

SOLUTIONS TO DEVELOPMENT OF THE HCMC STOCK EXCHANGE IN THE PERIOD OF INTEGRATION AND INTERNATIONALIZATION

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Nowadays, the existence and development of stock exchanges have become an objective prerequisite for the national finance. In the trend of integration and globalization, stock exchanges represent the operation of the stock market of countries in the world. They should be further consolidated and perfected in order to adapt to higher and higher requirements of the current market economy.

First of all, in order to figure out the operation of the HCMC Stock Exchange (HOSE) during the past time, we need to take a glance at the important developments in the Vietnam stock market.

1. An overview of Vietnam stock market in 2009

Despite being profoundly affected by the world economic crisis, the Vietnam stock market has rapidly regained its health along with the economic recovery.

- The VN-Index peaked over 600 points in 2009 compared with the 235 points in the late February 2009

- Bigger size of the market: more than 430 shares and fund certificates are listed on stock exchanges in Hà Nội and HCMC capitalized at VND 669.000bn (some US\$39bn) accounting for some 55% of the 2008 GDP. This capitalization value made a threefold increase compared with late 2008.

- Up to the late 2009, around 730,000 security trading accounts have been opened, including some 13,000 ones run by foreign investors. At the peak of the stock market, the capitalization value of the market rose to US\$30bn equaling 41% of GDP. The liquidity of shares has been consider-

ably improved. In the recent 12 months, the average trading volume on the two floors amounted to 10 million units equaling VND630bn.

According to HOSE, fluctuations in the Vietnam Index in 2009 were as follows:

Lowest index in 2009:

Date: Feb.24, 2009

Index: 235.50

Trading volume: 11,310,260 shares

Trading value: VND268.219bn

Highest index in 2009:

Date: Oct.22, 2009

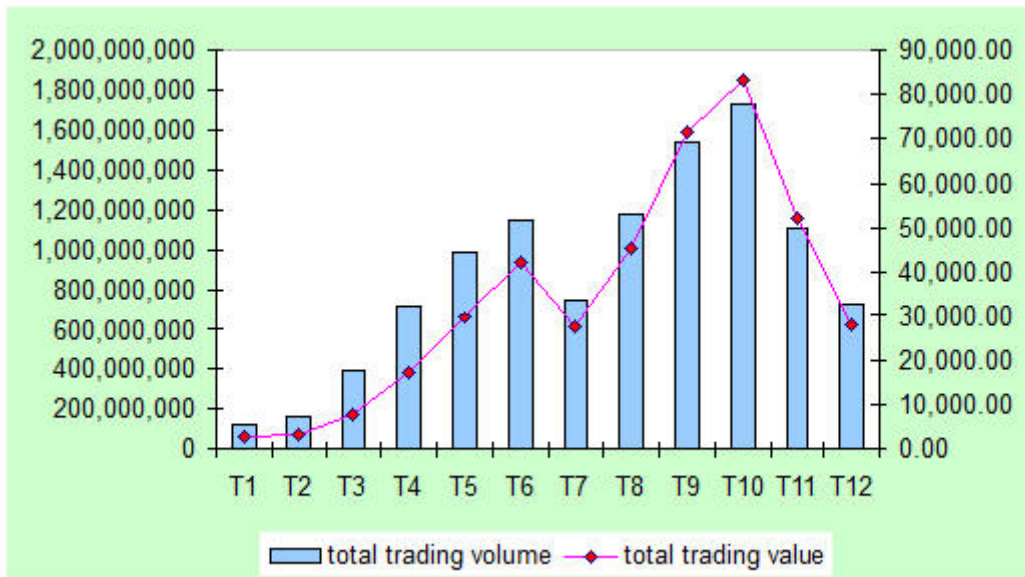
Index: 624.10

Trading volume: 91,618,620 (shares)

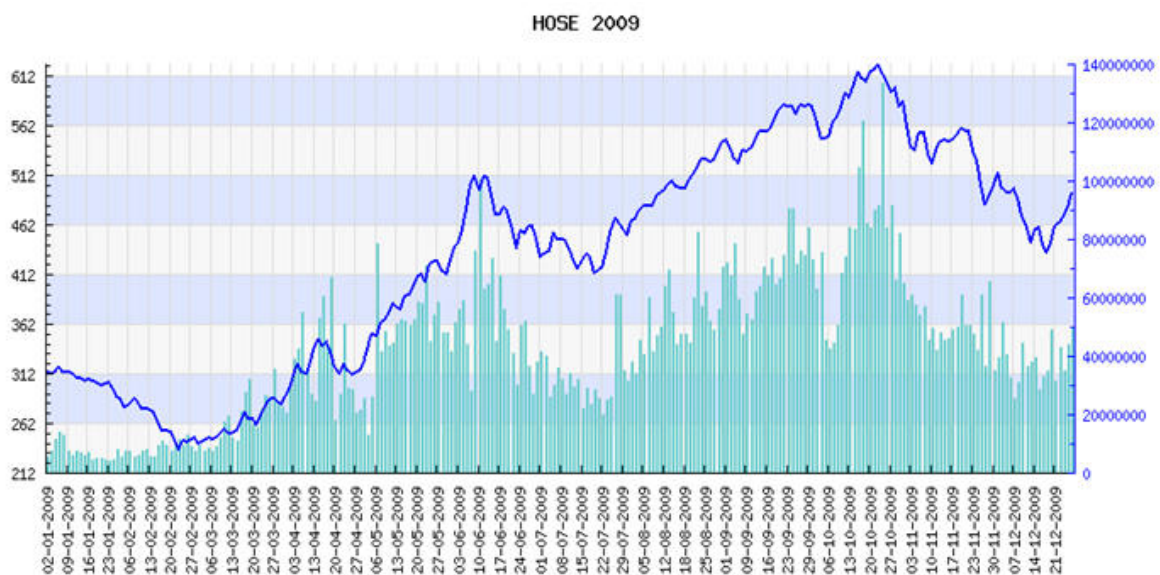
Trading value: VND4,571.183bn

With the boom of trading on the Vietnam stock market, the HOSE, in the past time, and especially in 2009, has successfully held and executed higher trading volume and value compared with the previous years. However, difficulties and chal-

Figure 1: Total trading volume and value in 2009



Source: HOSE



lenges are still ahead. In spite of the shortage of capital, technology, and human resources, the HOSE should attempt to become a Goliath of Vietnam. In the period of integration, it should be developed into a stock exchange with a high international feature.

Here are some criteria for evaluating the operation of a stock exchange:

a. Modernity:

With the development of the modern technical science and technology, stock exchanges are re-

quired to invest in infrastructures making stocks trading more rapid, convenient and precise. Specifically, the modernity is shown via the IT system serving all activities on the trading floor such as sending, receiving and matching orders; securities depositing, clearing and settlement; information supply; supervision of transactions and so on. Modernity is also shown in that how quickly and conveniently transactions are executed. Accordingly, it is necessary to have highly qualified human resource. They should also be fluent in a foreign language and master IT skills.

Standards and regulations of stock exchange kept in line with world conventions are also employed to evaluate the modernity. They should be prepared thoroughly for cross-border transactions and the internationalization of the stock market.

b. Safety:

One of the most essential standards to insure the interest of investors and encourage them to take part in the stock market is to guarantee the safety of their investment. Accordingly, the Stock Exchange Law and by-laws regarding the operation of stock exchanges should be provided in detail with a view to securing the interest of both institutional and individual investors and limiting potential risks. Thus, it is necessary to observe fair and open principles; all information should be transparent and adequate. It is also necessary to be fair in receiving information from all investors and to get rid of insider trading and supply of false information. The State Securities Commission of Vietnam (SSCV) and stock exchanges should cooperate to supervise the operation of securities companies. They should have modern facilities for supervision operation as well as the training of ethical and responsible staffs. The handling of negative behavior must be strict, just, and absolute.

c. Effectiveness:

In order to evaluate the quality of stock exchanges, we need to examine the effectiveness of the trading from various views.

Firstly, when an investor participates in trading on the stock exchange, they would expect to make profit, to preserve their investments, and to limit risks to the lowest level. Thus, the stock exchange should provide all necessary conditions such as material and technical facilities, IT applications, and trading mechanism that is modern and suitable to the proposed criteria and rules. There should be provisions concerning the protection for investors and severe penalties for any breach of investors' interest. The stock exchange should create abundant and diverse commodities for investors' choice.

Secondly, an enterprise taking part in the stock market always expects a fair and equal game for all 'players'. Hence, the stock exchange should clarify 'rules of game' so as to be able to pick out excellent enterprises that could represent the country's economy. Enterprises should also be

treated fairly and equally and they, in turn, should hold responsible for providing the stock market with adequate and transparent information.

As for stock exchanges, stock market managers should consider and create a fair and effective game that can attract more and more enterprises and individuals, making themselves a reliable place for stock trading and investments.

Finally, concerning the government, an effective stock exchange would facilitate capital mobilization for the economy and create a tempting investment climate for both foreign and domestic investors. An effective stock exchange would have positive impacts on the stability and sustainable development of the domestic finance market.

2. Some lessons from several of stock exchanges in the world

a. New York Stock Exchange (NYSE):

The NYSE, or Wall Street Market, is the biggest and earliest stock exchange in the US. This is the place where originated the earliest trading in the USA since 1864 and currently is the world's largest stock exchange handling more than 80% of stock trading of the US. Since 1962, it has become the US national stock market.

Today, the NYSE is a pioneer in application of new technologies. In the computerized era, the NYSE's IT system is frequently updated and renovated, costing a fortune of around US\$400 million per year. The NYSE has just decided to update its database center with a super-speed channel of 100 Gigabytes. This upgrading project is expected to be completed in the early 2010; and the lateness on the NYSE is reduced to 60 – 70 microsecond. This would be the lowest latency level on the stock exchange within one more year. The NYSE would employ Ciena CN 4200 RS FlexSelect Advanced Services. According to analysts, it is just to enhance its competitiveness against other stock exchanges.

It may be said that the NYSE is one of the most modern, safe and effective models in the world. It is not only because of its long history but also due to its professionalism and transparency. In essence, its operational principles are based on the laws of the market with the impact of supply of and demand for listed stocks.

b. European Stock Exchange – (EU-RONEXT):

The EURONEXT was associated in 2000 through the merger of the three biggest European stock exchanges, i.e. Amsterdam, Brussels, and Paris. Right after its association, the EURONEXT was considered as the world's second largest stock exchange only behind the NYSE.

The EURONEXT has operated with an aim to consolidate the European finance market by merging all national markets into a common market with the highest liquidity and effectiveness. The unique model of EURONEXT is the combination of the power and finance of each local market and it has proven that the success in merging individual markets is the global vision for local markets. This model requires the combination of technologies, the restructuring of operation on a cross-bolder scale, the harmony of the market rules, and the perfection of the legal framework.

c. Some lessons from NYSE and EURONEXT:

+ Modernity: For stock exchanges like NYSE and EURONEXT, they are required to employ modern technologies for their transactions and management. Besides, highly qualified human resources also contribute to the modernity and effectiveness of a stock exchange.

The NYSE has been leading the world in provision of complete services via electronic trading. Diverse products and services will provide solutions and an integration of sole and small stock exchanges for the establishment of a transactional hub.

NYSE has been leading the world in the software market and safety of database and connection. It ceaselessly creates tools and modes of payment as well as connects to the world market and enhances applications.

+ Safety: The transparency of information on the floor is the first and foremost requirement of stock exchanges in the world. Financial statements must observe accounting criteria that must be detailed, clear-cut and scientific.

+ Diversification of products traded on stock exchange: The diversity of products traded on the stock exchange proves the effectiveness and safety of this floor.

+ Qualified human resources: Most advanced stock exchanges in the world are managed by experienced and qualified experts. They may organ-

ize and operate an international modern stock exchange with the high safety and effectiveness.

Through what we have mentioned so far, the HOSE is trying its best to become a modern, safe and effective stock exchange in Vietnam.

3. HOSE

After around eight years, the HCMC Securities Trading Center was renamed the HCMC Stock Exchange (HOSE) in pursuant to the Decision 599/QĐ-TTg dated May 11 2007. And the HOSE, on Aug. 8, 2007, was officially inaugurated.

The HOSE is a state-owned limited liability company with the chartered capital of VND1.000bn and shall observe the Stock Exchange Law and the Companies Law.

At present, the HOSE is an independent enterprise and operated in compliance with the applicable laws on stock exchange and on corporate. Compared with financial institutions, banks, insurance, companies, etc., the HOSE seems more preferential in that it is granted the rights to promulgate bylaws, regulations and rules to observe and control the market.

The Vietnam stock market is predicted to increase dramatically along with the economic growth in the context of global integration. Besides, the gravity of the Vietnamese market and privatization of state-run companies and stock listing also contribute to the sustainable development of Vietnam stock market. Therefore, the HOSE should:

- Enable joint stock companies to list their shares on the stock exchange with a view to enhancing the supply of commodities,

- Upgrade and control the information system so as to secure the punctuality, adequacy and transparency of information,

- Upgrade the market inspection system in order to detect insider trading that may corner the domestic market,

- Employ IT achievements in the world; implement long-distance transactions from members to the exchange with a view to establishing a non-floor transaction in the future,

- Propose logical policies to facilitate the sustainable development of the stock market, attracting domestic and foreign investments, and

- Keep on cooperating with foreign stock ex-

changes; implementing cooperation agreements; and cooperating with foreign stock exchanges to organize cross listing.

Recently, the HOSE has overcome difficulties to perfect itself. Particularly, the 2009 saw trillions of dong worth of transactions and tens of millions of stocks were transferred each day; and the HOSE did secure transactions to be done expressly and safely.

In addition, there are still some matters to be dealt with, i.e.

- The infrastructures, especially software serving online transactions of brokerage firms, are not synchronized. Just around 70 out of 100 member firms have access to the online transactions of HOSE; just 36 out of 70 have supported Internet-based transaction; and only two companies have employed the "Home Trading System" software.

- The incompatibility and inconsistency of IT system of member firms is such a big barrier to the online transaction with the HOSE.

- The transparency of information is also an issue of Vietnam stock market. The Decree 36/2007/NĐ-CP dated March 8, 2007 provided the fine of VND20 to 50 million for the intentional supply of false information or concealment of truth. However, the situation has not improved and the transparency of information has not met the requirements of investors and applicable laws.

- The enforcement of penalties related to the stock exchange is still poor. It dates back to many reasons such as the restricted authority of stock inspectors, low independence, and lack of association of bodies within the SSCV.

- There are still defects in the market supervision system. For example, this task is not supported by high technologies, thereby exposing it to difficulties in dealing with nuisances, especially market manipulation, propagation of misleading information and so on. These issues must be looked in and handled in such a long time, whilst the qualification of securities inspectors cannot keep up with the rapid development of the market.

Generally, even though the HOSE, to some extent, has gained certain achievements, it is needed to point out and overcome defects.

4. Some basic solutions

a. For the IT:

Take it from advanced stock exchanges in the world, should we like to boost the productivity and competitiveness, it is needed to focus on the enhancement of IT system.

- Software applications and technical infrastructure should be synchronized in compliance with criteria of HOSE, and step by step developing non-floor transactions.

- The secrecy and confidentiality of the IT system as well as the quick procession of orders should be secured; and compatible with multi utilities and transaction management.

- The HOSE can process 50 to 70 orders per second, increasing by 10 times compared with the previous speed of five to seven orders per second; the system's capacity is also boosted so as to process 900,000 orders a day. However, as of the late October 2009, the HOSE was deluged with transactions; and needed upgraded with a view to dealing with transactions quickly.

- Brokerage statements and market reports must be kept updated fully and punctually each day in order to facilitate the reference and predictions of investors.

- Establishing a standard IT system for transactions, register, deposit of securities, clearing and settlement, inspection, supervision, and handling of violations for the sake of HOSE and its members is necessary.

b. Information disclosure:

- It is necessary to boost the quality and quantity of auditing firms with a view to satisfying the need of listed companies for audit of financial statements.

- An auditing organization that lacks competence or liaises with any listed company to produce a fake report may be disqualified and charged by laws in the event that there is any serious outcome.

- Listed companies must observe Vietnam's accounting standards and adjust gradually to international criteria. The disclosure of information must comply with regulations and rules of the stock exchange.

- The HOSE must enforce strict penalties for delay in disclosing the information, submitting financial statements and accounting reports; or provision of false information.

- Should a listed company violate regulations

and rules causing serious effects on investors, and show no willingness of compensation, it will be disqualified from trading its products on the floor.

c. Inspection and handling of violations:

- The market inspection must be enhanced intensively and extensively so as to point out signs of violation and propose punctual solutions to this.

- The operation of brokerage firms, such as brokerage, investment consultancy and corporate assets evaluation must be strictly inspected in order to assure their reliability, honesty and usefulness to investors.

- The mechanism of inspecting investment companies, especially foreign ones, must observe provisions concerning the percentage of stocks, information disclosure, listing and other relevant provisions. And all breach of laws must be strictly handled.

- Computers for receiving long-distance order set at brokerage members of HOSE must be checked periodically or abruptly.

d. On cross listing and capital mobilization between HOSE and regional stock exchanges:

- One of the significant preparations for the cross listing is the upgrading of IT system so as to connect effectively to regional and international stock exchanges; and secure the safety, accuracy and quickness of cross-border transactions

- The cross listing also requires qualified staff or foreign experts with a view to dealing with issues concerning the international capital markets.

- The Ministry of Finance and the SSCV must boost international collaboration so as to prevent

and dispose illegal transactions; participate in international investigation organizations for securities criminals.

e. Human resource:

In order to become a modern stock exchange, Vietnam must train highly qualified officials and experts who must have work ethics, and are able to deal with issues arising from the international capital market.

Developing countries like Vietnam should take invaluable lessons of developed countries and stock exchanges in the world so as to build up an effective and safe stock exchange for itself.

After around 10 years of operation, the HOSE has gained certain achievements. Even though there are still a lot of defects and hardships to overcome, the HOSE is very self-confident to go ahead■

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