MINISTRY OF FINANCE

STATE SECURITIES COMMISSION

No. 72/QD-UBCK

SOCIALIST REPUBLIC OF VIETNAM

Independence - Freedom - Happiness

Ha Noi, 18 January 2018

DECISION
ISSUING
RULES GUIDING THE OFFERING AND RISK PREVENTION [HEDGING] OF COVERED WARRANTS

CHAIRMAN OF THE STATE SECURITIES COMMISSION

Pursuant to the *Law on Securities* dated 29 June 2006;

Pursuant to a *Law Amending the Law on Securities* dated 24 November 2010;

Pursuant to the *Law on Enterprises* dated 26 November 2014;

Pursuant to Decree 58/2012/ND-CP of the Government dated 20 July 2012 implementing the *Law on Securities (Amended)* as amended by Decree 60/2015/ND-CP dated 26 June 2015;

Pursuant to Circular 107/2016/TT-BTC of the Minister of Finance dated 29 June 2016 guiding offering and trading of covered warrants;

Pursuant to Decision 48/2015/QD-TTg of the Prime Minister dated 8 October 2015 stipulating the functions, tasks, powers and organizational structure of the State Securities Commission [SSC];

On the proposal of the Director of the Securities Market Development Department,

DECIDES:

Article 1

To issue with this Decision, *Rules guiding the offering and hedging of covered warrants*.

Article 2

This Decision is of full force and effect as from the date of signing.

Article 3

The Head of the Office, the Director of the Securities Market Development Department, the General Director of Ho Chi Minh City Stock Exchange [HOSE], the General Director of the Hanoi Stock Exchange [HNX], the General Director of Vietnam Securities Depository [VSD], Heads of relevant entities under the SSC and other related entities are responsible to implement this Decision.

Chairman
TRAN VAN DUNG

SSC's Disclaimer: The English translation of the securities supervisory regulations is not official and is intended for reference only. Neither the SSC nor the MOF is responsible for the correctness of the English translation, and the reader is advised to refer to the most up-to-date regulations in Vietnam.

RULES **GUIDING THE OFFERING AND RISK PREVENTION [HEDGING] OF COVERED WARRANTS**

CONTENTS

SSC's Disclaimer: The English translation of the securities supervisory regulations is not official and is intended for reference only. Neither the SSC nor the MOF is responsible for the correctness of the English translation, and the reader is advised to refer to the most up-to-date regulations in Vietnam.

MINISTRY OF FINANCE	**SOCIALIST REPUBLIC OF VIETNAM**
STATE SECURITIES COMMISSION	Independence - Freedom - Happiness

RULES

Guiding the Offering and Hedging of Covered Warrants

(Issued with Decision 72/QD-UBCK of the Chairman of the State Securities Commission dated 18 January 2018)

CHAPTER 1

General Provisions

Article 1 *Governing scope and applicable entities*

1 These Rules regulate types of covered warrants (hereinafter abbreviated as *securities rights*), the conditions for listed shares to be the underlying securities of securities rights, limits on offers, and the application file for registration to offer and hedge securities rights.

2 These Rules apply to issuers of security rights (hereinafter all abbreviated as *issuers*) and to other organizations and individuals involved.

Article 2 *Types of securities rights*

The securities rights regulated in these Rules are securities rights purchased on the basis of underlying securities being listed shares, with exercise of European-type rights, and with the payment method being cash.

Article 3 *Conditions for listed shares to be underlying securities for securities rights*

1 The underlying securities for securities rights are shares listed on a Stock Exchange [SE] in Vietnam which satisfy the following criteria:

(a) They belong to the VN30 or HNX30 index or an equivalent replacement index (in the event of restructuring by the SEs);

(b) The average daily capitalization value in the last six (6) months calculated up to data pegging date is VND 5,000 billion or more;

(c) The total volume of transactions in the last 6 months calculated up to data pegging date is a minimum 25% of the average quantity of freely transferable shares in the last 6 months, comprising: Average quantity of freely transferable shares in the last 6 months = (quantity of freely transferable shares at the beginning of the 6 month period + quantity of freely transferable shares at the end of the 6 month period)/2; or the average daily trading value in the last 6 months calculated up to data pegging date is VND 50 billion or more per day;

(d) The ratio of freely transferable shares as at data pegging date is 20% or higher;

(dd) Having been listed for six (6) months or more calculated up to the date of consideration. If the shares have been transferred to another listing floor, then this period is calculated as the total listing time on both SEs;

(e) The business operational results of the issuer of the underlying securities are profitable and without any accumulated losses, calculated on the basis of the financial statements at the most recent time compared to the date of consideration, comprising audited annual financial statements or six-monthly financial statements which have been reviewed or audited by an auditing organization approved to conduct audits for public interest units in the securities sector;

(g) Not currently subject to a warning, under control or special control, temporary suspension of trading nor in the delisting category pursuant to Rules of the SE.

2 The data pegging dates are the last trading days of March, June, September and December in any one year.

CHAPTER 2

Offers of Securities Rights

Article 4 *Limits on offers of securities rights*

1 The number of shares converted from issued securities rights of all issuers shall not exceed 10% of the total number of freely transferable shares, of which:

Total number of freely convertible shares = Number of securities rights/Conversion ratio.

Limit on offers of each underlying security = Total limit on offers applicable to each underlying security – number of shares converted from issued securities rights.

If there is more than one application file to register for issuance of one underlying securities resulting in excess of the limit on offers for each underlying securities, the SSC will approve the issuer with the first application file to conduct the first issue.

If the total number of shares converted from issued securities rights of all issuers exceeds 9% of the total number of freely transferable shares, then the issuer must delist a part of the securities rights not yet circulated as prescribed in article 9.1(d) of Circular 107 referred to in the preamble.

2 The number of shares converted from securities rights in any one offer of an issuer shall not exceed 1.5% of the total number of freely transferable shares.

The total number of freely transferable shares as prescribed in clauses 1 and 2 of this article is determined by the SE.

3 The total value of securities rights already issued and registered for issuance by any one issuer, excluding securities rights which have been delisted or expired, compared to the value of liquid capital of such issuer shall not exceed the following levels:

- 0% for issuers with a liquid capital ratio of 180% up to 250%;
- 5% for issuers with a liquid capital ratio of 250% up to 300%;
- 10% for issuers with a liquid capital ratio of 300% up to 450%;
- 15% for issuers with a liquid capital ratio of 450% up to 600%;

- 20% for issuers with a liquid capital ratio of above 600%.

Liquid capital ratio for the purposes of determining these limits is the continuous minimum in the last 6 months prior to the time of lodging the application file for registration of the offer of securities rights, based on the monthly prudential ratio report sent by the issuer to the SSC, in which:

- With respect to securities rights which an issuer is registering to offer:

Total value of securities rights = Subscription [registration to offer] price x Number of securities rights registered for the offer.

The subscription price is determined as follows:

+ In the case of securities rights for which there is a first time registration to offer: The minimum subscription price is VND 1,000. The issuer may register a specific offering price or may register an approximate subscription price (comprising the proposed highest offer price and the proposed lowest offer price). If the issuer registers an approximate subscription price, then such price for the purposes of calculating the total value of the securities rights is the proposed highest offer price.

+ With respect to securities rights for which there is an additional registration of an offer, it is the closing price of the securities rights on the trading day immediately preceding the date of lodging the application file for registration of the additional offer.

- In the case of securities rights already issued:

Total value of the securities rights = Offer price (in the case of unlisted securities rights) x Number of unlisted securities rights + Closing price of the securities rights on the most recent [last] trading day (in the case of listed securities rights) x Number of listed securities rights.

In the case where the trading price of securities rights has not been set, then the total value of the securities rights is calculated as the offer price.

The offer price of securities rights is determined as follows:

+ In the case of a first time offer of securities rights: It is the issue price set out in the notice of the issue. The issue price is the price at which the issuer has registered the offer or a price level within the price range of the offer as registered.

+ In the case of an additional offer of securities rights: It is the closing price of the securities rights on the trading day immediately preceding the date of announcement of the notice of the issue.

The limit on an offer of securities rights prescribed in this clause shall be applied during the time when the SSC is considering issuance of a certificate for an offer of securities rights.

Article 5 *Reduction of limits on offers of securities rights*

1 For each time an issuer is given a warning for failure to implement the hedging plan as prescribed in article 12.5(c) of Circular 107 referred to in the preamble, the issuer shall be subject to a 25% reduction of the number of shares converted from securities rights in one offering tranche of the one issuer in the next registration for an offer.

2 If an issuer is given warnings more than three times in the last three months, the issuer will not be permitted to make an offer of securities rights within the period of six months after the last warning.

Article 6 *Application file to register an offer of securities rights*

The application file to register an offer of securities rights shall comply with article 4.4 of Circular 107, in which:

1 The issuer shall itself formulate professional business processes/rules (comprising the procedures to register an offer, to register depository, to list, market creation, hedging, and exercise of securities rights) and also internal control rules, ensuring compliance with law and the special characteristics of the operation of the company.

2 Risk management rules shall be formulated on the standard form in Appendix 2 issued with these Rules.

3 The plan on guaranteeing payment for securities rights holders and the plan on hedging the securities rights shall be prepared on the standard form in Appendix 3 issues with these Rules.

4 The prospectus on the offer of the securities rights shall be prepared on the standard form in Appendix 2 issued with Circular 107, and issuers should refer to the standard form prospectus on an offer of securities rights issued in Appendix 4 issued with these Rules.

CHAPTER 3

Risk Prevention [Hedging] of Securities Rights

Article 7 *Principles for hedging of securities rights*

1 Hedging shall be conducted on the self-trading account of the issuer.

2 Hedging includes transactions of purchase, sale, borrowing and other transactions in compliance with law, ensuring compliance with article 12.3 of Circular 107 and the limits on investment in underlying securities by securities business organizations as prescribed by law.

3 An issuer is permitted to use the current underlying securities it has in its self-trading account to hedge securities rights and is responsible to manage and conduct independent accounting for its portfolio of hedge securities in accordance with law.

Article 8 *Activities being hedging of securities rights*

1 *Theoretical hedging position* means the number of underlying securities proposed to be held to hedge the risk of the securities rights and as determined in the hedging plan of the issuer.

2 If the issuer uses a delta-based risk hedging plan with hedging securities being the underlying securities of the securities rights, then the theoretical hedging position is determined as follows:

$$P = Delta \times OI / k$$

In which:

P is the number of underlying securities proposed to be held in order to hedge risks of the securities rights.

Delta is the delta risk hedging coefficient being the changed value of the securities rights price corresponding to a change in the value of the underlying securities, and calculated pursuant to the Black Scholes formula set out in Appendix 1 issued with these Rules.

OI is the number of currently circulating securities rights of one issue tranche.

k is the conversion ratio of the securities rights.

3 *Actual hedging position* is determined as equal to the actual number of underlying securities used to hedge risks and the amount already paid corresponding to the difference between the theoretical hedging position and the actual hedging position in the self-trading account of the issuer.

4 The difference between the theoretical hedging position and the actual hedging position on day T of the securities rights is determined as follows:

$$\Delta p_T \% = (P_T - p_T)/P_T \times 100 \%$$

In which:

$\Delta p_T \%$ is the difference between the theoretical hedging position and the actual hedging position on day T.

P_T is the theoretical hedging position on day T of the securities rights.

p_T is the actual hedging position on day T of the securities rights.

5 An issuer which applies some other risk hedging plan must specify in such plan how to determine hedging positions.

6 If an issuer uses hedging securities being securities with the same underlying securities as the securities rights, then the issuer must clearly specify the conversion formula in its hedging plan and is responsible to convert for compliance with the number of underlying securities when reporting about hedging activities on a daily basis to the SE.

7 Issuers must conduct hedging activities ensuring that the difference between the theoretical hedging position and the actual hedging position at the end of the trading day does not exceed 20%. The SE manages the hedging positions of each securities right. If the difference between the theoretical hedging position and the actual hedging position exceeds 20'%, then the SE applies the measures for resolution set out article 12.5 of Circular 107.

CHAPTER 4

Organization of Implementation

Article 9 *Organization of implementation*

1 On the basis of these Rules, issuers shall offer securities rights and conduct risk hedging in order to ensure liquidity to make payment to the rights holders, effectively limiting losses which may occur from such risks.

2 The chairman of the State Securities Commission shall make a decision on any amendments or additions to these Rules.

Chairman
TRAN VAN DUNG

SSC's Disclaimer: The English translation of the securities supervisory regulations is not official and is intended for reference only. Neither the SSC nor the MOF is responsible for the correctness of the English translation, and the reader is advised to refer to the most up-to-date regulations in Vietnam.

List of Appendices (Appendix 4 has not been translated)

Appendix 1	Calculation of theoretical value and delta value of securities rights (call warrants) in accordance with the Black Scholes formula. (1 page)
Appendix 2	Standard form risk management rules of issuers of covered warrants. (3 pages)
Appendix 3	Standard form plan ensuring payment to securities rights holders and risk prevention/hedging plan for securities rights. (2 pages)
Appendix 4	Standard form prospectus for an offer of securities rights/covered warrants. (17 pages)

SSC's Disclaimer: The English translation of the securities supervisory regulations is not official and is intended for reference only. Neither the SSC nor the MOF is responsible for the correctness of the English translation, and the reader is advised to refer to the most up-to-date regulations in Vietnam.

APPENDIX 1

Calculation of theoretical value and delta value of securities rights (call warrants) in accordance with the Black Scholes formula

An issuer may fix the theoretical price of securities rights purchased (call warrants) in accordance with the Black Scholes formula for European-type securities rights.

1. Theoretical value of call warrants in accordance with the Black Scholes formula

$$C = \frac{N(d_1)S - N(d_2)X\,e^{-r_c T}}{k}$$

With:

$$d_1 = \frac{ln\left(\frac{S}{X}\right) + \left(r_c + \frac{\sigma^2}{2}\right)T}{\sigma\sqrt{T}}$$

$$d_2 = d_1 - \sigma\sqrt{T}$$

In which:

C is the theoretical value of the call warrant;

$N(d_1)$, $N(d_2)$ is the cumulative standard probability distribution function;

X is the implementing price of the securities right;

S is the price of the current underlying securities;

T is the residual period up until maturity (in years), being the number of days from the date of calculation up until maturity date/365;

r_c is the risk-free interest rate (an annual rate);

σ is the expected price volatility range of the underlying securities (an annual rate);

k is the conversion rate of the securities rights.

2. The Delta value of the call warrants in accordance with the Black Scholes model:

$$Delta_{CALL} = N(d_1)$$

In which:

$Delta_{CALL}$ is the Delta value of the call warrant;

$N(d_1)$ is the cumulative standard probability distribution, with d_1 determined in accordance with the Black Scholes valuation formula.

APPENDIX 2

Standard form risk management rules of issuers of covered warrants

Rules on risk management of covered warrants/securities rights

I. Objectives

- To identify possible risks when the issuer conducts business activities in securities rights.
- Quick and effective handling of issues relevant to risks which have been identified.
- Ensuring uniformity between sections or departments of the issuer involved in risk management so as to minimize risks which may occur during the conduct of the business in covered warrants.

II. Process of risk management of securities rights

The risk management process is a continuously implemented series of steps aimed at minimizing risks which may eventuate for the issuer. In order for effective risk management, issuers must comply with at least the following steps:

Step 1: Identification of risks associated with securities rights

Normal risk associated with issuers of covered warrants are:

- *Payment risk:* The risk that the issuer is unable to discharge the undertaken obligations to investors, for example insolvency of the issuer when investors exercise their rights.
- *Market risk:* The risk resulting from a change in the price of covered warrants and the prices of the underlying securities.
- *Legal risk:* The risk of the issuer breaching or not complying with current law resulting in the issuer being fined, warned, having its operation suspended, or having its business licence or business registration withdrawn.
- *Operational risk:* The risk of technological problems (for example hackers destroying the IT system), staff risk (fraud, deliberate or unintentional errors), capital asset risks, and other external risks (such as natural disaster or war).
- *Other risks:* Risks arising from the special nature of the operation of the particular issuer.

Step 2: Risk analysis

The risk officer of each section/department in the company shall, based on the types of risks set out in step 1 above, assess the probability of the risks occurring and their impact, and shall then categorize and rank each type of risk in order to have appropriate measures ready.

Issuers must specify their assessment methods of each risk, for example comparing the theoretical hedging position with the actual hedging position for currently circulating securities rights.

Step 3: Risk control

Risk analysis and assessment will help the company to formulate a risk management strategy by selecting appropriate strategies to address or respond to risks. Strategies which are often used to address or respond to risks are risk avoidance, risk transfer, risk mitigation, and risk tolerance.

For example, after identifying critical risks, the risk management sections or departments need to coordinate to calculate and issue various warning levels or target parameters, thereby providing plans and strategies for hedging in order to control risks which may affect the company's securities rights operation.

Example 1: Market risk prevention plan:

- Principles for hedging: Maintaining the Delta neutral risk prevention co-efficient.
- Method of implementation: Buying/selling underlying securities or buying securities rights issued by other issuers.
- Physical facilities for implementation: Implementation system, and so forth.

Example 2: Legal risk prevention plan (assuming that the issuer conducts hedging of the market-making obligation resulting in suspension of trading of securities rights)

- Principles: Ensuring compliance with the market-making/creation obligation.
- Method of implementation: Taking the initiative to formulate programs aimed at correct compliance with the regulations on market-making/creation as set out in Rules of the SE.
- Method of implementation: Formulating an automatic system on market-making/creation, and so forth.

Step 4: Supervision of risk management activities

The final activity in the risk management process is usually supervision and exchange of information aimed at reviewing the entire process of risk identification, risk analysis control, risk control and handling risks of the company. The schedule for implementing plans on risk control of each specific risk need to be communicated to the superior levels as well as to the relevant sections/departments for the latter to take the appropriate corrective action.

During this step, the issuer must specify in detail the checking and supervisory roles and also decentralization and allocation of authority between the various entities in the risk management system of the issuer of the securities rights.

Periodically, sections engaged in risk management must assess their risk management activities in order to identify solutions for amending same and amending the risk management policies, and thereafter report to the risk management committee and to the executive board.

APPENDIX 3

Standard form plan ensuring payment to securities rights holders and risk prevention/hedging plan for securities rights

NAME OF ISSUER	**SOCIALIST REPUBLIC OF VIETNAM**
	Independence - Freedom - Happiness

PLAN ON ENSURING PAYMENT TO SECURITIES RIGHTS HOLDERS AND PLAN ON HEDGING COVERED WARRANTS AS PER PROSPECTUS NO…

Issuer: ....

1. Plan ensuring payment to securities rights holders

Payment to securities rights holders is guaranteed by the following asset sources:

(a) Assets for hedging and other assets in the self-trading account;

(b) Assets in the escrow deposit account at the depository bank;

(c) Payment guarantee or other security assets (if any).

If there are insufficient assets to make payment when the securities rights are exercised, settlement of the interests of the securities rights holders shall be implemented in accordance with the relevant provisions of law applicable to partly secured creditors.

2. Plan on hedging securities rights

(As an illustration of the delta risk prevention strategy, the issuer may apply other hedging strategies which should be detailed below.)

2.1 Hedging objective

(To ensure liquidity to make payment to securities rights holders, effectively minimizing losses caused by the occurrence of risks.)

2.2 Arranging hedging activities

(Set out the responsibilities of the executive board, board of management, internal control section, and risk management division in hedging securities rights; setting out the number of staff in the section directly conducting hedging activities for securities rights, with their professional certificates, the number of years of their working experience and so forth.)

2.3 Overall implementation principles

(Assuming that the issuer applies the delta neutral hedging method, together with the issuance of securities rights, the issuer shall at the same time conduct transactions of purchase and sale of the underlying securities in order to maintain the overall position of the issuer at neutral/medium delta (delta=0) when the price of the underlying securities changes.)

- **Hedging securities**

+ The underlying securities of the securities rights.

+ Other types of securities (if any) with the same underlying securities as the security rights.

- **Hedging position**

+ Method of calculating hedging coefficients.

+ Formula for calculating the theoretical hedging position, formula for converting the theoretical hedging position by the number of underlying securities if the issuer uses other types of hedging securities not being the underlying securities.

Date…………………………

LEGAL REPRESENTATIVE OF THE COMPANY
(Print full name, and sign and seal)