

## Credit Insights

### Latest amendments to the Securities Law will limit excessive risk-taking and improve market behavior, credit-positive for bondholders

On November 29, 2024, the National Assembly approved the amendments to the Securities Law that will take effect on 1 January 2025. We view the key amendments to be credit-positive for bondholders as they serve to deter wrongdoing by organizations involved in bond issuance, limit excessive risk-taking, and enforce the use of timely information disclosures and credit ratings to improve market discipline.

As illustrated in Exhibit 1, the amendments affect the obligations of bond issuers and the key organizations in bond transactions, the regulatory powers to intervene, the eligibility criteria for public bond issuers, and the type of bonds that individual investors can invest in.

Compared with the current law, the new amendments specify the roles and responsibilities of each key party involved in issuing public and private placement bonds, including advisory firms, auditors, and credit rating agencies. The new law stipulates that these parties must comply with all applicable laws and regulations and deliver their services in an honest and responsible manner. In addition, the State Securities Commission (SSC) will have the power to enforce legal action against any misconduct or wrongdoing that may cause harm to investors, for example, when issuers do not disclose the required information to investors.

Following the implementation of various regulations over the past two years, bond issuance offering documents must now include a standard list of detailed information disclosures for investors. On November 6, 2024, the Ministry of Finance expanded the list of financial information that private bond issuers need to disclose publicly. The new law reinforces the policy intent to have key parties responsible for enhancing market transparency and protecting investor interest.

In addition to closing the information gap, the new law prevents excessive risk-taking among individual investors. Firstly, high-risk issuers will not be able to access the public bond market; bond issuers will be subject to more stringent eligibility criteria, such as threshold levels for debt and leverage profile, maintenance of a bondholder representative, and credit rating as required by regulations. Secondly, in the private placement bond market, private placement bonds can no longer be distributed and sold to individual investors unless they are deemed to be professional investors and the bonds are rated and backed by either bank guarantees or collateral.

We estimate that professional individuals invested in over 40% of private placement bonds issued in 2024 (Exhibit 2). Credit ratings can provide new information to help investors better understand their investment risks. The payment guarantees from banks can serve as mitigants for default risk.

In Vietnam, there is little evidence of bondholders recouping their investments by liquidating collateral assets (Exhibit 3). The legal and administrative process to liquidate assets and repay creditors may take up to several years to complete. In fact, the majority of bondholders of secured bonds that defaulted in 2022-2024 chose debt restructuring, i.e., postponing debt repayment dates, over seeking recourse from collateral assets, which were mainly in the form of equity shares and real estate-related assets.

Bondholders need to assess the legitimacy, liquidity and valuation of collateral assets during bond default and determine if the collaterals can provide adequate credit enhancement as intended.

The new law will take effect in January 2025. We expect the strong emphasis on investor protection and sustainable growth of the corporate bond market will drive improved market confidence and brisk issuance activity in 2025. We are aware of the government's plan to update its detailed regulations for public bond issuance; among the revisions are new requirements for bond issuers to obtain a credit rating and maintain debt profiles below specific thresholds.

Once released in 2025, we expect the use of credit ratings in the corporate bond market will increase and they will serve to communicate an independent opinion of risk and help investors determine the risk premium for their bond investments.

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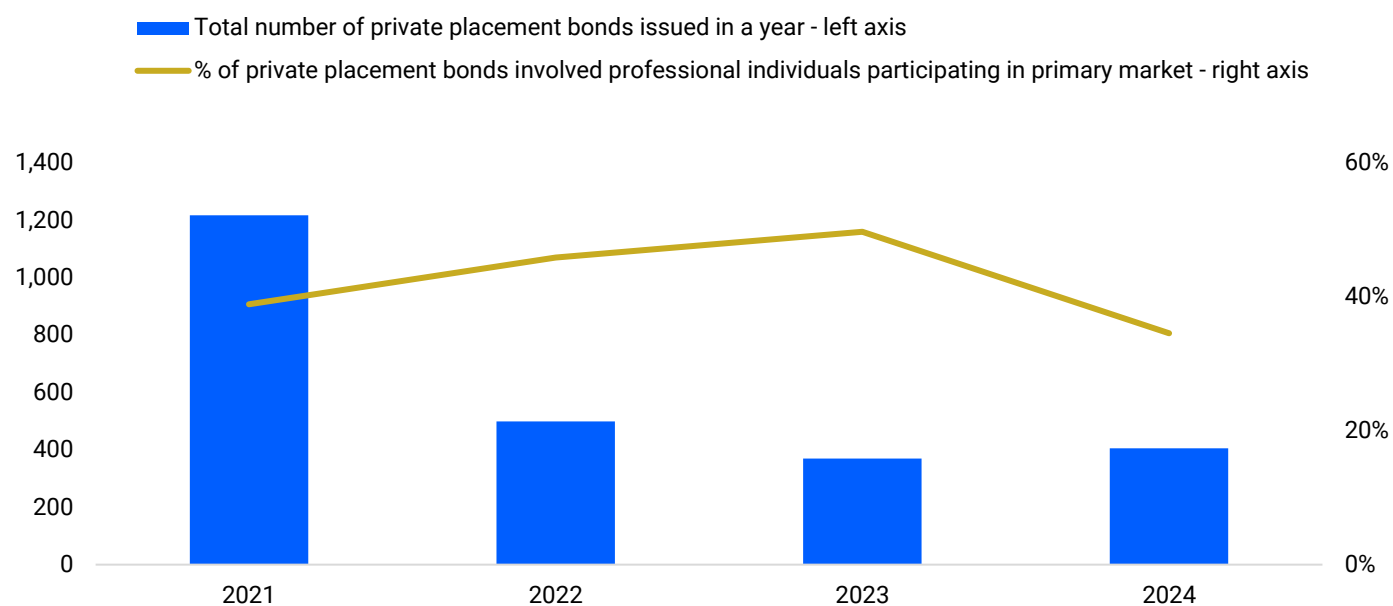


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**Exhibit 1: Key changes of the new law related to the corporate bond market**

Key contents	Prior to the new law	Key changes in the new law	Implications
 <b>Responsibilities of issuer and intermediaries related to documents of issuance and regular reports</b>	<ul style="list-style-type: none"> <li>» Cover the collective responsibilities of parties involved in preparing public offering registration dossier</li> </ul>	<ul style="list-style-type: none"> <li>» Include detailed responsibilities of specific entities and individuals involved in preparing dossiers and reports related to all securities market activities. This includes both public offerings and private placements.</li> <li>» Specify the role of advisory service providers in reviewing and checking on the accuracy, truthfulness, and completeness of information in the documents.</li> </ul>	<ul style="list-style-type: none"> <li>» Deter wrongdoing and enforce discipline among key parties to carry out duties in accordance with regulatory expectations.</li> </ul>
 <b>SSC's authority to suspend or cancel wrongdoing private placements at any time</b>	<ul style="list-style-type: none"> <li>» SSC's powers were only stipulated in regulations covering public offerings</li> </ul>	<ul style="list-style-type: none"> <li>» Include detailed guidelines for the SSC's authority to suspend or cancel private placements at any time.</li> </ul>	<ul style="list-style-type: none"> <li>» Greater certainty on SSC's ability to take swift action to address market misconduct.</li> </ul>
 <b>Criteria for private placements to distribute to professional individuals</b>	<ul style="list-style-type: none"> <li>» Private placements can be distributed to professional investors including institutions and individuals</li> </ul>	<p>Add:</p> <ul style="list-style-type: none"> <li>» Professional institutions can buy and sell private placements.</li> <li>» Professional individuals can only buy and sell private bonds that have a credit rating; and have collateral or payment guarantees from credit institutions</li> <li>» For private bonds issued before January 1, 2026, and still outstanding, they will continue to be governed by the prior regulations until the bonds mature.</li> </ul>	<ul style="list-style-type: none"> <li>» Provide additional protection to bondholders in the event of default.</li> <li>» Increase uses of credit ratings will help investors better understand investment risks</li> <li>» Issuers may need to incur additional costs related to credit enhancements and ratings.</li> </ul>
 <b>Conditions to issue public bond offerings</b>	<ul style="list-style-type: none"> <li>» An issuer must meet capital requirements, show profitability, have no overdue debts, obtain a credit rating under some circumstances</li> </ul>	<p>Add:</p> <ul style="list-style-type: none"> <li>» Comply with government regulations regarding the representation of bondholders, debt ratios, the value of issuance relative to equity, and credit ratings.</li> </ul>	<ul style="list-style-type: none"> <li>» Limit the high debt leverage issuers to issue public bonds</li> <li>» Raising market risk awareness to individual investors by credit ratings</li> </ul>

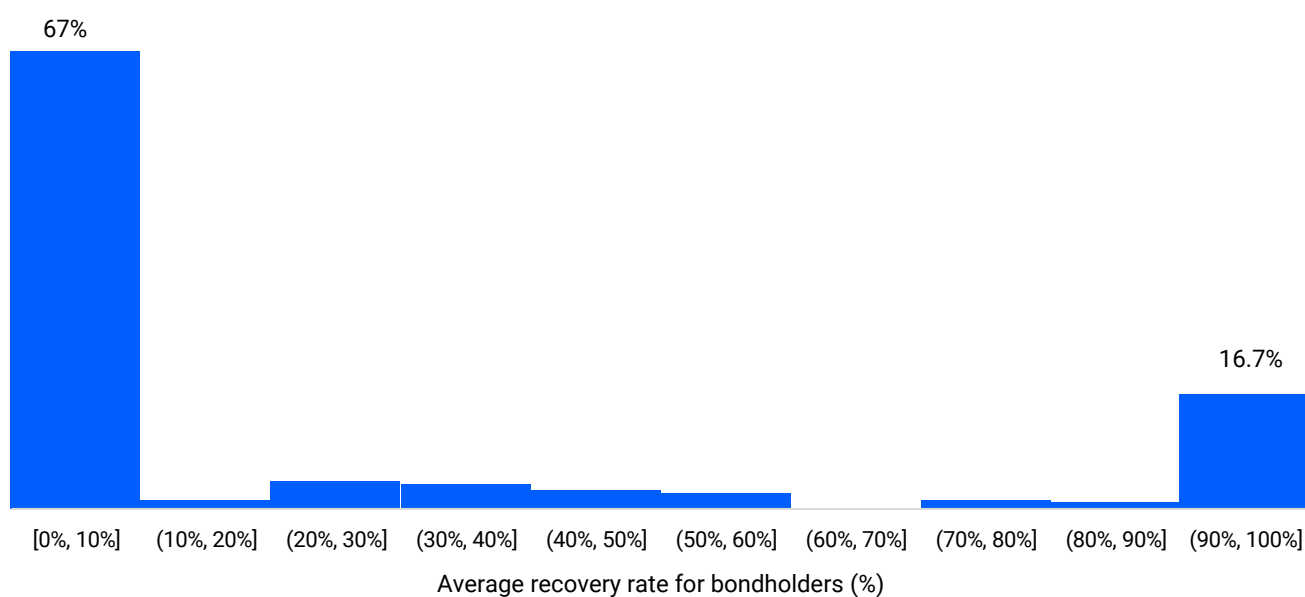
Source: Law on Securities 2024, VIS Rating

**Exhibit 2: Professional individuals participated in 40% of the private placements during 2021 - 2024**

Source: VIS Rating, Hanoi Stock Exchange (HNX)

**Exhibit 3: Most secured bonds defaulted during the last 3 years have a recovery rate below 10%**

% of secured bonds defaulted



Note: We estimate the recovery rate based on the amounts repaid to bondholders following bond default, as a percentage of the defaulted bond principal. Data at end of November 2024.

Source: VIS Rating, Hanoi Stock Exchange (HNX)

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