

After 10 years of renovation, our economy has recorded significant achievements in many areas. Entering a new stage, we will not be able to undertake the economic restructuring toward industrialization and modernization unless we can attract domestic and foreign capital flows, especially domestic medium- and long-term ones. The country's economic development strategy targets at a GDP of US\$2,000 per capita by 2010, that is, its annual growth rate reaches 10% on average in the next 10 years. To attain this goal, the first element is investment capital for development. According to the Ministry of Planning and Investment's estimates, the

On the other hand, in the economic transition, activities of the capital market have built initial grounds for the birth of the securities market. Moreover, the securities market has first come into being in our country. It requires development of securities trading (stock investment). If we do not soon organize a healthy transaction environment and do not have effective instruments to protect investors' benefits, the market may face a meltdown and the public confidence will collapse.

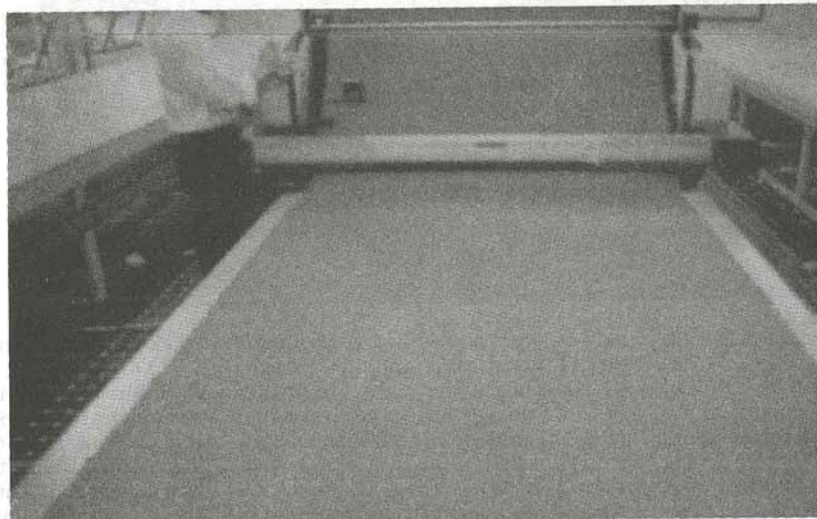
Therefore, the resolution of the Party's eighth congress underlined: "To build the capital market and step by step establish the securities market, develop the capital market, at-

so far commodities remain scarce in the market. According to statistics of the Securities Trading Center, the total value of traded securities was VND272 billion and the trading volume 7,985,000 stocks by April 11, 2001. The REE's total trading value reached VND68 billion with 2,181,000 stocks; SAM VND143.5 billion with 4,511,300 stocks; HAP VND39.5 billion with 884,600 stocks; TMS VND19.8 billion with 377,800 stocks; LAF VND641,540,000 with 27,000 stocks.

In comparison with the total number of stocks listed at the Securities Trading Center, the quantity of traded securities accounts for 23.14% only.

SOME KEY MEASURES TO INCREASE INVESTMENT IN THE VIETNAM SECURITIES MARKET

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economy requires some US\$45-50 billion for investment, or US\$9 billion per year in the 1996-2000 period, increasing three times as compared to the 1991-1995 period. This is a huge volume. We can meet 50% of this figure by foreign investment capital, including ODA and FDI. The remaining 50% have to depend on local investment. As such, the establishment of the securities market is an urgent requirement of our economy.

tract medium and long-term capital through banks and financial instruments to meet the requirements for loans, investment and development. To prepare necessary conditions for gradually setting up the securities market in line with Vietnam's conditions and socio-economic development orientation."

At present, the Vietnam securities market has been put into operation. However, in 8 months of operation with over 100 trading sessions,

In addition, the total trading value of bonds was VND3,865,407,000 with 79,020 traded bonds. In reality, over the past months, the securities market operations have been mainly stock trading, while bonds of the Government and the Bank for Investment and Development have been listed with a total value of over VND3,000 billion. However, they have been less attractive to investors. The HCMC-based Bank for Investment and De-

velopment bonds have been traded regularly, but with small quantity and their prices almost saw no fluctuations. On the other hand, the fact that listed companies pay higher interests than those of banks has drawn attention from investors, this has also increased the tension in goods shortage in the securities market, that is, demand exceeds supply.

Furthermore, the evidence shows so far the number of investors' accounts for securities trading at current seven stock trading companies is more than 3,500, doubling the figure opened in August 2000 when their operations began.

The total stocks, which have been deposited at securities companies, reached only 19.25 million, or 60% of the total listed securities.

With more than 100 trading sessions, the Vietnam securities market, on the whole, is still in the stabilization stage. However, the following essential measures are needed to make the securities effective and attract investors' attentions as well as economic sectors' assistance:

1. Measures to increase securities supply

-To give tax preferences to listed companies with a view to creating favorable conditions for these enterprises to pay dividends, thus alluring investors: For example, those companies making first stock issuance, will be exempt from corporate income tax from 3 to 5 years, and those making additional issuance, will enjoy a 50% reduction in corporate income tax from 3 to 5 years.

- To allow enterprises' fast amortization to acquire capital for production expansion.

- To lower auditing fees, charge no listing fees within 3-5 years, etc. with the aim to help equitized companies' securities be listed on the market.

-To soon build the over-the-counter (OTC) market to make the market activities bustling.

-To develop financial intermediary institutions, brokers, market makers, etc.

-To diversify financial instruments:

+ In addition to government and corporate bonds, the authorities may allow additional issuance of discount bonds paying interest in advance, bonds with floating interest rates, etc. These bonds will certainly receive investors' supports because they secure their benefits in case market interest rates are unstable.

+ To encourage enterprises, which have enough conditions to issue securities, mobilize capital by offering transferable bonds. This is a kind of bonds which investors prefer and is suitable to Vietnam's conditions.

+ To dismiss or merge those enterprises which incur losses persistently and cannot go public.

-Moreover, to expand production and establish financial relationship with foreign investors. To allow high prestigious state-owned enterprises to issue international stocks to attract foreign capital.

-Regarding foreign-invested enterprise, which are permitted to operate in the form of limited companies only, in the coming time, the Government should create favorable conditions for them to change into the form of shareholding companies with a view to diversifying securities in the market.

2. Measures to increase securities demand

-The State Securities Commission and the Center for Scientific Research and Securities Profession Training have to make diffusion and guidelines on interests of securities investment to the public. At the same time, brokers should win the people's trust in fairness and liquidity of the securities market.

-To strengthen the inspection and supervision with a view to protecting the investors as follows:

+To regularly inspect and supervise securities companies and issuing organizations, to obtain appropriate methods of assessing policies and professional process concerning investment and business as well as evaluate the quality of existing assets and reserve for risks.

+In particular, to train the army of inspectors and supervisors in financial analysis, profession, practical skill and methods of inspection and supervision: They must have and use proper instruments to examine, analyze reports and statistics of securities and transactions on the market.

+The inspection and supervision also need a computer network for efficiency and quickness.

+The inspection and supervision require securities companies and issuing organizations to establish an effective management information system for on-the-spot or remote practice with a view to discovering inappropriate investments as ruled by the State Securities Commission.

-Preferences given to securities investors:

+Tax exemption and reduction for investors as follows:

• Tax preferences for personal investor when he (she) is involved in securities trading: their personal income tax should be exempted for profits earned from securities trading.

• Tax preferences for corporate investors: their profits earned from securities and bonds trading, and income from dividend should be exempted from tax within 2-3 years with a view to encouraging these organizations to invest in the securities market.

• Transaction fees in the early stage should not be paid or minimized for personal and corporate investors with a view to speeding up transactions and promoting the liquidity of securities. For example, securities transaction fee is 0.3%, bonds 0.10%.

+The Government should give preferences to foreign investors to encourage them to invest in the Vietnam securities market, especially reduce tax imposed on profits transferred overseas for the investors who live abroad or permanently reside in Vietnam, and foreigners purchasing shares from Vietnamese enterprises.

+To implement some measures to expand opportunities for foreign investors to involve in securities trading, for example, increasing the proportion of capital contribution to formation of securities joint venture companies to 40%.

+To liberalize regulations on the holding of securities. At present, according to Decree 139, foreigners are permitted to hold at most 20% of total issued stocks. The proportion should be 30% as stipulated in the Government Decree 44/CP.

3. Measures for information disclosure

The public will make no investment in an enterprise unless they know its financial and business situation. As a result, favorable conditions should be given to enterprises' disclosure of information on their financial position. It is an urgent obligation, especially for listed companies with a view to protecting public's legal benefits. The following contents need attention:

-Market information has to meet principles: adequacy, exactness, timeliness and equitableness in compliance with the regulations on information disclosure promulgated by the State Securities Commission.

-To upgrade and promote the computer network linking the Securities Trading Center with securities companies equipped with state-of-the-art tools and technologies.

-To design the Securities Trading Center's website on Internet with the aim to provide information on Internet.

-To publish official publications domestically and overseas (journals, daily and weekly newsletters).

-To establish an automatic information system so that investors can get access to and update information round the clock.

4. Auditing standards

-Auditing companies wishing to scrutinize securities issuing organizations and trading companies must meet standards in terms of: operational duration, capital, auditors, number of customers per year.

+Regarding capital: domestic auditing companies has to obtain an authorized capital of VND2 billion or more, foreign auditing companies US\$300,000.

+Auditors: Auditing companies' staff must include 10 or more auditors which have been granted practitioner's licenses by Vietnamese authorities. Local auditors must have at least two years of experience, foreign auditors 5 years. In addition, these companies have to comply with the Ordinance on Accounting and Auditing.

5. Measures to organize the personnel and infrastructure for the securities market

a. Measures to train the human resource

First, importance should be attached to urgently training executives of the State Securities Commission and the Securities Trading Center. Especially, lecturers should be given training and refresher courses.

Second, the officers of the Securities Trading Center also need training or retraining. At the same time, the State Securities Commission should attract professional and technical assistance from foreign countries.

Eventually, the relevant authorities should diffuse knowledge about securities and the securities market to enterprises and the public nationwide.

b. To build necessary facilities

Modern facilities should be built for securities transactions and in line with the market requirement for technical improvement.

Infrastructure of the HCMC Securities Trading Center and the Training Center need be urgently upgraded and expanded.

6. Legal environment

At present, we have only government decrees. In the next stage, this sector requires promulgation of ordinances. Such a legal system will win foreign investors' confidence in securities investment activities. In the meanwhile, some following laws should be amended and perfected:

- + Law on accounting and auditing.
- + Civil Code
- + Criminal Code
- + Law on Foreign Investment.

7. Measures to reduce risks in the securities market

a. Risks of issuers:

The issuers must conduct careful market research and consult the experts of securities companies, securities issuance underwriting companies in order to offer securities appropriate to the market demand in terms of category, interest rate, quantity, etc. and secure the success of the first issuance.

To limit effects of price fluctuations, businesses must use capital mobilized for their development after issuing securities.

b. Risks of the Government:

When issuing bonds, the Government has to take into account these above two risks. To restrict these risks, the Government should offer bonds in line with the public demand for interest rate and safety. After issuing bonds, the Government's policies on socio-economic and political stabilization are preconditions for its successes in its macroeconomic management.

c. Risks of investors:

Risks arise just in investment activities. To control or reduce risks, investors are required to seek information to assess and place trust in enterprises or kind of securities that they will purchase.

On the other hand, the remaining problem depends on analysis competence, sensibility, as well as information collection capacity of each person. If investors are not competent in market assessment and analysis, they should look for an honest and qualified specialist. In addition, a securities insurance fund should be established to reduce risks for investors.

8. Measures to perfect financial intermediaries

a. Banks:

- To soon complete the restructuring of financial policies to perfect the banking system and to establish risk hedging funds in banking activities.

- To rapidly speed up the formation of securities companies affiliated to commercial banks.

- To enhance coordination between banking participants in the securities market. Banks should give preferences to organizations taking part in the securities market.

b. Securities companies

To secure safety for securities trading activities and keep the market stable and effective; and safeguard benefits of investors, securities firms and securities trading institutions must observe regulations on organization and activity of securities companies promulgated by the State Securities Commission

c. Investment funds

At present, the market does not have securities investment funds, so their appearance is an urgent requirement. These funds also comply with regulations on organization and activity of fund management companies stipulated by the State Securities Commission.

In short, the securities market plays an important in capital mobilization and distribution. Through this channel, domestic and foreign capital flows are attracted to investment projects, production expansion and economic development. Investment in the securities market is very attractive to investors because it generates high profits and liquidity.

However, the Vietnam securities market is facing some deficiencies. The problem is how to reduce its shortcomings and make it operate effectively and become an important channel attracting local and overseas capital flows. The problem is how to overcome its shortcomings, help it operate effectively and become an important channel to attract local and foreign investment capital.

Eventually, the Government should conduct a careful survey on the people's habit, appreciation and investment behavior toward the Vietnam securities market. At the same time, it is required to learn lessons from countries having developed securities markets. Thereby, it may win investors' confidence, help them make bolder investments in the securities market and contribute to economic stabilization and development. ■