

30 Sep 2024

Securities

Circular 68 on non- prefunding

Non-rated

Bullish hope for transformation

On Sep 20 the Ministry of Finance issued a circular 68/2024/TT-BTC, valid from Nov 2 to adjust the transaction of listed shares, registration of transactions listed on the securities trading system (regulated by Circular 120/2020/TT-BTC), regulations for registration, depository, clearing and settlement of securities (regulated by Circular 119/2020/TT-BTC), on operation of securities companies (regulated by Circular 121/2020/TT-BTC). The details of circular 68 are listed in Table 1 below but the main amendments are largely centered on 1) allowing foreign institutional investors (FII) could be short of funds when placing a buying share order 2) the securities companies (brokers) must be responsible for payment and the risk assessment.

Some are excited

The Circular 68 comes all in a sudden and sparks some delights thanks to its positive effects including 1) financing the FII at the time of placing buy orders when they could lack funding and that could attract more foreign investment, enhancing market liquidity 2) signaling a maturing Vietnam equity market, one step closer to align with the global/emerging market practice of registration, depository, clearing and settlement of securities and 3) facilitating the upgrading to the emerging classification by FTSE Russell and MSCI .

But some are not....

Despite the growing optimistic sentiment on the Vietnam government's effort and intention to develop the securities market, some respond that the change listed in Circular 68 is not enough. The FII expects more for the new adoptions including the KRX platform which was suddenly muted in April, 2024, the model of the Central Clearing Party (CCP), and the non-voting depository receipt (NVDR). Most importantly, to achieve and maintain emerging market status, broader structural reforms and improvement in transparency, governance, and regulatory frameworks must accompany.

Action speaks louder

Given only over one month left for the validity of circular 68, the feasibility is universally controversial. First, the brokers must offer the eligible stock list of which the FII could buy for insufficient funds. Second, brokers must also apply the internal credit rating to assess the risk of specific FII. Last but not least, the total funding amount could be the maximum of either 1) the minus between 2 times of shareholder's equity and margin balance and 2) the convertible cash assets. At present, while waiting for the guidance of Vietnam Securities Depository and Clearing (VSD), the brokers must compile the internal routine to allow the relevant parties/teams/departments to collaborate smoothly. Hence, only times could answer the feasibility of the Circular 68.

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Table 1: Summary on the main content Circular 68/2024

| No. | Criteria | Content | Circular 68/2024 |
|-----|--|--|--------------------------------|
| 1 | Entities not required to have sufficient funds when placing trade orders | - Margin traders; - Foreign investors as organizations (foreign institutional investors). | Clause 1, Article 1 |
| 2 | Purchasing entity | Stocks | Clause 2, Article 1 |
| 3 | Risk assessment | Securities companies assess the payment risk of foreign institutional investors to determine the amount of money required when placing stock purchase orders. | Clause 2.1, Article 1 |
| 4 | Payment for insufficient funds | If a foreign institutional investor does not pay the full amount for a stock purchase, the payment obligation is transferred to the securities company where the investor placed the order, except in cases where the custodian bank confirms an incorrect balance. | Clause 2.2, Article 1 |
| 5 | Handling transferred to proprietary account | Securities companies may transfer ownership outside the stock trading system or sell through an agreement on the trading system for shares transferred to their proprietary account for foreign shares institutional investors with delayed payments, by the next trading day after shares are credited to the the account, ensuring compliance with foreign ownership limits. Furthermore, they may sell shares on the trading system for shares already transferred to their proprietary account. Losses, gains, and other expenses incurred from selling shares will be handled according to agreements between the securities company and the foreign institutional investor or their authorized representative. | Clauses 2.3 and 2.4, Article 1 |
| 6 | Payment responsibility of the custodian bank | The custodian bank where the foreign institutional investor opens their custody account is responsible for covering insufficient payments and any related costs (if any) if it confirms an incorrect deposit balance with the securities company, leading to insufficient payment for stock purchases. | Clause 2.5, Article 1 |
| 7 | Payment | Foreign institutional investors must have sufficient funds in their account before the custodian member is required to transfer money into their deposit account at the settlement bank to execute stock transactions. | Clause 2.1, Article 2 |
| 8 | Penalties | Securities companies may be penalized for violating laws and regulations of the Vietnam Securities Depository and Clearing Corporation (VSDC) if they fail to ensure payment obligations for foreign institutional investors. | Clause 2.3, Article 2 |
| 9 | Certain restrictions when receiving stock purchase orders without sufficient funds | - Limits on receiving trade orders; - No accepting purchase orders for stocks from the securities company itself; - No accepting purchase orders from the parent company of the securities company and subsidiaries of the same parent company owning shares in that securities company. | Clause 2, Article 3 |
| 10 | Limits | - The limit for receiving stock purchase orders without requiring sufficient funds from foreign institutional investors = Total convertible cash assets but not exceeding the difference between two equity times of the securities company and the margin loan outstanding. Convertible cash assets include: cash in fund, bank deposits, government debt instruments, unused certificates of deposit ensuring financial obligations, available overdraft limits, payment guarantee limits (if any), proceeds from pending sales of proprietary securities, advance receivables for sales of securities, and funds of foreign institutional investors to ensure payment capability for their stock purchases. | Clause 2, Article 3 |
| 11 | Basis for determining equity capital | - Quarterly financial statements prepared at the most recent period before the calculation. | Clause 2, Article 3 |
| 12 | Investment restrictions | - If a securities company violates investment restrictions under Clause 4 of this article, it must not continue to accept stock purchase orders without requiring sufficient funds from foreign institutional investors until it meets the investment limit and must implement necessary measures within a maximum period of 1 year to comply with the investment limit. | Clause 3, Article 3 |
| 13 | Information disclosure of foreign institutional investors | - If a foreign institutional investor does not perform a buyback, the securities company where the investor placed the order must disclose information through the channels of the State Securities Commission, the stock exchange, VSDC, and also publish information on its electronic information page about the transaction | Clause 2 Article 4 |

Source: KIS Vietnam

Table 2: Estimated the max funding amount by 40 largest securities company based on the financial statement as of Jun-24 (VNDbn)

| CODE | Full name | Margin bal. | Owner equity | The max funding |
|-------|------------------------------------|-------------|--------------|-----------------|
| TCBS | Securities company Techcombank | 24,198 | 24,643 | 25,088 |
| SSI | Securities company SSI | 19,596 | 24,840 | 30,083 |
| | Securities company Vpbank | 9,079 | 16,835 | 24,591 |
| VND | Securities company VNDIRECT | 10,936 | 17,284 | 23,632 |
| SHS | Securities company SG - HN | 3,477 | 10,985 | 18,493 |
| MASC | Securities company Mirae Asset | 16,066 | 9,994 | 3,922 |
| VPBS | Securities company VPS | 11,104 | 9,869 | 8,633 |
| VIX | Securities company IB | 4,084 | 9,115 | 14,146 |
| BSI | Securities company BIDV | 4,970 | 4,906 | 4,841 |
| HCM | Securities company TP.HCM | 18,542 | 10,664 | 2,785 |
| VCI | Securities company Viet Capital | 7,864 | 8,859 | 9,853 |
| ACBS | Securities company ACB | 7,236 | 8,897 | 10,558 |
| KISVN | Securities company KIS Vietnam | 7,597 | 5,556 | 3,515 |
| MBS | Securities company MB | 9,823 | 5,409 | 994 |
| DSE | Securities company DNSE | 3,411 | 4,117 | 4,824 |
| KBSV | Securities company KB Vietnam | 6,145 | 4,267 | 2,388 |
| VCBS | Securities company Vietcombank | 5,901 | 4,288 | 2,675 |
| FTS | Securities company FPT | 6,059 | 3,878 | 1,697 |
| ORS | Securities company Tien Phong | 2,183 | 3,717 | 5,251 |
| TVSI | Securities company Tan Viet | 294 | 3,297 | 6,300 |
| KEVS | Securities company Maybank Kim Eng | 4,542 | 3,209 | 1,877 |
| FSC | Securities company Yuanta Vietnam | 4,206 | 3,072 | 1,938 |
| VDS | Securities company Rong Viet | 2,657 | 2,653 | 2,649 |
| AGR | Agriseco | 1,473 | 2,389 | 3,305 |
| AAS | Securities company SmartInvest | 188 | 2,477 | 4,765 |
| BVS | Securities company Bao Viet | 3,530 | 2,433 | 1,337 |
| NASC | Securities company Shinhan | 3,247 | 2,357 | 1,466 |
| DSC | Securities company DSC | 1,568 | 2,304 | 3,039 |
| TVS | Securities company Thien Viet | 318 | 2,181 | 4,043 |
| CTS | Securities company Vietinbank | 2,657 | 2,150 | 1,643 |
| EVS | Securities company Everest | 172 | 1,983 | 3,793 |
| DDSC | Securities company AIS | 123 | 1,890 | 3,658 |
| APG | Securities company APG | 184 | 2,587 | 4,989 |
| ROSE | Securities company Kafi | 3,921 | 2,643 | 1,366 |
| PGSC | Securities company HD Securities | 185 | 2,459 | 4,732 |
| HRSC | Securities company KS | 95 | 1,653 | 3,211 |
| PHS | Securities company Phu Hung | 2,542 | 1,579 | 616 |
| HFT | Securities company Pinetree | 1,862 | 1,520 | 1,178 |
| VFS | Securities company Nhat Viet | 776 | 1,523 | 2,270 |
| CBVS | Securities company NH Vietnam | 711 | 1,359 | 2,008 |

Source: KIS Vietnam, FiinProX

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