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**TOWARD PRACTICAL AND EFFECTIVE SOLUTIONS
FOR VIETNAM STOCK MARKET'S ASYMMETRIC
INFORMATION PROBLEM**

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CHAPTER 1. INTRODUCTION

Section 1. RESEARCH OBJECTIVES-RESEARCH GAP-RESEARCH MODEL

Asymmetric information is a popular research topic due to its existence in most aspects in economies. A great deal of recent research and empirical study of this topic have focused on insider trading issues, manipulating price, information omission violations occurring extensively in both developed (US, Japan, Britain...) and emerging stock exchanges (Malaysia, China, Thailand...). Unfortunately, the research of this topic is still very limited on Vietnamese stock exchange. This can be explained with the fact that Vietnam stock market is newly established and thin-trading emerging market with a history of only ten years. However, with its rapid development and substantial contribution to Vietnam economy in recent years, issues evolving in Vietnamese stock market deserve to be researched and addressed in academic as well as practical forum.

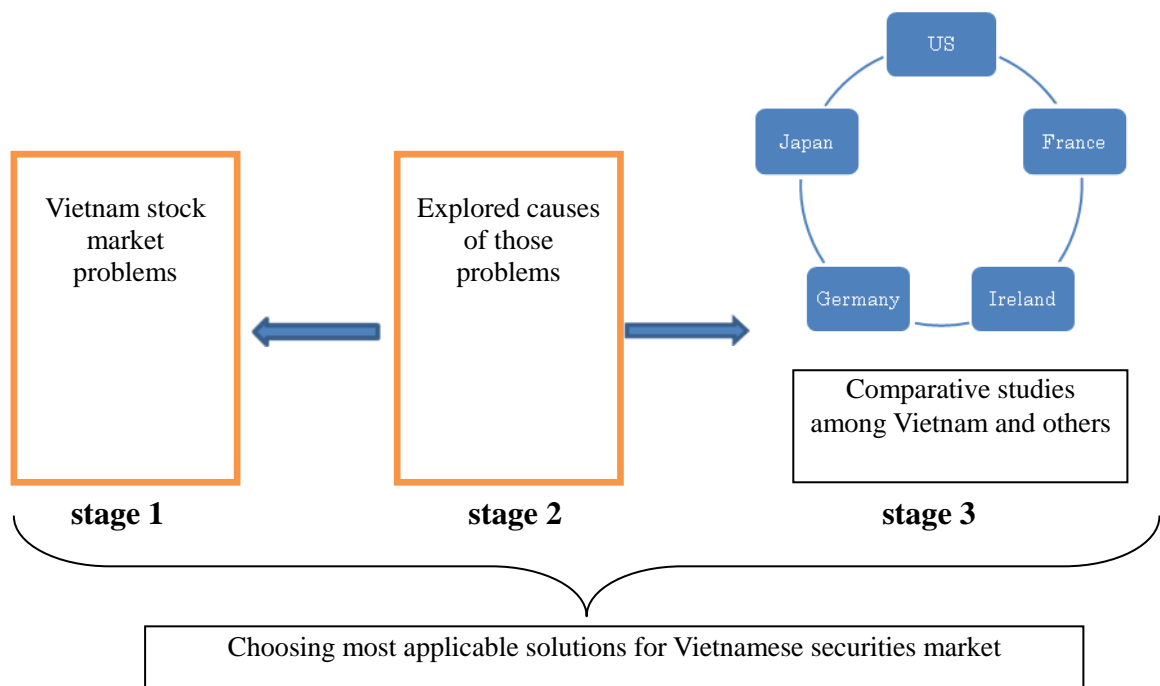
This paper is conducted based on empirical evidence from the previous study that asymmetric information level on Hochiminh Stock Exchange (“HOSE”) is four times higher than that on NYSE (Nguyen Trong Hoai, Le An Khang, 2008) and HOSE is a thin-trading market, which is not efficient in weak-form of Market Efficiency Hypothesis (Truong Dong Loc, Ger Lanjouw, and Robert Lensink, 2010). The purposes of this research are (1) exploring main causes of severe asymmetric information, and rising of insider trading problem on Vietnamese stock market, (2) learning current strategic and effective solutions experiencing on other developed stock markets in the world and (3) recommending appropriate and necessary policies that can be best applied to Vietnamese stock market to minimize asymmetric information. Achievement of these objectives to some extent would help to reduce insider trading violations and other unlawful transactions and to ensure the fair trading on Vietnamese securities market (Kazumi Okamura, Chieko Takeshita, Laws and Regulations Relating to Insider Trading in Japan, 01st edition, 40-76, 1989). For this reason, this research targets Vietnamese securities law makers and stock market controlling agent- The State Securities Commission of Vietnam (“SSC”).

According to Luu Tien Thuan and Chung Yuan¹ and Chang, Hsu-Ling and Su, Chi-Wei (2010), the fluctuation of securities exchanges in US, Japan and Singapore have a “positive and strong significant influence” on Vietnam Index in recent years. Additionally, long history of development of securities markets in the U.S and Japan have made those two markets being the most transparent exchanges with relatively better regulation system on disclosure information and insider trading monitoring. Besides, after reviewing regulations on stock markets of other countries such as France, Britain, Germany, and Ireland, I have found a few effective and practical solutions for similar problems (insider trading, price manipulation, misinformation violations...), which I believe can be applied to Vietnam situation. With these reasons, I have chosen those stock markets for my comparative analysis. My research model includes three main stages:

- (1) Figuring out Vietnam stock market severe problems
- (2) Exploring causes of these problems
- (3) Researching effective solutions applied in developed markets
- (4) Comparatively analyzing Vietnam stock market and those mentioned and finally recommending the most proper and applicable solutions.

A survey has also been conducted with the purpose to explore how serious asymmetric information is in Vietnamese securities market. Main method utilized in this research is “comparative approach” since it allows “regulatory authorities to tailor regulatory reform and to review the different regulatory regimes” (Harry Mc Vea, 1993). However, this method also has disadvantage of leaving potential room for further debates.

¹ Luu Tien Thuan and Chung Yuan¹ in ‘The relationship between the United States and Vietnam stock markets’, *The International Journal of Business and Finance Research*, Volume 5, Number 1



Section 2. LITERATURE REVIEW

Prohibition and stricter regulations imposing on these issues are both criticized and supported by many researchers. My literature review focused on 2 main categories: theoretical research and empirical study. Henry Manne (1966) is the “*most widely quoted*” well-known critic of strict regulation on insider trading (James R. Marsden and Y. Alex Tung, 1999). Manne supported for the existence of insider trading. His positive opinion on insider trading can be summarized into three key points (James R. Marsden and Y. Alex Tung, 1999):

“- *Insider trading it is an effective way to encourage entrepreneurial activities since it can provide a meaningful form of compensation in large corporations*”

- *Insider trading helps security prices adjust more rapidly to reflect underlying information, ; and, outsider investors are helped by the price changes brought about by insider trading and the losers are mainly short-term speculators*

- *Insider trading does no harm to outsiders.*”

Marsden and Alex Tung (1999) supported his 2nd and 3rd points based on results received from their laboratory experiments. The results of their second experiment concluded “*the fast*

dissemination of insider information indicating high market efficiency; and no significant difference between insiders' and outsiders' profits on insider information assets”.

Yet, Manove, M. (1989) significantly opposed Manne’s argument by the evidence that:

“- Insider trading is not a cost-effective mechanism for promoting market efficiency and is no more effective than other compensation plans at producing the right incentive for entrepreneurial managers; informed insiders do earn excess profits from their trading

- Liquidity of markets will be reduced when insider trading is permitted;

-The inside information was intended for the benefit of the firm but not the private advantage of the traders; and,

- Outside investors will invest less because the market is unfair” (James R. Marsden and Y. Alex Tung, 1999)²

Other researchers Gerhard Wegen and Heinz-Dieter Assmann (1994), Jacqueline (1989), Kazumi Okamura and Chieko Takeshita (1989), Raymond P.H. Fische and Michel A. Robe (2003) did not directly opposed Manne’ positive opinion; yet they exceptionally supported for the imposing of stricter regulations on insider trading activities and other related violations (price manipulation, information omission, misinformation...) including heavier penalties.

Fische and Robe (2003) confirmed that insider trading had a negative impact on stock market liquidity. According to Gerhard Wegen and Heinz-Dieter Assmann, insider trading would erode investors’ confidence on the market; and a lack of comprehensive insider trading regulation system could damage the reputation of any stock market. For these reasons, solving (or at least reducing) insider trading violations problem required the law to be improved in regard to penalties and enforcement at national level, in which penalties should be both an imprisonment and a fine. Kazumi Okamura and Chieko Takeshita (1989) also proved that in order to guarantee for the fairness of the securities market, Japanese law makers promulgated insider trading conduct subject to

² See James R. Marsden and Y. Alex Tung, ‘The Use of Information System Technology to Develop Tests on Insider Trading and Asymmetric Information’, *Management Science*, Aug99, Vol. 45 Issue 8, p1025-1040, 16p, 9 Charts

criminal sanction. Additionally, Jacqueline (1989) and Harry Mc Vea (1993) supported for an application of Chinese Wall as “*one legal and economic regulatory technique and a key mechanism for regulating conflicts in multifunctional financial firms*” and more advanced disclosure information requirements as a mechanism to reduce extensive information gap between informed and uninformed investors.³

³ See Jacqueline A.C. Suter BA, LLM, *The regulation of Insider Dealing in Britain*, Butterworths London & Edinburgh, 1989; and Harry Mc Vea, *Financial Conglomerates and the Chinese Wall*, Clarendon Press, Oxford, 1993

CHAPTER 2. VIETNAMESE STOCK EXCHANGE- HISTORICAL REVIEW- CURRENT EXCEPTIONAL PROBLEMS- ASYMMETRIC INFORMATION

Section 1. HISTORY OF VIETNAM STOCK MARKET- FROM ITS FIRST DAYS OF ESTABLISHMENT JULY 2000 TO 2005

Ho Chi Minh City Stock Exchange (“HOSE”), the main stock market in the country, was established in July 2000 under its former name Securities Trading Center (“HoSTC”). HOSE is operated and regulated under the control of The State Securities Commission of Vietnam (“SSC”), which is structured and managed by the Vietnam Ministry of Finance. SSC is responsible for the organization, development and supervision of Vietnam securities market.

There were only two companies listed on HOSE on its first days of establishment: Refrigeration Electrical Engineering Joint Stock Corporation (‘REE’) and Saigon Cable and Telecommunication Material Joint Stock Company (‘SAM’) and its initial index started at 100 points. Figure 01 below shows that VNIndex (Vietnam Index) increased suddenly from 100 points to record high of 571.04 on 25 June 2001, which can be explained by the imbalance of supply and demand of stocks at that point of time.

It took HOSE five long years to increase slowly its listed members from 02 companies in July 2000 to 32 companies at the end of year 2005; however, the market capitalization⁴ grew significantly- by 14 times- from VND 1,048 billion (about USD 65.55 million) in 2000 to VND 6,337 million (about USD 393 million) in 2005. Market capitalization accounted for a small part of Vietnam GDP at 0.24 percent in 2000 to 1.21 percent in early 2005. All of listed companies at this point of time were former state-owned companies. During these years, Vietnam Stock Index

⁴ Market capitalization was calculated based on the closing price of stocks on 31st December 2005

(VNIndex) had been unstably fluctuated in the range between 100 points and 600 points. With a tiny number of stocks on the market, trading activity was not active and investors still hesitated to invest in a totally new market. The average daily trading value had been in a considerably modest range from USD 0.09 million (2000) to USD 6.8 million (2005)⁵. However, since then to the end of 2005, VNIndex dropped as quickly and instantly as when it rose up.

Besides, as of December 2005, only 13 securities companies were licensed with their main services of brokerage, securities investment portfolio management, underwriting, and pop-trading⁶. Depending on type of securities services, a securities company will be required to meet a certain level of registered capital.

Since the market was still newly born, regulation framework applied in stock market had not been constructed completely. In November 2003, the Decree 144 as a general guide for stock market was launched.

Figure 01. Key development indicators for the STC over the period 2000–2005

Indicators	2000	2001	2002	2003	2004	2005
Number of listed companies	5	10	20	23	26	32
Market capitalization (bil. VND)	1048.76	1661.1	2650.2	2514.29	3945.31	6337.48
Market capitalization on GDP (%)	0.24	0.34	0.49	0.42	0.55	na
Yearly trading value (bil. VND)	91.40	925.38	762.77	422.50	1692.99	2435.64
Trading value on GDP (%)	0.02	0.19	0.14	0.07	0.24	na
Average daily trading value (bil. VND)	1.39	6.13	3.23	1.71	6.8	9.82

Source: Dong Loc, Truong, Lanjouw, Ger and Lensink, Robert (2010) 'Stock-market efficiency in thin-trading markets: the case of the Vietnamese stock market', Applied Economics, 42: 27, 3519 — 3532, First published on: 15, December 2008 (iFirst)

Section 2. FROM ITS RECORD PEAK IN 2006 TO PRE- GLOBAL FINANCIAL CRISIS 2007

Dramatically had the situation changed at the end of year 2006 to March 2007 when VNIndex

⁵ Exchange rate was calculated at 1USD = 16,000 VND

⁶ Trading on securities companies' accounts

plummeted significantly and reached its record peak at 1,170 point. The number of listed companies grew to 138 companies (end 2007). At the same time, number of securities companies also increased to 61 companies, triple of that in 2006 (Stock Magazine, 24th October 2007). Trading activity was more active than ever. The average daily trading jumped to VND 401.84 billion (USD 27.5 million) (2006) and VND 1,562 billion (USD 110 million, 2007)⁷. Compared these figures with those in 2005, we can see Vietnam stock market had made a significant step forward in growing. If in 2004, market capitalization of HOSE accounted for only 0.55 percent of Vietnam GDP, that in 2007 (VND 361,000 billion) accounted for 43% of Vietnam GDP. Vietnam stock market was mentioned in almost all newspaper locally and globally with the most beautiful words. The International Monetary Fund's chief economist Raghuram Rajan calls it an "emerging China". Citigroup calls it "the New Powerhouse of Southeast Asia". And Bloomberg cited that "Vietnamese stocks are Asia's best performers this year (2006)". One of the reasons behind this rise is the issue of Vietnam's entry into World Trade Organization (WTO) this year (2006).

However, simultaneously, Vietnam stock exchange's technology and transaction mechanisms had not been invested and developed to meet the demand of investors, especially when the stock market reached its peak in 2006 and early 2007 and was filled with a numerous amount of orders from investors. From 08th December 2006 to 30th August 2007, there were four typical trading cases occurring during transaction periods showing the trading system's limit: on the 08th December 2006, investors could not access SEC's electronic boards; on the 26th January 2007, one stock's price appeared twice on the electronic board; on the 02nd February 2007, the daily morning trading periods were canceled to move to the afternoon; and on the 30th August 2007, the electric board got frozen from 8:30 AM to 9:15 AM.

Maximal number of shares holding by foreign investors (both individuals and institution) in a listed company is limited at 49 percent of its chartered capital; but in case of banks and other restricted companies, this number is lower at 30 percent. Demand of stocks in this period had been

⁷ Own calculation on basis of data obtained from Hochiminh Stock Exchange Website at www.hsx.vn

always excessively more significant than the supply. Foreign rooms in potential industries (banking, shipping, construction...), companies such as STB (Sai Gon Thuong Tin Commercial Joint Stock Bank), ACB (Asia Commercial Bank), GMD (Gemadep Corporation), and HBC (Hoa Binh Construction & Real Estate Corporation)...had been continuously filled.

As mentioning in previous part, the Decree 144 was promulgated as a general guide. And this decree was proved to be effective only in a tiny stock market in 2000-2005; for this reason, the Government promulgated and commenced an official Securities Law. However, it can say that this Securities Law is still not effective and powerful enough for the stock market. This has been proved by the issuances of many following securities decrees and acts to supplement for this law. Additionally, the increasing number of unpunished securities violations also proved the defects of Vietnam Securities Law.

Section 3. VIETNAM STOCK MARKET IN THE DAWN 2008 TO CURRENT TIME (2010)

Right after establishing a record peak at 1,170 points in March 2007, VNIndex slipped drastically to its bottom at 235.18 points in Feb 2009. However, the signal for this stumble seemed to appear during 2007. A three-fold rise at its peak of 1,170 over the past year had all the hallmarks of a bubble (Emerging Market Monitor, 2007). The State Bank of Vietnam tried to tighten the control over commercial bank loans by enforcing Decision 03 to limit bank loans for stock traders under 3 percent of total outstanding loans. With this action, The State Bank of Vietnam attempted to reduce risks to balance sheets stemming from a potential market slump.

At the same time, Vietnam stock exchange has been heavily influenced by the global financial crisis, which causes Black Monday, Tuesday... all over financial markets worldwide from New York Stock Exchange (NYSE), Tokyo Stock Exchange (TSE), and Korea (KRX) to China Stock exchange...

Neither any securities companies nor experts could predict which point was the bottom of

VNIndex. Financial market had been on crisis and so had investors (individuals and institutions). People rushed and competed with one another to sell their stocks as soon and as many as possible. If in the short golden period 2006-2007, one of the most important criteria for securities companies to be chosen by investors was “the speed of executing order to BUY”, at this point of time “the speed of executing order to SELL” became the “key criteria”. Supply had always exceeded demand in local investors’ orders; yet it was not the case for foreign investors when their buying values were always higher or equal to selling value. However, Fig. 02 pointed that those trading values in 2008-2010 have been only a half of that in 2007 when the market is at its peak time.

Figure 02. Foreign investors trading value (VND billion)⁸

	2006	2007	2008	2009	2010
BUY	5,322	52,203	25,325	33,980	33,372
SELL	1,244	29,329	19,498	30,655	22,242

Source: www.hsx.vn

As of December 2008, there are 170 companies listed on HOSE with market capitalization of VND 169,346 billion (USD 10.61 billion). This number has increased to 267 companies by Nov 2010 with market capitalization of VND 529,325 billion (USD 33 billion)⁹. VNIndex has been moving around its strong defending level at 450 points. And it seems no one has an optimism view on Vietnam stock market at least in the short time. From beginning of 2010 to the current time, most of Southeast Asian emerging markets as Malaysia, Thailand, Indonesia and Philippines have made an improvement around 40 percent while Vietnam stock market continues losing by 15 percent¹⁰. Vietnam stock market used to be “best-performance Asia market” in 2006; it becomes “most risky and dangerous market” in 2008.

⁸ Own calculation on the basis of data obtained from Hochiminh Stock Exchange Website at www.hsx.vn

⁹ Exchange rate is calculated at 1USD = VND 20,000

¹⁰ Tran Thanh Tan, CEO of Vietnam Fund Management (VFM), www.Vnexpress.net, Nov 2010

Figure 03: VNIndex from July 2000 to July 2010



Source: www.vndirect.com.vn

CHAPTER 3. CURRENT PROBLEMS ON VIETNAM STOCK MARKET- ASYMMETRIC INFORMATION ISSUE

The movement of VNIndex in its 10-year history obviously shows a rapid but unstable development of the stock market (Nguyen Trong Hoai, Le An Khang et al, 2008), especially in the period 2006-2008. The situation seems not to be improved since the global financial crisis until now. After falling to its bottom of 200 points, VNIndex headed up to 400 points and kept lagging around that level for more than two years and a half. From being considered as “best performance stock market” in 2006 to “most risky and worst performance stock market” in 2008 (Bloomberg) with the clear signal of a significant bubble during 2007 (Emerging Market Monitor, 2007), Vietnam stock market proves that it is in trouble. In addition, whilst other Southeast Asia emerging markets are recovering, Vietnam stock market still cannot take back investors’ confidence. What are problems behind this?

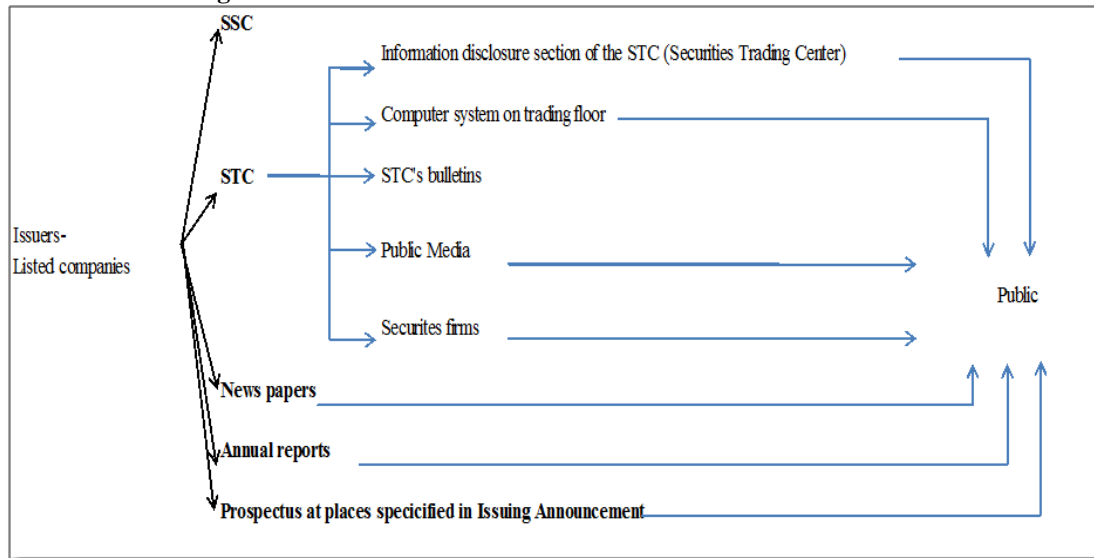
Section 1. WEAK INFORMATION DISCLOSURE SYSTEM

In developed stock exchanges such as New York Stock Exchange (NYSE), Tokyo Stock Exchange (TSE), Hong Kong Stock Exchange, listed companies are strictly required by securities regulation to disclose information timely and accurately; and all of these public information will be collected and disclosed through a united information disclosure system. Any investor, individual or institution, can access to the same information source easily.

However, it is not the case in Vietnam Stock Exchange. Since Hochiminh Stock Exchange is the research object within this paper, information disclosure system of this exchange will be analyzed.

Following Figure 04 will illustrate clearly how investors can reach disclosed information of listed companies:

Figure 04. Theoretical information flow in Vietnam stock market



Source: Nguyen Thi Van Anh, 2004

The chart shows investors can receive information from many ways: newspapers, annual reports, prospectuses, securities firms and Securities Trading Center. However, in reality, it is not that simple and easy for investors to access to useful and important information, which deriving from the *imperfect* or *weaken disclose information system*. The system is implemented and maintained just for the sake of having it. And since all of information will be “mainly transferred by post mails, its punctuality is dependent on the efforts of relevant parties” (Nguyen Thi Anh Van, Toward a well functioning securities market in Vietnam, Chapter II, p. 38).

Unlike other developed counterparts, Vietnam Stock Exchanges do not possess an official name for its disclosure system (such as EDGAR¹¹ in USA or EDINET in Japan). Hochiminh Stock Exchange provides information to investors through its website www.hsx.vn , contenting only basic and poor information of listed companies as well as of the market (only maximum and minimum matching price of stocks in a trading day, room for foreign investors, volume of bought and sold shares...)

¹¹ The Electronic Data Gathering, Analysis, and Retrieval system

If in EDGAR or EDINET, “all companies, foreign and domestic, are required to file registration statements, periodic reports, and other forms *electronically*”¹², listed companies in Vietnam are required to submit financial statements (annually and quarterly) and other necessary documents (prospectuses, internal trading activities...) in mainly hard copies and some of them might submit soft copies to stock exchanges where they are listed. These files later will be uploaded on HOSE or HNX websites¹³. And each company’s information will be categorized under its trading code.

Therefore, if one investor is interested in one company listed on HNX, he has to access to HNX and also has to know its exact trading code to get right information. Without knowing one company’s trading code, it is almost impossible for them to find out its information

It would be not more troublesome for investors if disclosure systems in both exchanges are the similar and standardized. Approaching almost two entirely different systems of files arranging methods, titles and even kinds of information, investors have to spend enormous amount of time to or not to get what they are looking for.

Hence, the questions raised here are

1) How individual as well as institutional investors get important information of listed and IPO companies if HOSE and SEC cannot meet their thirst of information, which can influence their in making investment decisions.

2) If public information is that scarce and investors have to find and create their own information sources, who is the one has the most information in Vietnam stock market?

¹² EDGAR, Filings and Forms, <http://www.sec.gov/edgar.shtml>

¹³ HOSE: www.hsx.vn and HNX www.hnx.vn

At the present time, there is no any research to tackle on these topics. Understanding that answering these questions can possibly help to draw a brief picture of Vietnam stock market activities, and also raise a flag to the public regarding to severe asymmetric information problem existing in Vietnam stock market, I have implemented a survey in Hochiminh Stock Exchange, of which results give exceptional surprises to any foreign professional investors.

Section 2. ASYMMETRIC INFORMATION ISSUE - LOUDLY HAS THE BELL RUNG-SURVEY

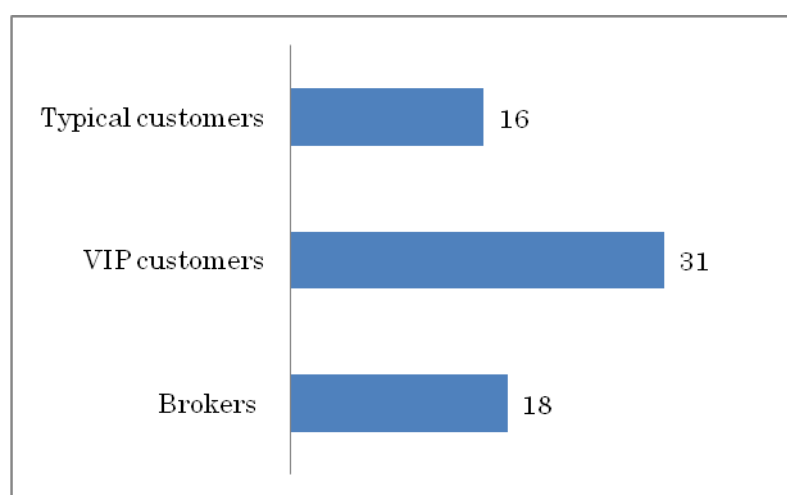
With the purpose to provide a clearer description of existing asymmetric information problem in Vietnam stock market to readers, I have conducted a trivial survey on 65 Vietnamese individual investors in Hochiminh stock exchange. The result of this survey in fact does surprise or shock any investor, who is familiar with trading stocks on such developed and transparent markets as the United State, Japan, UK or Hongkong... It shows that 80 percent of the survey attendants made trading decisions based mainly on inside information. And 100 percent of the sample population accesses to securities firms to get most updated data and information of listed companies, instead of visiting HOSE or HNX disclosure information system. Minority investors, especially who have no close relationship with brokerage firms, cannot get as much and updated information as the ones who have close relationship with these firms.

The survey had been carried out within 15 days with the population of 65 investors aging from 25 to 50. There were 4 to 5 people joined the survey each day. Survey methods were interviewing through telephone, internet with programs Yahoo Messenger and Skype (there are 23 people interviewed by this method), and face-to-face at trading floors of securities companies in Hochiminh City (42 people interviewed by this method). The questionnaire on average was completed in 15 minutes for each attendant. Besides answering the questionnaire, survey attendants also shared their own opinions and experiences regarding to inside information problem (for example: how to get those information, how to make it not-illegal when spread those information to

other people...)

Forty seven (47) out of 65 investors have been chosen randomly. However, interestingly, 31 out of 42 investors interviewed by face-to-face method are VIP customers of securities companies, who have close relationship with brokerage departments and brokers of those companies. The other intentionally chosen 18 attendants are brokers, who are presently working for securities companies in Hochiminh City, Vietnam. In Vietnam stock regulation, brokers can also trade for their own private accounts (not only for companies' accounts). In general, the survey's sample population can be categorized into 3 main groups based on relationship with securities companies, listed companies and their trading capital: 18 brokers, 31 VIP clients and 16 typical customers.

Figure 05. Types of survey attendants



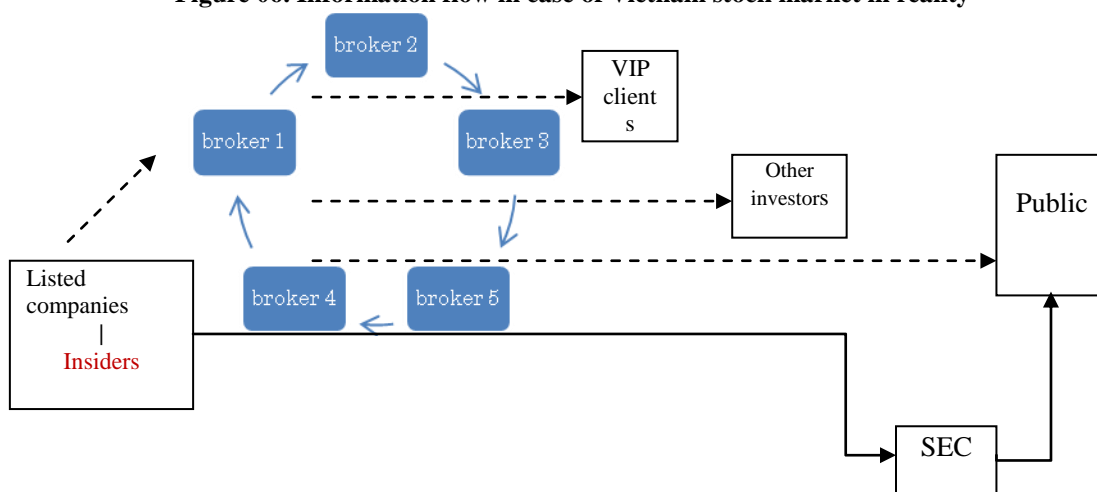
According to the result, brokers are the most powerful dominants on the ground, in term of obtaining information, when they become the information hub in the market. Usually prior to companies' quarterly financial statements disclosed, or any investment projects announced or changes in large shareholders, brokers can receive inside information from corporate insiders before any other investor in the market based on their close relationship with those insiders. Getting beneficial and important information like that, brokers then spread it through the market. Definitely, there is a certain priority in level and speed of information spreading by brokers. In the survey,

brokers have confirmed that those investors called “VIP” clients of securities firms, where they are working for, will be updated first. Then the relationship between those brokers with other non-VIP individual investors will decide whether they share this kind of non-public information with these people or not.

Remarkably, the result of this survey figures out that in Vietnamese stock market, brokers among securities firms cooperate well in term of information spreading; and evidently, “inside information” plays as a decisive glue to connect them altogether. It is beneficial for all of them, but minority individual investors. According to 18 brokers interviewed in the survey, many forums, chat rooms are set up with the merely function of inside information exchanging among them. The more extensive network does a broker possess, the more “sensitive and vital” information can he/she get prior to anyone else.

Theoretically, Figure 04 shows the information flow in Vietnamese stock market. However, in reality, it is quite different. The result of this survey sketches another proper chart of information flow, in which securities firms and their brokers override SEC’s role of major and solely public information discloser in Vietnam stock market.

Figure 06. Information flow in case of Vietnam stock market in reality



Results of the survey point out that SEC seems not to be the actual information disclosing

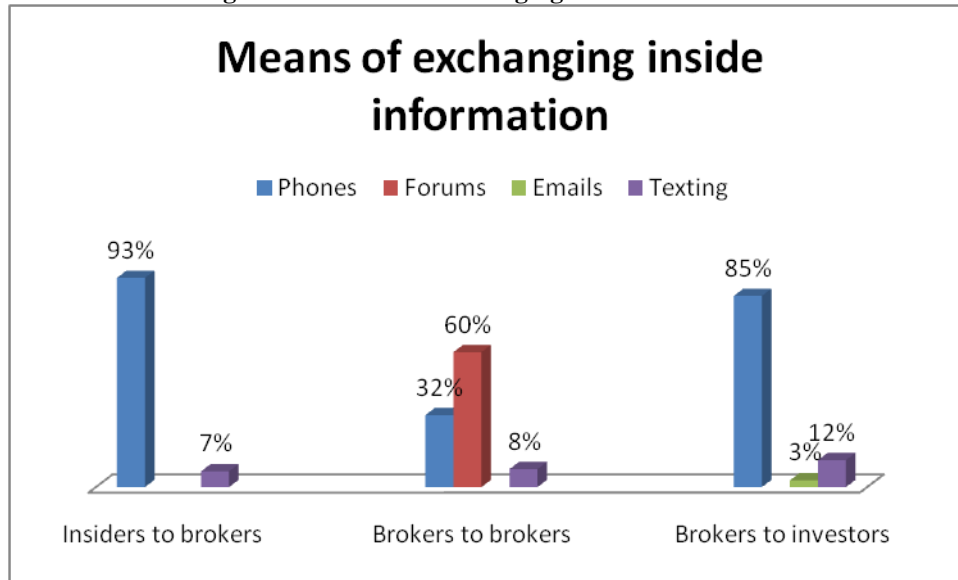
center, which it should and could have been, yet securities firms are. More obviously, SEC cannot less or more guarantee for the equality of information access for the sake of protecting uninformed investors from the informed ones. The above chart demonstrates that “inside information” soon becomes *semi*-public information after it is obtained by so called “other investors”. Additionally, that SEC discloses information at some extent is only for that sake of disclosing since a part of public takes all advantages of this information quite sooner. To this stage, it is believed that readers will not be surprised to know that the survey also shows that 18 out of 18 brokers and 31 out of 31 VIP clients interviewed answer that they make investment decisions (buying or selling a particular stock) base on the inside information squeezed from insiders. This result is also confirmed by their trading frequency. Brokers trade for their own accounts periodically, meaning they choose to go long or short for a certain stock merely when they get information from insiders, especially before financial statement officially released by SEC at the end of each quarter or after listed companies’ General Shareholders Meetings.

In Vietnam stock regulations, insider trading¹⁴ is considered as an illegal trading activity. Hence, the question raised here is how insiders and brokers can breach this law and keep spreading inside information they obtain around the market? According to the survey, after informed by insiders with related financial tips (prior audited revenue, income, dividend...) or future investment projects through telephone, chat rooms and forums, brokers will whisper this previous information to other counter parts and VIP clients as soon as they can. Quick calls will be made from their private mobile phones, so that they can achieve speed as well as no evidence left. And in these immediate conversations or emails, brokers are smart and tricky enough to use the words of “rumors” or “sideline news” mentioning about the inside information, instead of an official confirmation or update. To do this, those brokers can simply avoid being caught or complained of committing a

¹⁴ Insider trading: a person who engages in insider trading is “A person who obtains, for itself or for third parties, a financial advantages through the exploitation of confidential information of which it dispose, due to a specific relationship which binds this person to a business; where this information is of a kind which, when revealed, is apt to exert a notable influence on the share prices (The Federal Council’s message to the Swiss Parliament, Gerhard Wegen and Heinz-Dieter Assmann,1994)

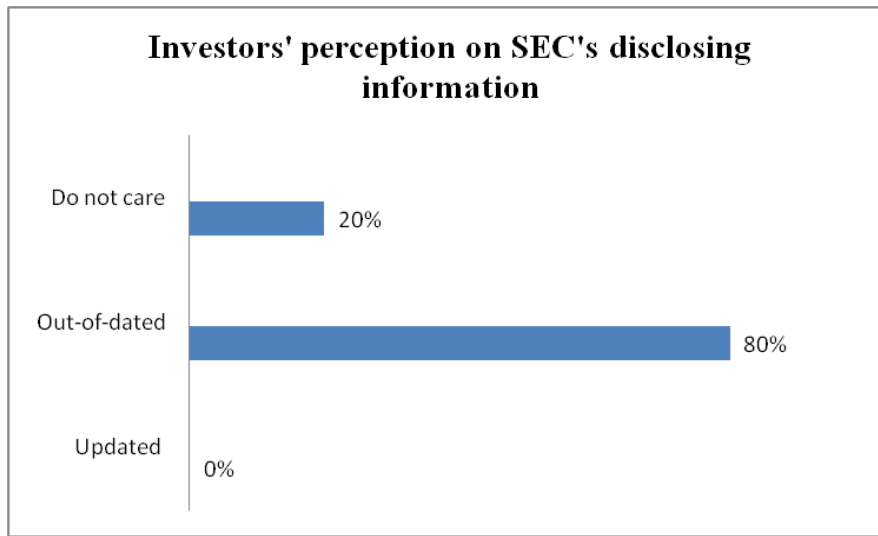
crime of “inside trading”. Ten out of eighteen brokers attending the survey firmly verify that “it is called as rumor, but it is 99 percent true since it leaks out from insiders”.

Figure 07: Means of exchanging inside information



Eighty percent of survey attendants (or 100 percent of brokers and VIP clients) confirm that public information disclosed by SEC is so out-of-dated that they call this information as “everyone-know-information”. Other 20 percent said they do not pay attention to information disclosed by SEC. The following graph shows how information disclosed by SEC is from the point of view of investors in the market relying on rough results from the survey:

Figure 08. Investors' perception on SEC's disclosed information



In conclusion, the results of this survey have given us a snapshot of Vietnam stock market's current information disclosing status. This picture reveals the equality of information access in the market, and how the information of listed companies flows from its original sources (companies) to its final target (the public). The survey's outcomes, at a certain level, have answered two questions in previous chapter when it identifies insiders, brokers and VIP clients to be the ones, who can take advantages of inside information.

Fore-mentioned facts and outstanding cases are some examples to support for the conclusion that asymmetric information problem not only does exist in Vietnam stock market but also exists at high level (Nguyen Trong Hoai, Le An Khang, et al, 2008). In their research, Nguyen Trong Hoai, Le An Khang (2008) has chosen model of Glosten and Harris (1988)¹⁵ to measure adverse selection cost, together with the model of Chung, K., Van Ness, B., Van Ness, R. (1999) to measure asymmetric information level on HOSE. This research has tested adverse selection cost that investors have to pay when they invest in stocks on HOSE. The result shows that adverse selection cost on HOSE is 4 percent compared to 1 percent on NYSE, and adverse selection component accounts for 90 percent of bid-ask spread. By this, it also concluded that asymmetric information

¹⁵ Glosten and Harris (1988) add an adverse selection component of transaction costs. They assume asymmetric information is carried through trade frequency.

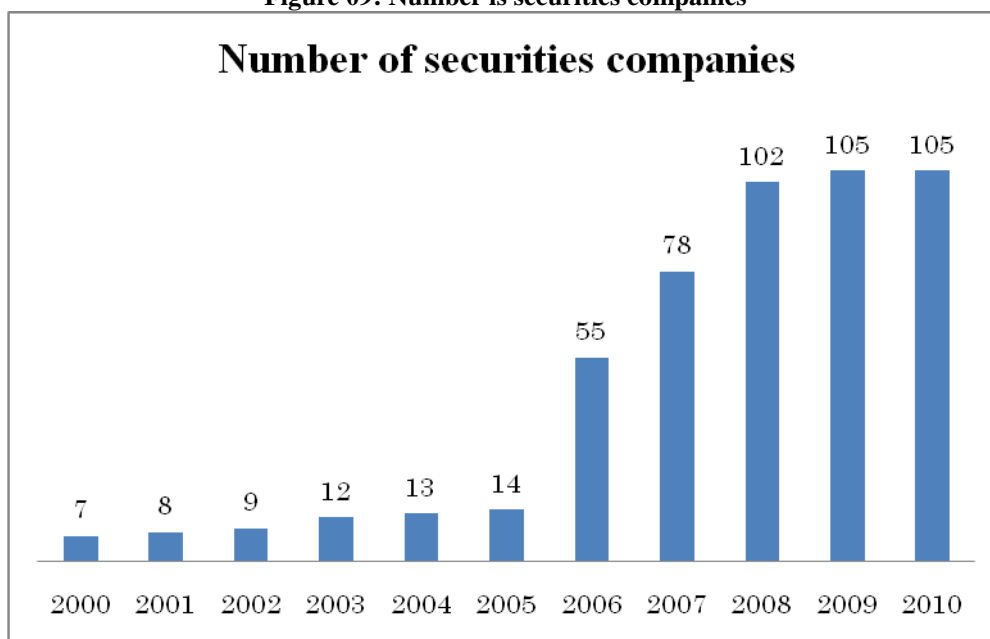
level on Hochiminh City Stock exchange is 4 times higher than that on NYSE. This conclusion was also supported by Truong Dong Loc, Ger Lanjouw, and Robert Lensink et al (2010). In their research, they proved that HOSE as a thin-trading market is not efficient on the weak-form¹⁶. It means that the price of stock on HOSE does not reflect the true price on the basis of past public available information. Furthermore, public information is known by a group of investors in advance before accessed by the whole market; this creates unfairness for major investors on the market and is beneficial for only a certain group of people, who can take advantage of inside information. Consequently, this will hinder the development of stock market in the long term, especially for a young market as HOSE.

Section 3. UNHEALTHY COMPETITIONS AMONG SECURITIES COMPANIES IN THE MARKET

While still working at a securities company in Vietnam, I had precious chance to meet and work with various foreign analysts and investors from developed securities markets in the world such as US, Japan, Korea, Australia...All of these people had the same first impression- astonishingly SURPRISED- when they received the answer of how many securities companies in Vietnam market from 2008 to current time. The number of newly established securities companies in Vietnam apparently demonstrates the situation of securities market in that year.

¹⁶ Efficient-Market Hypothesis (EMH). According to this hypothesis, Weak EMH claims that prices on traded assets reflect all past publicly available information

Figure 09: Number is securities companies



Source: Own calculation

When the market boomed from the end of 2006 to early 2008, there had been around 30 securities companies newly established on average each year. In the contrast, when it is in the crisis from the end of 2008 to current time, only 03 companies had been established in 2009. Among 105 securities, only top 20 companies (in term of registered capital and service quality) control 80% of the market share in brokerage, advisory and under writing services. There is a significantly severe competition among these 20 companies and among smaller companies with these companies. In such phenomena, many companies have used unfair and dirty tricks to attract more clients to survive in the market. Utilizing the advantage of close relationship with listed companies, which established during the listing advisory procedures, securities companies are always the first person in the market getting inside information only after insider. Those information will be updated through simple phone calls, sms texts, email and then through forum chat set up for brokers networks. Results of conducted survey mentioned above have pointed out that insiders and brokers' information exchange activities usually become more active at the end of each quarter and before General Shareholder Meetings; since at those points of time, important information of revenue, profit, investment plans, dividend, share splitting are most awaited by investors. And in order to compete with other

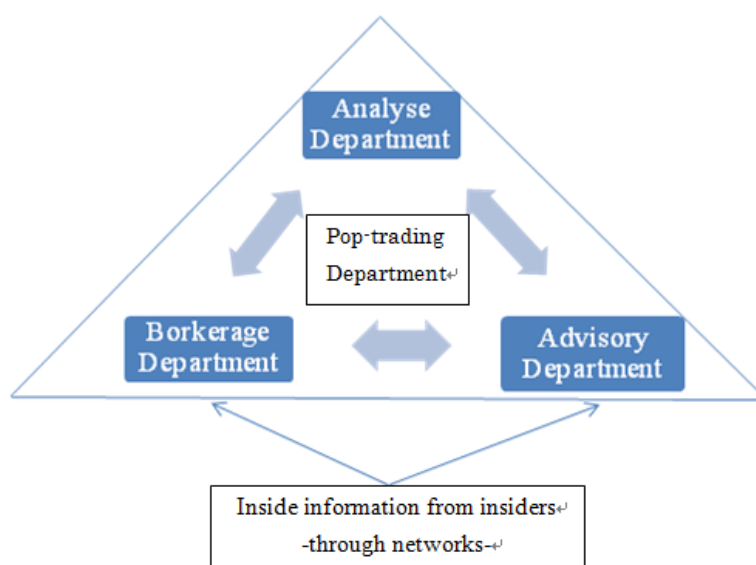
competitors, each securities company encourages and urges their brokers to hunt for such information to update their VIP customers at any price. Working in a securities company for more than two years and in financial field more than four years, I had experienced in investors' serious inside information thirst. They can close trading accounts and leave a certain company any time if their demands- although unfair and unlawful (but reasonable) demand are not fulfilled. Not only tipping inside information, brokers also try to steal investment portfolio of other securities companies and institutional financial investors for their own trading and for VIPs clients.

In March 2010, the market has been dazed when information of investment portfolio of top 10 securities companies and large foreign institutional investors was leaked out and brokers had used these lists as effective equipment to recommend for their clients trading activities.¹⁷

Besides tipping inside information to other clients, securities companies also utilize the information for their own pop-trading activities. At the current time, in Vietnam, a securities company is allowed to trade for its own account. Therefore, it is apparent that securities companies possibly have "*unfair advantages over public customers when engaging in such trading*". (Thomas Lee Hazen, 2009)

¹⁷ http://www.tin247.com/manh_khoe_lam_an_cua_cac_cong_ty_chung_khoan-3-21575093.html - Tricks of securities companies

Figure 10. Information exchange among departments in a securities company in Vietnam



Examining revenue structures on balance sheets and income statements of securities companies in Vietnam from 2008 to 2011, it is obvious to see that revenue from trading on their accounts make up an average of 35-50% in their total revenues¹⁸. In 2009, revenue from self-trading in top 05 securities firms accounted for more than 50% of their total revenue, specifically Saigon Securities Inc-SSI (57%), Hochiminh Securities Co. (63.23%), KimLong Securities Co (52.21%), Incom Bank Securities Co. (81%) and BaoViet Securities Co.(40%). In 2010, 88 out of 94 studied securities companies implemented self-trading activities. Especially, there were 03 companies, whose their income from pop-trading accounted for more than 70 percent of their revenue, such companies were Asia Europe Securities Company (82.61%), Sacom Bank Securities Company (82.12%, equivalent to VND1,131 billion) and Viet Capital Securities Company (70.11%). (Ho Ba Tinh, Revenue of Securities Companies Revealed, Saigon Economy Newspaper, 2011). This shows the important role of self-trading activity in each brokerage firm's operation. For this reason, in large brokerage firms, activities of brokerage, advisory¹⁹, analyze departments support for self-trading department at their best. Those four departments cooperate sturdily to create a solid cube, where

¹⁸

<http://wap.vnmedia.vn/vn/pages/25/227394/tiet-lo-nguon-goc-doanh-thu-cua-cac-cong-ty-chung-khoan.html>

¹⁹ in most securities in Vietnam, advisory and underwriting services are in Advisory Department

information exchange is exceptionally important.

Thanks to this operation way, obviously, there is no Chinese Wall existing among these departments to avoid conflict of interest between the securities company itself and its clients, which must have in securities law of other developed securities market. (Harry Mc Vea, Financial conglomerates and the Chinese Wall, Clarendon Press. Oxford, 1993).

Section 4. INSIDERS: INSIDE INFORMATION LEAKERS AND TRADERS- IRRESPONSIBILITY OF LISTED CORPORATE

Section 2 and 3 helps exploring the reality: investors in Vietnamese stock market are categorized into four types: *insiders, brokers, VIP and typical public investors* based on the order of inside information obtaining and utilizing ability. Although “VIP investors and brokers” can take advantage of inside information against “typical investors”, all of them are still suffered from insiders’ inside information seizing ability at some extent. Insiders (managers, accountants, auditors...) are firstly and most informed investors with crucial inside information. With the inside information, they can act before anyone else in the market and even mislead the market for the sake of their benefits through most popular violation: price manipulation. In 2008-2009, 50 percent of listed companies on HOSE do not submit their financial statements in time²⁰, particularly at the end of each quarter and after the General Shareholder Meetings. The reason explaining for late submission has never been reported clearly by listed corporate and they have not been required to do so either. The longer is publicly disclosing required date from the end of each quarter, the bigger is the information gap between insiders and other investors. It is also important for readers to know that in Vietnamese stock markets, large share holders of listed companies, especially those are originating from joint-stock or private companies, CEO, managers, vice managers, Board of Controlling members are also large shareholders. Utilizing their positions in the corporate, those insiders can squeeze inside information and make investment decision to gain excessive benefit on

²⁰ Hochiminh Stock Exchange’ announcement on its website to remind more than 100 companies to submit their financial reports in 3rd quarter , 2010 (www.hsx.vn)

the expenses of other public investors'. In 2009, The State Securities Commission of Vietnam (SSC) reported 155 cases of insider trading out of 484 investigated trading orders (32 percent) from 280 large shareholders. It is believed that the number of revealed cases is so small compared to the real number of cases occurring on the market that it cannot provide the whole picture of the severe situation.

CHAPTER 4. CAUSES OF ASYMMETRIC INFORMATION PROBLEM IN VIETNAM STOCK MARKET

Section 1. LACK OF EFFECTIVE REGULATION FRAMEWORK AND LAW IMPLEMENTATION ON INSIDER TRADING

Insider trading is a trading activity that is conducted on the basis of unequal information accessibility by informed investors and that can erode the confidence of other investors and the effective operation of a stock market. Gerhard Wegen and Heinz-Dieter Assmann (1994) confirmed

“...the smooth operation of that market depends to a large extent on the confidence it inspires in investors; whereas the factors on which such confidence depends include the assurance afforded to investors that they are placed on equal footing and that they will be protected against the improper use of inside information; whereas, by benefiting certain investors as compared with others, insider dealing is likely to undermine that confidence and may therefore prejudice the smooth operation of the market...”

The smooth operation of Vietnam stock market has been negatively affected due to the large existence of asymmetric information problem and substantial growth of insider dealings. What are the main causes of asymmetric information and what encourages investors to breach the law to conduct insider dealings? Since the global financial crisis in 2008, in Vietnam, an enormous number of conferences and discussion forums have been organized aiming to find ways to improve Vietnam stock market situation, in which investors' falling confidence has become one of the most concerned issues. The vague and weak regulations on insider trading have been believed to be the core of the problem. It is typical everywhere that investors always favor in getting much information related to the stock they are interested in. The amount of information and the speed of information updating can affect significantly investors' decisions. Unexceptionally, on Vietnam stock market where available public information of listed companies is scarce and investors have to self-collect information of listed or OTC companies (Nguyen Thi Van Anh, 2004). Given that the regulations are

not comprehensive and strict enough; investors find any mean to breach the law to obtain what they need. And in this scenario, informed investors can exploit advantage from non-informed ones.

The concern here is that despite having the history of 10 years development, Vietnam securities law is at large extent similar to Germany's law before 1989 when a self-regulation and self-regulatory applied (Gerhard Wegen and Heinz-Dieter Assmann, 1994). Market capitalization accounting for more than 31 percent of Vietnam's GDP on average since 2006²¹, the lack of plausible system on insider trading regulation in Vietnam stock market can potentially paralyze its operation and the reputation as "one of the most attractive emerging markets".

When the market incredibly rose from the end of 2006 to the end of 2007, investors enjoyed the gains and seemed to forget (or ignored) the weakness of regulation on insider trading. However, people, especially minority investors, who do not have close relationship with either brokers or insiders, started to realize the weaknesses and the lack of insider trading regulation system when the market started to plummet. In 2008 and 2010, several cases of insider trading, financial information frauds from public listed companies, and unhealthy competition among securities companies have publically emerged. To compete with one another in attracting more clients, securities companies tried to employ their relationship with insiders to get important private information and then provide it to their clients before that information is publicly disclosed. Additionally, securities companies are allowed to do proprietary without any risk management system or Chinese wall policy applied to separate its brokerage and self-investment activities.

In September 2009, former CEO of Vietin Bank Securities Joint-stock company was investigated on insider trading activity of 3 million shares of Pha Lai Thermal Power Joint Stock Company (PPC) to appropriate the State's VND 90 billion (USD 5.63 million). In this case, Vietin Bank Securities Joint-stock company was a PPC's advisor on its IPO procedure. Utilizing the

²¹ Vietnam market capitalization compared to GDP: 1% (2000- 2005), 22.7% (2006), 43% (2007), 18% (2008), 39% (2010), and 32.5% (in six months of 2011)

advantage as an advisor, this CEO bought and her team bought PPC shares in advance.

On 26th November and 03rd December 2010, CEO- President of Management Board and Vice CFO – Chief Accountant of Vien Dong Pharmaceutical Company (DVD) were arrested for using inside information to manipulate DVD's stock price. CEO and Vice CFO altogether with their team set up many subsidiaries (ponzi scheme) to buy DVD's products and sold back to DVD in order to create unreal revenue for DVD. Besides, they also made financial information frauds to sell DVD shares to the public.

Being considerably different from insider trading regulations from US, Britain, Germany..., which have clear definition of “insider” and “inside information”, Vietnam insider trading law (Decree 70/2006) merely list out type of persons, who is called “*persons who know inside information*” and are forbidden to trade:

- Members of Management Board, Control Board, CEOs or Managers, Deputy managers
- Large shareholders of public companies and public funds
- Auditors of public companies and public funds
- Other persons, who can access to inside information
- Securities companies and securities companies' employees
- Institutions and individuals, who do business with public companies
- Institutions and individuals, who directly or indirectly can access inside information from

above objects

At the first glance, insider trading regulation seems to be exceptionally extensive in regulated objects since almost every participant on the stock market, who has get known corporate or

securities companies, can be directly or indirectly considered as “person that knows inside information”. Yet the law does not clearly define what “inside information” is and who actual “insider” is. For that reason, *“it cannot distinguish between insiders and non-insiders and therefore, it is difficult to impose liabilities on a non-insider who has obtained inside information by improper means , but has not directly traded or has merely just recommended others to trade.”*(Nguyen Thi Van Anh, 2004). Given huge hole by the flaw, insiders open more than one trading account²² at different securities companies under their relatives’ or friends’ names to make inside trading or to manipulate shares’ price. These insiders can also recommend these people to hold/buy or sell his company’s stock when they know the related information.

Additionally, according to this law, only large shareholders (who hold from 5 percent of voting shares²³) become the object of forbidden trading. From this perspective, it infers that shareholders holding less than 5 percent of a public company’s shares, who is not large shareholder, is out of the list; and therefore, can carry out inside trading.

Apparently, missing to define “insider and non-insiders” and “inside information”, Decree 70/2006 *“also failed at defining prohibited activities done by insiders”* (Nguyen Thi Anh Van, 2004) as well as failed to stipulate prohibited behaviors carried out by non-insiders, who has inside information. To see how different it is between Vietnam and US’s insider trading law- Rule 10b-5, let’s read how a “tippee” is apparently defined in Rule 10-b.

According to the rule: in order to violate Rule 10-b, a tippee must have *“actual knowledge that the information was disclosed in a breach of fiduciary duty”* and also *“know or have reason to know that it was non-public and had been obtained improperly by selective revelation or otherwise”*; and a tipper is concerned as *“one who deliberate tips information which he knows to be material and*

²² According to Vietnam securities law, one investor is allowed to open only one trading account at a certain securities company. From the point of view of law maker, this can prevent/minimize the intention to commit price manipulation violations of people.

²³ Securities Law, Decree 70/2006, p.3

non-public to an outsider who may reasonably be expected to use it to his advantage has the requisite scienter” (Thomas Lee Hazen, 2009).²⁴

According to Mr. Le Chi Thu Khoa, Deputy Director of Research and Development of Hochiminh Stock Exchange, insider dealings are becoming popular sanctions in the market and are carried out in more sophisticated ways since benefits gained from them are enormous. One of the most popular sophisticated means utilized by insider trading is that large shareholders tend to “forget” to announce their purchasing or selling shares plan to SSC or to the public media before they actually do it. Or, large shareholders often are CEOs, Managers, Chief accountants... of corporate, try to dodge the vague law by entitling their shares under their relatives’ names as presents. With this way, they do not have to announce to SEC. Afterward, the second owners can easily trade shares. And currently, Vietnam securities law does not have any regulation to impose liability on such transactions.

Section 2. VAGUE REGULATION ON PROHIBITION OF OMISSION OF INFORMATION AND MISINFORMATION

Omission of information and misinformation can lead public investors to misunderstanding and unfair information accessibility. In Decree 70/2006, Sub-articles 01 and 02 of Article 09, entitled “Forbidden Activities”, simply reads:

- *Directly or indirectly create and circulate untrue information, omit essential information, which can lead to serious misunderstanding of shares offering, listing, trading, and investing activities.*
- *Conduct misinformation or being late in disclosing information, which can have severe effect on shares trading activities on the market.*

It is claimed that the scope of this provision is too vague and simple to address what kind of

²⁴ Thomas Lee Hazen (2009), Securities Regulation in a nutshell, 10th Edition, Insider Trading, p.153

information and statements that “essential information” shall be included. Essential information stated in the Sub-article 01 and 02 can be understood in either ways: it refers to the statements in dossier required SEC²⁵ or any kind of statement made in any form (oral or written). For this reason, brokers or any insiders or anyone who can access to inside information can utilize the words of “rumor” as a mean to leak out the omitted information and use it to make inside transactions. Besides, insiders can utilize this unclear provision to omit the information that they purposely judge as “unessential information” to not make it public on time.

Additionally, the regulation is also unclear when it states the term “*severe effect on trading activities*”. The definition of severe effect is still missing; and once again, this defect makes the law difficult to impose liability on related persons. Inadvertently, these ambiguous regulations open chances for people to be unlawful when they omit important information and pass the disadvantages to other public investors.

Following cases are outstanding examples, in which some individuals and institutions exploit the defect of misinformation to gain benefit by announcing information of their purchasing and selling plan to mislead the market.

In September 2010, Pham Anh Duong, Chairman of Management Board and CEO of Plastic and Green Environment Joint-stock Company (code: AAA, listed on HOSE) announced his plan to buy 500,000 shares of AAA and to sell 500,000 same shares. However, in fact, Pham merely sold off 500,000 shares and did not purchase any additional as announced at the beginning. During his transaction, AAA’s price went down by 13%.

Or recently, Saigon-Hanoi Securities Company registered to buy and sell 500,000 shares of Vung Tau Real Estate and Construction Company (code: VRC). However, this company actually bought 104,750 shares and sold only 4,000 shares.

²⁵ Dossier includes: income statement, balance sheet, audit financial statements, prospectus... (referring to www.hsx.vn)

PAN Pacific Corporation registered to buy 2 million and to sell 1.5 million shares of Saigon Securities Joint-stock Company (code: SSI). Yet, PAN sold out the total of 760,000 shares of SSI and did not purchase a single share as scheduled.

It is obvious to claim that those companies and insiders misled the market or other public investors by their misinformation of selling and buying schedule at the same time. However, they were not imposed with liability since the regulation on “Misinformation and Omission of information” does not have any article to minimize their tricky practices. To breach the regulation lawfully, those people accused that they were not able to buy registered shares due to “the situation of market”. What should be noticed here is that all of related persons in above cases are “large shareholders”, who less or more can access to inside information of the targeted companies. And their justifications are as ambiguous as the regulation is.

To upgrade and revise the regulation on “Misinformation and Omission of information”, Vietnamese law makers should have learnt from their counterparts- US. In the US Securities Exchange Law, Section entitled “Liability for Misleading Statements”, what statements are concerned and what liability can be imposed on committed person is regulated clearly:

“Any person who shall make or cause to be made any statement in any application, report, or document filed pursuant to this title or any rule or regulation thereunder or any undertaking contained in a registration statement as provided in subsection (d) of section 15 of this title ... shall be liable to any person (not knowing that such statement was false or misleading) who, in reliance upon such statement, shall have purchased or sold a security at a price which was affected by such statement, for damages caused by such reliance, unless the person sued shall prove that he acted in good faith and had no knowledge that such statement was false or misleading.”

In this section, the term “any statement” is used instead of “untrue information/statement”.

Purposely, “any statement” can cover both “*material misstatement and omission of material facts*”, with such statement price of shares purchased and sold can be affected. (Nguyen Thi Van Anh, 2004). With clear and detailed provision like this, no scienter misleading information violator can be escaped from being imposed liability.

In addition to poorly defining “misinformation and omission of information” activities, Article 09 of Decree 70/2006 also does not regulate on liability, which violators can be imposed with. However, in 2011, law makers plan to revise this provision by adding some administrative sanction, which is believed to be merely symbolized for the sake of having but not strict enough to reduce the spreading violations in the market.

Section 3. IMBALANCE BETWEEN INCENTIVE AND PENALTY EXECUTION IN STOCK MARKET

Altogether with the lack of regulation on “Insider Trading” and the ambiguity of “Omission of Information and Misinformation” provision, the imbalance between incentive and penalty execution contributes a noticeable part in the list of causes leading to asymmetric information problem in Vietnam stock market.

In the discussion above, many case studies have revealed that enormous profit gained a extraordinarily short time from insider trading and other unlawful activities has strongly encouraged violators to try to breach the regulation in Vietnam stock market. Trading with inside information, omitting crucial information in public statements, misleading the market with inaccurate announcement related to share purchasing and sale plan are the most common and spreading violations have been employed most frequently.

From the 2008 to the current time- 2011, when public investors started to understand more about the stock market and its operation, many cases of insider trading, financial information frauds

from public listed companies, unhealthy competition of securities companies (to attract more clients with inside information provision before that information is submitted to local Stock Exchanges) have been discovered. And it is believed that number of those revealed cases is just a tiny part of a floating iceberg.

In its annual report in 2009, The State Securities Commission of Vietnam (SSC) announced 155 cases of insider trading out of investigated 484 trading orders (32 percent) from 280 large shareholders. According to securities law, large shareholders of public companies, who hold more than 5 percent of company's stocks, have to announce their trading plan (buying or selling) to stock exchange and on public media at least 5 days before their trades are actually executed. However, those shareholders have delayed their announcement on purpose to mislead the public or announce one way but behave other way to gain more benefit.

Among these 155 cases, cases of one shareholder owning 8.5 percent and 11.6 percent of Cement Materials and Transportation JSC (VTV) selling out her stocks without either announcing to the public media or registering to SEC.

Case 1: Nguyen Thi Kim Phuong, large shareholder²⁶ of VTV had sold out 557,800 shares of VTV (accounting for 8.5 percent of VTV total listed shares) on 24th March 2010 without registering with SEC or publicizing this information.²⁷ The noticeable point here is that on 03rd February 2010, she announced on public media and registered to buy 1.3 million shares of VTV at the price of VND 40,000 per share (or 2 USD). However, this bid had been canceled regarding to the rise of 30 percent of price share.²⁸ When the price went up to VND 55,000, she earned profit of USD 500,000 by

²⁶ Person is listed as major shareholder if s/he holds from 5% of total listed shares of a certain listed company, Vietnam Securities Regulation, Decree 48/1998

²⁷ <http://vnexpress.net/gl/kinh-doanh/chung-khoan/2010/04/3ba1a688/>- Large shareholder sneaked out, minority shareholders strike

²⁸ Decree 70/2006 said "a large shareholder or insider can cancel her purchasing/sale plan if the market bid/ask price after the registering and announcing date is 30 percent higher/lower than their

selling peacefully. With the announcement of 1.3 million shares purchasing plan, purposely she misled the market in order to push up the price of VTV to 30 percent higher; and then quietly sold out all of the shares she was holding at higher price.

This case is just one of 155 insider-trading, misleading and omission of information cases investigated by SEC. The consequences of this kind of disclosure violation are that minority investors' confidence is substantially eroded, and it can create an unhealthy trend in the market, where fair and true information are provided. According to my own estimation, with this trade, Phuong could earn from USD 700,000 to USD 900,000 while might pay the penalty (according to securities law) of only USD 2,000. This shows that the incentive of breaching law is much higher than penalty. Commenting on this case, Dr. Le Tham Duong, Head of Business Management Department at Hochiminh City Banking University, raised his question: "Stock Law (Decree 70/2006) regulates that large shareholder must announce her sale plan on public media before executed (and any broker has to know this). Who executed this sale order?" Dr. Duong added that current penalty policy is not appropriate enough to warn violators when their fine seemed to be a hundred times lower than their incentive.

Case 2: PhaLai Thermal Electricity Company (code: PPC, listed on Hochiminh Stock Exchange). Pham Thi Tuyet Mai, former CEO of Vietnam Techcombank Securities Company had bought 3 million shares of PhaLai Thermal Electricity Company (PPC) while Vietnam Techcombank Securities Company was PPC's advisor for its first initial public offerings. Taking advantage of inside information provided by PPC as an advisor, Pham Thi Tuyet Mai and her team had bought 3 million shares and then sold out when PPC was listed to earn a profit of 90 billion VND (or 5.6 million USD)²⁹.

planned bid/ask price”

²⁹ exchange rate in 2008 , 1 USD = 16,000 VND

This case has been investigated since 16th January 2008; however, until this moment March 2011, it has not been judged or clarified yet and no one knows what kind of punishment or penalty those violators will be imposed.

Discussing of current trading management and supervision activities on stock market, leaders and managers from Hochiminh Stock Exchange have confirmed that many cases of insider dealings and large shareholders selling stocks without announcing. However, those violators merely received warning letters from the State Securities Committee (SSC).

It would be more helpful when comparing how different the liability that defendant violators in Vietnam and US stock markets are imposed on by looking at the penalties regulated in these two countries.

In Vietnam, before May 2011, securities law regulated insider trading and misinformation and omission of information violations to be “*securities trading violations*” and the penalty for these violations is a fine of USD 1,500-2,000 (VND 30 million to VND 50 million) for individual violator and of USD 2,000-3,500 (VND 50 million to VND 70 million) for institutional violator. Additionally, according also to the revised regulation on insider trading, the defendant violator must pay back the total amount of profit he gained from the violating transaction; however, there is no regulation related to the loss avoided from possessing inside information while trading.

In US, under §21A of 1934 Act:

“if any person violates the 1934 Act or any rule thereunder by trading while in possession of material nonpublic information, or by communicating such information in connection with a securities transaction, the SEC can go to court to seek a civil penalty equal to three times the amount of the profit gained or the loss avoided by the illegal transaction”.

Besides, the penalty will be imposed on both the violator and *the person who “controlled”*

the violator; and the penalty that the “*controlling person*” must bear cannot exceed \$1 million. An amendment made to modified SEA §32 in 1988 says “*the penalty for violation of the Act will be from \$100,000 to \$1 million, in the case of individuals and from \$500,000 to \$2.5 million in the case of other entities*”

Apparently, with the same degree of violation, defendant violator in US received much harsh penalty than his counterpart in Vietnam (mainly administrative sanction, at least until this point of time). The penalty that those persons received is too trivial compared to the incentive they got when they chose to cheat.

Section 4. INCOMPETENT AND BACKWARD TECHNOLOGY OF INFORMATION DISCLOSING AND TRADING SUPERVISION SYSTEM

Section 2 of chapter 1 has pointed out some major problems of the information disclosing system of Vietnam Stock Market:

1. Required information disclosing forms (financial statements, prospectuses, urgent information...) are not standardized. Each public company has its own form and style to disclose.

2. Disclosed public information on website of HOSE (Hochiminh Stock Exchange) is apparently poor and out-of- dated. It is considerably difficult (if not almost impossible) for investors to trace back data of both listed companies and companies on OTC market.

3. Bilingual system is incompetent. One foreign investor, who are interested in Vietnam stock market but has no relationship with a securities company, definitely cannot get information from HOSE information system as he wishes. Some foreign investors asked for their opinion on Vietnam

stock market information system replied: “It takes us two hours to get a full list of public companies listed on Thailand Stock Exchange with all general information of these companies. And it takes us almost forever to get the same thing in Vietnam information system”.

The above three at- first-sight information disclosing problems are believed to be the results of incompetent technology. And partially, the increasing number of stock trading violations cases is also the results of backward technology in supervision system. The Securities Law requires all of public listed companies to submit all of their information including financial statement, investment plans, dividend payment decision, and list of large shareholders right after the General Shareholders Meeting to HOSE or HASTC. And the law did not regulate the specific time that those companies need to submit after the meetings. Yet, after receiving all of information from listed companies, it usually takes HOSE from four to five days to have it updated on the website. In these 04 to 05 days, it is simply understandable that important information can be leaked out any time before accessed by public investors.

CHAPTER 5. LESSONS DRAWN FROM SECURITIES REGULATION AND POLICIES APPLIED BY DEVELOPED MARKETS IN PREVENTING ASYMMETRIC INFORMATION PROBLEM

Various solutions have been applied by many other developed stock markets in the world aiming to maintain the fairness of a market to all public investors. The only objective of this chapter is to list out and get solutions, regulations and policies that authorities in the US, Japan, Britain, Germany, France, Switzerland, Netherlands, and Ireland currently apply to prevent insider trading, price manipulation, and conflict of interests among securities companies and their clients. Learning from these regulations, only applicable solutions to Vietnam market background are selected to recommend to relevant authorities in Vietnam to control and minimize its severe asymmetric information problem.

Section 1. UNITED STATE OF AMERICA

5.1.1. Disclosure information system (EDGAR)

In chapter 3 and 4 of this paper, Vietnam's SEC information disclosing system has been found in incompetent technology and poor in information disclosed. This is one of main causes leading to asymmetric information problem in Vietnam stock market. It has been ten years of operation; yet this disclosing information system has not been either upgraded or properly invested suitably with its importance. Therefore, Vietnam stock market, specifically SEC is in the rush to have an efficient and advanced disclosure information system. It would be useful to learn from EDGAR, an effective disclosure information system. EDGAR is *"The Electronic Data Gathering, Analysis, and Retrieval system, performs automated collection, validation, indexing, acceptance, and forwarding of submissions by companies and others who are required by law to file forms with the U.S. Securities and Exchange Commission (SEC). Its primary purpose is to increase the efficiency*

and fairness of the securities market for the benefit of investors, corporations, and the economy by accelerating the receipt, acceptance, dissemination, and analysis of time-sensitive corporate information filed with the agency". Anyone can access to essential information, data of public companies and all of listed companies are strictly regulated to disclose information to SEC electronically at the shortest required time, which can reduce the chance of leaking information to outsiders. EDGAR can be accessed at <http://www.sec.gov/edgar.shtml>.

5.1.2. Regulations on insider trading

In his book *Securities Regulation in a nutshell*, Thomas Lee Hazen has indicated that one of the most important applications of Rule 10b-5, in Act 1934, is its use as a sanction against "insider trading". Therefore, unlike Vietnamese regulation against the same violation, Rule 10b-5 makes it clear and detailed in defining unlawful "insider trading" violators. Definition of "insider" in Rule 10b-5 extended beyond officers, directors, and large shareholders to "*anyone who receives information from a corporate source*" and insider trading is "*any securities transaction bearing two elements of "the existence of a relationship affording access to inside information intended to be available only for a corporate purpose, and the unfairness of allowing a corporate insider to take advantage of that inside information by trading without disclosure"*"³⁰

Additionally, Rule 10-b also has regulated how insider trading violators can be imposed with the penalty, which I believed that it is strict enough to discourage persons who have intention to violate. The penalty is "*three times the amount of the profit gained or the loss avoided by illegal transaction*". Not only would violators be penalized, under 1934 Act, "controlling person"³¹ with whom violators are associated is also fined (not exceeding \$1 million). This regulation at some extent requires firms to have appropriate compliance and risk management procedure to carefully prevent those violations from occurring. This legal point should be put into Vietnam law makers' consideration since can help Vietnamese SEC to refrain the unhealthy competition among securities

³⁰ Chiarella v United States, 445 US 222, 227 (1980)

³¹ The firm violator is associated with (Thomas Lee Hazen, 2009)

companies, in which those companies encourages their brokers to attract clients by any means even tipping inside information.

Furthermore, 1934 Act's §21A also encourage people to "blow the whistle" on insider trading by "*providing up to 10% of any civil penalty recovered by the SEC to any person who provide information leading to the imposition of the penalty*". (Thomas Lee Hazen, 2009).

5.1.3. Application of Chinese Wall

The establishment of financial conglomerates in 1975 and 1986, as a definite result of significantly growing diversification and competitiveness pressure after the financial deregulation in US and UK, had eroded the division between commercial and investment banking services. That one financial firm can provide multiple services of banking, corporate finance, investment management, brokerage at the same time has raised the question of conflicts of interests as well as other risks. To protect public investors, it was crucial for regulators in these two countries to seek for an appropriate solution. And Chinese Wall³² has been considered as "*one legal and economic regulatory technique and a key mechanism for regulating conflicts in multifunctional financial firms*" by regulators. (Harry Mc Vea, Financial conglomerates and the Chinese Wall, Clarendon Press, Oxford, 1993).

It is believed that Vietnamese regulators and securities firms understand the definition and function of Chinese Wall in reducing conflicts of interests between investors and securities firms themselves. However, such risk management method has not been considered and yet to apply in their operations.

Also according to Harry Mc Vea, "Chinese Wall" consists of policies and procedures to operate departments within a financial conglomerate, specifically to restrict or block the flow of information to the decision maker, which might be different from firm to firm. Yet there are some

³² Chinese Wall is a self-styled regulatory mechanism aimed at stemming the flow of information from one department in a conglomerate to another and resolving the legal problems associated with conflicts of interest and duty generally. (Harry Mc Vea, 1993)

basic (bed-rocks) in any Chinese Wall: *“compliance manual, systematic identification of risk areas, procedure risks are to be addressed, compliance responsibilities clearly demarcated, routine monitoring and periodic review of compliance procedures, contingency plans in the event of accidental disclosure of inside information, ongoing educational and training programmes, regulatory links, encouraging clients to disclose confidential news, procedure to determine whether information is to bypass the wall, and trading records”*. (Harry Mc Vea, 1993)

Section 2. JAPAN

Response to a call for a fair securities market, where equal information accessibility of public investors is assured and insider trading will be punished, a stricter provisions regulating insider trading was introduced in 1989, specifically Article 109-2 and Article 109-3. These articles prohibit “certain types of transactions by certain categories of persons”. And insider trading has also become object to criminal sanction, according to which any person violating provisions of Articles 109-2 or 109-3 will be imposed on “imprisonment with the requirement of labor for not more than six months and/or a fine of not more than five hundred thousand yen” (Kazumi Okamura, Chieko Takeshita, 1989).

Besides tightening insider trading regulation, Financial Services Agency of the Japanese government also operated an advanced disclosure information system called EDINET (Electronic Disclosure for Investors' NETWORK). Similarly to EDGAR system in United States, EDINET includes information of Japanese companies since 2001 and traded companies is obligated to their disclose information on this network. Investors can access to this system to obtain information of their interested traded companies at <http://info.edinet-fsa.go.jp/>

Section 3. BRITAIN

The new thing, which should also be noticed by Vietnamese law makers and governors, in Britain Criminal Justice Act 1993 regulating on Insider Trading is that besides detailed and clear

definitions of “insider trading, inside information, insider disclosure”, the Act also defines “insider encouragement”. Insider encouragement is person who “*encourages another person to deal in securities that are price-affected securities³³ in relation to the information, knowing or having reasonable cause to believe that the dealing would take place in the circumstanced*” (Gerhard Wegen and Heinz-Dieter Assmann, 1994). If this kind of “insider encouragement” is regulated in Vietnam securities law, at some extent, can prevent brokers from utilizing tricks to tip their clients in a not-breaching-law way.

Britain Criminal Justice Act 1993 also set out the penalties applied for insider dealing, in which violator is “term of imprisonment of up to seven years and or unspecified fine” (Gerhard Wegen and Heinz-Dieter Assmann, 1994)

Section 4. GERMANY

Before November 1989, Germany had no “*pertinent statutory law*” on insider trading. Rather, a self-regulated rule was applied. Yet, It is true that in Germany insider trading rules are breached less frequently than elsewhere. However, to be competitive with other international financial centers such as New York, Tokyo and London, an insider trading statutory regulations become necessary and inevitable. For that reason, Coordinating Regulations on Insider Dealing was promulgated since 1989 (Dr. Gerhard Wegen and Prof. Dr. Heinz-Dieter Assmann, Insider Trading in Western Europe: Current Status, Graham and Trotman and International Bar Association, 1994, page 3). Similarly to regulations of US and Britain, Insider Trading law in Germany also has comprehensive definition of insiders, inside information, inside securities, for example: *Inside information is “knowledge of circumstances not yet disclosed or publicly known which could affect the evaluation of the Insider securities...”* Additionally, in Germany, insider trading violation cases will be investigated by an Investigation Commissions established at the stock exchange, which “*consisting of a Chairman and*

³³ price affected securities: if and only if the information would , if made public , be likely to have a significant effect on the price of the securities (Gerhard Wegen and Heinz-Dieter Assmann, 1994)

four other members and the Chairman is required to be an active and experienced judge in commercial law". This can be considered by Vietnamese SEC and SSC to be an independent entity to deal with insider trading and also other violations related to securities trading activities.

Section 5. FRANCE

Supporting for the urge of promulgating stricter regulations and heavier penalties as an inevitable solution for insider trading, asymmetric information problems, this paper especially focus on the punishment applied in other securities market. Under Insider Trading law in France, *"Insider trading is punished under Article 10-1 first paragraph of the 1867 Ordinance by two months to two years imprisonment and/or fine ranging from FF 6,000 to FF 10,000,000 or ten times the amount of profit generated by the illegal transaction, whichever is higher."* If compared to penalties applied on the same violations, US law makes it clearer with term *"profit gained or loss avoided"*. Yet, the penalties applied in France case is much heavier – *"ten times the amount of profit gained"*- than those in US- only three times higher the amount of unlawful profit gained/loss avoided. Moreover, the rule also regulated: *"the fine cannot be lower than the profit realized, concerning commercial companies and all persons who, in connection with the exercise of their profession or duties, have access to privileged information on the prospect of the status of an issuer of transferrable securities or on the future prospects of a negotiable future contracts , and who have conducted or knowingly allowed to be conducted one or more transactions on the market , either directly or through a third party, before the general public was aware of this information."* Not only being regulated for the sake of having it- as it does happen in Vietnam, heavy penalties have been recently imposed by both the courts and the COB in cases of La Ruche Meridionale-BUE, Paribas-Societe Generale de Fonderie, Delalande and Pechiney. (Gerhard Wegen and Heinz-Dieter Assmann, 1994)

Section 6. NETHERLANDS

There are 3 crucial key points withdrawn from solutions of Netherlands to solve asymmetric information through its Insider Trading regulations as follow:

1. In Model Code enacted in 1986, certain members of company such as Board of Directors, the Board of Commissioners and “designated officers”, who are persons can access to price-sensitive information who have been identified as such the company concerned will be prohibited from trading in suspects periods (for example: 2 months prior to the publication of the annual report, dividend payment, 1 month prior to the publication of prospectus).

2. Setting up the Exchange Trading Supervision Department called the Stock-watch to monitor and analyze price and trade volume developments of listed securities. Once the Stock Exchange Board suspect insider trading case based on Stock-watch reports or other grounds, it will request the Control Bureau of Association to conduct the investigation.

3. For members of stock exchange: securities companies: Chinese wall has to be erected to distinguish the brokerage department, underwriting department and credit business. And this must be notified to the clients.

(Gerhard Wegen and Heinz-Dieter Assmann, 1994)

Section 7. IRELAND

In the book *Insider Trading in Western Europe: Current Status*, Gerhard Wegen and Heinz-Dieter Assmann have mentioned that Ireland law makers not only concern in setting regulations of insider trading or penalizing violators, they also equip stock market participants with general legal knowledge through Irish Association of Investment Managers. Irish Association of Investment Managers (IAIM) is established to publish the Code of Best Practice for participants in the Stock Market such as companies, investors, analysts, stock brokers and advisers. This Code will

ensure participants the confidence that others do not have unfair information and Irish market is a fair and informed one, to facilitate the full compliance by participants in the market.

The IAIM will provide:

- *Guidelines for the release of information to analysts: recommend them not to meet issuers during sensitive periods*
- *Guideline for the persons who come into possession on unpublished price sensitive information should not deal or recommend other to deal until such information has been published*
- *Guidelines to issuers: not to release unpublished price sensitive information to selective groups*
- *Guidelines of definition of unpublished price sensitive information*

(Gerhard Wegen and Heinz-Dieter Assmann, 1994)

CHAPTER 6. INEVITABILITY FOR AN IMPVOMENT IN REGULATIONS AND TECHNOLOGY UPGRADING IN VIETNAM STOCK MARKET AND RECOMMENDATIONS

While it is prohibited and judged as illegal and immoral issue in most of stock markets in the world (US, Britain, Japan, Ireland, France...), there have been several critics against those strict insider trading regulation and policies. Violating this prohibition can lead to such heavy penalties as imprisonment and fine payment, for example in France, insider trading defendant violator is imposed on liability ten times higher than the amount of profit he gained on inside information. And among well-known critic of policy on insider trading, Henry Manne is the “*most widely quoted*” one. Manne’s positive opinion on insider trading can be summarized into three key points (James R. Marsden and Y. Alex Tung, 1999):

- *Insider trading provides a meaningful form of compensation in large corporations for the entrepreneurial function; therefore it is an effective way of stimulating entrepreneurial activities;*
- *Insider trading helps security prices adjust more rapidly to reflect underlying information, hence increasing market efficiency and resulting in more real investment; and,*
- *Insider trading does no harm to outsiders.*

In their article “The Use of Information System Technology to Test Insider Trading and Asymmetric Information” in 1999, Marsden and Alex Tung supported the 2nd and 3rd points of Manne’s argument based on results received from their laboratory experiments. The results of their second experiment concluded “*the fast dissemination of insider information indicating high market efficiency; and no significant difference between insiders' and outsiders' profits on insider information assets*”. However, Douglas (1988) and Manove, M. (1989) significantly opposed Manne’s argument and Manne’s supporters by the evidence that:

- *Insider trading is not a cost-effective mechanism for promoting market efficiency and is*

no more effective than other compensation plans at producing the right incentive for entrepreneurial managers;

- Liquidity of markets will be reduced when insider trading is permitted;

-The inside information was intended for the benefit of the firm but not the private advantage of the traders; and,

- Outside investors will invest less because the market is "unfair."

Taking Vietnam stock market's situation into consideration, I strongly believe that any public investor (or outsider), who is uninformed will stand on Douglas (1988) and Manove (1989)'s sides. The results of conducted survey on how serious asymmetric information and insider trading violations are in Vietnam stock market conclude that inside information and inside trading exist for the sake of informed investors only, in this case are either wealthy VIP investors or those who have exceptionally close relationship with brokerage firms. Since 2006, role of the stock market as an effective capital mobilizing channel has become much more crucial for the Vietnam's economy when market capitalization accounts for 35-42% of Vietnam GDP on average. However, stock market simultaneously shows substantial flaws on its regulating and operating activities. From 2008- right after the global financial crisis occurrence and also the plummet of Vietnam stock market, the increasing number of insider trading cases and information disclosing violations (mainly from insiders and large shareholders) has caught the public attention. Gradually it has also been eroding investors' confidence in the transparency of the market. And a financial market can be smoothly operated or not depends on whether public confidence and investors' trust are maintained (Harry Mc Vea, 1993). Former chapters of this paper have pointed out causes leading to current severe asymmetric information level and insider trading in Vietnam stock market, among which insider regulation's imperfection comprising a major part: "Lack of Effective Regulation Framework and Law Implementation on Insider Trading- Vague Regulation on Prohibition of Omission of Information and Misinformation-Imbalance between incentive and penalty execution in stock market and Incompetent and Backward Technology of Information Disclosing and Trading Supervision

System”. For insider trading can endanger investors’ confidence in the fairness of capital markets and has a “*detrimental effect on them*”, it is inevitable for Vietnamese law makers to revise and improve insider regulations as well as information disclosure system in respect of individual investor protection and in respect of the functional protection of capital markets and the economy as a whole (Gerhard Wegen and Heinz-Dieter Assmann, 1994). In the current complicated situation of Vietnam stock market, where public investors’ equality of information access is not guaranteed; conflicts of interests between broker firms and their clients is not concerned and minority investors is misled by large shareholders’ misinformation, it is prerequisite to re-examine and upgrade the enforcement of securities regulations. My recommendations for the sake of a more transparent and effective stock market are relied on firstly the analysis of asymmetric information and insider trading causes and secondly, on the lessons learnt from other developed stocks markets’ solutions. Hence, the recommendations will focus on two key aspects: tightening regulation and improvement of disclosure information system.

Section 1. IMPOSING HEAVIER PENALTIES

Solving (or at least reducing) insider trading violations problem requires the law to be improved in regard to penalties and enforcement at national level (Gerhard Wegen and Heinz-Dieter Assmann, 1994). These two professors had also proved that “penalties must be adequate deterrents and they should be both a prison and a fine” in order to prevent people from trading with inside information. Examining Germany, Swiss and Japan’s back ground of stricter provisions; we can see that heavier penalties are adequate and inevitable in insider trading regulations in Vietnam stock market. Before 1988 and 1989, both Germany and Japan applied self-imposed and voluntary rules on insider trading. However, it became evident that Germany was more isolated at international level and its competitiveness of a financial center was negatively affected due to that insider trading rules and a statutory approach to the problem became inevitable (Gerhard Wegen and Heinz-Dieter Assmann, 1994). In Japan, before the enactment of new stricter regulations on insider trading, very few cases were punished by provision; and increasing widely-publicized scandals were caught by

public attention. To guarantee for the fairness of the securities market, Japanese law makers promulgated insider trading conduct subject to criminal sanction (Kazumi Okamura, Chieko Takeshita, 1989). Japanese securities law says:

“Any person who violates the provisions of Article 190-2 or Article 190-3³⁴ is subject to imprisonment with the requirement of labor for not more than six months and/or a fine of not more than five hundred thousand yen”

Similarly, prior to the enforcement of Article 161 of the SCC³⁵, Swiss considered insider trading to be merely immoral issue and such a violation like that was punished on the moral level. However, under the pressure of global stock exchange and also the need to ensure Swiss’ stock exchange reputation, Swiss promulgated Article 161 with stricter provisions on insider trading violations (Gerhard Wegen and Heinz-Dieter Assmann, 1994).

Back to Vietnam stock market situation, it can damage its reputation as of the most effective and essential capital mobilizing channel for the economy by the perception that it lacked an incredible system on insider trading regulation. Additionally, reinforcing stricter provisions also got encouraged by the public in Vietnam stock market at the current time. In a conference on : “Improving Vietnam stock market” organized by Law University in Hochiminh City, Vietnam in July 2010, The Deputy Director of Research and Development of Hochiminh Stock Exchange-Mr. Le Chi Thu Khoa expressed his view on stock trading environment: “Not only listed companies’ CEOs, or Directors of Management Board, their relatives, but also brokers can conduct insider trading. This can bring an enormous profit to illegal traders immediately. Therefore, it is necessary to revise and to supplement insider trading law as well as to establish a separate court specializing in judge these crimes”.³⁶

For all reasons, insider trading regulations should be adjusted and upgraded comprising the

³⁴ See Laws and Regulations Relating to Insider Trading in Japan, 01st edition, 40-76

³⁵ See Gerhard Wegen and Heinz-Dieter Assmann, Insider Trading in Western Europe: Current Status, Graham and Trotman and International Bar Association, 1994

³⁶ <http://phapluattp.vn/20100713113356871p1014c1069/thi-truong-chung-khoan-dang-can-bo-sung-luat.htm> - Specializing law online newspaper website

three following elements: inside information, insiders, price manipulation and penalties³⁷. Effective and comprehensible regulations on insider trading and price manipulation are also in need. These can helpful device for authorized agent to supervise and discover related violations on the market.

Section 2. ENFORCING INTERNAL CONTROL, RISK MANAGEMENT SYSTEM AND CHINESE WALL IN SECURITIES FIRMS- REDUCING THE NUMBER OF SECURITIES COMPANIES

Self-trading has become an important and key business activity for major number of securities companies in Vietnam when its revenue accounts for more than 50% of one's total revenue structure. In some cases, this percentage can reach to 80%. Holding such a crucial role, self-trading department is the center of a securities company, which receives all of the supports from other departments: brokerage, analysis, and advisory department. There are cases that analyzing reports of certain shares conducted by analysis department for the sake of clients' investment assistance, but turn to be a method for price manipulation violations. Self-trading department is an information hub, to which any information obtained by other departments, especially advisory department with inside information. At the present time, there are calls from public for a separation of self-trading from securities firm to guarantee of no conflicts of interests among the clients and the firm itself. And Saigon Securities Company (the 2nd top securities in Vietnam market) is pioneer in dismissing its trading department and establishing a separate investment fund. In my opinion, applying Chinese Wall and reinforcing serious internal control system should be an adequate solutions for reconciling conflicting and potentially conflicting obligations under the general law. According to Harry Mc Vea (1993), Chinese Wall had been accepted officially by US and UK with many merits especially suitable in deregulation scene and it was proved by SEC that Chinese Wall ensured the fair treatment of customers and at some extent to solve the conflicts of interests.

Vietnam securities law makers should also concern the current number of securities companies on the market. That more than one hundred companies in an emerging stock market,

³⁷ While writing this paper, I have known that Vietnamese securities law makers had intention to regulate insider trading violations as criminal sanction and this law would be valid from May, 2011

where top 20 companies account for more than 80% of the total market share, evidently leads to unhealthy competition. Improvement of the quality of securities companies should be in market controlling agents' priority rather than the quantity. Small companies with out-dated technology, low registered capital, and disqualified human resources should be dismissed from the market.

Section 3. REINFORCING SHORT-SWING TRADING REGULATION AND DISCLOSING REQUIREMENTS

Benefiting from ambiguous regulations on “Misinformation and Omission of Information”, large shareholders mislead other public investors by announcing their purchase and sale plan of certain shares at the same time. Yet, in fact, only their sale orders have been quietly executed. Or in some cases, large shareholders carried out sale order without announcing to SEC or public media. For these reason, short-swing trading regulation should be tightened to prohibit large shareholders from buying and selling the same stock at the same time.

To reduce the leak of inside information, especially after the General Shareholders Meetings, besides upgrading information disclosure system, the time of information submission to SEC should be shorten to within 24 hours. Shortening the time will help lowering the opportunities for insiders to conduct insider trading.

Section 4. UPGRADING DISCLOSING INFORMATION SYSTEM

Hochiminh and Hanoi Stock Exchanges should have significant efforts and determination in reorganizing their information disclosure systems. Evidently, they must have a clear requirements and supervision procedure to control the quality and the time of disclosed information. A united disclosing system with adequate and rich information, files and filings of all listed as well as other public companies (IPOs). EDGAR (US) and EDINET (Japan) systems are excellent samples that Vietnam information disclosure controlling agents should learn from. An effective disclosing system can assure the fair and equal information accessibility for all public investors. This will prevent the current trend, in which information is only for the wealthy and close-to-brokers investors.

CHAPTER 7. CONCLUSION- SUMMARY

Asymmetric information and insider trading are controversial and popular researched topics in other developed markets. Yet, it is not a case in Vietnam stock market. When VNIndex (Vietnam Stock Index) soared up to its peak record of 1,170 points at the end of 2006 and wandered around this level until early 2008, investors had complacency to enjoy their gains from their investment that tended to forget and/or ignore the existence and consequences of a severe asymmetric information and insider trading in the market. However, since VNIndex plummeted to its bottom at 200s points after the global financial crisis in 2008, with increasing number of violations related to insider trading, price manipulation, large shareholders' misinformation disclosure; the public started realizing the weaknesses and problems of the market. With primary data received from a survey and other information obtained from comparative analysis approach, this research has explored four major causes leading to Vietnam current severe asymmetric information problem: (1) lack of effective regulation framework and law implementation on insider trading, (2) vague regulation on prohibition of omission of information and misinformation, (3) imbalance between incentive and penalty execution in stock market and (4) incompetent and backward technology of information disclosing and trading supervision system. Three of out four explored causes are directly regarding to "a lack of an incredible securities regulation system" in Vietnam stock market, in which insider trading law caught the most concern. Vietnam stock market can damage its reputation as the most important capital mobilizing channel for the whole economy if unequal information accessibility continues eroding public confidence on stock market. With an effort to raise a flag to Vietnamese securities law makers and market controlling agents, this paper also aims to give some recommendations, which is learnt from other developed and transparent stock markets in the world such as United States, Japan, Britain, France, Swiss, and Germany for an improvement in regulations and operation system. The following points are concerned and believed to be practical and constructive for Vietnam stock market:

- (1) imposing heavier penalties

(2) enforcing internal control, risk management system and Chinese wall in securities firms- reducing the number of securities companies

(3) reinforcing short-swing trading regulation and disclosing requirements

(4) upgrading disclosure information system

Immediate tightening regulations and perfect changes in information disclosure information is not expected to be carried out instantaneously. However, regulations must be reexamined; quality of information disclosure system must be reevaluated in a comprehensive and serious manner, and actions must be taken with the ultimate goal to assure for the fairness trading of Vietnam stock market.

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APPENDIXES

SURVEY

- Attendant number: --
- 1 Age
 - 2 Occupation
 - 3 Which securities company you open trading account with?
 - 4 What are reasons you choose that securities company?
 - 5 How much is your trading capital?
 - 6 How frequent have you been trading on average? per week/ per month
 - 7 Which factors you concern the most when decide to purchase or sell or hold a certain stock?
 - 8 How can you get information of your interested stocks?
 - 9 How frequent you can receive information through reports from securities companies?
 - 11 How can you get updated with the lasted information of a certain stock?
 - 10 Among information of listed companies, which information is most important?
 - 12 Do you think information publicized by stock exchanges is updated?
 - 13 Do you think information publicized by stock exchanges is important for you to make investment decision?
 - 14 Among information sources you get updates, which one is the most important one?

FIGURES

Figure 01. Key development indicators for the STC over the period 2000–2005

Indicators	2000	2001	2002	2003	2004	2005
Number of listed companies	5	10	20	23	26	32
Market capitalization (bil. VND)	1048.76	1661.1	2650.2	2514.29	3945.31	6337.48
Market capitalization on GDP (%)	0.24	0.34	0.49	0.42	0.55	na
Yearly trading value (bil. VND)	91.40	925.38	762.77	422.50	1692.99	2435.64
Trading value on GDP (%)	0.02	0.19	0.14	0.07	0.24	na
Aver. daily trading value (bil. VND)	1.39	6.13	3.23	1.71	6.8	9.82

Figure 02. Foreign investors trading value (VND billion)

	2006	2007	2008	2009	2010
BUY	5,322	52,203	25,325	33,980	33,372
SELL	1,244	29,329	19,498	30,655	22,242

Figure 03: VNIndex from July 2000 to July 2010



Figure 04. Theoretical information flow in Vietnam stock market

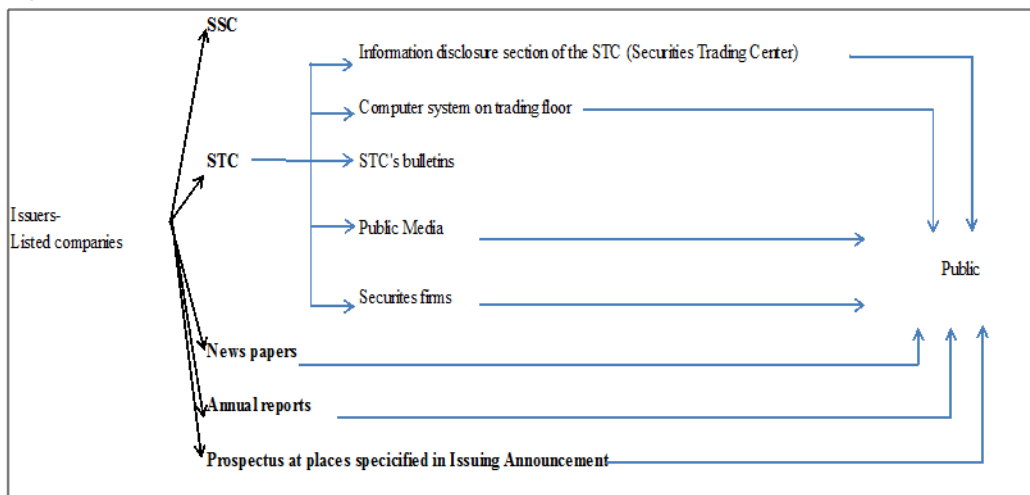


Figure 05. Types of survey attendants

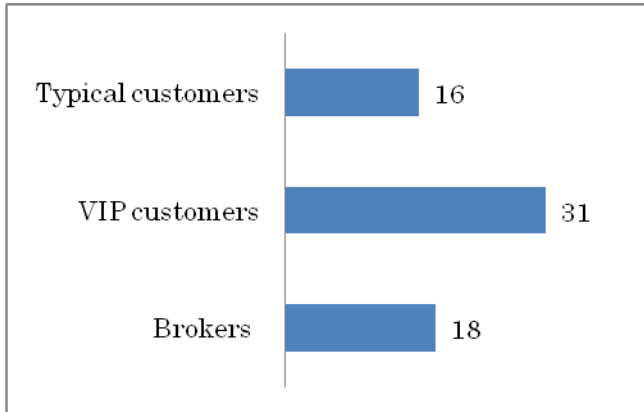


Figure 06. Information flow in case of Vietnam stock market in reality

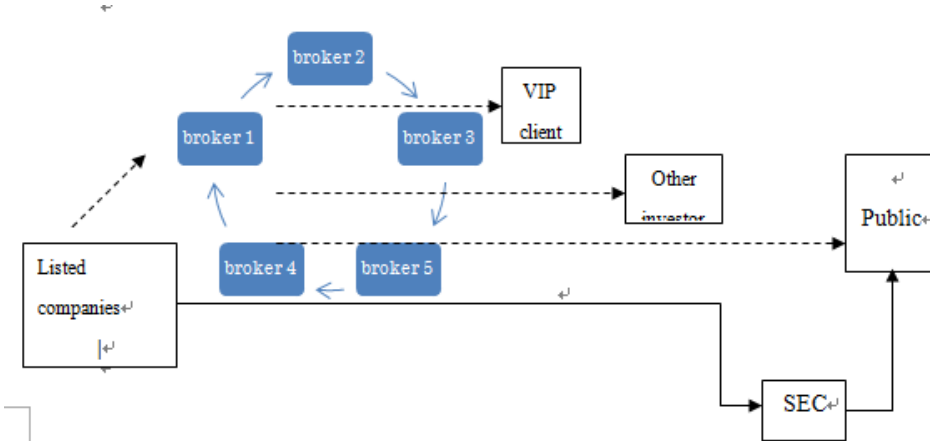


Figure 07: Means of exchanging inside information

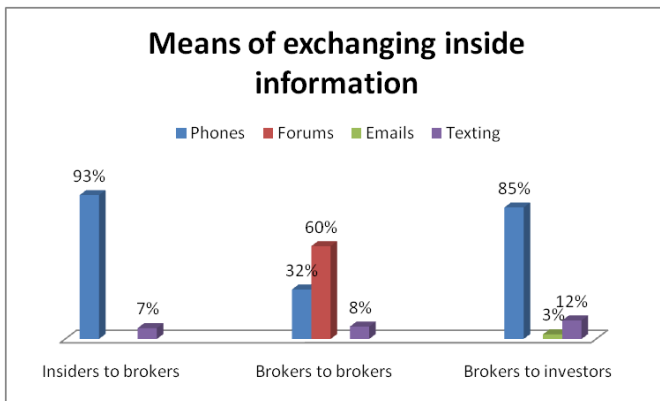


Figure 08. Investors' perception on SEC's disclosed information

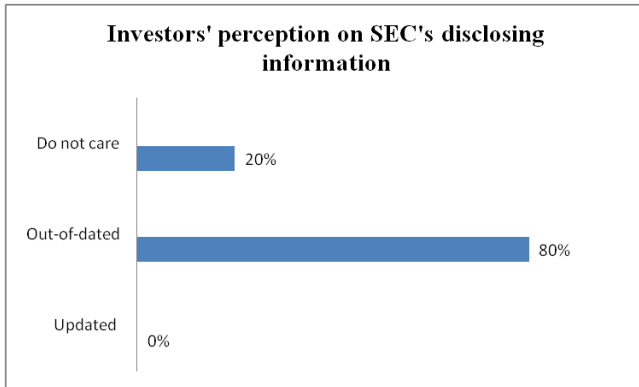


Figure 09: Number is securities companies

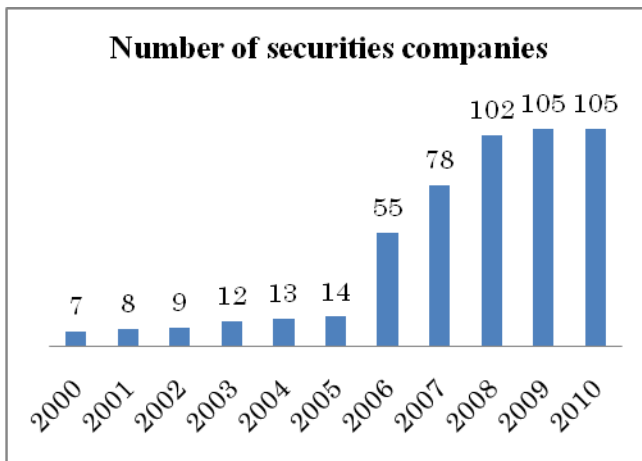


Figure 10. Information exchange among departments in a securities company in Vietnam

