: There must be a chapter on transactions on the OTC market, operations of brokerage firms, duties and rights of parties engaging in transactions, protection of investors' interests, and

mechanism for supervising the market.

- Beefing up operations of Intermediary financial institutions: There must be regulations on formation and development of mutual trusts, mobilization of capital, distribution of profit, transactions of unlisted shares, etc.

- Beefing up mechanism for supervising the market: The Securities Law must define duties, functions and rights of OTC supervisors. The State Securities Commission must cooperate with the OTC Center in supervising the market. Duties of handling violations by those two bodies should be made clear.

- Supplying information to investors: Up till now, the information disclosure by unlisted companies to investors is not sufficient, up to date, and honest. The Commission must set specific regulation on this matter. In addition, brokerage firms must supply information about issuers of shares, current situation of the market, prices of shares traded, etc.

The OTC market is a decisive factor in the secondary market, supports the development of the primary market and diversifies operations of the infant stock market, thereby perfecting the Vietnamese stock market. At present, it is badly in need of appropriate regulations and supervision. ■

