

Assessment of Development Trends and Solutions to Promote Investment in Exchange-Traded Funds (ETFs) In Vietnam

Dang Trung Kien, PhD.

Faculty of Business Administration, Thai Nguyen University of Economics and Business Administration, Vietnam.

ABSTRACT: Among the current investment funds, the Exchange-Traded Fund (ETF) is considered the newest type of fund. Although introduced relatively late compared to other funds, the significant increase in the number of new funds and the massive volume of assets they bring indicate a great potential for future development. This is also true for the Vietnamese stock market, with an open trend both in the number of investors interested and the market capitalization of Vietnamese ETFs. A question arises: how to sustain and develop the ETF market in Vietnam steadily and sustainably? This article aims to contribute somewhat to answering the aforementioned question.

Keywords: *Exchange-Traded Funds (ETFs), Vietnam stock market, investment funds.*

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I. What is ETFs

ETF, or Exchange-Traded Fund, is a type of investment fund aimed at replicating the performance of a specific index such as stocks, bonds, commodities, or other types of assets. It is designed to receive capital from various investors. ETF shares represent the ownership portion of investors in the ETF.

ETFs belong to the category of open-end funds, meaning that publicly offered ETF shares must be repurchased upon investors' request. This fund is formed through the reception and exchange of securities portfolios, whereby ETF shares are created and traded on the stock market. ETFs typically operate based on a reference index, not only mimicking stock indexes but also commodities, bonds, or a basket of stocks, etc.

Given the significant development in both quantity and quality of the Vietnamese stock market, the emergence of Exchange-Traded Funds (ETFs) is considered inevitable. In Vietnam, the Circular 229/2012/TT-BTC issued by the Ministry of Finance, effective from September 1, 2013, laid down the first legal basis for regulating the establishment and operation of ETFs.

Accordingly, Circular 229/2012/TT-BTC defines "Exchange-Traded Fund (ETF)" as a type of open-end fund formed through the reception and exchange of structured securities portfolios to issue ETF shares. ETF shares are listed and traded on the Stock Exchange.

This circular also provides detailed guidance on various aspects such as the process of establishment, issuance, repurchase, trading, disclosure of information, and other related contents. The basic nature of the regulations on establishing ETFs is similar to open-end funds, requiring that the fund management company can only promote the establishment of the fund after submitting the registration dossier and obtaining the certificate of registration for public offering from the State Securities Commission. After promoting and distributing ETF shares, the fund management company will continue to submit the registration dossier for fund establishment to the State Securities Commission.

Some related concepts:

- Reference index: is a stock index constructed by the Stock Exchange.
- Net Asset Value (NAV): equals the total value of the fund's assets and investments minus the fund's obligations.
For investment funds, NAV is one of the important indicators to evaluate the efficiency of fund operations in general and serves as the basis for determining the offer price as well as the redemption price for open-end investment funds.

NAV = Total value of assets and investments - Fund's liabilities

- iNAV: is the net asset value per ETF share determined during the trading session and updated every 15 seconds.
- Tracking Errors: The difference between the fluctuation of the fund's net asset value compared to the fluctuation of the reference index.

II. Development Trends of ETFs in Vietnam

About 10 years ago, Exchange-Traded Funds (ETFs) were unfamiliar concepts to investors. However, in recent years, ETFs have become an important and influential part of the Vietnamese stock market.

The Vietnamese stock market is attracting the interest of foreign ETFs, with the entry of funds like Fubon FTSE Vietnam ETF from Taiwan and others such as VanEck Vietnam ETF, FTSE Vietnam ETF, KIM Growth VN Fin Select ETF, PYN Elite Fund, and many domestic ETFs since 2021. SSI Investment and Analysis Center positively evaluates the long-term investment trend in Vietnamese ETFs, especially from foreign individual investors.

Currently, there are 19 active ETFs (among them, 14 ETFs shares are trading on the stock exchange) in the Vietnamese stock market with a portfolio scale of approximately \$3.3 billion. Dragon Capital's DCVFM VN Diamond ETF is the largest ETF in Vietnam with net assets of over 18 trillion VND (about \$766 million). Fubon FTSE Vietnam ETF is the second-largest fund with a portfolio value of around \$712 million.

The trend of increased ETF usage in Vietnam is evident: the total portfolio scale is \$3.3 billion, with net purchases of over \$1.1 billion in stocks in 2022. Funds specializing in emerging markets such as iShares MSCI Frontier and Select EM ETF currently have a portfolio scale of about \$571 million, but only about 29% is invested in the Vietnamese market.

VNM ETF, with a scale of \$413 million and a Vietnam investment proportion of about 75%, will change its reference index and convert 100% of its portfolio to the Vietnamese market in the first quarter of 2023. It is expected that the VNM ETF will purchase over \$100 million more in Vietnamese stocks in the future.

In addition to large ETFs, the market also has many new and small-scale funds such as IPAAM VN100 ETF, SSIAM VN30 ETF, KIM VN Select ETF, DCVFM VN Midcap ETF, which are expected to attract capital flows due to diversified portfolios and belief in Vietnam's market upgrade story. ETFs referencing indexes such as VNX50 or FPT Capital's VN Diamond and Mirae Asset have received approval from the Securities Commission, promising to fuel the ETF boom in 2023 and 2024.

It can be affirmed that ETFs are not only currently but will also become a major financial investment trend in Vietnam, bringing many benefits such as portfolio diversification, low costs, and allowing indirect stock purchases when "room" is limited. For individual investors, owning ETF shares helps solve the challenge of choosing among thousands of companies on the stock exchange, providing stable and even superior long-term returns as advised by legendary investor Warren Buffett.

However, it is also important to note that the cash flow of ETFs depends heavily on the psychology of individual investors and typically only increases significantly during sharp market corrections or when a clear upward trend is confirmed. Most experienced fund managers express optimism about the investment prospects in the Vietnamese stock market, with positive performances from foreign funds this year and expected income growth as interest rates decrease.

Although Vietnam's economic growth rate was slow in the first half of the year, funds predict that the stock market will continue to develop due to interest rate reductions, providing momentum for the economy until 2024. The long-term forecast for the Vietnamese stock market is to continue attracting capital flows from ETFs, especially foreign ETFs, as fund managers demonstrate determination and action to improve the market, ready to meet criteria to upgrade the stock market in the future.

III. SOLUTION FOR ENHANCING THE INVESTMENT IN ETFs IN VIETNAM

The market for exchange-traded funds (ETF) in our country is still relatively new compared to other countries like the United States or Europe. Therefore, specific short- and long-term solutions are needed to develop this model in Vietnam. Below are some solutions proposed in the thesis to promote the ETF market in Vietnam.

a. Firstly, enhancing the legal framework:

As ETFs are a new product, the related legal regulations have not been widely applied in practice. Vietnamese investors also do not fully understand the legal regulations related to this type of fund. Therefore, researching, adjusting, and amending these regulations to accurately reflect reality is essential.

Currently, the establishment and management of ETFs are based on the provisions of Circular 229/2012/TT-BTC and other relevant legal documents. Additionally, these funds are also subject to important legal documents such as the Securities Law. On November 26, 2019, the National Assembly passed the draft Securities Law amendment, which took effect from January 1, 2021. In this amendment, fund management companies are allowed to borrow to finance fund activities, such as settling ETF certificate transactions with investors. However, the specific regulations for each type of fund will be determined by the Ministry of Finance. We need to wait for the Ministry of Finance's guidance documents to adjust and supplement them in accordance with the Securities Law amendments. These documents need to be issued timely and tailored to the domestic ETF market situation.

According to point a, clause 2, article 4 of Circular 229/2012/TT-BTC, ETFs must have a minimum capital offering condition of 50 billion VND. The author proposes that the Ministry of Finance consider adjusting this level to 100 billion VND to ensure the safety of the operation effectiveness of ETFs in Vietnam.

b. Secondly, enhancing the quality of human resources:

There are many stakeholders involved in the market. Enhancing the quality of human resources in the ETFs market is paramount for its sustainable development and success. This effort entails investing in comprehensive training programs and continuous professional development for both fund managers and investors. Fund managers need to acquire in-depth knowledge of securities trading, investment strategies, and regulatory compliance, while also upholding high ethical standards. Similarly, educating investors about the intricacies of ETFs and financial markets is essential to ensure informed decision-making and risk management. By nurturing a skilled and knowledgeable workforce, as well as an educated investor base, the ETFs market can thrive, fostering confidence and stability in Vietnam's investment landscape.

Fund managers:

One of the important factors determining the success of a fund is the expertise, competence, and ethics of professional fund managers. To build trust from public investors, fund managers need to be experts with deep knowledge, profound understanding of stock market operations, investment management, and, especially, they must adhere to professional ethics.

To meet this demand, it is extremely important to establish a systematic training program for professional fund managers. Universities, academies, and training centers should provide training programs and refresher courses to enhance expertise in securities investment funds. Additionally, organizing scientific seminars, recruitment exams, and issuing certificates for professional fund managers and investment advisors are necessary steps.

While Vietnam is developing in fund management and lacks experience, encouraging the establishment of joint venture companies with experienced foreign partners is important. This helps to learn valuable experiences in capital mobilization and investment process. Through this, we can build a team of quality fund management experts, with deep knowledge, effectively managing funds, contributing to building public trust in the development of the fund management industry.

To ensure the effective operation of funds, fund management companies need to pay attention to ETF operation management techniques. This includes establishing close links with distributors to ensure daily transactions occur close to the net asset value of the fund. Choosing the appropriate stock exchange also plays an important role in creating liquidity for convertible investment certificates (CICs). Learning from foreign funds, including improving monitoring and management systems, timely communication and transactions with distributors and initiators, based on the net asset value at the time of transaction, is necessary.

Investors:

To develop the investment fund industry in general and particularly ETFs in Vietnam, it is necessary to attract the interest of a diverse group of investors who are willing to invest in funds. The larger the number of investors, the more the fund's capital will grow. Each investment fund wishes to be known and receive contributions from many investors when newly established.

However, currently, the investment fund market mainly attracts institutional investors, and there is little participation from individual investors. Moreover, most people do not have enough knowledge about securities investment. This stems from the fact that many people do not fully understand the investment field, leading to many of them only considering simple investment types such as savings or gold investment. Therefore, propaganda and education activities are needed to enhance the community's awareness of the benefits of participating in investment funds compared to other investment forms. Through this, it is possible to increase investor interest, creating favorable conditions for the development of the fund industry in Vietnam.

A public marketing strategy for investors needs to be developed from the beginning when the fund is newly established. This helps investors understand the advantages of ETFs compared to other fund types, such as the expected profit equivalent to the benchmark index, diversified investment to reduce risks, and low management costs due to fewer portfolio adjustments. When investing in active funds, investors do not need to know the exact daily trading portfolio of the fund.

c. Thirdly, increasing the number of index-tracking funds (ETFs) is essential, but quality must still be ensured.

Currently, fund management companies are striving to introduce more exchange-traded fund (ETF) products to expand the diversity of choices for investors and simultaneously increase capital for the market. With the positive benefits of this type of fund, it is likely that more new funds will emerge in the market in the future.

However, to build a strong investment community and develop robust funds, each individual needs to become a solid link to support the system. A prime example is the U.S. market, which is the number one global developer of ETFs. Despite the increase in the number of funds each year, many funds still operate inefficiently and are forced to close. In 2018, there were 268 new ETFs launched in the U.S., but 81% of them failed to reach \$50 million in assets by the end of the year (Mark Kolakowski, 2019).

The ETF market in Vietnam is still limited in terms of quantity, and the funds currently in operation are performing well. However, in the long term, fund management companies need to consider how to manage rigorously to ensure the quality and efficiency of the funds.

Furthermore, the ETF market in Vietnam currently only has index-tracking funds. Meanwhile, other countries have various types of funds. Therefore, in the future, fund management companies may consider establishing new index-tracking funds in the market to diversify products. Although index-tracking funds are considered effective and profitable, diversification is necessary to attract attention and increase attractiveness to investors.

d. Fourthly, adding more tax incentives for investment funds in general, and ETFs in particular:

In the international stock market, most developed countries usually offer tax incentives to organizations and individuals participating in investment funds compared to direct investment in stocks. This is to encourage the development of investment funds, especially domestic investment funds. Specifically, countries often establish preferential policies or tax exemptions for fund certificates, especially for new types of funds such as ETFs.

Regarding capital gains tax from securities transactions, since calculating a 20% tax on income from securities is quite complex and accompanied by difficult tax registration and declaration procedures, many investors often choose the method of paying 0.1% tax on the total value of securities sold (Quynh Trang, 2017). However, this tax method results in a situation where many investors, even if they incur losses, still have to pay taxes. To address this issue, it is necessary to amend the Personal Income Tax Law, as well as the Decree guiding the implementation of the Personal Income Tax Law, to help investors who lose money when participating in ETFs and the stock market in general are not required to pay taxes.

To attract increasing interest from investors in investment funds in Vietnam, establishing incentive mechanisms, in which taxes play a crucial role, is essential. In the short term, special tax preferential policies need to be applied to various types of investment funds, especially domestic investment funds and new types of funds such as open-end funds and ETFs. In the long term, considering placing securities in the group of industries eligible for tax, fee, and human resource training incentives, similar to spearhead industries, is a measure that needs to be considered and implemented.

e. Lastly, it is necessary to develop the Vietnamese stock market:

To develop portfolio mimicking funds in the Vietnamese Stock Market (VNSM), the most important thing is to promote and expand the domestic stock market. Therefore, focus should be placed on developing various types of investment funds, especially portfolio mimicking funds. At the beginning of 2019, the Vietnamese government

issued Decision 242/QĐ-TTg approving the project "Restructuring the stock market and insurance market until 2020 and orientation to 2025".

This project clearly outlines the main objectives of the Government, which are to transform the VNISM into a primary capital source for the economy, build a reasonable structure, and ensure balance between markets, including the monetary market and the capital market, the government bond market and the corporate bond market, as well as between the bond market and the stock market.

IV. CONCLUSION

Through research on the current situation and the formation process of portfolio mimicking funds worldwide, especially in developed countries, we can draw many important lessons. These lessons not only help us understand the organization of portfolio mimicking funds but also connect with the development of the stock market in Vietnam.

Firstly, it is necessary to expand the ETF product portfolio by introducing more types of index tracking funds instead of focusing on a single type, as is the current situation. Such as the U.S. and European markets have developed into diverse ecosystems with various ETF products, creating diversity in investment choices for investors. This not only expands investment opportunities but also contributes to expanding the scale of the ETF market.

Next is a focus on developing and implementing strategies to enhance the quality of ETF products. The popularity of ETFs in Europe is the result of applying improvements to provide quality products, especially when the market has thousands of investment funds. We need to prioritize the development and implementation of strategies to attract customer interest in ETFs instead of other investment types.

Furthermore, there needs to be an emphasis on promoting the development of the stock market. Most investment funds in most countries usually appear after a specific period of stock market development. When the stock market has developed to a certain extent, with the diversity of various products on the market, non-professional investors often face difficulties in ensuring their investment performance. This stems from their lack of knowledge to analyze, predict trends, and cope with market fluctuations. Only professional investment organizations can perform these tasks. This is the basis for the emergence of investment funds.

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