

# Bond and Note Transactions and Trading Market Infrastructure

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## A. Trading of Bonds and Notes

Debt instruments issued in the Viet Nam bond market may be listed and traded on the exchanges and/or traded in the OTC market. Government bonds and T-bills are only listed on HNX but may also be traded OTC. Trades concluded directly on exchange are often for retail investors while OTC transactions tend to be for institutional clients or market participants. Particular market practices, the prevailing trading platforms and mechanisms and other trading relevant practices are explained in detail in this chapter.

Effective July 2017, the cash settlement function for trades in debt securities has been assumed by SBV; the function was earlier done by commercial banks.

## B. Significance of Trading Practice in Viet Nam

In Viet Nam, the market practice for debt securities trading has evolved over the years. From a time when the trading of debt securities was exclusively conducted via phone, the trading practice has come to incorporate the availability of a central trading platform in the bond market at HNX.

This practice combines the traditional interaction of trading counterparties in the bond market via phone or proprietary systems with the ability to record, monitor, and onward process the concluded trades in an efficient manner. In effect, the trading in debt securities listed on the exchanges functions like a put-through market.

Significantly, trades are still concluded directly between counterparties and subsequently entered into the HNX bond trading platform to facilitate matching, clearing, and settlement. Please see the next section for more details.

## C. Trading Platforms

Debt securities issued in Viet Nam may be traded either OTC or on the established exchange platforms. In daily practice among trading counterparties, however, the use of the two described platforms is combined to achieve better dissemination of price and execution details.

### 1. Over-the-Counter Market

The OTC market is the key trading venue for the Viet Nam bond market; the majority of the trading of debt securities occurs in the OTC market, including virtually all trades between institutional market participants. Counterparties execute trades via phone, voice broking, commonly used global platforms, or other mutually acceptable mechanisms with one another, before capturing those trades in the exchange system

for trade reporting, monitoring, and onward processing purposes. There is no single or market-specific trading platform for the OTC market in Viet Nam, even though concluded trades will be captured in the exchange platforms after execution.

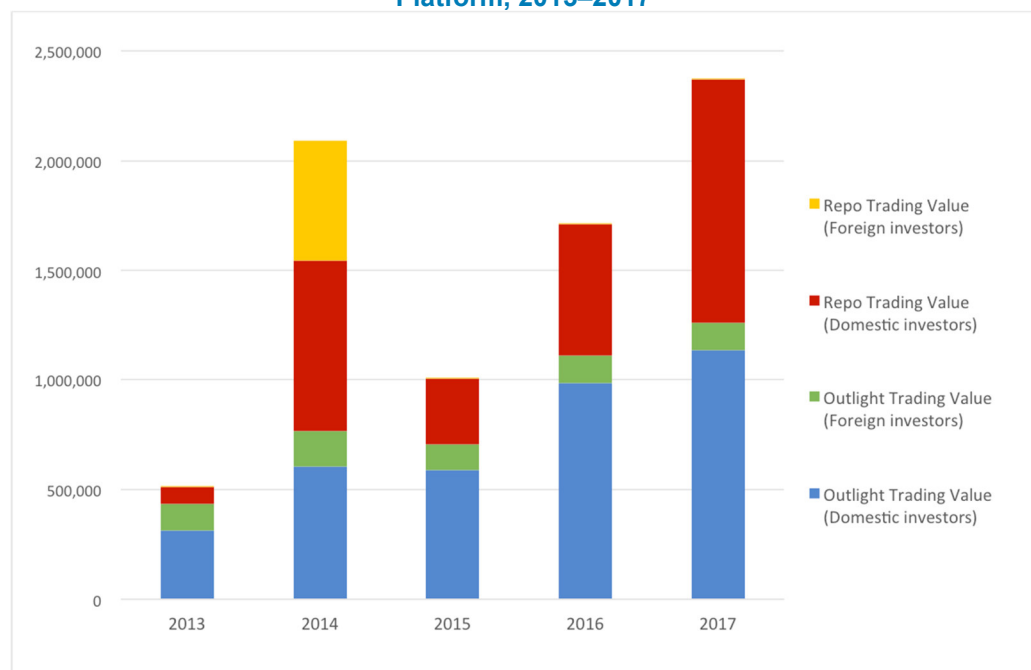
## 2. Trading on Hanoi Stock Exchange

HNX is the primary exchange for trading in debt securities in Viet Nam. Since 2009, government bonds, government-guaranteed bonds, and municipal bonds are only listed and traded on HNX (Figure 4.1). Foreign investors may participate in the trading on HNX but the proportion of their trading is still small.

In particular in the government bond market in Viet Nam, HNX's role and functions include the following:

- i. ensure open, fair, and successful bond trading in the market;
- ii. disseminate information in accordance with the Securities Law and other relevant documents;
- iii. provide trading information and training to market participants; and
- iv. consult regulators and authorities in setting up and revising legal documents relating to bond issuance and trading in the market.

**Figure 4.1: Government-Related Bond Trading on the Hanoi Stock Exchange Platform, 2013–2017**



Source: Hanoi Stock Exchange–Trading Scale Statistics, 2013–2017.

Key among the functions of HNX in recent years has been to facilitate a trading and trade capture platform for debt securities and to give trading members and the investing public access to relevant disclosure information via its systems and access points.

HNX built its trading system for both corporate and government bonds in-house. This trading system was enhanced over time to facilitate bond trading, including specialized

bond transaction such as repo (see also section H). For a chronological overview of trading system developments, please see Chapter I.B.

A dedicated trading platform for T-bills was launched in 2012, with the participation of constituents of the open market operation of SBV, as well as government bond market participants.

HNX introduced a comprehensive bond trading platform, E-BTS, to its members and participants in June 2015. Investors may download the E-BTS software from the HNX website and install it on their computers to connect to the HNX system and get updates on government bond trading-related information at any time.

In June 2016, HNX introduced the web-based automatic bidding system, E.ABS, in its effort to improve primary market access and broaden the investor base of the government bond market. E.ABS allowed for members' flexible participation in the bidding process, reduced the length of bidding time, and applied lower brokerage fees.

At the end of 2017, the government bond trading system on HNX comprised 58 members, including 30 securities companies and 28 commercial banks.

Trading occurs from Monday to Friday (Table 4.1), unless the day is considered a holiday under the Labor Law or specifically designated as an off-day by the exchange management.

**Table 4.1: Hanoi Stock Exchange—Debt Securities Trading Hours**

Trading Session	Time
Morning Session	8:30 a.m.–11 a.m.
Afternoon Session	1 p.m.–2.15 p.m.

Source: Hanoi Stock Exchange. <https://www.hnx.vn/en-gb/huong-dan/chi-tiet-thu-tuc-24-53.html>

### 3. Interbank Money Market

SBV organizes and governs the interbank bank market as part of its open market operation, pursuant to Circular No. 42/2015-TT-NHNN, issued on 31 December 2015. SBV and its financial institution constituents trade repo and outright transactions as counterparties.

However, the interbank market does not have a dedicated bond trading platform. Instead, participants use the HNX bond trading platform, E-BTS, to capture the trades that have been concluded bilaterally between counterparties.

## D. Mandatory Trade Reporting

Trades in debt securities are executed in the OTC market and, for bonds listed on the exchange, subsequently entered into the respective exchange platform to allow trade reporting and monitoring by the exchanges and regulatory authorities.

Circular No. 203/2015/TT-BTC sets the policy on trading and trade reporting to the SSC. In Article 13 (Report and Supervision Policies), the circular states that the exchange and VSD shall submit reports on securities trading to the SSC in accordance with the law. Both the exchange and VSD shall carry out the supervision of securities trading on behalf of the SSC.

In addition, securities companies shall submit periodic or unscheduled reports on margin trading and day trading activities to the SSC and the exchange (if so involved) and VSD (if so involved), as further regulated by the SSC.

As for the often-cited lag time in the Viet Nam bond market between the execution of a trade between counterparties and its capture in the exchange system, Circular No. 10/2017/TT-BTC states that the transaction result is to be captured into the HNX bond trading system on the working day the deal is concluded between counterparties.

## **E. Market Monitoring and Surveillance in the Secondary Market**

HNX and HOSE work in close coordination with the SSC units and related entities to strengthen market surveillance, especially the monitoring of unusual transactions.

To illustrate, HNX and HOSE have developed comprehensive solutions to cope with market changes, such as adding further criteria for routine surveillance detecting of abnormal transactions, automation of surveillance procedures, as well as the introduction of advanced software with high-speed processing capabilities to help provide early alerts to abnormal transactions.

Additionally, the management of the investor monitoring database of the securities companies has also become easier and better through the use of the CIMS by members, in addition to the Market Surveillance System of the SSC. A derivatives market surveillance system has also been developed and is in the process of functional testing.

In addition, VSD has a monitoring function to ensure that holding limitations imposed on investors by law and regulations are observed. Since all listed shares and listed bonds are deposited with, and settled through VSD, all transactions entered into the exchange systems will be transmitted to VSD. This allows VSD to check investor and participant account holdings against market concentration obligations under prevailing regulations. If the ownership level of an investor exceeds a certain percentage (for example, to be classified as a large shareholder), VSD will report such an occurrence to the SSC on a monthly basis.

## **F. Information on Debt Securities**

Information on the nature of debt securities in Viet Nam—their listing, trading, and settlement status—is available from policy bodies, regulatory authorities, and market institutions. In addition, individual market participants offer bond information services, including access to their own trading platforms to their clients via their proprietary systems and websites.

### **1. Government Securities**

Information on government securities or the bond market at large on the MOF website, as well as on the website of the VST, a unit of the MOF, is presently available in Vietnamese only. However, the MOF website allows the search for laws and regulations relevant for the bond market with keywords in English and provides the full text of such laws and regulations in English as search results.

The HNX website does feature information and trading data on government securities in English (see also section 4). Information and data on Viet Nam government

securities in English is also available from the *AsianBondsOnline* website (see also section G).

## **2. State Securities Commission**

On its website, the SSC provides comprehensive information on laws and regulations for the securities market, including bond market related regulations, as well as general information on HNX and HOSE. As part of its education focus, the SSC offers a Q&A function via its website, where interested parties can email questions on the securities market and receive a response via email as well. The SSC website also contains links to news and daily trading results on HNX and HOSE.

## **3. State Bank of Vietnam**

SBV acts as the agent for the VST in organizing bidding and in issuing, depositing, and making related payments for T-bills and Treasury bonds. SBV also carries out its open market operation, i.e. the buying and selling of debt securities from or to its financial institution constituents, as part of its monetary policy tools.

On its website, the SBV announces open market auctions. Information on the actual auctions is available from HNX which serves as the auction platform (see also next section).

## **4. Hanoi Stock Exchange**

In addition to announcements and results of auctions and bond issue underwriting, HNX provides comprehensive information on debt securities listed and traded on its markets. Information on the latest announcement for debt securities or stakeholders can easily be retrieved using the HNX website; see Figure 4.2 for an example of the information selection available.

Investors who download the E-BTS software (see also section C.2) from the HNX website and install it on computers to connect to the HNX system will be able to check and update government bond trading-related information at any time and from any location.

Figure 4.2: Information Disclosure on the Hanoi Stock Exchange Website

**Figure 4.2: Information Disclosure on the Hanoi Stock Exchange Website**

The screenshot displays the Hanoi Stock Exchange (HNX) website's Information Disclosure page. The page features a navigation bar with links to HNX, AUCTION, STOCK, ETF, BOND, DERIVATIVES, and REGULATION. The BOND section is currently selected.

The main content area is titled "INFORMATION DISCLOSURE" and includes a search interface with the following fields:

- Period: from date (calendar icon) To date (calendar icon)
- Stakeholders: (text input field)
- News release: (text input field)
- SEARCH button

Below the search interface, there is a table displaying the search results. The table has the following columns: No., Time, Stakeholders, News release, and Attached files. The table shows 10 records, with a total of 2444 records displayed.

No.	Time	Stakeholders	News release	Attached files
1	15/01/2018 17:17		12/01/2018, first trading date of Government bond TD1825102	
2	15/01/2018 17:17		12/01/2018, first trading date of Government bond TD1833122	
3	15/01/2018 17:17		12/01/2018, first trading date of additional Government bond TD1828112	
4	10/01/2018 15:17		List of auction members of Government Bond for 2018	
5	10/01/2018 15:17		Membership termination	
6	10/01/2018 15:17		Schedule of Government bond bidding via the Hanoi Stock Exchange in 2018	
7	05/01/2018 10:10		05/01/2018, first trading date of Government bond TD1828112	
8	05/01/2018 10:10		05/01/2018, first trading date of Government bond TD1823087	
9	29/12/2017 16:10	QH072209	RECORD DATE FOR BOND COUPON PAYMENT OF QH072209	
10	29/12/2017 15:42	BVBS14036	Record date for bond coupon payment of BVBS14036	

Below the table, there is a pagination bar showing "Total 2444 Record(s)" and a set of buttons for navigating through the records (1, 2, 3, 4, 5, >, >>).

The footer of the page contains several sections:

- SERVICES:** Investor Relations, News Center, Procedure Guide, Information Supply Service.
- NEWS:** Events, Social activity, HNX Events Calendar, Holidays.
- CONNECTS:** Facebook, Survey.
- LINK:** SET (The Stock Exchange of Thailand).

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Source: Hanoi Stock Exchange. <https://hnx.vn/tin-trai-phieu-hnx.html>

The information covers announcements by HNX, such as on trading dates and interest payments, by issuers of debt securities or by trading members. The disclosure identifies stakeholders of the debt securities shown so that potential readers can obtain a comprehensive view of related information.

In addition, HNX provides easy access to trade-related data through a number of dedicated web pages for market data, including on outright and repo transactions, yields and yield curves, as well as bond indexes (see also next section).

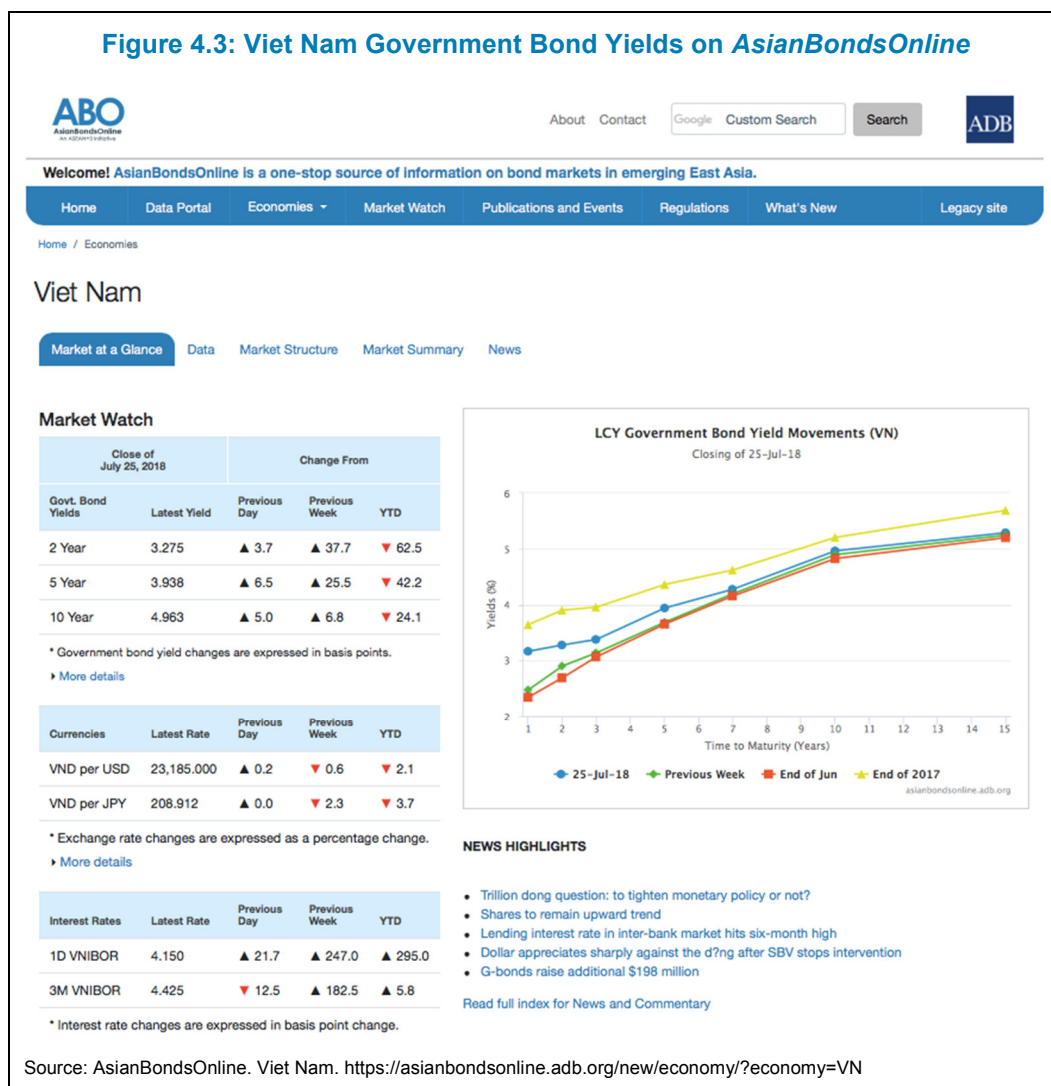
## G. Yields, Yield Curves, and Bond Indexes

Information on yields as well as yield curves for government securities and corporate bonds issued in the Viet Nam market is available from HNX and a number of market institutions.

## 1. Yields and Yield Curves for Government and Corporate Bonds

Information on yields and yield curves for Viet Nam government and corporate bonds are available from a number of market institutions, global trading platforms, and commercial data vendors. *AsianBondsOnline*, an initiative under ASEAN+3, also features comprehensive information, particularly on Viet Nam government bonds, on its website (Figure 4.3).

Figure 4.3: Viet Nam Government Bond Yields on *AsianBondsOnline*



At the same time, yield information and yield curves for a number of periods to maturity are also available from the HNX website (Figure 4.4).

Figure 4.4: Yield Curve on the Hanoi Stock Exchange Website



## 2. Bond Indexes in Viet Nam

In 2015, HNX introduced a set of so-called G-Bond indexes, consisting of a composite index with 2-year, 3-year, and 5-year variations; these indexes for the LCY government bond market were aimed at measuring its development. The indexes help enhance transparency and assist local and international investors in making bond transaction decisions.

These G-Bond indexes, also known collectively as Vietnam Bond Index or the HNX Vietnam Bond Index, are the first and currently the only indexes for the listed bond market in Viet Nam. The HNX Vietnam Bond Index is used as a benchmark to evaluate the market value of all Vietnamese bonds.

The Vietnam Bond Index is based on Treasury bonds, which account for 71% of the total value of listed government bonds and are low-risk instruments, while serving as a base for investors to assess other bonds in the market.

The Vietnam Bond Index includes general indices and those for bonds of different terms. The component bonds for the Vietnam Bond Index are shown on the HNX



website, together with their selection criteria and basic information on the index.<sup>13</sup> Following the Vietnam Bond Index, HNX will develop indices for government-guaranteed bonds, local government bonds, and bond liquidity.

The Vietnam Bond Index is expected to help improve information transparency in the bond market, support the government in evaluating the influence of macro policies on the market, and assist financial organizations in analyzing, forecasting, studying, and managing bond portfolios.

In addition to HNX and Bloomberg, Reuters also publishes the Indicators for Viet Nam's Government Bond Market, using the official names "VN Bond Yield Curve" and "VN Bond Index" for international investors.

## H. Repo Market

### 1. Repo Market Overview

Repurchase agreements were introduced in Viet Nam in 2003. The Viet Nam Bank for Agriculture and Rural Development was the first state-owned bank to offer repurchase services at the time. Since August 2008, some local securities companies have restarted corporate bond repo services for selected clients and portfolios. In 2009, official repo transactions for government bonds started on HNX.

SBV uses repo transactions, in addition to the outright sale and purchase of eligible debt securities, to conduct open market operations, which are governed by Circular No. 42/2015-TT-NHNN, issued on 31 December 2015 and effective from 30 April 2016. In this context, the MOF also issued Circular No. 206/2009/TT-BTC, dated 27 October 2009, Instructing the Accounting Treatment for Government Bond Repo Transactions Pursuant to Decision No. 46/2008/QD-BTC.

Trading of repos is typically conducted on HNX's bond trading platform, which has a dedicated repo function, mainly via the put-through method (see also earlier sections in the chapter for information on trading methods). Concluding cross-border repo transactions using domestic debt securities is not permitted.

### 2. Repo Market Size

As of 31 December 2017, the total government bond trading value had reached over VND2,376 trillion, of which outright transactions and repos reached VND1,264.6 trillion and VND1,109.8 trillion, respectively. In 2017, repo trading accounted for an increased proportion of the total trading value (approximately 47%). Only 5 years previously, the repo trading value had accounted for only 15% of the total market trading value (Table 4.2); by 2017, the repo trading value had almost reached the outright trading value, a good indicator of increased market liquidity and the development of the Viet Nam bond market overall.

<sup>13</sup> See <https://www.hnx.vn/trai-phieu/tong-quan-chi-so-trai-phieu.html>

**Table 4.2: Government-Related Bond Trading Value in Viet Nam, 2013–2017**  
(VND billion)

Item	2013	2014	2015	2016	2017
Outright Trading Value	433,350	764,531	706,026	1,109,204	1,264,621
Repo Trading Value	79,255	1,325,458	302,151	607,202	1,109,828
Total	514,618	2,092,003	1,010,192	1,718,421	2,376,465

Note: Government related bonds include government bonds, government-guaranteed bonds, and municipal government bonds.

Source: Hanoi Stock Exchange–Trading Scale Statistics, 2013–2017. <https://www.hnx.vn/en-gb/trai-phieu/thong-ke-giao-dich.html>

Table 4.3 details the participation of resident and nonresident investors, respectively, in the government-related bond repo trading volume over the period 2013–2017.

**Table 4.3: Repo Trading Value by Resident Status in Viet Nam, 2013–2017**

Year	Repo Trading Value (VND billion)		
	Domestic investors	Foreign investors	Total
2013	76,246	3,009	79,255
2014	780,543	544,914	1,325,458
2015	297,577	4,574	302,151
2016	603,682	3,520	607,202
2017	1,107,241	2,586	1,109,828

Source: Hanoi Stock Exchange–Trading Scale Statistics (Repo), 2013–2017. <https://www.hnx.vn/en-gb/trai-phieu/thong-ke-giao-dich.html>

### 3. Acceptance of Standards

Viet Nam's repo market is still fairly new, with only one kind of repo currently being offered. At the same time, the Global Master Repo Agreement and its related practices, are not yet applied. VBMA and market participants are, however, considering the use of the Global Master Repo Agreement in the market. With the fragmentation of the repo market between the exchange market and the interbank market, an acceptance of the same standards by all market standards and participants may also be a challenge.

### 4. Specific Repo Practices in Viet Nam

#### a. Type of Repo

In Viet Nam, repo transactions are classified as the classic type of repurchase agreement, or the sale and (re)purchase type transactions. Other types of repo transactions found in regional markets, such as the pledged type or the borrowing and lending type, are not evident in Viet Nam.

#### b. Size and Tenor

In the case of the repo market on exchange, repo transaction terms range from 2 days to 180 days. Common tenors for T-bill repos on HNX are 1 month and 2 months; the former accounts for 48% of the total trading volume, while the latter represents 30%. For government bonds, the preferred tenors include 2 weeks, 1 month, 2 months, and 3 months, with the respective shares of the total trading volume being 17%, 36%, 10%, and 9%. These numbers are based on repo statistics for 2010–2017.

#### c. Market Control

SBV organizes and governs the repo market with its constituents as part of its open market operation; however, concluded trades are entered into the HNX bond trading platform for execution and downstream clearing, settlement and monitoring. HNX provides trading rules and the actual trading system for repo transactions and organizes and governs membership and trading practices for the on-exchange repo market.

#### d. Eligible Debt Securities as Collateral

For repos conducted as part of the open market operation of SBV, government securities, including T-bills and government bonds with maturities of more than 1 year, are accepted as collateral in transactions between commercial banks and SBV. Government bonds with maturities of more than 1 year are commonly used as collateral for repos between securities firms, commercial banks, and financial firms.

Municipal bonds are legally acceptable as collateral for repos; but, in reality, they are rarely used.

#### e. Accounting and Tax Treatment

The accounting treatment for repo decisions follows the corresponding Circular No. 206/2009/TT-BTC pursuant to Decision No. 46/2008/QĐ-BTC, which was issued by the MOF on 27 October 2009.

The tax treatment of repo transactions does not differ from that of normal buy and sell transactions of debt securities in the Viet Nam market. The difference in securities price between buy and sell price is subject to an individual's or an institution's personal or corporate income tax, respectively. There is no transaction tax and stamp duty is not applicable to repo transactions.

#### f. Market Participants

Market participants in the open market operation of SBV are the central bank and its financial institution constituents. Securities firms, commercial banks, and financial firms are participants in repo trades conducted through the HNX bond trading platform.

SBV is the main liquidity provider in the interbank market. In addition, investors with surplus cash will provide liquidity to investors in need of funds.

### g. Market Access and Participation of Foreign Investors

Direct access is not possible for nonresident investors. Parties interested in repo transactions will need to appoint a securities firm or commercial bank to execute repo trades on their behalf.

The participation of foreign investors in the Viet Nam repo market is still relatively low (Table 4.4).

**Table 4.4: Repo Trading Value by Resident Status, 2017**

Bond type	Repo Trading Value (domestic investors)	Repo Trading Value (foreign investors)	Total Repo Trading Value (VND billion)
Government Bonds	888,153	2,586	890,739
Government-Guaranteed Bonds	219,088	0	219,088
Municipal Government Bonds	752	0	752
Total	1,107,994	2,586	1,110,580

Source: Hanoi Stock Exchange.

## I. Securities Borrowing and Lending

Since August 2014, VSD has been offering securities borrowing and lending services for the purpose of supporting securities transaction settlement in case of temporary securities shortage by VSD's depository members as a result of error correction and by supporting ETF authorized participants to have sufficient securities to make capital contributions and execute the creation or redemption transactions with ETFs. Securities for lending are made available by depository members or their investor clients with long positions; VSD acts as aggregator for those available positions.

In 2017, VSD concluded 104 securities borrowing and lending contracts, including 99 securities borrowing and lending contracts to support settlement, and 5 borrowing and lending contracts to support ETF creation or redemption. All contracts were executed in a timely manner.

In an effort to upgrade the existing securities borrowing and lending system, VSD developed and provided government bond borrowing and lending services for sale to market makers, with effect from 1 September 2017. Government bond borrowing and lending transactions are carried out by negotiation, in which the related parties reach an agreement and take responsibility for details such as loan volume, loan assets and returns, interest rates, and other terms.

A change in regulations recently permitted market participants to offer and conduct commercial bond borrowing and lending business in the Viet Nam market. Pursuant to Circular No. 10/2017/TT-BTC Amending, Supplementing a Number of Articles of Circular No. 234/2012/TT-BTC, commercial bond borrowing and lending may now be conducted through the HNX bond trading system.

## **J. Government Bond Futures**

### **1. Launch of the Derivatives Market in 2017**

On 10 August 2017, HNX announced the inaugural launch of the derivatives market, the first of its kind in Viet Nam. Following the completion of the legal framework for the derivatives market, the MOF directed the SSC, HNX, and VSD to develop market infrastructure and products, and equip market intermediaries and the investor community with the necessary information and to make preparations. Following the publication of Decree No. 42/2015/ND-CP on Derivative Securities and Derivative Securities Market in May 2015 (and effective 1 July 2015), the MOF issued Circular No. 11/2016/TT-BTC in January 2016 (later augmented by Circular 23/2017/TT-BTC in March 2017) to guide market institutions and market participants in the introduction of the derivatives market.

Since the launch, HNX is operating the derivatives trading system, while VSD is responsible for clearing and settlement for derivative instruments; the Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank) takes on the role as settlement bank for the derivatives market.

The derivatives trading, clearing, and settlement system was developed in collaboration with the Global Markets Exchange Group (United Kingdom) and FPT Vietnam, ensuring synchronized technology and real-time connection. The market consists of seven member brokers—BIDV Securities, HCM City Securities, MB Securities, Saigon Securities, VietCapital Securities, VNDIRECT, and VPBank Securities—who facilitate the trading of derivatives products in Viet Nam.

The derivatives market opens 15 minutes earlier than and closes at the same time as the current stock market.

### **2. Products**

Three futures contracts have been approved to be traded in the derivatives market, on the basis of contracts that would represent the most liquid underlying assets. Among the approved products is the 5-year government bond futures contract. However, as of July 2018, the government bond futures contract was yet to be introduced to the market.

### **3. Delivery Months of Futures Contracts**

The delivery months of the futures contracts would be the spot month, the next calendar month, and the next 2 months in a given quarter.