

# GUIDE TO SECURITIES TRADING

in Vietnam – August 2017

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# 1 OPTIONS FOR CUSTODY VIETNAMESE SECURITIES FOR FOREIGN INVESTORS

In order to invest in Vietnamese securities, foreign investors have two options:

- I. Do an **onshore custodian** setup to directly hold securities and cash accounts in Vietnam. Our suggested banks to do this service are Deutsche Bank Vietnam and Bank for Investment and Development of Vietnam JSC (BIDV).
- II. Use an **offshore custodian** bank which offers custodian services for Vietnamese securities outside Vietnam. In May 2017, we started to partner with Neue Helvetische Bank Zurich to offer this service to clients in Switzerland.

A comparison amongst the three custodian service providers in terms of process and fees.

Bank	Deutsche Bank Vietnam – onshore	Bank for Investment and Development of Vietnam JSC (BIDV) – on shore	Neue Helvetische Bank Zurich – offshore
			
Opening process	Expected timeline: 3 months	Expected timeline: 3 months	Expected timeline: 1 month Securities Trading Code is not needed – segregation on Swiss level
Settlement instruction	Required (SWIFT or DBDI)	Auto	Auto
Fees	Securities Trading Code application: 1,000 USD Custody: 0.10 % p.a. on AUC, minimum 18 000 USD Booking Fee 50 USD Brokerage 3 <sup>rd</sup> party: 0.15%  Vietnam Depository: VND0.4/share per month Stamp duty: None	Securities Trading Code application: free Custody: 0.10 % per transaction, no minimum Booking Fee: None Brokerage 3 <sup>rd</sup> party: 0.15%  Vietnam Depository: VND0.4 /share per month Stamp duty: None	Securities Trading Code application: N.A. Custody 0.25% on AUC (GLOBAL Custody) Booking Fee: 50 USD Brokerage incl. 3 <sup>rd</sup> party: 0.30%  Vietnam Depository: VND 0.4/share per month Stamp duty: 0.15%
Currency	USD, VND, EUR, CHF	USD, VND	USD, VND, EUR, CHF, GBP
Clients	Only institutional	Institutions/ Individuals	Institutions, Individuals

## 2 THREE STEPS TO ONSHORE CUSTODY

In order to directly invest in Vietnamese securities, foreign institutional investors must complete the following steps:

- I. Open custody accounts including securities and cash accounts (Indirect Investment Capital Account with a licensed commercial bank in Vietnam listed in the next section<sup>\*</sup>
- II. Obtain a Securities Trading Code, which is used to monitor foreign ownership limits
- III. Open trading account(s) with securities companies <sup>\*\*</sup>

<sup>\*</sup> In accordance with Circular 05/TT-NHH dated 12 March 2014 ("Circular 05"), all foreign indirect investment activities are required to be processed through one Vietnamese Dong (VND) cash account opened at an authorized bank (commercial bank or branch of foreign bank licensed for FX trading and FX services). The account is named Indirect Investment Capital Account (IICA) and is in VND. Multiple foreign currency accounts can be opened. The most common currency account used is USD.

<sup>\*\*</sup>Circular No. 74/2011/TT-BTC dated June 1, 2011 allows multiple trading accounts, margin trading and same-day trading. However, though the guidelines have been given to the market, it is unclear how the rules will be applied in practice to margin trading and same-day trading.

We will describe this three- step process in detail below. However, the banks we recommend in the next section provide all the services needed to open a securities trading account (including document translation services) and will guide the client through the whole process.

Under Vietnamese law, foreign investors are defined as:

- Organizations established and operated in compliance with foreign law, foreigners (residents and non-residents), non-resident Vietnamese living abroad.
- Institutions established and operating in Vietnam with more than 49% foreign capital.

### 2.1 Step 1: Opening Custody Securities and Cash Accounts

#### Custody Securities Account

Foreign investors who wish to purchase shares on Ho Chi Minh City Stock Exchange (HOSE), the Hanoi Stock Exchange (HNX), or UPCOM must open a custody securities account at a custodian bank licensed to hold securities on behalf of foreign investors. We advise foreign institutional clients to deal with one of the following banks:

**Bank for Investment and Development of Vietnam JSC (BIDV)**

12-14 Nam Ky Khoi Nghia Street, District 1  
Ho Chi Minh City, Vietnam  
Tel: +84 28 3221 8812  
Fax: +84 28 3914 4714

**Deutsche Bank AG**

Saigon Centre, 65 Le Loi Boulevard, District 1  
Ho Chi Minh City, Vietnam  
Tel: +84 28 3829 9000  
Fax: +84 28 3822 2760

#### Indirect Investment Capital Account (IICA)

This is a Vietnam Dong (VND) account at a licensed commercial bank operating in Vietnam for the purpose of trading both listed and unlisted securities. Securities trading may only be executed in VND, but clients can have multiple foreign currency cash accounts.

**Documents required (1 copy each):**

1. Account opening contract
2. Certificate of Incorporation
3. Charter / Memorandum & Articles of Association
4. Resolution Appointing the General Director, Director or Chief Representative, authorized signatories
5. Passports of authorized signatories and individuals who hold 10% or more of the company
6. Ownership structure
7. FATCA
8. Other operational forms (Fax, POA, brokerage appointment, etc.)

Documents 3, 4, 6 must be certified true by notary public or company secretary or original sighted by the Bank's staff. Document 5 must be notarized and consularised at the Vietnamese Embassy or consulate in the country of incorporation.

## **2.2 Step 2: Obtaining a Securities Trading Code**

Once submitted the completed set of forms to the custodian bank, they will apply for and register a Securities Trading Code (STC) on behalf of the foreign institutional investor.

The application and registration of the Securities Trading Code is done with the Securities Depository Center of Vietnam.

**Documents required:**

- |  |          |
|--|----------|
| 1. Certificate of Incorporation                    | (1 copy) |
| 2. Investment Fund Charter (for funds only)        | (1 copy) |
| 3. Securities Trading Code Application Form (STC)  | (1 copy) |
| 4. Custodian Appointment (Letter of Authorization) | (1 copy) |

**Documents provided by the company (1 and 2) must be:**

- Notarized at a notary public in the investor's country of incorporation
- Legalized at the Vietnamese Embassy or consulate in the country of incorporation
- Translated into Vietnamese after notarization/legalization

Depending on the amount of work involved in the translation of the investor's documents, the trading code can usually be obtained in 1 to 2 weeks.

## **2.3 Step 3 Opening Trading Account(s) with one or more securities companies**

According to Circular No. 74/2011/TT-BTC following by Official Letter No. 2327/UBCK-PTTT, multiple brokers are allowed. Foreign institutional investors must submit the following documents to open a trading account at one or more securities companies:

1. Account Opening Contract (1 copy)
2. Signature Registration Form (1 copy)

3. Certificate of Incorporation (1 copy)
4. Copies of authorisers' passports (1 copy)

The Account Opening Contract and Signature Registration Form (1 and 2) are provided by securities company.

**Note:** Documents 3 and 4 can be copies of the notarized Certificate of Incorporation and Passport used to obtain the Securities Trading Code.

## **3 OTHER PROCEDURES FOR ONSHORE CUSTODY**

### **3.1 Transferring Foreign Currency or VND to the IICA**

For incoming and outgoing funds from the IICA for indirect investment activities of foreign investors, the authorized bank is required to check supporting documents in relation to the transactions. The supporting documents may include: the client's incoming remittance instructions, FX conversion instructions, dividend payment receipts, securities sales proceed advice, settlement instructions, investment contracts/agreements. Dividend/interest income and capital gains can be freely repatriated with the provision of supporting documents proving that the money had been remitted to and invested in the Vietnamese market and evidence/clearance from the tax office that all tax obligations have been fulfilled. The local custodian bank normally offers FX facilities through its dealing department, where foreign currency versus VND deals and vice versa can be executed on every business day from 8.00 AM to 3.30 PM.

Under Circular 05, foreign investors are no longer allowed to use balances in the indirect investment capital account ("IICA") for placing VND term deposits and saving deposits with banks. Payment of interest on IICA balances is not compulsory but can be agreed with the local custodian bank on a case to case basis and is subject to market conditions.

All fund transfers must be transacted in accordance with Vietnamese anti-money laundering laws. Investors are responsible for the legality of the funds transferred into Vietnam for the purpose of trading securities.

### **3.2 Withdrawal or outbound transfer of funds**

There are no restrictions on the repatriation of funds by foreign investors as long as the investor has complied with all current tax laws and regulations. The use of IICA is restricted to invest in indirect investment, to do FX for repatriation, and to pay legalized fees for services incurred in Vietnam only.

## 4 TRADING RULES

### 4.1 Trading Days and Hours

*Trading days: Monday to Friday (except national holidays)*

*Trading sessions in a trading day:*

#### Trading hours on the HSX

Session	Trading Hours	Trading method
Morning	09:00-09:15	Opening periodic order-matching to fix opening price
	09:15-11:30	Continuous Matching session I
	09:00-11:30	Put-through transactions - Block equities trading - Bond trading
Break	11:30-13:00	
Afternoon	13:00-14:30	Continuous Matching session II
	14:30-14:45	Closing periodic order-matching to fix closing price
	13:00-15:00	Put-through transactions - Block equities trading - Bond trading

#### Trading hours on the HNX

Session	Trading Hours	Trading method
Morning	09:00-11:30	Continuous Matching and Put through transactions
Break	11:30-13:00	
Afternoon	13:00-14:30	Continuous Matching
	14:30-14:45	Closing periodic order-matching to fix closing price
	13:00-15:00	Put-through transactions

#### Trading hours on the UPCoM

Session	Trading Hours	Trading method
Morning	09:00-11:30	Continuous Matching and Put through transactions
Break	11:30-13:00	
Afternoon	13:00-15:00	Continuous Matching and Put through transactions

## 4.2 Price Ranges

For shares/investment fund certificates: the maximum price fluctuation (Trading Band) allowed during a trading day is + or - 7% to the reference price on HSX and + or - 10% on HNX. The price range for a particular stock on HSX is determined as follows:

- Maximum price (ceiling price) = Reference price + 7%
- Minimum price (floor price) = Reference price - 7%
- On the first listing day, a particular stock can fluctuate + or - 20% to the reference price

No price range applies to bonds

*\*Note: The Trading Band is subject to change. Please contact securities company for the latest applicable Trading Band.*

### Note on reference prices:

- The reference price of the particular stock/investment fund certificate is its closing price from the previous day.
- The closing price of the particular stock/investment fund certificate is the matching price of the closing periodic order matching session (session 3). If a security is not transacted in session 3, then the closing price of that particular stock/investment fund certificate will be the last price at which it was transacted that day.
- On the ex-dividend date or ex-right date, the reference price shall be determined by adjusting the previous trading day's closing price by the value of dividend or right accordingly.

## 4.3 Order Types

### Limit Order (LO):

- Orders to be matched at a pre-specified price or better price
- Limit orders receive the lowest priority compared to other orders.
- Limit orders can be entered into the system at any time. The orders remain effective until the end of the trading day or until canceled in the system.

### At the Opening Order (ATO)

- Orders to be matched at the opening price. ATO orders are only placed during the opening periodic order-matching to fix opening price.
- ATO orders receive higher priority than limit orders.
- Partially filled or unmatched ATO orders will be automatically canceled at the end of the opening session.

### At the Closing Order (ATC)

- Orders to be matched at the closing price. ATC orders are only placed during the closing periodic order-matching to fix closing price.
- ATC orders receive higher priority than limit orders.
- Partially filled or unmatched ATC orders will be automatically canceled at the end of the closing session.

### Market order (MP)

- It is an order to buy or sell shares immediately at the best available current price.
- Once inputted into the trading system, the MP sell order will be immediately executed at the lowest offer price and the MP buy order will be immediately executed at the highest bid price. In case the MP order is not fully matched, the MP order will be considered as buy order at a higher price or sell order at lower price and continue to match.
- If the MP order is executed partially, the remaining volume of the MP buy order and the MP sell order will be changed to next higher price unit and next lower price unit respectively compared to the last executed price.
- If the last executed price is limit up price/limit down price, the MP order will be changed to limit order at limit up price/ limit down price
- The MP order is valid in continuous order-matching session only.
- The MP order will be automatically cancelled if there is no corresponding limit order at the time the MP order is input into the trading system
- The MP orders of foreign investors will be automatically cancelled if the Foreign Ownership Limited (FOL) of the certain stock is no longer available.

## 4.4 Matching Principles

### Price priority

- Buy orders at higher prices take precedence.
- Sell orders at lower prices take precedence.

### Time priority

- For buy or sell orders at the same price, those entered into the trading system earlier shall take precedence in execution.

## 4.5 Price Determination

The price of newly-listed shares and investment fund certificates on the first trading day shall be determined as follows:

- Issuing organization and the consulting organization must provide an expected trading price which shall act as a reference price for the first trading day. The trading band applied for the first trading day will be +/- 20% of the expected trading price.
- The matching price of the first trading shall be the reference price for the next trading day. The normal trading band (+/- 7%) shall be applied beginning the next trading day.
- If the matching price of newly listed shares/investment fund certificates cannot be determined on the first trading day, the issuing organization shall adjust the expected trading price.

## Price Unit

Price level (VND)	Shares, Certificates (VND)	Bonds(VND)
<10,000	10	1
10,000 – 49,950	50	1
≥50,0000	100	1

## Trading units (Board Lots)

- Trading unit: 1 lot = 10 shares/investment fund certificates/bonds.
- Face value of stocks or investment fund certificates: VND10,000
- Face value of bonds: VND100,000
- Trading volume per order

**Note:** \*Automatic Order Matching: from 10 to 500,000 shares/investment fund certificates.

\*Negotiated deal (put-through transaction): > = 20,000 shares/investment fund certificates on HSX and > = 5,000 shares on HNX.

## 5 OTHER TRADING REGULATIONS IN VIETNAM

### 5.1 Amendment and Cancellation of Orders

#### During periodic order matching sessions

- Cancellation of orders placed in the trading system during the same periodic order-matching session is not allowed.
- Only unmatched or the remaining parts of partially-filled orders placed in the trading system during previous trading sessions that day can be canceled in the next order matching session.

#### During continuous order matching sessions

- Unmatched or remaining parts of partially filled orders can be amended or canceled during the continuous order matching session.

### 5.2 Foreign Ownership Limits

Regulations regulating the foreign ownership limit (FOL) are covered by Decree 60/2015/ND-CP dated June 26, 2015 in amendment of Decree 58/2012/ND-CP which will be effective from 1 September 2015. These decisions provide the FOLs for the Vietnamese securities market and foreign investors' contribution of capital and purchase of shares in Vietnamese enterprises. Except for the restricted sectors, public companies will now be allowed to decide by themselves their own FOL which is indicated in the company charter. Accordingly, in most cases, it is possible to buy 100% of the capital of a Vietnamese company.

A shareholder holding 5% of the total shareholding in a company or more is considered as a major shareholder. A major shareholder directly or through its custodian bank or appointed representative must report to the HSX/HNX when it becomes a major shareholder and must also declare/announce in the daily Stock Exchange Bulletin for certain transactions.

The FOL of listed or unlisted banks is limited to 30% of the total charter capital and maximum holding for an individual foreign investor is 5%, for an institutional foreign investor is 15%, and for a strategic foreign investor is 20%. An application for share purchase should be submitted to the SBV for specific approval for any amount that the foreign investor wants to buy.

### 5.3 Additional Rules Applied to Foreign Investors

#### Automatic Order Matching (AOM) trading

- Unexecuted ATO buy orders or partially-filled buy ATO orders shall be automatically canceled at the end of opening periodic order-matching session.
- The executed bid volume of foreign investors shall be deducted immediately from the number of shares of that particular equity available to foreign investors.
- The executed ask volume of foreign investors shall be added to the number of shares of that particular stock available to foreign investors after settlement (T+2).
- Buy orders or the remaining parts of partially-filled buy orders from foreign investors shall be canceled when the foreign ownership limit is reached.

### Put-Through (PT) Trading (negotiated transactions)

- The total number of shares of a particular equity available to foreign investors will be deducted immediately when there is a negotiated transaction between a foreign buyer and a local seller.
- The total number of shares of a particular equity available to foreign investors will be increased after the settlement of a negotiated transaction between a foreign seller and a local buyer.
- The total number of shares of a particular equity available to foreign investors will remain unchanged if there is a negotiated transaction between foreign investors. Hence, it is possible for a foreign buyer to transact with a foreign seller via negotiated transactions even when the foreign ownership of that particular equity has reached the limit.

## 5.4 Tax Regulations

### Withholding Tax (WHT)

WHT	Duties and Tax
Equity dividends	Exempt for non-resident institutional investors
Bond interest	5% on coupon received on pay date for non-resident institutional investors

### Sales Transaction Tax

Non-resident institutional investors are levied a flat tax rate of 0.1% on sale proceeds from selling listed/registered public company's shares and certificates and bonds.

### Capital Gain Tax

In case of selling unlisted/non-registered public company's equity, securities, non-resident institutional investors are required to pay 25% on taxable income (i.e. selling price – purchasing price – Transaction related costs). The issuing company is responsible to withhold and declare capital gain tax on behalf of the investors.

### Value added Tax (VAT)

Custody and brokerage services are exempt from VAT.

### Depository Fees

As per Circular 27/TT-BTC dated 26 February 2010 by the Ministry of Finance and its amended version Circular 02/TT-BTC dated 8 January 2013:

Securities Custody:	Shares, Funds certificates: VND4 per lot per month Bonds: VND2 per lot per month
Securities Transfer: (1 lot = 10 securities)	VND5 per lot per month

## 5.5 Settlement Procedure

Vietnam is a pre-funding market. The settlement cycle for equities is T+2 and for government bonds T+1. Only transactions against payment are allowed. Neither partial settlement nor failed trades are permitted. Cash and securities are netted-off simultaneously by the VSD, but cash clearing is done by the designated clearing bank (BIDV). VSD follows BIS model 3.

### For Equity

On trade date (T date), after trading session closure at 15:00, the HOSE/HNX processes all trades and completes data feeding to the VSD. Depository members receive VSD's transaction report via VSD system in the afternoon of T date. Upon pre-matching of broker trade confirmations against VSD transaction report, custodians capture such deals into their own systems.

No later than 16:00 p.m. T+1, custodian bank, based on VSD's notification of cash payable/receivable (netting), transfers respective funds required to the designated bank. It is treated as a violation of VSD's KOP if fund is transferred after 16:00 T+2.

For equity purchase trades (RVP), the client is required to give trade instructions on T date and settlement instruction on T+1 14:30 p.m. to enable matching or rectification purposes (if any) before T+2 8:30 a.m. per VSD's key operating procedures (KOP). By law, as mentioned above, the client is required to fund his cash accounts at least one day before T date. By end of T date, his account is blocked with value date T+2 upon receipt of the broker's deal-done confirmation and the VSD's re-confirmation.

### For Bonds

On T date after trading session closure at 15:00, the HOSE/HNX processes all trades and completes data feeding to the VSD.

Depository members receive VSD's transaction report via VSD system in the afternoon of T date. Upon pre-matching of broker trade confirmations against VSD transaction report, custodians capture such deals into their own systems.

No later than 11:00 a.m. T+1, custodian bank, based on VSD's notification of cash payable/receivable (netting), transfers respective funds required to the designated bank. It is a violation of VSD's KOP if fund is transferred after 11:00 a.m. T+1.

The client is required to give settlement instructions on T date by no later than 16:00 a.m. to enable matching or rectification purpose (if any) to VSD by no later than 8:30 a.m. T+1 per VSD's KOP.

### Pre-Matching

The executed trade report made by the VSD will be downloaded from the VSD's system by the depository members around 15:30-16:00 on T date. For trades that are mis-matched or un-matched, the broker will notify the custodian bank and investors immediately. The broker will have to send a trade rectification notification, in which custodian bank affirms correct transaction details, to the VSD by no later than 8:30 a.m. on T+2 for equities, and on T+1 for bonds. For trades that are matched, no notification or affirmation from the depository members to the VSD is required.

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