

05/17/2022 11:49:24 [BN] Bloomberg News

Brokerage Probe to Last All Year as Vietnam Seeks Upgrade (2)

- **Nation seeks stock market upgrade to draw foreign investors**
- **Finance Ministry says scrutiny will continue through 2022**

By Nguyen Kieu Giang and Jamine Tran

(Bloomberg) -- Vietnam's authorities are cracking down on the nation's stock market, pushing to end corruption and bring in a new era of transparency that could lead to a status upgrade for the two-decade old bourse.

The Finance Ministry said late yesterday a brokerage investigation, that has led to the arrest of more than five company and exchange officials, would continue through 2022. Still, investors say the market fails to meet multiple international standards and any promotion – which would let more foreign funds enter – is likely years away.

“The consensus among foreign investors is that the upgrade to emerging market status is not likely any time soon – within this year or next.” said Ruchir Desai, a fund manager at Asia Frontier Capital Ltd. in Hong Kong.

Although any upgrade will depend on market rating agencies, the State Securities Commission is coordinating with other agencies to develop a clearer road map to ensure it happens as soon as possible, the market regulator said in a statement last week.

Vietnam's stock market opened in July 2000 with just two listed companies and now has a value of \$270 billion, partly driven by an economic expansion averaging 6% annually from 2010 to 2019. Policy makers have said a top priority now is an upgrade to emerging market status from frontier status before 2025.

To help meet that goal, regulators in March this year launched the latest push with the detention of a number of prominent executives during investigations into alleged stock price manipulation. That came as the Party's Central Inspection Commission accused the party unit of Vietnam's State Securities Commission of a lack of supervision that resulted in market manipulation and “illicit profits” by some individuals and organizations between 2015 and 2020.

Vietnam Leaders Call for Crackdown on Stock Market Oversight

Investors say that beyond rooting out corruption, Vietnam needs to make significant regulatory changes, including increasing the foreign ownership cap in some fields and liberalizing the foreign exchange market.

Vietnam has been on the shortlist for a possible upgrade to secondary emerging market by FTSE Russell since 2018 and is also seeking emerging-market status from index provider MSCI Inc.

In an April report, FTSE said the market didn't meet the securities industry's settlement criteria. Instead, regulators require investors to deposit funds ahead of trading securities, a process FTSE rates as “restricted.” Improvements to the process of registering accounts are also needed, FTSE said.

Vietnam will be reviewed for possible reclassification as a secondary emerging market within the FTSE Equity

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Country Classification at its annual review in September 2022, FTSE said. MSCI said its annual announcement of the latest evaluation is due in June.

The recent crackdown may help add points in those and other reviews, analysts said.

"Previously, a significant part of the liquidity in Vietnam's stock market was manipulated and not transparent," said Dao Phuc Tuong, a chartered financial analyst and former portfolio manager at Singapore-based APS Asset Management. "As liquidity is among the main criteria for market classification by MSCI, the recent investigations over violations is only a change for the better."

A Communist Party report March 31 called for disciplinary action against five executives, including SSC Chair Tran Van Dung and Ho Chi Minh City Stock Exchange General Director Le Hai Tra "for accused violations and shortcomings in performing assigned tasks and responsibilities."

Executive Arrests Rattle Emerging Retail Investors in Vietnam

And since late March, police have detained a number of executives including the former chairman of Bamboo Airways and its parent FLC Group JSC Trinh Van Quyet, Tri Viet Securities former Chief Executive Officer Do Duc Nam and Louis Holdings former Chairman Do Thanh Nhan.

The moves have boosted confidence of foreign investors, said Tran Khanh Hien, head of research at VnDirect Securities Corp. "We have seen recent favorable signals of net buying from foreign investors after a long net-selling spree in the previous period," she said.

Foreign investors turned net buyers of Vietnamese stocks in April, the first time on a monthly basis since July 2021. Overseas investors were net sellers in the past two years.

Now "it depends on how persistent and serious the authorities are in implementing regulations to properly supervise the securities market in the long run," Tuong said. "If those are just a few cases, the market will return to its previous status without much improvement."

(Adds MSCI comment in 10th paragraph)

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