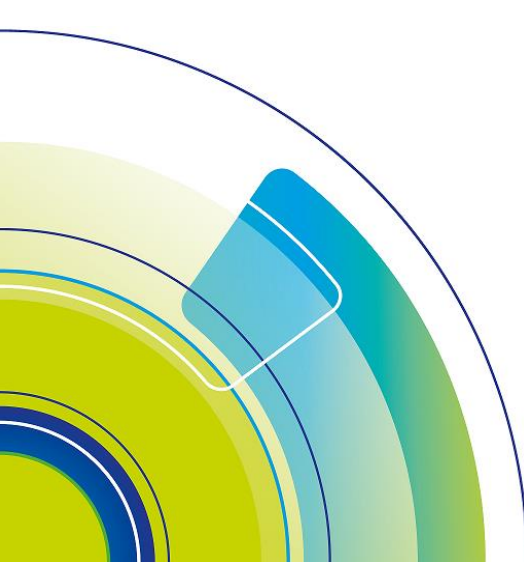




Flash Note ETF

FTSE Upgrade: Still Waiting

Wednesday, April 9, 2025



VIETNAM YET TO BE UPGRADED TO SECONDARY EMERGING MARKET STATUS BY FTSE

In FTSE's March 2025 market classification review, Vietnam has not yet been upgraded to Secondary Emerging Market status. Similar to the previous reviews, Vietnam still fails to meet the criteria related to "Settlement Cycle (DvP)" and "Costs associated with failed trades."

This outcome was within our expectations, as the Non-prefunding transaction model has only been in place for about 5 months—insufficient time for FTSE to evaluate its effectiveness in practice. Nevertheless, we believe that Vietnam is fully capable of meeting the necessary conditions for an upgrade this year, specifically in FTSE's September review.

Previously, Circular 68/2024/TT-BTC was issued and officially took effect on November 2, 2024. It includes provisions allowing foreign institutional investors to conduct non-prefunded transactions, marking a major step forward in the upgrade process. At present, the State Securities Commission (SSC) is actively working with FTSE Russell and foreign investors to gather feedback, with the goal of getting Vietnam's stock market reclassified to the Secondary Emerging Market group. However, after nearly 6 months, FTSE believes that more time is needed to continue monitoring the market and collecting feedback from participants regarding the non-prefunding model and the handling of failed trades.

In addition, as in previous reviews, FTSE Russell believes Vietnam needs to improve the account opening process and establish a more efficient mechanism to facilitate trading between foreign investors in stocks that have reached or are nearing the foreign ownership limit (FOL). However, these are not mandatory conditions for the upgrade.

With the KRX system scheduled to launch on May 5, 2025, and by the time of the September 2025 review, the non-prefunding model will have been in operation for nearly a year, which increases the likelihood that FTSE will proceed with the upgrade in this review cycle. That said, Vietnamese stocks would only be officially included in the Secondary Emerging Market basket starting March 2026.

Currently, the KRX system is in its final testing phase before official implementation – the testing period runs from March 17, 2025 to April 11, 2025. According to the plan, securities firms will conduct simulated trading as if in normal operations. The KRX trading system is expected to introduce several new features to the market, including: (i) shortening the settlement cycle from T+2.5 to T+0, (ii) enabling same-day trading (T+0). Additionally, the system includes support for short selling operations. However, although short selling has been recognized by Vietnamese law as a legitimate trading method, current legal regulations are still insufficient for practical implementation.

CRITERIA	SECONDARY EMERGING	FRONTIER	Vietnam (Frontier)
GNI per capita	Lower-middle income	Not required	Lower-middle income
Credit Worthiness	Speculative	Speculative	Speculative
Formal stock market regulatory authorities actively monitor market (e.g., SEC, FSA, SFC)			
Fair and non-prejudicial treatment of minority shareholders	X	X	Pass
No or selective incidence of foreign ownership restrictions			Restricted
No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital and income			Restricted
No or simple registration process for foreign investors	X	X	Pass
Formal stock market regulatory authorities actively monitor market (e.g., SEC, FSA, SFC)			Restricted
Foreign Exchange Market			
Developed foreign exchange market			Restricted

Equity Market			
Brokerage - Sufficient competition to ensure high quality broker services	X		Pass
Transaction costs - implicit and explicit costs to be reasonable and competitive	X		Pass
Tax – imposition of taxes to be reasonable and comparable between domestic and non-domestic investors			Pass
Stock Lending is permitted			Restricted
Short sales permitted			Not Met
Developed Derivatives Market			Restricted
Off-exchange transactions permitted			Not Met
Efficient trading mechanism			Restricted
Transparency - market depth information / visibility and timely trade reporting process	X	X	Pass
Clearing, Settlement and Custody			
Settlement - costs associated with failed trades	X	X	Restricted
Settlement Cycle (DvP)	X	X	T+2
Central Securities Depository	X		Pass
Central Counterparty Clearing House (Equities)			Not Met
Settlement - Free delivery available			Not Met
Custody - Sufficient competition to ensure high quality custodian services	X		Pass
Account structure operating at the Custodian level (securities and cash)			Not Met

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Our Recommendation System

BUY	: total stock returns (including dividend yield) over the next 12 months are forecast to be 20% or higher.
OUTPERFORM	: total stock returns (including dividend yield) over the next 12 months are forecast to be from 10 to 20%.
NEUTRAL	: total stock returns (including dividend yield) over the next 12 months are forecast to be between -10 and 10%.
UNDERPERFORM	: total stock returns (including dividend yield) over the next 12 months are forecast to be from -10 to -20%.
SELL	: total stock returns (including dividend yield) over the next 12 months are forecast to be -20% or lower.

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