

Securities

Decree 65/2022/ND-CP

Non-rated

The draft Decree 65/2022/ND-CP has been proposed and discussed since the end of 2021. After many comments, Decree 65/2022/ND-CP on amending and supplementing Decree 153/2020/ND-CP on private placement of corporate bonds was issued on September 16, 2022. With the aim to develop the corporate bond market in a sustainable and long-term direction, the changes in Decree 65 are expected to remove the tie towards the issuer as well as protect investors from the risk in bond investment.

Major changes in Decree 65/2022/ND-CP

- **Investors have higher autonomy in bonds that they invested**
Decree 65 requires approval from 65% of the total issued bonds before any changes in terms and conditions of the issued bonds.
- **Uplifting requirements to be recognized Professional securities investors**
The requirements for professional securities investors are adjusted more strictly and the validity period for the certification reduced. Therefore, the number of professional securities investors (individuals who can participate in the primary bond market) will be limited.
- **More detailed process, highlighting the responsibility of stakeholders**
Decree mentions a lot about the detailed responsibilities of stakeholders in the process of consulting and issuing bonds. Thereby requiring both the issuer and the consultant to ensure honesty, transparency and safety in the issuance of bonds. As a result, the quality of issued bonds will improve.

Impacts from Decree 65/2022/ND-CP

- In the short term, Decree 65 will reduce the demand for bonds from individual investors and at the same time improve the bond supply shortage compared to the last 2 quarters when there is an official document to help issuers can proceed with bond issuance plans that are being postponed.
- In the long term, the issuance value of corporate bonds may slow down compared to previous years due to stricter issuance conditions.
- For securities companies, the revenue from bond issuance consulting activities will also be at risk of shrinking. The prospect of revenue growth from the redistribution of corporate bonds will also be an uncertain point after Decree 65.

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Impacts towards Investors

1. More protection for investors

Decree 65 added points to help investors have more autonomy when investing in corporate bonds such as:

- 1) Request approval from bondholders representing 65% of total outstanding bonds before changing any terms and conditions of issued bonds.
- 2) Compulsory redemption at the investor's request when:
 - The issuing enterprise violates the law on sale and transaction of corporate bonds, but such violation can not be remedied or the remedy is not approved by the number of bondholders representing 65% of the total number of bonds of the same type in circulation.

2. Uplifting requirements to be recognized as Professional securities investors

According to FiinRatings' figure collected from the Ministry of Finance, professional securities investors accounted for 10.11% of buying value of primary bond market. The majority of the buyers participating in the primary market are still credit institutions (accounting for 46.14%) and securities companies (accounting for 22.43%). In the secondary bond market, individual investors hold up to 32.6%. The higher in holding structure of individual investors is said to come from absorbing bonds that securities companies have bought in the primary market. In addition, events related to Tan Hoang Minh real estates network companies made the regulator want to minimize the risks that individual investors may face when participating in this financial product.

According to Decree 65, the requirement to become professional securities investor has become much more difficult. First, the list of listed securities registered for trading used to consider the requirement has been changed in calculation method. Accordingly, instead of just determining the value of the securities portfolio at a given time as currently, this value will be determined by **the 180-day average market value of the portfolio, excluding the loan value from margin trading and the value of securities for repo transactions**. The validity period of certification of professional securities investors has also been shortened **from 01 year to only 3 months**.

Due to the lack of information on the number of professional securities investors as well as the level of satisfaction of the criteria to identify professional securities investors at the present time, we can not estimate the impact level of this adjustment. But based on the given criteria, it is easy to see that the number of qualified investors will be reduced. Since then, the structure of individual investors participating in the primary corporate bond market will be narrowed.

From another perspective, when investors can not participate in the primary corporate bond market, investment funds, especially those with a partial or full bond ratio, will tend to benefit. This is also consistent with the orientation that the Ministry of Finance when planning to develop the market in a long-term and sustainable direction. Individual investors will participate in these funds and through them can invest in bonds indirectly. The advantage is that investment funds will have effective professional measures to assess the financial position of the business, as a filter to ensure the safety of the investment amount. The disadvantage can be mentioned that the liquidity or the diversity of bond options with individual investors will decrease.

Impacts towards Securities companies

Decree 65 also adds criteria on number of documents, processes, and responsibilities of related stakeholders when providing underwriting consulting services or responsibilities of the Securities owner's representative. We realize that the role of advisory unit, a securities company or a commercial bank or branch of a foreign bank that is authorized to provide advisory services on securities offering documents, will become more important along with the following requirements demanding more expertise to be able to provide this service. In the short term, those companies that are not yet competitive in the bond advisory segment may face difficulties while those with experienced IB team will be less affected.

Information page for corporate bonds

Researching and tracking information about the corporate bond market will become more transparent, up-to-date and easier for investors when the corporate bond information page is launched. The page will include information on domestic and foreign bond markets. Not only showing the necessary information about bond characteristics, the website also provides information on cases where the issuing company fails to fully pay the bond principal and interest, uses bond capital for improper purposes or fails to perform commitment to investors. Investors will have an official and updated source for more accurate investment decision-making information

Conclusion

The corporate bond market has slowed down since first quarter and stakeholders are looking forward to the announcement of Decree 65 to remove the bottlenecks. In our view in the short term, this Decree 65 will reduce the demand for bonds from individual investors and at the same time improve the shortage of bond supply in the last 2 quarters when there is a document stating the guideline solving postponed bond issuance plans.

In addition, bond issuance conditions have been tightened when the purpose of the issuance to increase working capital has been eliminated. Bonds are issued for debt restructuring instead of capital structure, the criteria and requirements for proof of financial capacity and future investment projects are not really clear, which making it difficult to satisfy the issuance conditions. Therefore, in the long term, the issuance value of corporate bonds may slow down compared to previous years due to stricter issuance conditions.

Regarding the securities company, the revenue from bond issuance consulting activities will also be at risk of shrinking. The prospect of revenue growth from the redistribution of corporate bonds will also be an uncertain point after Decree 65.

Below is a detailed comparison table of major changes comparing Decree 65 with current legal documents.

Table 1. Major changes in Decree 65/2022/ND-CP, dated September 16,2022.

Content	Regulated document	Current practice	Change in Decree 65/2022/ND-CP
Purpose of bond issuance	(1)	- Carry out investment programs, projects. - Increase working capital. - Restructure capital. - Issue bonds in accordance with specialized laws.	- Carry out investment programs, projects. - Increase working capital. - Restructure debts . - Issue bonds in accordance with specialized laws.
When changing terms or conditions of issued bonds	(1)	Refer to respective regulation, Clauses 4 and 5 to Article 5	Supplement: - For bonds already issued in the domestic market, enterprises may only change the conditions and terms when satisfying the following provisions: a) Approved by the competent authority of the issuing enterprise b) Approved by the number of bondholders representing 65% of the total number of outstanding bonds of the same type - Information about the change of conditions and terms of bonds must be unusually disclosed by the issuer.
Par value of bond	(1)	Face value of a bond offered in the domestic market is VND 100,000 (one hundred thousand) or a multiple of VND 100,000 (one hundred thousand).	Face value of a bond offered in the domestic market is VND 100,000,000 (one hundred million) or a multiple of VND 100,000,000 (one hundred million).
Bond repurchase	(1)	Refer to respective regulation, Article 7	Supplement 3. Bond repurchase: a) Bond repurchase under the agreement between the issuer and the bondholder. B) Compulsory repurchase at the request of the investor when: - The issuer violates the law on sale and transaction of corporate bonds, but such violation cannot be remedied or the remedy is not approved by the number of bondholders representing 65% of the total number of bonds of the same type in circulation.
Bond investors, individual professional securities investors	(2) & (3)	An individual holding a list of listed or registered securities with a value of at least VND2bn as certified by a securities company at the time that individual is identified as a specialized securities investor; Within 01 year from the time of being identified as a professional securities investor by a securities company, the investor is not required to redefine the status of a professional securities investor when participating in the purchase of securities in private placement, member fund certificates.	Individuals holding a list of securities listed or registered for trading with a value of at least VND2bn, which is determined by the 180-day average market value of the securities portfolio before the date of determination of professional securities investor status, excluding the loan value for margin trading and the value of securities for repo transactions. The identification of professional securities investors is valid within 03 months from the date of confirmation.
Bond offering file	(1)	Refer to respective regulation, Clauses 2, 3 and 4 to Article 12	Supplement: - Credit rating for the issuing company if the issuing company is in the cases where the credit rating is required
Responsibilities of bidding organizations, underwriters and corporate bond issuance agents	(1)	Refer to respective regulation, Article 14	Adding more details about the responsibilities of service providers - securities companies or commercial banks, branches of foreign banks that are allowed to provide advisory services on securities offering documents.
Registration and depository of bonds	(1)	Refer to respective regulation, Article 15	1/ Enterprises offering individual bonds must register bonds at Vietnam Securities Depository and Clearing Corporation: a) 5 working days from the date of notification of receipt by the Securities Commission b) 5 working days from the date of announcement of the offering result c) The issuing company encloses the list of bondholders 2/ Centralized depository at bond registration at Vietnam Securities Depository and Clearing Corporation

			3/ Vietnam Securities Depository and Clearing Corporation is not responsible for the legality of the corporate bond offering and the full payment of interest and principal of the bonds
Bond trading	(1)	Refer to respective regulation, Article 16	<p>Supplement:</p> <p>Bond trading must be done through trading members and ensure compliance with the following regulations::</p> <p>a) Bonds are only allowed to be traded between the investors specified in the bond issuance plan.</p> <p>b) Convertible bonds and warrant-linked bonds subject to restrictions on transfer. After the transfer restriction period, the bond transactions shall comply with the provisions of point a of this Clause.</p> <p>The order and procedures for registration of transactions on the trading system of corporate bonds offered for private placement at the Stock Exchange include:</p> <p>a) Enterprises shall register for bond trading within 15 working days from the date of issuance of the bond registration certificate from the Vietnam Securities Depository and Clearing Corporation.</p> <p>b) The issuer sends the transaction registration dossier to the Stock Exchange in electronic form according to the Regulations of the Stock Exchange.</p>
Information page about corporate bonds at the Stock Exchange	(1)	Refer to respective regulation, Article 32	<p>Additional content will be shown in the information page.</p> <p>Information on cases where the issuer fails to pay the bond principal and interest in full, uses the bond capital for improper purposes or fails to fulfill its commitments to investors and the issuers obligated to buy back bonds before maturity according to reports of bidding organizations, underwriters, issuance agents, representatives of bondholders and disclosure of information of the issuer.</p>

Source: Respective regulations, KISVN

Note: Changes, in our opinion, that are better will be shown in [blue](#) and more unfavorable will be shown in [red](#).

The legal documents mentioned in the table above:

(1) Decree 153/2020/NĐ-CP, dated December 31, 2020.

(2) Decree 155/2020/NĐ-CP, dated December 31, 2020.

(3) Securities Law 2019, dated November 26, 2019.

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