

Vietnam
State Capital Investment Corporation (SCIC)

Vietnam
The project for enhancing corporate finance
management capacity to implement SOE
restructuring on State Capital Investment
Corporation (SCIC) 2

Project Completion Report

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Japan International Cooperation Agency (JICA)

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Vietnam

The project for enhancing corporate finance management capacity to implement SOE restructuring on State Capital Investment Corporation (SCIC) 2

Project Completion Report

1. The Project

1.1. Umbrella Project

“The project for enhancing corporate finance management capacity to implement SOE restructuring on State Capital Investment Corporation (SCIC) 2” (hereinafter referred to as “the Project” or “Phase 2”) had been implemented based on the contract dated October 9, 2015 and revised on May 20, 2016, between the Japan International Cooperation Agency (JICA) and a joint venture of PricewaterhouseCoopers Aarata LLC (PwC) (primary contractor) and the Japan Economic Research Institute Inc. (JERI). The contracted term started on October 9, 2015 and ends on December 19, 2016.

“The project for enhancing corporate finance management capacity to implement state owned enterprises (SOE¹) restructuring” (hereinafter referred to as “the Umbrella Project”) is one of the technical cooperation projects between the Ministry of Finance of the Socialist Republic of Vietnam (MOF) and the Japan International Cooperation Agency (JICA). The Umbrella Project started from March 1, 2014 and is expected to end on February 28, 2017 based on the agreement signed by MOF and JICA on February 28, 2014.

The ultimate goal of the Umbrella Project is, “restructuring of SOE is accelerated through accomplishing sound and efficient management of SOEs,” with supporting project objectives of “strengthening capacity of MOF in corporate finance management, with focus on the development of SOEs debt disposal mechanism which are closely connected to SOE restructuring.”

1.2. Preceding Project

Prior to Phase 2, “The project for enhancing corporate finance management capacity to implement SOE restructuring on State Capital Investment Corporation (SCIC)” (hereinafter referred to as “Preceding Project” or “Phase 1”) (project period from September 2014 to April 2015) and its addendum project (project period from May 2015 to October 2015) were completed by JERI with support from local consultants. The Phase 1 covers the areas of (1) Duties of SCIC as stipulated in Decree 151/2013/ND-CP, (2) Financial standing, (3) Organization, (4) Profile of SCIC staff and past training program, (5) Portfolio enterprises, (6) SCIC’s approach for representing state capital, (7) Divesture of state capital, (8) Capital and Portfolio Management System (CPMS), (9) New investment, (10) Enterprise risk management (ERM), (11) SCIC’s role in SOE reform, (12) Strategy toward 2020, and (13) Third party’s view on SCIC.

In its completion report of Phase 1, the following four recommendations were presented to achieve the ultimate goal of the umbrella project:

- (1) Separating state ownership and regulatory functions,
- (2) Improvement of the corporate governance at equitized SOEs,

¹ SOE means state-owned enterprises including those partially owned by the government.

- (3) Capacity development for new investments, and
- (4) Assistance on establishing key risk indicators (KRI).

Of four recommendations, (2) is covered by the component 1-1 (Developing the corporate governance code and the component 1-2 (Reviewing the voting guidelines of Phase 2, and both (3) and (4) are covered by the component 2 (Developing the KRI) of Phase 2.

The initial voting guidelines (VG 2015) for SCIC have been developed by JERI under the addendum project to Phase 1. In Phase 2, the VG 2015 is going to be reviewed and updated to develop the VG 2016.

1.3. Project Objectives

The overall project objective (goal) of Phase 2 is “strengthening the capacity in corporate management, supervision, and governance for officials and staff of SCIC, specifically the capacity to accelerate innovation of SOEs by achieving the SOEs’ healthy and efficient management.”

The project objective (purpose) for each component of Phase 2 is:

- Component 1-1: The corporate governance code (CGC) to be applied to enterprises in the portfolio of SCIC is developed.
- Component 1-2: The application of voting guidelines to be applied to enterprises in the portfolio of SCIC are reviewed and revised if necessary
- Component 2: The internal risk management system of SCIC is enhanced.

1.4. Project Deliverable

The major project deliverables are listed below:

Component 1-1	Final draft “Corporate Governance Code and its Application Guidance for SCIC’s portfolio company” (English, Vietnamese)	Appendix 3-1 (Attached English version only)
Component 1-2	Final draft “Voting Guidelines 2016” (English, Vietnamese)	Appendix 4-4 (Attached English version only)
Component 2	Final draft “Risk management framework for new investment” (English, Vietnamese)	Appendix 5 (Attached English version only)

2. Overall Activities

The detail project plan of Phase 2 and possible achievement measures are explained in a separate document, “Work Plan” (Appendix 1). The original Work Plan was agreed with SCIC and JICA on November 30, 2015 and revised on April 20, 2016 to reflect project timeline change as a result of interruption from December 2015 to February 2016, and clarification of pilot testing procedures for component 1-1(CGC).

< Changes in PDM >

The Project Design Matrix (PDM) was reviewed and updated, if necessary, from time to time during the project as circumstances changes. The final PDM was included in the Appendix 2 of this Project Completion Report. The final PDM was updated from the original one to be in line with the changes of the nature of workshop (component 1-1) as described in the table below.

Table 2: Changes in PDM

Timing of Change	Component 1-1:development of CGC (MOV: Means of Verification)
Work Plan dated on November 30, 2016, and Work Plan dated on April 20, 2016 (Appendix 1)	<ul style="list-style-type: none"> ● SCIC’S approval of final draft CGC and its application guidance ● <u>Self-assessment after workshop and training in Japan</u>
Final Work Plan (revised after workshop on September 30, 2016) (Appendix 2)	<ul style="list-style-type: none"> ● SCIC’S approval of final draft CGC and its application guidance ● <u>Interview after training in Japan</u> <p>Reason for change: Self-assessment with individual questionnaire became unfeasible because the workshop was held as part of SCIC’s annual conference where all state representatives including non-SCIC officers and other guest participants from various organizations participated to the event.</p>

There are no other changes in the final PDM.

3. Component 1-1: Corporate Governance Code

3.1. Recommendations by the preceding project

Because component 1-1 of the Phase 2 is derived directly from the Phase 1 recommendations, and the following suggestions were included in the completion report for Phase 1, for the purpose of developing CGC, these recommendations, namely “SCIC should take leadership in corporate governance” should be the core objective.

<p>5.1 Leadership of corporate governance improvement</p> <p>(1) Leadership in corporate governance</p> <p>As a state agency that manages state capital in hundreds of enterprises, SCIC should be “the pioneer” in promoting modern corporate governance practice in Vietnam, by establishing the following:</p> <ul style="list-style-type: none"> ● Voting guidelines – A summary of general philosophy and approach to issues that may commonly arise in the board of directors (BOD) or shareholders’ meeting ● Corporate Governance Code – a set of guiding principles for realization of effective corporate governance
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- Institute of Directorship – Educate and accredit those who become a board member of JSC (there is a plan to establish one in Vietnam)

(Source: “Project Completion Report” March 2015)

3.2. Corporate Governance Code developing plan

The components 1-1 (CGC) and 2 (KRI) consultants started on October 15, 2015 the first visit to Hanoi and discussed on the overall plan how to develop the corporate governance code to be applied to the SCIC’s portfolio companies. The SCIC management and staff, including Mr. Nguyen Hong Hien (Deputy CEO), JICA experts, JERI and PwC consultants attended the meeting and agreed on the following preliminary ideas:

- There would be a single set of corporate governance code for general purposes. No need to develop an industry specific (e.g. financial institution, non-financial institution, etc.) one.
- Investment duration, long-term vs. short-term, should be considered when developing the CGC. Clarification should be needed how corporate governance related requirements would differ if the SCIC’s intended investment duration is different.
- SCIC already has some corporate governance related internal regulations and these internal regulations are currently under review. The final CGC should be in line with these internal regulations’ revising project and we should avoid duplication of works.
- Vietnam is a fast growing country. To achieve the global standards of corporate governance, there should be appropriate steps, rather than jumping onto the highest possible best practices from the beginning.
- The final corporate governance code should be a practical one. The draft CGC should be tested for its applicability by pilot programs prior to finalization.

Over the project, the above SCIC’s ideas were reflected to the developing process of the CGC and its application guidance. There had been no change to the original plan on how to develop the draft corporate governance code as a result of initial discussion. As described in the Work Plan dated November 30, 2015, it was agreed with SCIC that the draft CGC should be based on the G20/OECD Principles of Corporate Governance² (“2015 OECD Principles”) and OECD Guidelines on Corporate Governance of State-Owned Enterprises³ (“2015 OECD SOE Guidelines”) with input from the gap analysis (differences between the current Vietnamese laws and regulations and 2015 OECD Principles and OECD SOE Guidelines), the comparative researches (analysis on how other countries have developed their corporate governance codes – Singapore, Malaysia, Indonesia and Japan) and workshops with relevant SCIC officers and staff.

Another discussion point at the October 15 meeting between SCIC and JICA experts was the possible incorporation of the principles part of the draft 2015 voting guidelines (VG 2015) into the draft corporate governance code. Although these principles part of the VG 2015 were part of the draft corporate governance code (November 16, 2015 version) as “Section 5,” it was decided to separate from the draft CGC after discussions between SCIC CGC task force members and PwC consultants in July 2016 since the nature of the Section 5 was different. Refer to section 3.9.2 of this Project Completion Report for further detail.

The following sections describe gap analysis and comparative research, which are considered as important input when developing the draft CGC. These analysis and research are based on the

² OECD (2015), *G20/OECD Principles of Corporate Governance*, OECD Publishing, Paris (<http://www.oecd-ilibrary.org/docserver/download/2615021e.pdf?expires=1454041373&id=id&acname=guest&checksum=A15E5421A28013791DE363F1B5102E79>)

³ OECD (2015), *OECD Guidelines on Corporate Governance of State-Owned Enterprises 2015 Edition* (<http://www.oecd.org/daf/ca/OECD-Guidelines-Corporate-Governance-SOEs-2015.pdf>)

publicly available information up to October 2015 and not updated since then, except for certain legal information.

3.3. Gap Analysis

3.3.1. Methodology

To provide current corporate governance related legal information and identify the potential areas of focus when developing the draft CGC, a gap analysis has been performed. We have analysed the potential gaps between the 2015 OECD Principles and 2015 OECD SOE Guidelines and Vietnamese laws and regulations as well as the SCIC's internal rules so that we could understand the current status of corporate governance surrounding SCIC's portfolio companies and potential areas of difficulties in application of the CGC from the viewpoint of internationally recognized OECD Principles and OECD SOE Guidelines. All of the identified potential gaps have been considered when we develop the initial draft CGC. The following analysis is based on the publicly available information up to October 2015 unless otherwise stated.

3.3.2. Major laws and regulations in Vietnam and their scope of application

The Law on Enterprise (LOE) is the most relevant source of information among various laws and regulations in Vietnam. Vietnamese legal system related to enterprise was initially developed in 1990 when the Law on Company became effective. It was replaced by the Law on Enterprise in 1999, later amended in 2005, and then new Law on Enterprise (Law 68/2014/QH13; hereinafter referred to as the "new LOE") was adopted in November 2014. The new LOE took effect on July 1, 2015. The new LOE is applied to all enterprises including Limited Liability Company and Shareholding Company; SCIC's portfolio companies are also in scope of the new LOE.

In addition, Law on Security (Law 70/2006/QH11; hereinafter referred to as "LOS") is applied to public companies including listed companies. A public company means a shareholding company which belongs to one of the following three categories: (a) A company which has made a public offer of shares; (b) A company which has shares listed on the Stock Exchange or a Securities Trading Centre; (c) A company which has shares owned by at least 100 investors excluding professional securities investors, and which has paid-up charter capital of 10 billion Vietnamese dong or more (LOS 25). Circular 121/2012/TT-BTC which provides guideline on corporate governance principles is also applied to public companies (LOS28), public companies are more strictly regulated than LOE. Circular 52/2012/TT-BTC provides guidance on the disclosure of information on securities market. It was replaced by Circular 155/2015/TT-BTC effective on January 2016.

Furthermore, listed companies are regulated by stock exchanges' rules. The Hanoi Stock Exchange prepared a corporate governance handbook which provides best practice of corporate governance based on the 2004 OECD Principles⁴. The above Circulars includes rules only applicable to the listed and large-scale public companies. Large-scale public companies mean public companies with the actual contributed charter capital being 120 billion VND or above determined under the financial statements of the latest audited fiscal year or under the latest issue results and with the quantity of shareholders not fewer than 300 as from the date of closing the shareholder list in the Securities Depository Centre (SDC) on December 31 every year under the list announced by of the State Securities Commission (SSC) (Circular 52/2012/TT-BTC 2.2).

⁴ OECD Principles of Corporate Governance 2004
(<http://www.oecd.org/daf/ca/corporategovernanceprinciples/31557724.pdf>)

These so-called “hard-laws” regulations define minimum requirements of the corporate governance; while OECD Principles and other countries’ existing corporate governance codes (so called, “soft-laws”) require stronger standards of corporate governance as shown in the following chart.

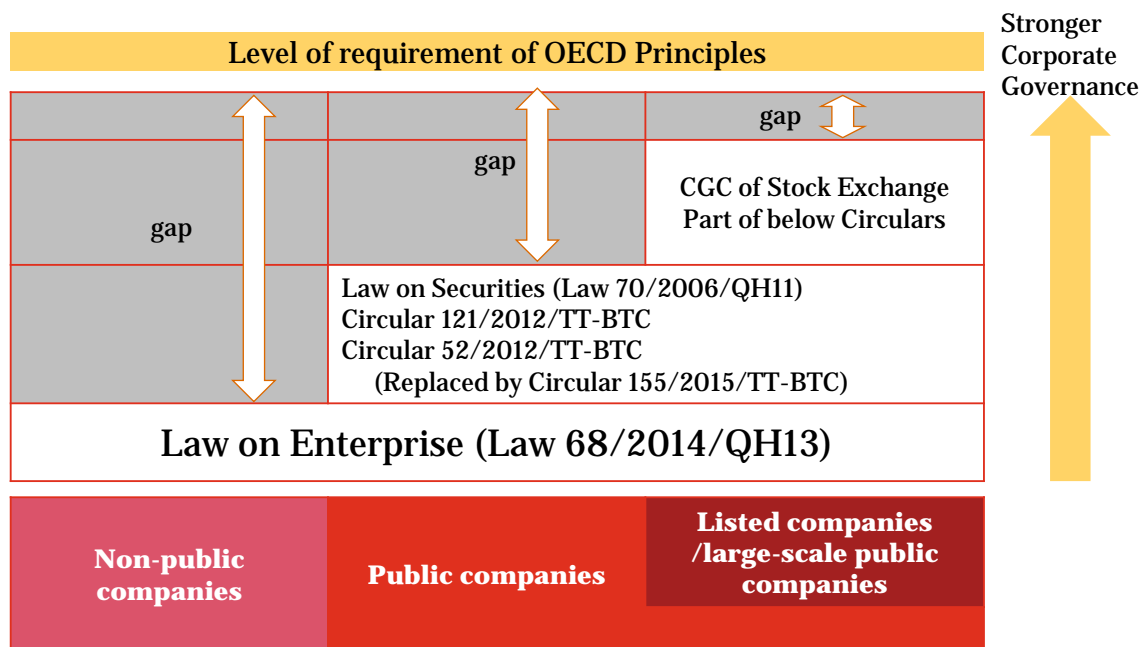


Chart 3-1: Relationship between Vietnamese laws and regulations and OECD Principles
(Source: PwC Aarata LLC)

As of October 31, 2016, there are no revisions to the above laws and regulations that could affect the draft CGC for SCIC’s portfolio companies.

<SCIC’s internal rules>

While each of the SCIC’s portfolio companies must comply with Vietnamese laws and regulations applied to them, SCIC has internal regulation, Decision 24/AD-DTKDV.HDTV (Decision 24). This Decision 24 sets SCIC’s procedures about their management of SCIC’s portfolio companies. During the initial phase of the CGC project, we had encountered instances where the Decision 24 was regarded as a corporate governance code when discussing with the SCIC officers and staff. We realized that we needed to pay particular attention that Vietnamese translation of the terminology “corporate governance” often suggests different meanings; it could be “corporate management” or “corporate control.” Therefore, the concept of “corporate governance” should be explained in the draft CGC in a way that internationally defined.

< Revision of Decree 151>

The roles and responsibilities of SCIC are defined in the Decree No.151/2013/ND-CP dated November 1, 2013 (Decree 151). The Decree 151 is currently under revision and its exposure draft is available on website of Ministry of Finance. However, the exact date of final approval by the government is uncertain as of the date of this Project Completion Report. Upon final approval and enactment, certain parts of the draft CGC and its application guidance should be modified. Furthermore, as mentioned in 3.9.2 of this Project Completion Report, SCIC recognizes that the

wording of Section 5 of the initial draft CGC should be modified in accordance with the revised Decree 151.

3.3.3. Corporate Governance Practice

The Asian Development Bank (ADB) issued “ASEAN Corporate Governance Scorecard – Country Reports and Assessments 2013-2014⁵” (the “ADB Scorecard”) which evaluates the level of corporate governance of listed companies among ASEAN countries. In the most recent issue of this publication, Vietnam is rated as the lowest among other ASEAN countries. We do not perform detailed analysis of the gaps between rules and regulations related to corporate governance and its practices by Vietnamese listed companies, but the ADB Scorecard suggests that even the rules and regulations in Vietnam have been improved and companies implemented them fully, some of the practices of corporate governance have not improved to that extent.

3.3.4. Improvement of Corporate Governance by the new LOE

Amendments in the new LOE is said to have two aspects, (1) amendments to improve usefulness and (2) amendments to improve corporate governance⁶. Under the LOE 2005, it has been pointed out that influence of minority shareholders is eliminated even there are provision of the minority shareholder rights in LOE; or board of directors and inspection committee’s monitoring function of CEO and executive directors does not work substantially. Amendments in the new LOE includes following aspects of improvement in the areas of corporate governance:

a. Expanded option of corporate governance model

The LOE 2005 required Shareholding Company to establish an inspection committee (supervisory board) where it has 11 shareholders or more, or where the shareholders are organisation holding of 50% or more of the total shares. The new LOE allows Shareholding Company to choose not to establish an inspection committee (supervisory board) and at least 20% of the directors are independent directors and there is an internal auditing board belonging to the board of directors (LOE 134.1 (b); hereinafter referred to as “one-tier option”). Non-public company may choose the option.

The proportion of independent directors required when one-tier option is chosen had been defined to be at least one-third at the stage of the exposure draft. However, the percentage is finally lowered to 20%. There was a commentary by a lawyer that there was an argument by business organisation of industries that the requirement of one-third was too high in Vietnam at this moment because it is difficult to find out the right pool of people who are qualified to be independent directors.⁷

One-tier option is a governance structure closer to many other countries; therefore improvement of comparability in explaining the corporate governance system in Vietnam could be expected. It is unclear at the moment how many shareholding companies eventually move their governance structure to one-tier option; there are almost none although initial shareholders’ meetings after new LOE’s enactment have already finished.

b. Expanded minority shareholders’ right

⁵ <http://www.adb.org/sites/default/files/publication/42600/asean-corporate-governance-scorecard.pdf>

⁶ Ishimoto, Komatsu, Hanawa, Ha, “Current status of modernization of Law on Enterprises in Vietnam,” *Shojihomu* No.2083 (2015)

⁷ Ishimoto, Komatsu, Hanawa, Ha (2015)

A shareholder or a group of shareholders holding more than ten percent of the total ordinary shares for a consecutive period of six months or longer, or holding a smaller percentage as stipulated in the charter of the company, have minority shareholders' right such as right to nominate candidates to the board of directors etc. (LOE 114.2). Under the new LOE, the right to request a court or an arbitrator to consider and cancel a resolution or a part of the resolution of the general meeting of shareholders in certain cases is allowed to such shareholders (LOE 147).

c. Information disclosure

The new LOE requires Shareholding Company to publish the following information on its website (if any): a) The charter of the company; b) Curriculum vitae, academic standing and working experience of members of the Board of Directors, inspectors, director or general director of the company; c) Annual financial statement passed by the General Meeting of Shareholders; d) Reports on evaluation of annual operation results of the board of directors and inspection committee (LOE 171.2). However, change in information disclosure in practice is unclear at the moment because the new LOE was recently enforced.

For the aspect of improvement of usefulness, amendments in the new LOE includes relaxation of general shareholders meeting requirements for resolution in Shareholding Company (LOE 144.1, 2), relaxation of the written resolution requirements (LOE144.4), relaxation of quorum of general shareholders meeting (LOE 141), multiple installation of the legal representative with Vietnam resident obligation (LOE 13.2), the merger between the company of different company forms (LOE 195), and so on.

3.3.5. Major gaps and discussion point

A presentation to the SCIC task force (TF) members was made on November 19, 2015 by PwC consultant. The purpose was to discuss potential gaps identified by the consultant are adequate from the view point of TF members who are primarily SCIC's portfolio managers who oversee portfolio companies and know their practices well. As a result of the discussion, there was no difference between potential gaps identified by PwC consultant and ones by TF Members. Some of the discussion topics include the following:

a. The number of independent or non-executive directors

The board of directors should have three to eleven members (LOE150.1). An inspection committee should have three to five members (LOE163.1). For Public Companies, at least one third (1/3) of the board of directors must be non-executive members (Circular 121/2012/TT-BTC 11.2). For listed companies or large-scale public companies, at least one third (1/3) of the board of directors must be independent members of the board of directors (Circular 121/2012/TT-BTC 30.2). There are no regulation for non-public company about non-executive or independent board members.

The 2015 OECD Principles (VI E1.) states that the Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgement to tasks where there is a potential for conflict of interest. There is a gap for non-public company about the number of independent or non-executive directors.

b. Information related to the candidates of board of directors

For public company, the information related to the candidates of board of directors or nominees (in case the candidates are chosen) must be announced at least seven days before convening the

general assembly of shareholders on the company's website so that the shareholders may study those candidates before voting. The information about the board of directors candidate must include the full name and date of birth; the professional qualifications; the career; the names of companies of which they are the members of the board of directors and other managing positions; the interests related to the company (if any) and; other information (if any) (Circular 121/2012/TT-BTC 9). For non-public company, a list and detailed information of candidates is to be prepared in case of electing members of the board of directors (LOE 136.7 dd) and sent to shareholders accompanied to the invitation (LOE 139.3 a).

The 2015 OECD Principles (II C4.) states that effective shareholder participation in key corporate governance decisions, such as the nomination and election of board members, should be facilitated. Shareholders should be able to make their views known, including through votes at shareholder meetings, on the remuneration of board members and/or key executives, as applicable.

It is necessary to ensure that shareholders can make an informed assessment of the abilities and suitability of each candidate, especially for non-public company.

c. Disclosure of non-financial information

As described in 3.3.3 above, the new LOE requires every shareholding company to disclose certain information by company's website. Change in information disclosure in practice is unclear at the moment because the new LOE was recently enforced. For public company, chapter 8 of Law on Securities, Chapter 6 of Circular 121/2012/TT-BTC and Chapter 2 of Circular 52/2012/TT-BTC describe the detail requirements.

Especially, executive directors' remuneration should be limited to the total amount approved by general shareholders meeting (LOE 158.2 a). However, remuneration amount by person or remuneration policy is not required to be disclosed. One of the TF Members said that expanding scope of disclosure related to remuneration was planned by the government.

The 2015 OECD Principles (V A4.) states that disclosure should include, but not be limited to, material information on remuneration of members of the board and key executives. Current Vietnamese rules require a part of material information on remuneration of members of the board and key executives, which is regarded as a gap.

d. Voting Preference Shares

Shareholding companies may have preference shares in addition to ordinary shares including voting preference shares (LOE 113). A voting preference share is a share which carries more votes than an ordinary share (LOE 116). However, only organizations authorized by the government and founding shareholders may hold voting preference shares. The voting preference of founding shareholders shall be valid for only three years from the date of issuance of the enterprise registration certificate of the company. After that period, voting preference shares of founding shareholders shall be converted into ordinary shares (LOE 113.3). A TF member said no discussion has been made related to the disproportioned voting rights caused by this law as voting preference shares are rarely used in practice. Therefore, no gap to be addressed is identified in this item.

3.3.6. Conclusion – GAP Analysis

By performing the gap analysis, following points should be considered in developing the draft CGC and its application guidance.

- Vietnamese legal framework, new LOE in particular, has been modernized to enhance Vietnamese companies' corporate governance systems by introducing a new company structure with single-tier board of directors.
- Listed companies are required to disclose corporate governance related matters to certain extent by Hanoi and/or Ho Chi Minh Exchanges' regulations. Although these Exchange regulations on corporate governance are based on the OECD Principles and Guidelines, not all provisions included in the OECD Principles and Guidelines are incorporated into the Exchange regulations. As a result, the Vietnam is rated lower than other ASEAN countries in terms of the listed companies corporate governance related matters by the ADB Scorecard and would need further improvements.
- There are several SCIC's internal regulations that describes reporting procedures by portfolio companies but that would not be an equivalent of corporate governance regulation itself. The concept of corporate governance and how it works should be further explained to the relevant SCIC staff.
- In summary, although the legal framework in Vietnam has been developing with focus on corporate governance systems, yet operating aspect of revised laws and regulations as well as company practices would need further improvement by applying the CGC, which contributes to enhancement of the small and medium companies' governance, except for a few very large listed companies that have already adopted and complied with the CGC set by the stock exchanges.

3.4. Comparative Research

3.4.1. Objective of the comparative research

The objective of comparative research among other Asian countries how these countries have developed their own corporate governance code or equivalent is to provide useful insight when developing the CGC for SCIC's portfolio companies. PwC consultant believed that the SCIC could learn from the other Asian countries' experiences including their challenges in application of the CGC.

To perform the research, following countries have been chosen:

- Singapore
- Malaysia
- Indonesia, and
- Japan.

Singapore, Malaysia and Indonesia are members of ASEAN countries that Vietnam also belongs to. These three countries are considered to be emerging economies yet each country has its own governance style. Japan has recently adopted the "comply-or-explain" approach of the CGC since June 1, 2015 for all domestic listed companies and initial corporate governance reports were submitted to the stock exchanges by listed companies. Its experiences would be beneficial for Vietnam to further understand the most current governance related international environment. As such, these four countries had been chosen for the comparative research.

As mentioned earlier, most countries including these four countries use the OECD Principles as a starting point to develop their own CGC; the comparative analysis begins with the analysis of the OECD Principles, followed by the each country analysis.

3.4.2. Revision of OECD Principles of Corporate Governance

Most corporate governance codes or their equivalent around the world are developed based on the OECD Principles of Corporate Governance. In most cases, current version of each country’s code refers to the 2004 version of the OECD Principles⁸ (the “2004 OECD Principles”). The 2004 OECD Principles was revised in 10 years in September 2015 aiming to achieve, "more transparency, more accountability, more effective corporate governance."⁹ It reflects the needs of the current economic conditions and capital markets, after various modifications with the contribution of a wide range of public consultation and major international organizations, and was finally agreed by the Group of 20 (G20). Therefore, the corporate governance code to be applied to the SCIC’s portfolio companies should be based on the most recent G20/OECD Principles of Corporate Governance (the "2015 OECD Principles")¹⁰ which was issued in September 2015 and intend to incorporate the latest and globally known corporate governance standards and best practices.

The 2015 OECD Principles is composed of the six principles as shown in Table 3-2 below. When compared with the 2004 OECD Principles, it is characterized in particular by strengthening disclosure of remuneration of the board members (Principle II), and cooperation with complex investment chain such as proxy advisors, rating agencies, and strengthening of dialogue with shareholders (Principle III). PwC consultant should consider all these newly added topics so that the CGC for SCIC’s portfolio companies reflects most recent global governance related discussions.

Table 3-2: Compositions and main topics of the 2015 OECD Principles

Principle I	Ensuring the basis for an effective corporate governance framework <ul style="list-style-type: none"> • Stock market regulation should support effective corporate governance (New) • Cross-border co-operation should be enhanced for exchange of information (New)
Principle II	The rights and equitable treatment of shareholders and key ownership functions <ul style="list-style-type: none"> • Integration of Principle II and III of OECD Principles 2004 • Information technology in processes of shareholder meeting and vote in absentia (New) • Shareholder participation in decisions on the remuneration of directors, referring to say-on-pay at shareholder meetings (New) • Approval of related-party transactions to protect the interest of shareholders (New)
Principle III	Institutional investors, stock markets, and other intermediaries <ul style="list-style-type: none"> • Co-operation with proxy advisors, analysts, brokers, rating agencies (New) • Stating the concept of shareholder engagement (New) • Referring to Stewardship Code (New)
Principle IV	The role of stakeholders in corporate governance <ul style="list-style-type: none"> • Respect of rights of stakeholders (New) • Active co-operation between corporations and stakeholders (New)
Principle V	Disclosure and transparency <ul style="list-style-type: none"> • Disclosure of non-financial information such as donations for political purposes (New)

⁸ OECD Principles of Corporate Governance 2004

<http://www.oecd.org/corporate/ca/corporategovernanceprinciples/31557724.pdf>

⁹<http://www.oecd.org/newsroom/new-g20oecd-principles-of-corporate-governance-will-promote-trust-and-improve-functioning-of-financial-markets.htm>

¹⁰ G20/OECD Principles of Corporate Governance 2015

<http://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf>

Principle VI	<p>The responsibilities of the board</p> <ul style="list-style-type: none"> • Taking into account the interests of stakeholders (New) • Increasing number of jurisdictions encourage companies to engage board evaluation (New) • Enhancing gender diversity (New)
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3.4.3. Corporate Governance Codes in Asian countries

3.4.3.1. Singapore

(1) Summary of the Code

In Singapore, the Code of Corporate Governance¹¹ (the “Singapore CG Code”) was first issued in March 21, 2001, in response to the Asian financial crisis in 1997 and subsequent Singapore Exchange integration in 2000. The Singapore CG Code requires all listed companies to disclose the practice of their CG in their annual reports and explain the topics which are not in comply with the CGC. The Singapore CG Code was developed by the Corporate Governance Committee (CGC), a governmental body, from input through public hearings and a wide range review of the way how companies’ governance in Singapore capital markets should work. It applies “comply-or-explain” approach and developed with reference to the practices in Europe and the United States.

The 2012 Singapore CG Code is composed of four major topics. Each topic has two-step recommendations of Principles and Guidelines and every company is required to disclose how they are in compliance with both principles and guidelines in its annual reports.

- Board matters (6 principles and 34 guidelines),
- Remuneration matters (3 principles and 14 guidelines),
- Accountability and audit (4 principles and 21 guidelines), and
- Shareholder rights and responsibilities (3 principles and 13 guidelines).

The Singapore CG Code, since the initial publication in 2001, has been revised twice in 2005 and 2012. The current Singapore CG Code (“2012 Singapore CG Code”) is the May 2, 2012 edition¹², which includes 28 guidelines to be explicitly disclosed.

Table 3-3: Singapore CG Code (May 2, 2012)

Board Matters	
1. The Board’s Conduct of Affairs	Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to be Board. <7 Guidelines>
2. Board Composition and Guidance	There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board’s decision making.

¹¹ Singapore Corporate Governance Committee, “Report of the Committee and Code of Corporate Governance,” 21 March 2001.

<https://www.acra.gov.sg/uploadedFiles/Content/Legislation/ReportoftheCorporateGovernanceCommitteeandCodeofCo.pdf>

¹² Singapore Code of Corporate Governance 2012

http://www.mas.gov.sg/~media/resource/fin_development/corporate_governance/CGCRevisedCodeofCorporateGovernance3May2012.pdf

	<p><8 guidelines including the following></p> <p>2.2 The independent directors should make up at least half of the board where:</p> <p>(a) the Chairman of the Board and the CEO is the same person;</p> <p>(b) the Chairman and the CEO are immediate family members;</p> <p>(c) the Chairman is part of the management team; or</p> <p>(d) the Chairman is not an independent director.</p>
3. Chairman and Chief Executive Officer	<p>There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.</p> <p><4 guidelines including the following></p> <p>3.1 The Chairman and the CEO should in principle be separate persons, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. The division of responsibilities between the Chairman and the CEO should be clearly established, set out in writing and agreed by the Board. In addition, the Board should disclose the relationship between the Chairman and CEO if they are immediate family members.</p>
4. Board Membership	<p>There should be a formal and transparent process for the appointment and reappointment of directors to the Board.</p> <p><7 guidelines including the following></p> <p>4.1 The Board should establish a Nomination Committee to make recommendations to the Board on all board appointments, with written terms of reference which clearly set out its authority and duties. (...)</p>
5. Board Performance	<p>There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.</p> <p><3 guidelines></p>
6. Access to Information	<p>In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.</p> <p><5 guidelines></p>
Remuneration Matters	
7. Procedures for developing remuneration policies	<p>There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.</p> <p><4 guidelines including the following></p> <p>7.1 The Board should establish a Remuneration Committee with written terms of reference which clearly set out its authority and duties. (...)</p>
8. Level and Mix of Remuneration	<p>The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a)</p>

	the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose. <4 guidelines>
9. Disclosure of Remuneration	Very company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance. <6 guidelines>
Accountability and Audit	
10. Accountability	The board should present a balanced and understandable assessment of the company's performance, position and prospects. <3 guidelines>
11. Risk Management and Internal Controls	The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives. <4 guidelines>
12. Audit Committee	The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties. <9 guidelines>
13. Internal Audit	The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits. <5 guidelines>
Shareholder Rights and Responsibilities	
14. Shareholder Rights	Companies should treat all shareholders fairly and equitably, and should recognize, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements. <3 guidelines>
15. Communication with Shareholders	Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders. <5 guidelines>
16. Conduct of Shareholder Meetings	Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholder the opportunity to communicate their views on various matters affecting the company.
Glossary	
Disclosure of Corporate Governance Arrangements <List of one principle and 27 guidelines that explicitly require disclosures>	
The role of shareholders in engaging with companies in which they invest	

(Source: summarized by PwC Aarata LLC)

(2) Scope of application

In accordance with the Listing Manual¹³ of the Singapore Exchange (SGX), all listed issuers are required to disclose their corporate governance related information in their annual report, regarding both the principles and guidelines, by applying the “comply-or-explain” approach. The 28 specific principle and guidelines in the Singapore CG Code with expressive disclosure requirements are set out in the appendix to the code under “Disclosure of Corporate Governance Arrangements.”

(3) Plans for strengthening governance

Singapore is ranked as No. 3 among 6 countries in the corporate governance standards (Ranking – No.1 Thailand and No.2 Malaysia) according to the ADB Scorecard and takes various plans to strengthen the corporate governance.

<Establishment of Guidelines>

In addition to the Singapore CG Code, “Guidebook for Audit Committees in Singapore”¹⁴ (the “Guidebook”) was issued in October 2008 by the Audit Committee Guidance Committee in Singapore (ACGC), an advisory body of the government, as a guide to strengthen the Singapore CG Code and to complement governance practices. The Guidebook was revised in August 2014 to reflect the changes to the Singapore CG Code (May 2, 2012).

Monetary Authority of Singapore (MAS) has issued “Guidelines on Risk Management”¹⁵ (the “Guidelines”) in March 2013 to complement the Singapore CG Code. The Guidelines explains in detail each part of five risks (such as credit, market, liquidity, operational and technology risk), insurance, internal control and “the board of directors and senior management” in particular.

In addition, Singapore Exchange (SGX), published a self-check list called “Disclosure on Compliance with the Code of Corporate Governance 2012”¹⁶ (“Disclosure Guide”) in January 2015. This Disclosure Guide is made up of questions about primarily disclosure relating to the board. Companies should address all the questions in the Disclosure Guide and include their answers as part of their annual reports. Using the Disclosure Guide, shareholder can better assess the companies they invest in.

<Award system>

There is an award system of corporate governance as a measures to further encourage awareness of the company side. The Securities Investors Association Singapore (SIAS) together with Singapore Management University and other two institutions recognizes companies that have good corporate governance practices by awarding them “Singapore Corporate Governance Award” (SCGA)¹⁷. The evaluation has been carried out based on the Singapore CG Code 2012 and the latest OECD Principles as at 2012. Other than the Hall of Fame (the first prize), a company is honored by five

¹³ Listing Manual is defined by each of the market of Mainboard and Catalyst. The Listing Manual for Mainboard is available at: http://rulebook.sgx.com/en/display/display_main.html?rbid=3271&element_id=4830

¹⁴ The Guidebook for Audit Committees was revised in 2014; available at <http://www.sgx.com/wps/wcm/connect/674b0f9c-80c3-49fb-aab0-4806e13ef458/Guidebook+for+ACs+%282nd+edition%29.pdf?MOD=AJPERES>

¹⁵ “Guidelines on Risk Management” is available at <http://www.mas.gov.sg/Regulations-and-Financial-Stability/Regulatory-and-Supervisory-Framework/Risk-Management.aspx>

¹⁶ “Disclosure on Compliance with the Code of Corporate Governance 2012” is available at http://infopub.sgx.com/FileOpen/20140129_Disclosure_Guide_Sample.ashx?App=Announcement&FileID=333161

¹⁷ Singapore Corporate Governance Award: http://sias.org.sg/cgweek2015/ica/SCGA_01.html

categories (Big Cap, Mid & Small Cap, REITS & Business Trusts, Most Improved and Diversity). SingTel was a winner in the 6th award in October 2015.

<Monitoring and review of company disclosures>

As a summary of analysis of the disclosure of listed companies, the Center of Governance, Institutions and Organizations (CGIO) of National University of Singapore (NUS) in collaboration with CPA Australia¹⁸, compiles a report of “Corporate Governance Highlights”¹⁹ every year. The Highlights summarizes the trends and findings on the disclosure of Corporate Governance.

SGX is carrying out a review²⁰ of how Singapore companies are applying the “comply-or-explain” approach of the Singapore CG Code. The review will cover annual reports of over 550 mainboard companies released in the 12 months to June 30, 2015. SGX intends to make findings of the review public in mid-2016.

< Rules on disclosure of information about sustainability based on “comply-or-explain” approach>

As a result of the above review and public comments, SGX will require listed companies to disclose their sustainability reports based on “comply-or-explain” approach in the fiscal year which ends after December 31st, 2017. The report must be disclosed, at least once a year, within 5 months after the fiscal year ends.

The sustainability report will be disclosed to investors as a complementary tool of financial information in terms of environment, social and governance matters (ESG matters) for business and strategy. SGX has adopted the sustainability report for Singapore companies to be recognized internationally as developing the report leads to establishment of transparency or governance. The report could satisfy investors who demand high quality return and give the companies the opportunity of differentiation as well.

Overall, Singapore has varieties of mechanisms in place to monitor and review companies’ corporate governance disclosures and strengthen the practice of the CGC. On the other hand, the CGC for the SCIC’s portfolio companies are based on the voluntary application and the enhancement of the practice as in Singapore is difficult.

3.4.3.2. Malaysia

(1) Summary of the Code

As a result of the 1997/1998 Asian Financial Crisis, investor confidence in Malaysia was severely damaged and the Malaysian Code on Corporate Governance was first issued in March 2000 and later revised in 2007 (“2007 Code”) to raise corporate governance standards among Malaysian listed companies. As Malaysia intends to transform itself into a high-income nation by 2020, it believes that strengthening the corporate governance practices is the key in increasing the competitiveness of Malaysian businesses to tap the capital.

¹⁸ CPA Australia is an accounting body with more than 150,000 members and has offices in Australia as well as China, Singapore, Malaysia, Indonesia, Vietnam, New Zealand and the UK. There are over 7,500 members in Singapore (as of October 2014). The document is available at: <http://bschool.nus.edu/Portals/0/images/CGIO/Report/GTI2014-Report-Final.pdf>

¹⁹ Information on Corporate Governance Highlights:
<http://bschool.nus.edu/CGIO/OurResearch/GovernanceTransparencyIndex.aspx>

²⁰ Information is available at:
http://infopub.sgx.com/FileOpen/20151012_SGX_reviewing_companies_compliance_with_CG_Code.ashx?App=Announcement&FileID=373007

Consequently, the Securities Commission Malaysia (the “SC”) launched the Corporate Governance Blueprint²¹ (the “Blueprint”) in 2011. In the Blueprint, corporate governance is analyzed and commented on all its aspects, and 35 recommendations were made with clear indication of implementation method for each recommendation. Each implementation method indicates improvement through either Listing Requirements, new CG Code, laws, taskforce, working group, public consultations or combination of these. Of total 35 recommendations, 13 recommendations refer to the new CG Code as an implementation method. The work by Blueprint facilitates to understand the clear picture about who plays a leadership role in each area of possible improvements.

Based on the Blueprint recommendations, the SC revised the 2007 Code and issued “Malaysian Code on Corporate Governance 2012” (the “MCCG 2012”)²². The MCCG 2012 is a list of eight Principles and corresponding 26 Recommendations as shown in Table 3.4.3.2 below and requires listed companies to explain how they comply with the Recommendations in their annual reports. Of total 26 Recommendations, 15 have been revised to reflect the Blueprint’s 13 recommendations. Also, the MCCG 2012 specifically mandate companies to focus on substance rather than form in meeting corporate governance requirements.

Each Recommendation within the MCCG 2012 is followed by a commentary which assists companies in understanding the Recommendation. It also provides some guidance to companies in implementing the Recommendation.

Table 3-4: Malaysian Code on Corporate Governance 2012 (MCGC 2012)

Principles	Recommendations changed from 2007 Code
1. Establish clear roles and responsibilities	
The responsibilities of the board, which should be set out in a board charter, include management oversight, setting strategic direction premised on sustainability and promoting ethical conduct in business dealings.	7 Recommendations including the following: 1.3 Mandate boards to formulate ethical standards and system of compliance through the company’s code of conduct. 1.4 Mandate boards to formulate strategies that address sustainability and stakeholder interests through internal policies.
2. Strengthen composition	
The board should have transparent policies and procedures that will assist in the selection of board members. The board should comprise members who bring value to board deliberations.	3 Recommendations including the following: 2.1 Mandate boards to establish a Nominating Committee with enhanced roles chaired by an independent director.
3. Reinforce independence	
The board should have policies and procedures to ensure effectiveness of independent directors	5 Recommendations including the following: 3.1 Mandate boards to undertake an assessment on independence annually, upon re-admission and when any new interests or relationships surface-based on a set of criteria established by the boards. 3.2 Mandate a cumulative term limit of up to nine years for an individual to serve as an independent director.

²¹ Corporate Governance Blueprint: http://www.sc.com.my/wp-content/uploads/eng/html/cg/cg2011/pdf/cg_blueprint2011.pdf

²² Malaysian Code on Corporate Governance 2012 <http://www.sc.com.my/wp-content/uploads/eng/html/cg/cg2012.pdf>

	3.4 Mandate separating the position of chairman and CEO and for the chairman to be a non-executive member of the board.
4. Foster commitment	
Directors should devote sufficient time to carry out their responsibilities, regularly update their knowledge and enhance their skills.	2 Recommendations including the following: 4.1 Mandate boards to set out their expectations on time commitment including protocols for accepting other external appointments in their board charter.
5. Uphold integrity in financial reporting	
The board should ensure financial statements are a reliable source of information.	2 Recommendations.
6. Recognise and manage risks	
The board should establish a sound risk management framework and internal controls system.	2 Recommendations.
7. Ensure timely and high quality disclosure	
Companies should establish corporate disclosure policies and procedures to ensure comprehensive, accurate and timely disclosures.	2 Recommendations including the following: 7.1 Move beyond minimum reporting by making explicit the requirement for shareholders to be provided with quality and timely information.
8. Strengthen relationship between company and shareholders	
The board should facilitate the exercise of ownership rights by shareholders.	3 Recommendations including the following: 8.1 Mandate companies to make public their commitment to respecting shareholder rights and take active steps to inform shareholders of how these rights can be exercised. Encourage companies to provide better quality and timely information through notices and documents and to serve notices for meetings earlier than the minimum notice period. 8.2 Impose obligation for the chairman of the general meeting to inform shareholders of their right to demand a poll vote.
Table: Comparison between the MCCG 2012 and the 2007 Code	

(Source: Summarized by PwC Aarata LLC)

Subsequent to the publication of the MCCG 2012, Bursa Malaysia (Malaysia Stock Exchange) amended the Listing Requirements and also introduced the “Corporate Disclosure Guide 2nd edition (towards boardroom excellence)”²³ in 2013.

As mentioned above, the MCGC 2012 is a significant revision to the previous one. Yet, the MCCG 2012 retains the definition of corporate governance as set out in the “High Level Finance Committee Report 1999,” that is: Corporate governance is “the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interests of other stakeholders.”

(2) Scope of application

²³ Corporate Disclosure Guide – 2nd edition
http://www.bursamalaysia.com/misc/system/assets/7257/CG_Guide2.pdf

In Malaysia, all listed companies are required for disclosure of compliance information in the MCGC 2012 in accordance with the Listing Manual. In the case of non-compliance, companies should explain the reasons (“comply-or-explain” approach). Listed companies are required to report on their compliance with the MCGC 2012 in their annual reports.

For non-listed companies, application of the MCGC 2012 are encouraged but not required compulsorily.

(3) Plans for strengthening governance

<Award program>

There is an awards program on corporate governance. "Malaysia Corporate Governance Index Award"²⁴ is honored by the Minority Shareholders Watchdog Group (MSWG)²⁵. MSWG has carried out an evaluation of the disclosure of the corporate governance every year since 2010 and evaluated 6th award of 2015 using the same method as the ASEAN CG Scorecard. The first prize went to five companies including Malaysia Stock Exchange.

<Monitoring and review of company disclosures>

MSWG also publishes the report²⁶ summarizing the analysis and trends related to the disclosure of listed companies and publishes regularly the statistics in a various themes.

Further plan for strengthening the corporate governance is currently being undertaken in Malaysia. Securities Commission Malaysia (SC) issued the Stewardship Code²⁷ in June 2014 while there are only a few Asian countries that have already adopted the stewardship code but referred in the 2015 OECD Principles.

(4) Forthcoming challenges

According to the ADB Scorecard, Malaysia is ranked as No. 2 among six countries in the corporate governance ratings (No.1 Thailand, No. 3 Singapore). According to the ADB Scorecard, Malaysian public listed companies appear to have been able to raise their corporate governance standards to meet the higher expectations. However, there have been areas that warrant further improvement should be taken such as publishing annual general meeting minutes, approval by shareholders of directors' remuneration, and information on environment, social and governance matters (ESG matters).

In response to the suggestions in the ADB Scorecard, Bursa Malaysia (Malaysia Stock Exchange) has developed the “Sustainability Reporting Guide and Toolkits”²¹ as a guideline of “Sustainability statement”, which is listing requirement in 2015. It enhances ESG, which means EES Economic, Environment and Sociality in Bursa Malaysia, and the disclosure of corporate governance.

²⁴ Information relating to the Malaysia Corporate Governance Index Award is available at:
<http://www.mswg.org.my/page.php?pid=226&action=preview&menu=main>

²⁵ The Minority Shareholder Watchdog Group (MSWG) was established as a government initiative in the year 2000 as part of a broader capital market framework to protect the interests of minority shareholders. Over the years MSWG has evolved into an independent research organization on corporate governance matters. The information is available at:
<http://www.mswg.org.my/page.php?pid=214&menu=sub>

²⁶ “Malaysia ASEAN Corporate Governance Report 2014” is available at:
http://www.mswg.org.my/files/editor_files/file/publication/Malaysia-ASEAN_Corporate_Governance_Report_2014_upload.pdf

²⁷ “Malaysian Code for Institutional Investors (27 June 2014)” is available at:
http://www.mswg.org.my/files/editor_files/file/MCII/MCII_2014.pdf

3.4.3.3. Indonesia

(1) Summary of the Code

Indonesia is one of the most severely damaged countries by the Asian financial crisis in 1997 – 1998; the Indonesian Rupiah down by almost 80%. A national committee for Good Corporate Governance²⁸ was established in 1999 and issued the first Indonesia’s Code of Good Corporate Governance in 2000, which was later revised in 2001 and 2006. The 2006 version of the Indonesia’s Code of Good Corporate Governance (the “GCG 2006”)²⁹ consists of the following eight main parts with 54 principles and 119 code provisions:

Table 3-5: Indonesia’s Code of Good Corporate Governance (2006)

Part	Principles/Code Provisions
Part I: Ensuring the basis for an effective corporate governance framework in Indonesia	
	1. Role of Regulatory, Supervisory and Enforcement Authorities <9 Code Provisions>
	2. Role of Market Participants <5 Code Provisions>
	3. Role of the Public <3 Code Provisions>
Part II: Good Corporate Governance General Principles	
	1. Transparency <4 Code Provisions>
	2. Accountability <5 Code Provisions>
	3. Responsibility <2 Code Provisions>
	4. Independency <2 Code Provisions>
	5. Fairness <3 Code Provisions>
Part III: Business Ethics and Code of Conduct	
	1. Company Values <3 Code Provisions>
	2. Business Ethics <3 Code Provisions>
	3. Code of Conduct <6 Code Provisions>
Part IV: Organs of the Company	
A. General Meetings of Shareholders	One Principle, <3 Code Provisions, 10 sub-provisions>
B. Board of Commissioners and Board of Directors	One Principle, <2 Code Provisions, 8 sub-provisions>
C. Board of Commissioners	1. Composition, Appointment and Termination <5 Code Provisions>
	2. Capability and Integrity <4 Code Provisions>
	3. Role and Function <7 Code Provisions>
	4. Committees <4 Code Provisions>
	5. Accountability Report of the Board of Commissioners <3 Code Provisions>
D. Board of Directors	1. Composition, Appointment and Termination <4 Code Provisions>
	2. Capability and Integrity <4 Code Provisions>
	3. Role and Function <5 Code Provisions>
	4. Accountability Report of the Board of Directors <5 Code Provisions>

²⁸ It was transformed to The National Committee on Governance in 2004 to serve for not only corporate governance but also wider governance matters including public governance matters.

²⁹ It is available at: http://www.ecgi.org/codes/documents/indonesia_cg_2006_en.pdf

	Provisions>
Part V: Rights and Role of Shareholders	
	1. Rights of Shareholders and Key Ownership Function <2 Code Provisions>
	2. Responsibility of Company against Shareholders <5 Code Provisions>
Part VI: The Rights and Role of other Stakeholders	
	1. Employees <8 Code Provisions>
	2. Resource Providers <4 Code Provisions>
	3. Users of Product and Services <3 Code Provisions>
Part VII: Implementation Statement of the Code	
	<4 Code Provisions>
Part VIII: General Guidelines on GCG Implementations	
	<2 Code Provisions>

(Source: Summarized by PwC Aarata LLC based on English CGC of Indonesia)

The “Implementation Statement” mentioned above as the 7th topic is that each company shall make a statement regarding the conformity with the GCG Code in its annual report. This statement is necessary to enable the shareholders to evaluate the extent of the application of the GCG Code by the company. The GCG Code does not explicitly state that it adopts the “comply-or-explain” approach. Although it requires explanations in the statement when a company does not comply with any provisions of the GCG Code, in practice, Indonesian companies disclose narrative explanation of how they respond to corporate governance instead of explaining the reasons why they do not comply with a particular provision(s). Thus, in substance, “comply-or-explain” approach is not adopted.

(2) Scope of application

All Indonesian companies are being encouraged to adhere to the GCG Code and other corporate governance related rules included in the regulations, although these provisions are only mandatory for listed companies.

As mentioned in the IFC’s “The Indonesia, Corporate Governance Manual, First Edition³⁰,” (the “Manual”) the legal and regulatory framework in Indonesia has some unique characteristics resulting from Indonesia’s history and the development of its economy. There are several industry-specific laws and regulations and in practice, these overlapping laws and regulations have created confusion, ambiguities and uncertainties to the companies trying to follow the laws and implement good corporate governance practice. Under these circumstances, the Manual was developed to be a reference for corporate governance practice in Indonesia and it seems to be a good complement to the GCG Code.

(3) Plans for strengthening governance

<Roadmap>

In 2014, along with the publication of the Manual, the Indonesia Financial Services Authority (OJK) issued the “Indonesia Corporate Governance Roadmap”³¹ (the “Roadmap”). This Roadmap is written in Indonesian and English in parallel and intends to be the main reference in improving good governance practices and regulations for issuers and public companies. It is also intended to make

³⁰ International Finance Corporation, “The Indonesia, Corporate Governance Manual, First Edition,” (January 2014) was developed in cooperation with the Indonesia Financial Services Authority (OJK).

³¹ Indonesia Corporate Governance Roadmap
<http://www.ifc.org/wps/wcm/connect/a476310042e2a54bbc09fc384c61d9f7/Indonesia+CG+Roadmap.pdf?MOD=AJPERES>

positive contributions to improving good corporate governance, to at least be on par with the corporate governance in the ASEAN region by 2015.

<Award System>

There is an award system on corporate governance. “Indonesia Corporate Governance Award and Conference 2015”³² was conducted by Indonesian Institute for Corporate Governance in December 2015. The information is available only in Indonesian.

<Monitoring and review of company disclosure>

There is no report of analysis on or summarizing the trend of the disclosures available in English except for the ones compiled by the international organizations such as IFC and the World Bank.

(4) Challenges

According to the ADB Scorecard, the corporate governance performance in Indonesia among listed company ranks 5th out of 6 ASEAN countries and is still considered to be below an acceptable level. One of the areas of improvement is the English document availability for foreign shareholders. However, “excessive regulation may spur a negative reaction from public listing companies and as an alternative, soft enforcement to strengthen corporate governance practices in the future can be expected,” as the Scorecard suggested.

As mentioned above, Indonesia doesn’t have high recognition for its governance on an international basis. However, in terms of its practices, it is suggested that the implementation of “comply-or-explain” approach would be applicable to develop the effective CGC.

3.4.3.4. Japan

(1) Summary of the code

The “Japan’s Corporate Governance Code – seeking sustainable corporate governance and increased corporate value over the mid- to long-term”³³ (the “Japan CGC”) has been adopted by all domestic listed companies since June 1, 2015 with “comply-or-explain” approach. The Japan CGC consists of the following five General Principles, supported by the Principles and Supplementary Principles (three-tier-structure).

Table 3-6: Japan CGC

Section	General Principle
1. Securing the Rights and Equal Treatment of Shareholders	Companies should take appropriate measures to fully secure shareholder rights and develop an environment in which shareholders can exercise their rights appropriately and effectively. In addition, companies should secure effective equal treatment of shareholders. Given their particular sensitivities, adequate consideration should be given to the issues and concerns of minority shareholders and foreign shareholders for the effective exercise of shareholder rights and effective equal treatment of shareholders.
2. Appropriate Cooperation with Stakeholders Other	Companies should fully recognize that their sustainable growth and the creation of mid- to long-term corporate value are brought

³² Indonesia Corporate Governance Award and Conference 2015
<http://www.iicg.org/>

³³ English translation is available at: <http://www.jpix.co.jp/english/equities/listing/cg/tvdivq0000008jdy-att/20150513.pdf>

Than Shareholders	as a result of the provision of resources and contributions made by a range of stakeholders, including employees, customers, business partners, creditors and local communities. As such, companies should endeavor to appropriately cooperate with these stakeholders. The board and the management should exercise their leadership in establishing a corporate culture where the rights and positions of stakeholders are respected and sound business ethics are ensured.
3. Ensuring Appropriate Information Disclosure and Transparency	Companies should appropriately make information disclosure in compliance with the relevant laws and regulations, but should also strive to actively provide information beyond that required by law. This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risk, and governance. The board should recognize that disclosed information will serve as the basis for constructive dialogue with shareholders, and therefore ensure that such information, particularly non-financial information, is accurate, clear and useful.
4. Responsibilities of the Board	Given its fiduciary responsibility and accountability to shareholders, in order to promote sustainable corporate growth and the increase of corporate value over the mid- to long-term and enhance earnings power and capital efficiency, the board should appropriately fulfill its roles and responsibilities, including: (1) Setting the broad direction of corporate strategy; (2) Establishing an environment where appropriate risk-taking by the senior management is supported; and (3) Carrying out effective oversight of directors and the management (including <i>shikkoyaku</i> and so-called <i>shikkoyakuin</i>) from an independent and objective standpoint. Such roles and responsibilities should be equally and appropriately fulfilled regardless of the form of corporate organization – i.e., Company with <i>Kansayaku</i> Board (where a part of these roles and responsibilities are performed by <i>kansayaku</i> and the <i>kansayaku</i> board), Company with Three Committees (Nomination, Audit and Remuneration), or Company with Supervisory Committee.
5. Dialogue with Shareholders	In order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, companies should engage in constructive dialogue with shareholders even outside the general shareholder meeting. During such dialogue, senior management and directors, including outside directors, should listen to the views of shareholders and pay due attention to their interests and concerns, clearly explain business policies to shareholders in an understandable manner so as to gain their support, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly.
Appendix	

(Source: Tokyo Stock Exchange)

In this Japan CGC, “corporate governance” means a structure for transparent, fair, timely and decisive decision-making by companies, with due attention to the needs and perspectives of shareholders and also customers, employees and local communities.

The Japan CGC was developed by the Council of Experts Concerning the Corporate Governance Code in response to the Japan Revitalization Strategy which was approved by the Cabinet in June 2013 and in June 2014 for the revised one. A Japanese version of the Stewardship Code³⁴ was finalized in February 2014 prior to the Japan CGC development discussions. Both codes have been developed as part of the governmental economic revitalization and growth strategies and the Japan CGC seeks “growth-oriented governance” by promoting timely and decisive decision-making based upon transparent and fair decision-making through the fulfillment of companies’ accountability in relation to responsibilities to shareholders and stakeholders.

This is very different from the other countries’ background why they created or revised the corporate governance codes or equivalent; in most cases they were developed in response to major economic crises. Japan’s “Growth-oriented governance” would provide good insight when the CGC for SCIC’s portfolio companies is developed because in Vietnam the good governance is expected as part of growth-oriented economic environment.

Prior to the Japan CGC, each stock exchange has a set of corporate governance recommendations and reporting requirements for listed companies. However, the recommendations without “comply-or-explain” approach did not provide sufficient information to investors³⁵; the Japan Revitalization Strategy (Revised in 2014) specifically indicated that the Japan CGC be developed based on the OECD Principles with “comply-or-explain” approach.

(2) Scope of application

The Japan CGC shall be applied by all domestic listed companies in Japan and corporate governance report shall be submitted to the stock exchanges in accordance with the Listing Rules of each exchange. Certain emerging companies listed at the JASDAQ or Mothers are exempted from applying the Principles and Supplementary Principles (i.e. those companies are required to apply only five General Principles of the Japan CGC.)

(3) Plans for strengthening governance

<Monitoring and review of company disclosures>

For the initial year review and follow-up purpose, a new council has been established³⁶ and facilitated by the Japan Financial Services Agency (JFSA) and the Tokyo Stock Exchange (TSE). A brief summary report of 1,858 companies listed at TSE 1st section and 2nd section, “How Listed Companies Have Addressed Japan’s Corporate Governance Code (Status as of the end of December 2015)”³⁷ was presented by the TSE. According to the report, 216 companies (11.6%) are fully in compliance with the Japan CGC, while 1,233 companies (66.4%) are more than 90% and 409 companies (22.0%) are less than 90% in compliant. It turns out that certain principles are less than 50% compliance rate; those principles are:

- Supplementary principle 4-11-3: Board evaluation and disclosure of summary (Explanation rate: 63.6%), and
- Supplementary principle 1-2-4: Electronic voting/English AGM notices (Explanation rate: 55.9%)

The TSE did the comparative research on the CGC submitted after the initial year of JCGC by listed

³⁴ <http://www.fsa.go.jp/en/refer/councils/stewardship/20140407/01.pdf>

³⁵ Japan was ranked as the 3rd among 11 Asian countries by the Asian Corporate Governance Association’s “Corporate Governance Watch 2014 – Market Rankings” which is available at: http://www.acga-asia.org/public/files/CG_Watch_2014_Key_Charts_Extract.pdf

³⁶ <http://www.jpx.co.jp/english/equities/listing/cg/tvdivq0000008jdy-att/20150807-2.pdf>

³⁷ <http://www.jpx.co.jp/english/equities/listing/cg/tvdivq0000008jdy-att/20160120-2.pdf>

companies and presented “White Paper on Corporate Governance 2015” in March, 2016. In addition, the TSE issued the report summarizing how listed companies have addressed JCGC (Status as of July 2016) in July 2016 and has monitored continuously. According to the report, the English translation of the above supplementary principle 1-2-4: Electronic voting/English AGM notices has the highest percentage of Explanation. As a whole, the percentage in compliant has risen. 21% companies are fully in compliance with all principles and 84.5% companies are more than 90% in compliant. 55% companies are in compliance with Supplementary principle 4-11-3: Board evaluation and disclosure of summary as well.

(4) Challenges

The Japan CGC adopts “principles-based approach” rather than a rule-based approach. Without detail rules or guidance, quite a few Japanese companies would feel it difficult to tell their own stories in governance disclosures because they could not use *templates* or detail guidance. As stated in the first CGC report, there is still room for improvement of how to “Explain” the details.

3.4.3.5. Other countries

<Thailand>

Thailand recorded the highest score in the governance disclosure of the ADB Scorecard. According to the ADB Scorecard, the strengths is observed at “Rights of Shareholders” and “Equitable Treatment of Shareholders” while the areas to be improved are “the Role of Stakeholders” and “Responsibilities of the Board.”

The Stock Exchange of Thailand (SET) issued Corporate Governance Principles in 2002 and revised it in 2006. Then, it published “The Principles of Good Corporate Governance for Listed Companies 2012”³⁸ in January 2013. The latest version is titled “principles” instead of “code” and is organized by two languages together in one book, in the form of English part subsequent to Thai part. It is composed of 15 principles and is comprehensive to the 2004 OECD Principles. It also adopts “comply-or-explain” approach. The SET’s website³⁹ provides related manuals, guidelines, example of self-evaluation as well as principles in the form of the list.

The Thai Institute of Directors issues the corporate governance assessment in the “Corporate Governance Report of Thai Listed Companies” (the “Report”)⁴⁰ to ensure its effective implementation, and during 2012–2013, improved its assessment criteria. The main focus on revising its criteria is to provide a consistency between the disclosure (form) and the implementation of policies (substance). In the 2014 Report, Bangkok Aviation Fuel Services (BAFS) won the first prize.

Overall, it is our observation that the availability of corporate governance related materials in English is higher in Thailand among ASEAN countries; it has led to the highest score among ASEAN countries by the Scorecard.

<UK>

The UK has the longest history of applying the corporate governance code with “comply-or-explain” approach.

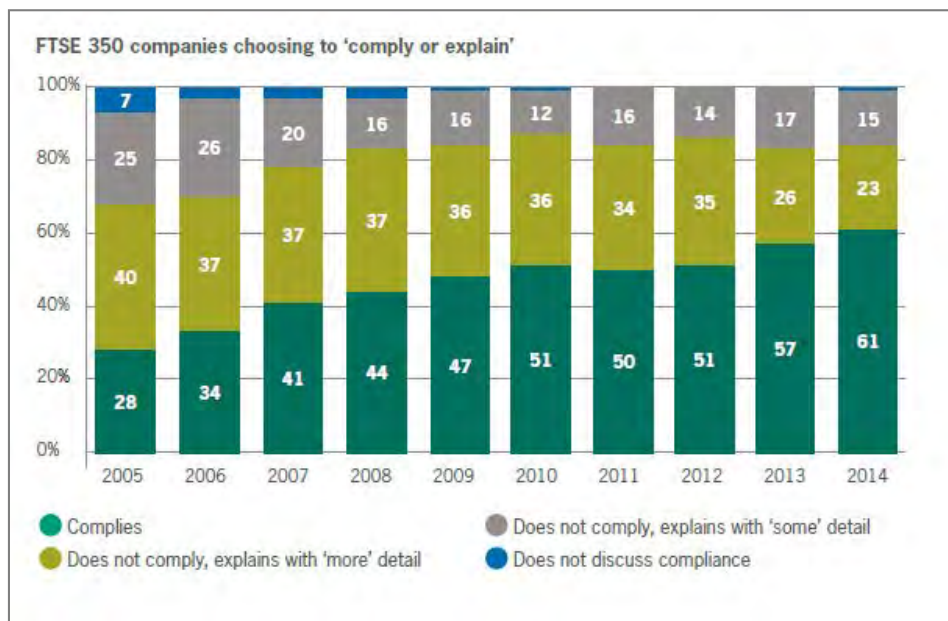
³⁸ The Principles of Good Corporate Governance for Listed Companies
http://www.set.or.th/sustainable_dev/th/cg/files/2013/CGPrinciple2012Thai-Eng.pdf

³⁹ Documents related to Corporate Governance in Thailand is available
http://www.set.or.th/sustainable_dev/en/cg/principle_p1.html

⁴⁰ Corporate Governance Report of Thai Listed Companies <http://www.thai-iod.com/en/publications-detail.asp?id=253>

The following chart summarizes the disclosure trends of recent 10 years in the UK. Although more than 20 years have passed since the initial implementation of “comply-or-explain” approach of the corporate governance code, it is clear that there were many companies which were not able to comply the code from the first year of application. In 2005, only 28 percent of the FTSE 350 companies complied in full. This chart suggest that a 100 percent compliance with the corporate governance code would not necessarily be the ultimate goal but good explanations of non-compliance could be a good starting point of constructive dialogue between the company and its shareholders and investors.

Chart 3-7: FTSE 350 companies choosing to “comply-or-explain”



(Source: Grant Thornton: “Corporate Governance Review 2014”⁴¹)

<US and France>

Although in many countries the governmental bodies establish corporate governance code, a private organization named “Business Roundtable” (BRT), which is composed of individual members of CEOs from leading US companies, has developed the corporate governance principles⁴² in the United States. The BRT’s corporate governance principles presents best practice guidance to the US listed companies.

In France, there are two corporate governance codes for listed companies, one for large enterprises and the other for small and medium-sized enterprises. Each code was developed by separate private associations, AFEP/MEDEF and MiddleNext. In practice, even medium-sized companies voluntarily apply the code for large companies to aim for the high quality governance in many cases.

3.4.4. Summary of comparative research

3.4.4.1. Comparison among sample Asian countries

Following table summarizes the four Asian country comparison⁴³:

⁴¹ Grant Thornton: Corporate Governance Review 2014

http://www.grant-thornton.co.uk/Global/Publication_pdf/Corporate-Governance-Review-2014.pdf

⁴² http://businessroundtable.org/sites/default/files/BRT_Principles_of_Corporate_Governance_-2012_Formatted_Final.pdf

⁴³ Ref: OECD Corporate Governance Factbook 2015, <http://www.oecd.org/daf/ca/Corporate-Governance-Factbook.pdf>

Table 3-8: Similarities and differences

	Singapore	Malaysia	Indonesia	Japan (*1)
Name of the Code in English	Code of Corporate Governance	Malaysian Code on Corporate Governance	Indonesia's Code of Good Corporate Governance	Japan's Corporate Governance Code
"Comply or Explain" approach	Yes	Yes	No	Yes
Disclosure in the annual report	Required	Required	Required	Required (*2)
Legal framework for disclosure	SGX ⁴⁴ Listing Manual	Bursa Malaysia Listing Requirements	Rules (OJK ⁴⁵)	Listing rules of relevant Stock Exchange(s)
Developing Body	Corporate Governance Committee (CGC)	Securities Commission Malaysia (SC)	National Committee on Governance Policy Indonesia (NCG)	Japan Financial Service Agency (JFSA) and Tokyo Stock Exchange (TSE)
Scope of application	Listed companies	All companies. Mandate for listed companies	All companies, Mandate for listed companies	All domestic listed companies
Regulating Authority	MAS ⁴⁶	SC ⁴⁷	OJK	Stock Exchanges
Initial Publication	2001	2000	2000	2015
Latest Revision	2012	2012	2006	-

(*1) For detailed information on Japan, please refer to the section 3.4.2.4.

(*2) Required under Financial Instruments and Exchange Act. "CG Report" should be submitted to relevant Stock Exchange(s), separately

<Monitoring, review and award system>

	Singapore	Malaysia	Indonesia	Japan
Review report/Monitoring system	Exist	Exist	Not exist	Exist ⁴⁸
Awards for disclosures	Exist	Exist	Exist	Exist
Monitoring implementing agency	Monetary Authority of Singapore (MAS)	Securities Commission SC)	Otoritas Jasa Keuangan	FSA TSE
OECD member countries	No	No	Yes	Yes

⁴⁴ SGX : Singapore Exchange

⁴⁵ OJK : Otoritas Fasa Keuangan (Financial Services Authority Indonesia)

⁴⁶ MAS: Monetary Authority of Singapore

⁴⁷ SC: Securities Commission Malaysia

⁴⁸ Preliminary report has been issued as of January 20, 2016:

<http://www.jpx.co.jp/english/equities/listing/cg/tvdivq000008jdy-att/20160120-2.pdf>

Information is available in OECD Factbook ⁴⁹	Yes	No	Yes	Yes
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<Stock Exchange Information>

	Singapore	Malaysia	Indonesia	Japan
Number of Listed Domestic Companies ⁵⁰	484	895	506	3,458
Market capitalization ⁵¹ (USD billions)	752	459	422	4,377
Daily average volume (Million Shares)	1,603 ⁵²	2,086 ⁵³	5,484 ⁵⁴	2,911 ⁵⁵
Market turnover value for year (USD billions)	203 (SGD279B)	119 (MYR 512B)	122 (IDR1,453,392B)	6,165 (JPY748,567B)

(Source: PwC Aarata LLC)

3.4.5. Conclusion – Comparative research

Based on the research, following points should be considered when developing the draft CGC for SCIC's portfolio companies:

- The draft CGC should be based on the most recent 2015 OECD Principles that was agreed by the G20.
- Each country has modified the OECD Principles so that it best fits into each country's needs and objectives for developing the corporate governance code. Existing legal framework and specific circumstances should be taken into account.
- To modify the OECD Principles, there would be extensive discussions using the varieties of forms (inquiries, outreach events, exposure draft, working group, council meetings and so on) with relevant parties, including investors, security analysts, listed companies, and security regulators.
- The draft CGC should adopt the “comply-or-explain” approach (under which it eventually requires companies to explain the reasons for non-compliance) so that it becomes an effective tool to enhance company's disclosures and communication with stakeholders. In Japan, prior to the introduction of the Japan CGC, the Principles of Corporate Governance for Listed

⁴⁹ OECD Corporate Governance Factbook 2015

⁵⁰ Listed domestic companies at the end of 2014: World Bank: <http://data.worldbank.org/indicator/CM.MKT.LDOM.NO>

⁵¹ Market Capitalization at the end of 2014: World Bank: <http://data.worldbank.org/indicator/CM.MKT.LCAP.CD>

⁵² Daily average volume and Market turnover value in Singapore for 2015: SGX: http://www.sgx.com/wps/portal/sgxweb/home/marketinfo/market_statistics

⁵³ Daily average volume (the average of the latest 20 days as of 1/27/2016) and Market turnover value for 2015 in Malaysia: Bursa Malaysia:

http://www.bursamalaysia.com/misc/system/equity_market_statistics/securities_equities_keyindicators.pdf

⁵⁴ Daily average volume and Market turnover value in Indonesia for 2014: Indonesia Stock Exchange: http://www.idx.co.id/Portals/0/StaticData/Publication/Statistic/Yearly/IDX_Annually_2014.pdf

⁵⁵ Daily average volume and Market turnover value in Japan for 2015: JPX: <http://www.jpx.co.jp/markets/statistics-equities/misc/>

Companies⁵⁶ was introduced in May 2004 without “comply-or-explain” approach, however, it did not sufficiently provide necessary information for investors.

- Comply-or-explain approach could be also beneficial because it provide flexibility in applying the code under the different circumstances. It is often said that no single set of codes fit all companies (e.g. large vs. small in size, financial vs. non-financial industry sector, company structure).
- The draft CGC should adopt a “principles based” approach, rather than a rule-based approach so that it could provide flexibility in applying the CGC. However, sufficient guidelines and trainings should be provided under the principles-based approach.
- The CGC should be periodically reviewed and modified if necessary as time passes. Each of the four countries that adopted the code has a formal process in place to review the adequacy of the code in subsequent years. The CGC is sometimes referred to as “a living document” that needs periodic refreshments.
- To revise the CGC on a timely basis, the application of the code and companies disclosure should be monitored and reviewed by a certain authority.
- Generally, the CGC is only applied by listed companies. However, companies who are aiming to be listed or who has “public” nature should also apply the CGC.
- When developing the draft CGC, existing comparative analyses of other countries, such as “ASEN Corporate Governance Scorecard – Country Reports and Assessments 2013 – 2014” and “Report on the Observance of Standards and Codes (ROSC) – Corporate Governance Country Assessment – Vietnam, August 2013⁵⁷” should be referred to, to further understand the international standards of corporate governance.

3.5. Draft Corporate Governance Code and its Application Guidance

3.5.1. Initial draft (November 16, 2015) – Preliminary plan and outline

Based on the inputs from meetings with SCIC task force members, gap analysis and comparative research, following contents are considered to be part of the draft corporate governance code. Also, the preliminary plan and outline of the initial draft CGC were revised through discussion with task force members, so they are not the same as the final draft CGC.

<Preliminary plan by consultants>

- The draft CGC will focus on non-public “joint stock company” (JSC) form of the SCIC portfolio companies although there are some other forms, such as limited liability companies. The “non-public” means those companies not subject to Hanoi or Ho Chi Minh stock exchange rules and regulations or companies not subject to corporate governance related disclosure requirements by Law on Securities (LOS).
 - Companies other than JSC are not intentionally eliminated from the scope of draft CGC. Instead, the term, such as board of directors (or board of management), should be replaced by other defined terms under the Law on Enterprises (LOE) depending on the structure of each portfolio company.

⁵⁶ Tokyo Stock Exchange issued the “Principles of Corporate Governance for Listed Companies,” (May 2004) is available at: <http://www.jpx.co.jp/english/equities/listing/cg/tvdivq000008j6d-att/principles.pdf> It was once revised in December 2009.

⁵⁷ The World Bank, “Report on the Observance of Standards and Codes (ROSC) – Corporate Governance Country Assessment – Vietnam” (August 2013), which is available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/20587/887590ROSC0P130x385228B000UO0900ACS.pdf?sequence=1&isAllowed=y>

- Public companies in Vietnam are required to apply the corporate governance related regulations prescribed by stock exchanges, LOS, LOE and other regulations and subject to higher level of disclosure requirements. Therefore, non-public companies should not go beyond the levels required to the public companies in Vietnam.
- The draft CGC should be applicable to all JSCs regardless of industry sectors (as agreed at the meeting with SCIC on October 15, 2015)
- The principles part of draft VG 2015 becomes a part of the CGC, in Preface and in Section 5 of the draft CGC. (Later, it was agreed with the SCIC’s task force members that the principles part would be separated from the CGC for the SCIC’s portfolio companies and be disclosed independently on their website.)
- The draft CGC will have three-tier structure: General principles (all portfolio companies are subject to comply), Principles (large portfolio companies are subject to comply), and Recommendations (which is preferable to comply). The draft CGC will define the “large” companies based on annual turn-over, total assets, the number of employees, and other metrics. Public companies could be considered as “large” regardless of the size of metrics. (Later, it was agreed with the SCIC’s task force members that the definition of the “large” companies should be replaced with the four classifications used by the SCIC to categorize their portfolio companies, such as A1, A2, B1, and B2.)
- A reporting format will be included in the application guidance. A corporate governance report will be prepared by the portfolio companies and submitted to its shareholders including SCIC at least annually. The corporate governance report could be a part of proxy statement for the annual general shareholders meeting.
- The draft CGC will apply “comply or explain” approach. No penalty on non-compliance if a company properly “explain” the reasons because the CGC is considered to be not a “hard-law” but a “soft-law”. The level of governance is measured by the adequacy of explanation or in other words, quality of explanation, rather than the compliance percentage. (Later, it was agreed with the SCIC’s task force members that the term “apply” rather than “comply” would be adopted because the “comply” could be considered as compliance under a “hard-law”.)

<Preliminary outline of the draft CGC>

- Preface
 - a. Background
 - b. SCIC’s roles and responsibilities as a shareholder of portfolio companies with reference to Section 5
 - c. What is “Comply or explain” approach?
 - d. Portfolio companies’ fiduciary responsibility/stewardship
 - e. Public interest entities such as banks and other financial institutions would need additional guidance
 - f. Application guidance
 - g. Future revision of the CGC
- Section 1: The rights and equitable treatment of shareholders
 - a. Equitable treatment of shareholders – minority shareholders, foreign shareholders, enhancement of the environment of exercising voting rights, equitable treatment from the foreign investors’ point of view (e.g. shareholder proposal)

- b. Agenda – Board of directors election, senior management election, compensation. A provision for “say-on-pay” will not be included in the initial draft CGC.
- c. Constructive dialogue with institutional shareholders, strategic shareholders
- d. Related-party transactions – conflict of interest
- e. Operation of annual shareholders’ meeting
- Section 2: Role of stakeholders in corporate governance
 - a. Relationship with stakeholders other than shareholders. Stakeholders may include, customers, suppliers, creditors, employees, society in general and others)
 - b. Transparent relationships with institutional investors (other than shareholders), strategic investors, proxy advisors, analysts, rating agencies and others. Disclosure of conflict of interest.
 - c. Establishment of Code of conduct for officers and employees and its effective implementation
 - d. ESG matters
 - e. Whistleblowing (direct hotline system)
 - f. Separation of regulating / shareholding
- Section 3: Disclosure and transparency
 - a. Adequate disclosure of financial information, audit of financial statements by independent external auditors
 - b. Adequate disclosure of non-financial information (strategy, risk management, governance, social and environmental matters)
 - c. Mid- to long-term strategies to increase corporate value
 - d. Fair disclosure
- Section 4: Responsibilities of the Board
 - a. Roles and responsibilities of the Board
 - b. Structure of the Board, Board diversity
 - c. Independent non-executive directors
 - d. Special committees
 - e. Executive directors and senior management (CEO and CFO)
 - f. Conflict of interest
 - g. Stewardship/fiduciary responsibility
 - h. Board evaluation
 - i. Training
- Section 5: SCIC’s roles as a shareholder (CGC for SCIC)
 - a. Equal treatment with other private companies
 - b. Principles part of the draft 2015 voting guidelines
 - c. Contents from UK and Japanese Stewardship Code and relating guidance

Following chart presents relationship between the OECD Principles and initial draft CGC.

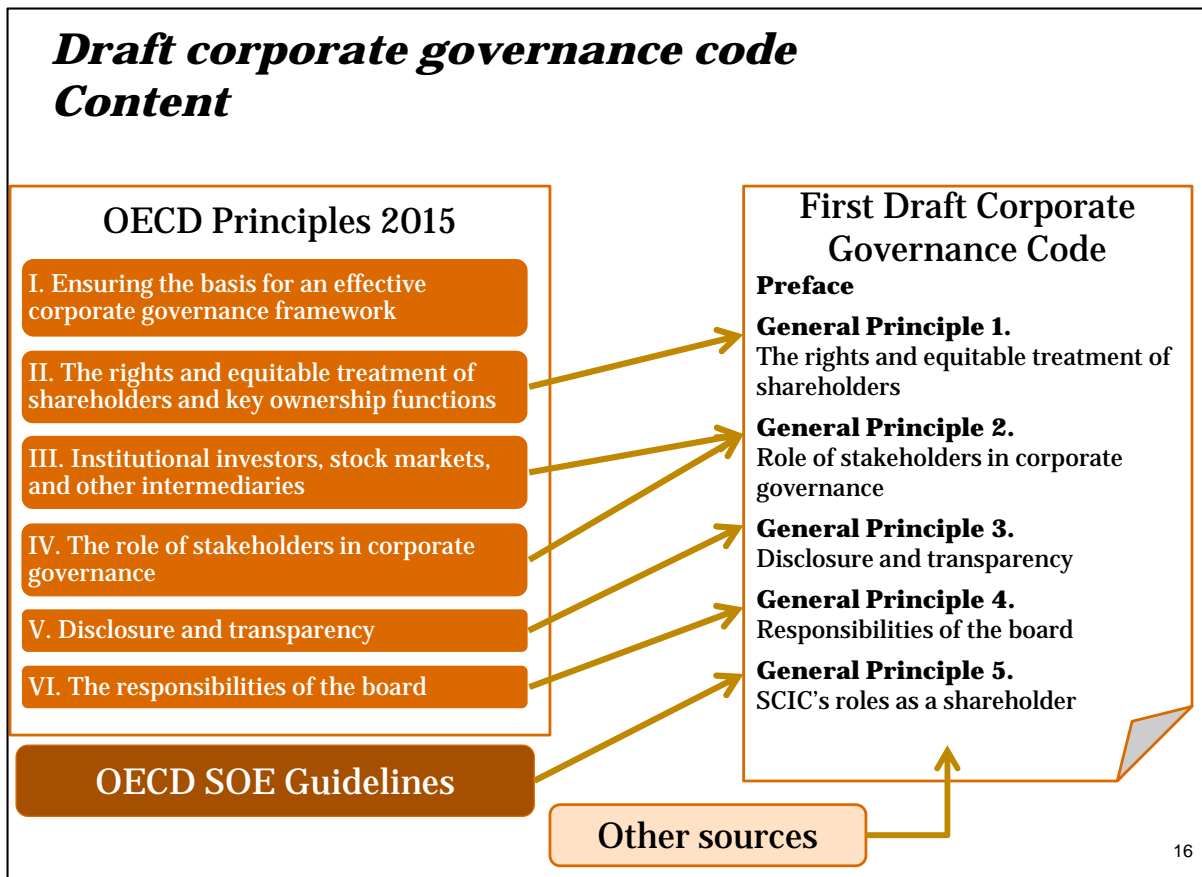


Chart 3-9: Relationship between the OECD Principles and initial draft CGC

(Source: PwC Aarata LLC)

Other sources in developing the initial draft CGC include the following:

Table 3-10: Reference materials

Name of Reference Document	Purpose
Japan's Stewardship Code ⁵⁸	To refer to institutional investors' point of view
Japan Tokyo Stock Exchanges, "Guidelines for corporate governance report" (Japanese language only)	To refer to the format of corporate governance report
UK Corporate Governance Code (September 2014) ⁵⁹	To incorporate principles and provisions relating to directors' roles and responsibilities under the single board model
German Corporate Governance Code (May 2015) ⁶⁰	To incorporate principles relating to officers and board members duties under the dual board model

⁵⁸ <http://www.fsa.go.jp/en/refer/councils/stewardship/20140407/01.pdf>

⁵⁹ <https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf>

⁶⁰ http://www.dcgk.de/files/dcgk/usercontent/en/download/code/2015-05-05_Corporate_Governance_Code_EN.pdf

Business Roundtable, “2012 Principles of Corporate Governance” ⁶¹	To understand the US corporate executives’ point of view
International Finance Corporation, “Corporate Governance Manual, 2 nd edition” (October 2010) ⁶²	To understand the past project for the Vietnam corporate governance by international organization
The World Bank, “Report on the Observance of Standards and Codes (ROSC) Corporate Governance Country Assessment – Vietnam” (August 2013) ⁶³	To understand the weaknesses of current corporate governance regulations and framework in Vietnam identified by the international organization.

3.5.2. Comments by the SCIC task force members

A new SCIC task force members for CGC was appointed on November 4, 2015 and several meetings among these task force members, JICA experts and consultants have taken place since then. Major comments on the initial draft CGC (December 4, 2015 version) from task force members are summarized below.

- Terminologies both in Vietnamese and in English should be in consistent with the ones used in the VG 2015.
- The provision for directors and officers liability (D&O) insurance should be added.
- Additional provisions for internal controls and risk management should be considered as well as establishing the internal control department within a company.
- Enhancement of the board supporting function, similar to the company secretary function in the UK, should be considered.
- Early engagement with independent external auditors should be added.

In response to the above, the revised draft dated December 8, 2015 reflects all these comments. The revised draft CGC was translated into Vietnamese and circulated among SCIC department heads and other branch offices for their comments.

Further comments and recommendations from SCIC department heads were discussed on December 25, 2015 among the SCIC task force members, JICA experts and consultants. Most of the comments were needs for further clarifications and additional definitions of key concepts and terms within the draft CGC.

In addition, a major changes to the structure of the revised draft CGC dated December 8, 2015 was discussed at the meeting on December 25, 2015. The expected structure of the draft CGC would be:

- (1) First, current legal requirements (e.g. requirements in the LOE) in Vietnam should be explained briefly. These legal requirements in the current draft CGC are not included in the body of the CGC but in the footnote.
- (2) Second, next to the legal requirement, the CGC should explain each principle in terms of internationally recognized standards such as OECD Principles, and IFC Corporate

⁶¹ http://businessroundtable.org/sites/default/files/BRT_Principles_of_Corporate_Governance_-2012_Formatted_Final.pdf

⁶² The document is available at:

<http://www.ifc.org/wps/wcm/connect/8a40ee804a81f904ad3dfdf998895a12/CG+manual+for+Vietnam-second+edition-Eng.pdf?MOD=AJPERES>

⁶³ The document is available at:

<https://openknowledge.worldbank.org/bitstream/handle/10986/20587/887590ROSC0P130x385228B00OU0900ACS.pdf?sequence=1&isAllowed=y>

Governance Manuals with focus on disclosure requirements and board of directors' roles and responsibilities. Explanations why these principles are useful should be added.

- (3) Third, following the principles, explain higher level of corporate governance best practices and recommendations in terms of internationally recognized standards. This part of the CGC would be a future goal for the portfolio companies.

Given the international perception that the CGC in general is a “principles-based” and high-level standard, rather than “rules-based” and minimum-level requirements, the initial draft CGC does not define in detail the key terms and concepts with preliminary thought that each company should have the flexibility to define the concepts and how to apply each principle within the CGC. However, to achieve the ultimate goal of the Umbrella Project, a step by step approach might be more effective and efficient.

In addition, the best practices (recommendations) for the large companies were provided, the less mandatory measures for the small companies were taken, and the explanations of the new concept, such as “comply-or-explain”, were added.

After the above process, the pilot testing was performed with the revised draft CGC and application guidance based on discussion in December 25, 2015 with the SCIC's task force members and the SCIC's portfolio companies' comments were collected.

3.5.3. How to use the final CGC

<How to use the final CGC>

The draft CGC is aimed to be applied to the portfolio companies of SCIC; there has been a question who actually uses or applies the final CGC and how. Although certain application guidance (e.g. smaller company exemptions) were included in the Preface of the draft CGC, the separate draft application guidance was not provided for SCIC in detail as of December, 2015.

The SCIC's portfolio companies vary in size, company structure, management style, and other aspects. Most importantly, as the level of SCIC's influence or control over each portfolio company differs significantly, SCIC would not be able to mandate the application of the final CGC to its portfolio companies. Given the situations, the SCIC task force members suggested the following possible usages at the meeting on December 25, 2015:

- a. Some of the SCIC portfolio companies would apply the final CGC on voluntary base as originally expected and disclose the information required by the CGC.
- b. SCIC portfolio manager would use the final CGC as an assessment tool to evaluate the level of governance of each portfolio company under his/her assigned area.
- c. When SCIC staff is a board member of portfolio company, the staff would use the final CGC as a reference material to guide himself/herself to act as a good corporate director.

<How to measure the outcome>

The corresponding measures for the level of achievement of each usage would be as follows:

- a. Used or applied by the SCIC portfolio companies

The level of achievement would be measured by:

The number (or percentage) of SCIC portfolio companies who apply the CGC and disclose the requirement information. The number could be a cumulative one.

- b. Used by the SCIC portfolio managers

The level of achievement would be measured by:

The number (or percentage) of “corporate governance checklist” (“Checklist”) (name of the document may be different) prepared by the SCIC portfolio managers with reference to the

final CGC. The Checklist is expected to prepare for one for each portfolio company. The number could be a cumulative one.

- c. Used by the SCIC staff who is a board of director of portfolio company

The number (or percentage) of “corporate governance checklist” (“Checklist”) prepared by the SCIC staff who is the board member of portfolio company. It would be a self-assessment of his/her own performance as a corporate director.

Because the SCIC’s investment portfolio changes over time, above measures (a. ~ c.) could be the cumulative number of companies since initial adoption of the CGC or a ratio of portfolio companies that adopt the CGC to the total number of portfolio companies. Note that the above measures do not include the one for the Section 5 of the draft CGC.

<Timing of outcome measurement>

The timing of the above mentioned measurement could be at least once a year after the general shareholders’ meeting where new directors are elected, similar to the way being applied in Japan. Alternatively, the corporate governance statement or report could be attached to the annual proxy statement, similar to the way in the U.S. where each shareholder could refer to the corporate governance statement or report when voting decisions are made.

In Vietnam where most general shareholders’ meetings take place in April (i.e. FY2016 shareholders meeting will be taking place in April 2017) when the first measurement could start at.

The above topic was continuously discussed with the SCIC task force members after January, 2016 and the final suggestion was presented in section 6 of this Project Completion Report.

3.5.4. Workshops

According to the original Work Plan dated November 30, 2015, an initial workshop for component 1-1 was planned to be held in the period between October and December 2015. The expected participants are the SCIC management, department heads and task force members with objectives to obtain their initial expectations to the CGC project and other comments that should be considered in developing the initial draft CGC.

The second workshop was originally planned to be held in the period between December 2015 and January 2016. The expected participants are the same as the initial workshop and expected objectives would be explanation of the draft CGC and discussions to obtain feedback from the relevant SCIC management and staff.

However, neither workshops have been held during the period up to August 2016 mainly due to the following reasons:

- (1) For the initial workshop, discussions without a draft CGC for SCIC portfolio companies would be difficult even the SCIC management and staff are both well aware of the OECD Principles and Guidelines that are the starting points. Because each person has quite a different idea of what is corporate governance, it is essential to prepare the draft CGC first to start the discussions.
- (2) At the meeting on December 25, 2015, the major changes to the draft CGC was discussed and agreed. The revised CGC and its application guidance in Vietnamese should be circulated among workshop participants in advance.

Because of the above reasons, it was agreed with the SCIC that the workshop should be held after the revised CGC would be fully discussed sometime in the later time. The comments necessary to develop the initial draft CGC have alternatively obtained through the task force members by meeting with them. Therefore, the initial workshop was replaced by the meetings with SCIC task force

members and department heads and the pilot testing was performed to assess the effectiveness of the draft CGC. Consequently, the Work Plan was revised as of April 20, 2016 (Appendix 1).

3.6. Training in Japan

3.6.1. Training

The training in Japan was held from March 10 to 16, 2016 and the theme was that (1) Understanding the meaning and purpose of the code, (2) Investors expectation for the listed companies governance and (3) Investors' decision making on new investment/continuing investment.

The trainees were 10 staffs from SCIC, who were directly responsible for the portfolio management and had involved in the preparation of the code from the previous year, and 3 staffs from Vietnam Ministry of Finance.

The instructors were a mainly from Japanese Ministry of finance, Tokyo Stock Exchange and Institutional investors. Japanese Ministry of finance handled the part of understanding the meaning and purpose of the code, and Tokyo Stock Exchange and Institutional investors handled the part of investors' expectation and decision making on new investment/continuing investment.

Each lesson had 90 minutes with the composition of 60 minutes lecture and 30 minutes Q&A section to be participated by each trainee.

3.6.2. Schedule

The following table presents the training schedule:

Table 3-11: Training in Japan - Schedule

Date and Time		Topic	Lecturer	
10 (Thu) Mar	9:30	10:30	Briefing (1)	JICA
	10:45	12:15	Orientation (1)	PwC Consultant/JERI
	12:30	13:30	Lunch	
	14:00	15:30	Objective of CGC (2)	Financial Service Agency (FSA) Corporate Accounting and Disclosure Division
11 (Fri) Mar	10:00	11:30	Investors' expectation (3)	Institutional Investor
	12:30	13:30	Lunch	
	14:00	15:30	Objective of CGC (4)	Governance Expert
14 (Mon) Mar	10:00	11:30	Investors' expectation (5)	Credit Rating Agency
	11:45	13:15	Lunch	
	13:30	15:00	Investors' expectation (6)	Institutional investor
	15:30	17:00	Objective of CGC (7)	Governance Expert
15 (Tue) Mar	10:30	11:30	Overview of Tokyo Stock Exchange Arrow (8)	Tokyo Stock Exchange(TSE)
	11:45	12:45	Lunch	
	12:45	13:00	Board member address and make a gift of tribute (9)	TSE
	13:00	14:30	Objective of CGC	TSE
	14:30	16:00	Expectation for listed companies (10)	TSE
16 (Wed) Mar	10:00	11:30	Risk management of Fund (11)	Investment Company

	11:45	13:15	Lunch	
	13:30	15:00	KRI (12)	Institutional Investor
	15:15	15:30	Closing	PwC Consultant/JERI
	15:30	16:15	Training completion certificate	JICA

The trainees from Vietnam arrived at Tokyo on March 9, 2016 and left for Vietnam on March 17, 2016.

Table 3-12: Participant List – SCIC

	Name	Department	Title
1	Cao Duy Ha	Financial Investment Division	Deputy director
2	Le Ba Nam Linh	Portfolio Management Department 1	
3	Le Thanh Tuan	Portfolio Management Department 4	Director
4	Tong Van Toan	Human resource Department	Director
5	Tran Minh Duc	Investment Department 3	
6	Tran Trung Kien	Portfolio Management Department 4	
7	Vu Hong Tuan	Management Department	Director
8	Nguyen Anh Tam	Partnership Development and PR Division, Executive Office	
9	Nguyen Thi Kim Anh	Investment Department	Deputy director
10	Nguyen Thi Tham	Risk Management Department	Director

Table 3-13: Participant List - Ministry of Finance

	Name	Department	Title
1	Nguyen Linh Tuan	Corporation Financial Department	Officer
2	Phan Thi Thanh Loan	Corporation Financial Department	Officer
3	Nguyen Thi Thanh Huyen	Corporation Financial Department	Officer

3.6.3. Training sessions

(1) Briefing and orientation

- Paper works from JICA
- Presentation of each component of the Project, CGC, VG and KRI by JERI and PwC Consultants, including overview of the training objectives.



(Orientation on March 10,, 2016 at PwC Aarata LLC office)

(2) 14:00-15:30, Thursday, March 10, 2016 by FSA (Corporate Accounting and Disclosure Division)

Topic	” Development of Japan’s Corporate Governance Code”
Summary	<ul style="list-style-type: none"> ● The governance stipulated in the Companies Act of Japan were explained. There are three company systems, which are “Company with Board of Company Auditors”, “Company with Audit and Supervisory Committee” and “Company with Nominating Committee, etc.” in the Companies Act. ● The characteristics of CGC and Stewardship Code (SSC) were explained as below; <ul style="list-style-type: none"> - In CGC, corporate governance is the framework of decision making through considering not only shareholders but also customer, employee and the regional society. - The background of the implementation of CGC and SSC in Japan were explained. CGC and Japanese version of Stewardship code apply “Principles-based approach” and “Comply or Explain”. - Since the initial application of June 1, 2015, 2,485 listed companies out of 3500 listed companies disclosed the corporate governance report by the end of the year. It is introduced that most of company made “Explain” on the self-assessment of board of directors, selecting more than 2 independent external directors, involvement of independent external directors in terms of nomination and remuneration and linked remuneration by mid- to long-term business performance. - It is emphasized that, for responding to the CGC, complying the formal governance structure is not important but the substance is more important. It needs to keep following up.
Q&A	<ul style="list-style-type: none"> ● Q: Whether the number of the board of director and audit and the supervisory board are prescribed or/and determined. A: The number of each board are not prescribed and determined. The average board of director have 8 members and the audit and supervisory board have 3-4 members.

	<ul style="list-style-type: none"> ● Q: Whether the audit committee could appropriately perform an audit even it is a part of the board of directors. A: The audit committee audits the execution of the directors individually and collectively. ● Q: Would you clarify the scope of CGC allocation in Japan? A: CGC regulation applies to all listed companies in Japan.
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(3) 10:00-11:30, Friday, March 11, 2016 by Institutional Investor

Topic	“Efforts on Corporate Value Creation in Japan”
Summary	There was an explanation regarding what is the “Abenomics”? Growth strategy is equal to an evolution of productivity to create corporation value. From “PLAN” (CGC/SSC, Ito Report) to “Do-Check-Action” (Engagement). And it is explained that the investor’s concerns need to be removed. The importance of engagement is emphasized from investor’s point of view.
Q&A	<ul style="list-style-type: none"> ● Q: What is a basis for engagement? A: It is the “SSC principle 4”.

(4) 14:00-15:30, Friday, March 11, 2016 by Governance Expert

Topic	“Corporate Governance Code”
Summary	<ul style="list-style-type: none"> ● The origin of Japan’s CGC was explained. According to the “Ito Report “, Japanese company’s ROE is typically low because of low profit margin. Japanese company needs more aggressive governance so CGC has been implemented to encourage the aggressive governance. On the contrary, CGCs of Europe were prepared to prevent intention of excessive short-term profit after the incident of bankruptcy of Lehman Brothers. Backgrounds of the implementation are different between Japan and Europe, however, it seems that these codes are converging to similar code. ● Characteristics of the Japan’s CGC was explained. When compared with the OECD code, “Dialogue with shareholders” is a point of the Japan’s CGC. ● A certain company with nominating committee which is recognized as an advanced governance structure failed its management because the governance didn’t work substantially. It is necessary to design the structure of direct reporting line against not only for the top of the management but also external directors and auditors.
Q&A	<ul style="list-style-type: none"> ● Q: How is the direct reporting line to external independent directors other than top management established by the internal audit department? A: Learning form past incidents, some blue-chip Japanese companies have started implementing the direct reporting line to external directors. It is because the internal audit under the support by external directors had a positive impact on the company, and CEO of such companies would like to get a cooperation either internal or external director for accomplishment of his/her responsibilities.

(5) 10:00-11:30, Monday, March 14, 2016 by Credit Rating Agency

Topic	“Investment community’s expectation for the listed companies based on the credit rating agency’s responsibilities in the capital markets”
Summary	<ul style="list-style-type: none"> ● Credit rating agency itself, definition of credit rating, feature of credit rating and example of credit rate’s utilization were explained. The credit rating is a forward looking opinion not but investment value itself ● Reliability of information and “Engagement” were explained. To make a credit rating, obtaining relevant information is essential and company’s disclosure is very important. In terms of obtaining of reliable information, “Engagement” (Dialogue with shareholders) is critical for a credit rating agency.
Q&A	<ul style="list-style-type: none"> ● Q: There is no credit rating agency in Vietnam currently. But if credit rating agencies would be established, how the credit rating agency gets the credibility from a market? A: A credit agency needs to apply credit rating methodology using highly reliable information. It is important to obtain audited financial statements and a business strategy from management.

(6) 13:00-15:00, Monday, March 14, 2016 by Institutional investor

Topic	“Corporate Governance Code”
Summary	<ul style="list-style-type: none"> ● Contents of CGC from the point of view of institutional investors were explained. Chief Corporate Governance Officer (CCGO) is responsible for exercising voting rights and “Engagement” with a company. As for “Engagement” in Japan, an institutional investors acts as a consultant and build relationship with the companies so that opinions from shareholders would be acceptable for the companies. ● Due to the implementation of CGC, company’s management is expected to be changed. Board of directors is required to supervise directors effectively, and its role is transferring from own execution to monitor and assess the director’s execution. Remuneration of board member should be linked to an enterprise’s mid- to long-term performance and potential risk.
Q&A	<ul style="list-style-type: none"> ● Q: How does an enterprise link the remuneration of external director to mid- to long-term profit while the term of board member is 1 to 2 years? A: With a failure example of targeting EPS, it was explained that ROE is more appropriate for Japanese companies to set as a target link. And as the other approach, directors’ fee are paid to them after finishing the term of external directors.



(Training at PwC Aarata LLC office)

(7) 15:30-17:00, Monday, March 14, 2016 by Governance expert

Topic	“Corporate Governance”
Summary	<ul style="list-style-type: none"> ● CG tends to be discussed how to prevent a fraud, however, it was explained from the point of view of experienced external director that implementation of CG is important when a company faces difficult aspect to make an aggressive decision-making for the company’s sustainable growth and maximizing the worth of company. ● A director needs competency and minimum required skills such as bookkeeping and corporate finance. In addition, it is preferable a person who has experience of management, knowledge of organization dynamics and human behavior in relation to incentives, ideally experience of top management.
Q&A	<ul style="list-style-type: none"> ● Q: Although the Vietnamese laws requires more than two external independent directors, they do not work as expected. They tend to think of their own benefit and disregard the result of the company they work for. In such situation, should it be regulated by laws? A: External independent directors are definitely required for companies, and for a certain size of companies, more than two external independent directors are necessary. For the situation in Vietnam, it is considered that external independent directors need to be motivated by something such as remuneration or reputation.

(8) 10:30-11:30, Tuesday, March 15, 2016 by TSE

A half-day tour of TSE Arrows and watching video program of JPX history.

(9) 13:00-14:30, Tuesday, March 15, 2016 by Tokyo Stock Exchange

Topic	“Purpose of Corporate Governance Code”
Summary	<ul style="list-style-type: none"> ● From the point of view of managing listed companies, TSE explained the efforts on enhancement of CG. To support the improvement of the effectiveness they introduced an independent officer’s handbook and e-learning for a listed company.
Q&A	<ul style="list-style-type: none"> ● Q: whether the guidance for external directors is included in an independent officer’s handbook? Trainees are interested in the role and practice of external directors. A: It includes the guidance for external directors and English version of the handbooks were presented to trainees. ● Q: Whether “Corporate Governance Reports” which are submitted by companies are available to brows or not. A: They available to brows on the TSE web site. Some of Japanese companies disclose in English.

(10) 14:30-16:00, Tuesday, March 15, 2016 by TSE

Topic	“Expectation for a listed company- CGC”
Summary	<ul style="list-style-type: none"> ● Using 1st corporate governance reports which were submitted by the end of December 2015, a specific example of “Explain” was described.
Q&A	<ul style="list-style-type: none"> ● Q: Whether companies are required the specific due date for decreasing cross-shareholding stocks in their disclosure. A: The specific due date for decreasing cross-shareholding is not defined. The cross-shareholding itself is not prohibited and the company is able to hold these stocks under a reasonable rationale.

(11) 10:00-11:30, Wednesday, March 16, 2016 by Investment company (European hedge fund)

Topic	“Risk Management of Bond Investment”
Summary	<ul style="list-style-type: none"> ● Dual layer-risk management which means monitoring by front office and risk management department is introduced. Front office manages the risk when they make an investment and risk management department monitor the risk independently. Risk management concept which have the hard-limit and the soft-limit is also introduced. ● VaR, degree of investment concentration, liquidity, gross exposure, CS01 (Credit risk-Credit Spread Widening 01), stress test and scenario analysis were introduced as KRI. In addition, risk management method is explained with specific examples.
Q&A	<ul style="list-style-type: none"> ● Q: There was a request to introduce experienced failures of risk management. A: Risk management and appropriate level of investment are important as a result of failure analysis. Specifically, high and low liquidity products are managed differently so a company needs to make a controllable policy for those investments.

(12) 13:30-15:00, Wednesday, March 16, 2016 by Institutional investor (Foreign investment banking)

Topic	“The difference of investment method and risk management between a national policy investment company and a public securities company.”
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Summary	<ul style="list-style-type: none"> ● Decentralized investment method is important for the national policy investment company and skill is important for the public securities company. Specifically, the national policy investment company is necessary to invest in a high risk investment to follow the political policy and therefore enterprise analysis, setting limit and decentralized investment would be important. On the other hand, the public company clearly identifies the risk and reward and derivatives are held for risk hedge perspective. ● Transition from paper-base to IT base risk management The public company manage the risks using IT and analytical report and approval process are systemized. Not only investment in system development and management workforce but also developing the company's culture are necessary for IT base risk management.
Q&A	<ul style="list-style-type: none"> ● Q: There is no derivative market in Vietnam, however, the situation may be changed in the future. At that time, which kind of products would be appropriate in the Vietnam derivatives market? A: It was explained using Japanese circumstances as a reference example that the background of development in Japanese derivative market through the transaction of future bond, future currency, interest swap, currency swap. Government affiliate investment company doesn't invest in high risk derivative products to avoid a claim and mainly holds low risk derivatives such as interest rate swap and currency swap. When the company privatizes, more high risk investment such as exotic derivative transactions are increased. When an investor invests in Vietnamese company, as an example, CDS (Credit Default Swap) is used for a risk hedge purpose.

3.6.4. Feedback from trainee

At the closing session of the training program in Japan, JICA asked all trainees the most important things they learned when they try to implement the enhanced corporate governance system in Vietnam and what the potential challenges for the SCIC's portfolio companies would have.

In response to the questions, the following comments were presented by the trainees:

<Trainees from CGC task force members>

- Engagement - A concept of "engagement" is important, given the cultural characteristics of Vietnam. Large portfolio companies could implement the concept of "engagement," however, the scope of engagement is limited to the discussions of the proposed resolutions that have been rejected at the general shareholders' meeting. SCIC as a large shareholder, would cooperate with the portfolio companies' board members and encourage them to have periodic "engagement."
- Information disclosure - Current disclosure of Vietnamese companies are limited to requirements by laws and regulations, however, additional disclosure is necessary. As a large shareholder, SCIC would like to suggest portfolio companies to provide disclosures in English.
- Board composition - Typically in Vietnam a chairman is concurrently responsible as CEO and it is hard to separate two functions by different people. In addition, nomination of external independent director is important but still difficult in Vietnam. If SCIC recommends a particular candidate for external independent director, people might think the candidate would work only for the benefits of SCIC.
- Comply or Explain - The concept of "comply or explain" should be well known to Vietnamese company.

<Trainees from KRI task force members>

- Risk management - Terminology of risk management is still new in Vietnam. SCIC doesn't have an IT risk management system. Implementation of both soft and hard system will take time and cost but we should start from the implementation of methodology such as KRI.
- Stakeholders' right - The concept of stakeholder is quite new in Vietnam and we would like to introduce it in Vietnam.
- Training - We believe that training for portfolio companies leaders (e.g. CEO) will be beneficial because it provide them useful information and it provide us an opportunity to obtain their views on various matters.
- Business strategy from mid- to long-term point of view – Focusing on mid- to long-term (not short-term) is important. In Vietnam, quite a few companies focus on a single-year profitability.
- Other – Substance over formality is important. To enhance corporate governance, not a system but “people” plays an important role.

3.6.5. Closing

At the closing on March 16, 2016, the JICA officer presented a training completion certificate to each trainee and all programs and events in Japan were completed.



(At the closing on March 16, 2016)

Upon completion of all training program, the training purpose has been successfully achieved.

Later during the Project, some of the training participants from SCIC mentioned that sufficient time allocation for the Q&A sessions were most beneficial for them to understand the subject matter with deep insight. The discussions and information obtained during the training sessions were also taken into account for the component 1-1 (CGC) and component 2 (KRI) of the Project.

3.7. Pilot Testing

3.7.1. Overview of Pilot Testing

<Background and Purpose>

According to the revised Work Plan, PwC consultant performed pilot testing into SCIC's two portfolio companies to verify the effectiveness of draft CGC which was prepared by 21st July, 2016. SCIC listed up appropriate portfolio companies which fit the requirement that (1) Multiplied effect to the other SCIC's pilot companies, (2) Multiplied effect on governance enhancement in Vietnam and (3) Cooperation by a pilot company on the CGC project. After the independent test by PwC consultant, two portfolio companies were selected as follows. We obtained the pilot companies' relevant information from their website, as well as directly from the companies' personnel.

<Pilot Company Outline>

- (1) Hai Phong ACS Vietnam Joint Stock Company ("ACS")

Table 3-14: Summary of ACS

(In millions VND)

Company Name	ACS Vietnam Joint Stock Company
Headquarter	Km10 Phạm Văn Đông, P.Anh Dũng, Q.Duong Kinh, Tp.Hai Phong
Main Business	Advertising on highway and building billboard
Listed/Unlisted or Public/Non-public	Used to be public and later became non-public in July, 2016
Charter Capital	108,000
Number of employee	62 (as of the end of June 2016)
Financial statement date	2015/12/31
Revenue	20,292
Net Income	(2,561)
Total Assets	172,961
Net Assets	100,799
Structure or shareholders/Parent Company Info	Under 300 (from middle of July, 2016) *the line of 300 shareholders is a criteria for being public company.
Major shareholders	SCIC 30%
Organization structure	Board of Directors and Supervisory board
SCIC's ownership (%)	30%
Number of BOD members	6
Number of supervisory board	2
Expected result for the selection of pilot company	According to SCIC, ACS is considered to be a typical company among portfolio companies in terms of the corporate governance. The expectations for selecting the company were to understand the average company's corporate governance and to identify necessary modifications to the draft CGC so that the final CGC is practical one for average portfolio companies.

(2) FPT Telecom Joint Stock Company (FPT Telecom)

Table 3-15: Summary of FPT Telecom

(In millions VND)

Company Name	FPT Telecom Joint Stock Company
Headquarter	FPT Building, Duy Tan Street, Dich Vong Hau Ward,
Main Business	Telecommunications such as mobile phone and internet (broadband) services
Listed/Unlisted or Public/Non-public	Public/Unlisted
Charter Capital	1,246,200
Number of employee	7,296
Financial statement date	2015/12/31
Revenue	5,567,741
Net Income	1,034,785
Total Assets	7,963,812
Net Assets	2,755,965
Structure or shareholders/ Parent Company Info	More than 500, including SCIC and FPT Corporation (Parent)
Major shareholders	SCIC 50.16% FPT Corporation (Parent) 45.64%
Organization structure	Board of Directors and Supervisory board
SCIC's ownership (%)	50.16%
Number of BOD members	6
Number of supervisory board	2
Expected result for the selection of pilot company	FPT Telecom is one of the very large unlisted companies that the CGC is targeting for. It was also recognized as a company with the highest standard of corporate governance because FPT Telecom's parent company, FPT Corporation, is recognized as one of the largest company with strong corporate governance in Vietnam. The expectations were to understand the top level of the corporate governance in Vietnam and to review the feasibility of the draft CGC by such company.

<Implementation of pilot testing>

PwC Consultants agreed with each company participating to the pilot testing (“pilot company”), SCIC and JICA Expert that the purpose of the pilot testing is to confirm the feasibility of the draft CGC and identify the necessary amendment on the draft CGC. It was reminded that the purpose of the pilot testing was not improving the current corporate governance level of the pilot companies.

As an introductory session of pilot testing, PwC Consultants visited to ACS and FPT Telecom in June 2016 to explain the concept of corporate governance in general to the CEO, board members and other executives. In the session, PwC Consultants explained that the term equivalent to “comply” in Vietnamese means compliance with the laws and regulations, therefore, PwC Consultants use the term “apply or explain” in the draft CGC instead of “comply or explain.” Also explained that the CGC focuses on “substance” over “formality.” Specifically, even the company’s approach is not exactly the same as the provisions within the CGC, it could be considered as “apply” if the objectives of the principles/recommendations are achieved. On the other hand, even the company believes that it applies the code provisions, there could be room for improvement. When the company believes

that it does not apply the code provision, it could be acceptable if there are sufficient and reasonable explanations for such non-application.

Based on the information obtained and the responses in the introductory session, it was recognized that the chairwoman and board members of FPT Telecom have already had good knowledge of corporate governance. For the efficient and effective pilot testing, PwC Consultant decided to take different approach for ACS and FPT Telecom in accordance with their current level of understanding of the corporate governance. In the case of ACS, the corporate governance status was discussed by interviews; in the case of FPT Telecom, the self-assessment by the company was completed in advance to the interviews.

<Results of pilot testing and revision to the draft CGC>

(1) ACS (Interview on July 22, 2016)

As a result of interview, ACS discloses certain level of financial and non-financial information as a public company on their website in accordance with the laws and regulations in Vietnam.

The following table presents the current situation on each principle of the draft CGC based on the interview:

Table 3-16: Result of draft CGC test adoption - ACS

Preliminary results (the number of principles/recommendation within the draft CGC)	Sec.1	Sec.2	Sec.3	Sec.4	Total
Apply	7	2	6	11	26
Explain	1	3	5	13	22
Total	8	5	11	24	48

After PwC Consultants’ explanation and answering questions, ACS and PwC Consultants reached a mutual understanding that there were some room to improvement on the monitoring function by inspection committee (supervisory board), employees’ understanding of code of conduct and internal control in relation to the top management’s potential fraud detection, if any. In terms of disclosure and transparency, a certain level of code of conduct and conflict of interest are disclosed, however, it was limited to the level that were required by the laws and regulations. Additional explanation for board evaluation and D&O insurance were identified to be necessary.

Though it was not a direct purpose of pilot testing, a pilot testing report was prepared and shared with ACS. Within the report, regardless of the current status of either “apply or explain,” PwC consultant evaluated the reasonableness and sufficiency of the company’s explanations and identified some areas of improvements.

Following table summarized the comments received from ACS as a result of pilot testing.

Table 3-17: Feedback from ACS

Principle/ Recommendation	Topic	Comment from ACS
2.2, 2.3	Whistle-blowing	Before implementation of hot line system, the protection of whistle-blower is necessary.

3.8	Disclosure in English	ACS now understands better that the CGC encourages companies to disclose additional information which go beyond the legal minimum requirements.
4.9	Nomination process	More transparency in nomination process & procedures of directors and key executives is necessary.
4.15	Remuneration of senior management	For formal and transparent process & procedures for remuneration determination, specific example is necessary.
4.20 ~ 4.22	Training	Continuous training in addition to the induction one should be provided.
4.23	D&O insurance	D&O insurance was a new concept for ACS. Further research will be necessary for implementation.

Based on the above comments, additional explanations for principles and recommendations which ACS questioned during the interview session were added to the final draft CGC.

(2) FPT Telecom (Interviews on August 24 and 25, 2016)

Overall, FPT Telecom was well aware of the concept and importance of corporate governance. They understood the objective of each principle within the draft CGC, however, some principles or recommendations of contents were difficult to understand or hard to determine as either of “Apply or Explain”.

The following is the self-assessment by FPT Telecom and result of the current situation on each principle in accordance to the draft CGC. The interview was performed based on the self-assessment.

Table 3-18: Result of self-assessment by FPT Telecom

Result on self-assessment (The number of Principles/Recommendations within the draft CGC)	Sec.1	Sec.2	Sec.3	Sec.4	Total
Apply	8	3	10	17	38
Not yet decided	-	2	1	3	6
Unclear	-	-	-	4	4
Total	8	5	11	24	48

The following four principles/recommendations within the draft CGC were identified as “Unclear.”

Table 3-19: Items identified as “Unclear”

Principle/ Recommendation	Topic	Comment by FPT Telecom
R4.12	Effective operation of the board	Further guidance is needed to assess the required level of the company secretary’s involvement.

R4.13	Board evaluation	Further guidance is necessary in terms of methodology of the board evaluation. Any tools for evaluation are useful.
R4.14	Succession planning	Further guidance is necessary to what extent the succession plan should be prepared. Succession plan in the case of emergency or unplanned situation should be considered.
4.16	Claw-back provision	Under the current Vietnamese laws & regulations, including the claw-back provision in the employment contract is not practical. If a company has the variable incentive scheme that link to the “final” profit after approval and external audit, would it be considered to “apply” the principle?

Note: The “R” in front of the code number represents “Recommendation.” All others are Principles.

The following six principles/recommendations were identified as “Not yet decided” When the principles of the current draft CGC or the objectives of the recommendations are difficult to understand, the contents are identified as “Unclear”. On the other hand, when the company doesn’t know how to disclose the current situation in the CGC report or can’t judge itself as “Apply” or “Explain”, the contents are identified as “Not yet decided”.

Table 3-20: Items identified as “not-yet-decided”

Principle/ Recommendation	Topic	Comment by FPT Telecom
2.2/2.3	Whistle-blowing	To implement a hot-line system, certain protection of whistle-blower against abusive action should be in place.
R3.8	Disclosure in English	Many companies only disclose required information in required language. By disclosing additional information on voluntary base, potential disadvantage in terms of competitive environment should be addressed.
R4.6	Specialized committee including voluntary advisory committee	The parent company (a listed large corporation) has specialized committees that oversee subsidiaries including FPT Telecom. Therefore, no incentive for subsidiaries to organize its own specialized committees.
4.10	Effective Board	Multiple board directorship information should be obtained. The company does not have information as to how many hours each non-executive director spend on the

		matters specific to FPT Telecom. However, the board of directors are effective given the very active discussions and participations by non-executive directors.
R4.19	Pay ratio	Although an exact pay ratio of average employees to the CEO was not calculated, necessary numeric information is disclosed. If only one company among same industry sector disclose such information, it would not useful without peer information.

Based on the comments from FPT Telecom, principle 4.16 claw-back provision was reclassified from principle to recommendation, and additional guidance was included in the revised draft CGC after pilot testing.

After the discussions with the SCIC task force members regarding the results of pilot testing, the draft CGC and its application guidance was further revised.

3.8 Workshop

As part of the annual state representatives' conference, SCIC had a seminar in Ho Chi Minh City on September 30, 2016, focusing on corporate governance.

In addition to approximately 120 state representatives (SR) (including more than 50 SR of SCIC's portfolio companies), representatives from Ho Chi Minh stock exchange, IFC and other international organizations participated to the seminar. The main theme was "Corporate Governance." The morning sessions were internal information sharing ones and in the afternoon sessions, PwC consultants participated as a lecturer of CGC and a panelist. A simultaneous translation between Vietnamese and English was provided throughout the seminar.

The following table presents the schedule and summary of the afternoon sessions.

Table 3-21: SCIC Workshop Schedule

Time	Topic	Presentation	Summary
13:30 - 13:45	Participation registration	-	
13:45 - 13:50	Opening	Management Committee	
13:50 - 14:00	Opening address	SCIC Management	Emphasized the importance of CGC
14:00 - 14:30	CGC based on the OECD Principles and Suggestions to SOEs	Mr. Nguyen Quang Trung, Deloitte Vietnam	Explained the details of the OECD Principles
14:30 - 15:00	Summary of CGC for SCIC and its portfolio companies	PwC Consultant	Explained "comply-or-explain" approach, "principles based" approach, etc.
15:00 - 15:45	Practice of CGC	Mr. Chatri Sityodtong, One Championship, Founder and Chairman	emphasized the governance of the invested companies (company-wide

			integrity) for investors
15:45 - 16:15	Panel discussion	<p>Moderator: Mr. Hien, Vice President, SCIC</p> <p>Panelist:</p> <ul style="list-style-type: none"> • Mr. Nguyen Quang Trung • PwC Consultant • Mr. Chatri Sityodtong • Ms. Nguyen Nguyet Anh, IFC • Ms. Chu Thanh Ha, Chairwoman, FPT Telecom • Mr. Tran Tuc Ma, CEO, Traphaco 	The moderator collected questions from the audience and asked for the opinions three or four times per panelist. Chairwoman of FPT Telecom was one of the panelists and introduced the efforts to enhance its corporate governance. The panel discussion was later broadcasted on the Vietnam national TV program.
16:15 - 16:25	Closing address	Mr. Hien, Vice President, SCIC	
16:25 - 16:30	Photo shoot	Panel discussion participants	
18:00 -	Dinner		

This seminar was facilitated by SCIC and successfully concluded by active participation to the panel discussions by state representatives. It was an evidence of successful technical transfer of corporate governance related knowledge. Furthermore, one of the main lecturers was an investment fund manager and CEO of the large enterprise. He provided investors' point of view in considering the strong corporate governance by emphasizing the integrity of top management. Lastly, as the representative of Bao Minh Insurance on behalf of all state representatives stated in his commentary, the seminar provided to all participants the valuable opportunities of further enhancing their understanding of the corporate governance and that leads to the effective application of the CGC. SCIC is expected to provide continuous seminars or trainings going forward.

3.9 Final Draft CGC

3.9.1. Final draft CGC and its application guidance

After pilot testing and discussion with SCIC's task force members, the revised draft CGC (in Vietnamese, except for explanation and additional guidance) was reviewed by the legal specialist who then provided us 18 suggestions from the Vietnamese legal point of view. These suggestions were reflected in the Part II of the draft CGC as additional explanations of requirements by current Vietnamese laws.

Furthermore, SCIC's task force members requested that reference of laws and regulations should be placed after each principle's commentary in smaller characters to show it is less important than code Principle and Recommendations. It suggests that they no longer need to refer to such legal requirements after sufficient understanding of the CGC.

Also, it was requested that the distinction between “principles” and “recommendations” should be clarified.

The contents of the final draft CGC and application guidance which reflected these comments of SCIC’s task force members are as follows. (Refer to Appendix: 3-1 for full content).

Table 3-22: Contents of final draft CGC and Application Guidance

Part	Introduction	Background of draft CGC
Part I	4 General Principles, related 33 Principles and 8 Recommendations	<ol style="list-style-type: none"> 1. Rights and Equal Treatment of Shareholders (7 principles) 2. Role of stakeholders in corporate governance (4 principles) 3. Disclosure and Transparency (7 principles and one recommendation) 4. Responsibilities of BOD (15 principles and 7 recommendations)
Part II	Preface	Background, “Apply-or-Explain” approach, Application, Structure, Corporate governance report, Disclosure, Dealing with listed companies, Continuous revision and review
	General Principles	In addition to Part I, Commentary of each principle, Related laws and regulations, Other guidance
	Principles	
	Recommendations	
	Appendix A	Related laws and regulations
Appendix B	Definition and Explanation of term	
Part III	Application Guidance	How to apply CGC
	Appendix C	Example of reporting form (Example of corporate governance report)

3.9.2. Section 5

As mentioned earlier, the content of “Voting Principles” included in the initial draft VG 2015 was not included in the final draft VG 2015 but it became part of the initial draft CGC as Section 5, as a result of discussion among SCIC, JICA experts, JERI and PwC consultants in October 2015.

As mentioned in section 6 of this Project Completion Report, the Section 5 in the draft CGC was separated from the final draft CGC because the nature was different from other parts of the draft CGC. However, SCIC will continue to consider the content by, for example, reference to Santiago Principles, Stewardship Code of other countries and the contents of disclosures made by other countries’ sovereign wealth fund.

3.10. Wrap up meeting

As part of the final activities in Vietnam, the final meeting with SCIC’s CGC task force members was held on October 17, 2016 and the detail and format of the final draft CGC and its application guidance were agreed.

The final draft CGC and its application guidance were agreed among SCIC, JICA experts, JERI consultant and PwC consultant on October 18, 2016. During the meeting, Mr. Hien of SCIC explained the internal approval process of both the CGC and the VG 2016 by the SCIC board of

directors, and his intention to finalize the project as soon as possible. Furthermore, all participants agreed that three documents, (CGC, VG 2016 and KRI), should be maintained, reviewed and updated, if necessary, by SCIC going forward.

3.11. Suggestions by consultant (CGC)

Timely appointment of the CGC task force members and a leader and their active contribution to the discussions were key factor in developing the draft CGC. JICA experts provided useful Vietnamese information on a timely matter. Without their support, the component 1-1 would not complete all of the tasks prescribed in the work plan.

Given the nature of the technical transfer of such a new concept of corporate governance, however, longer stay in Vietnam (e.g. more than two weeks at a time) does not necessarily provide effective outcome because knowledge transfer generally need certain time to consume by counterparty. Therefore, we would like to suggest another form of project execution, such as periodic short-visit to the counterparty (e.g. once a month for a week) as an alternative to the traditional project execution model.

Second, the activities of CGC component was interrupted from December, 2015 to February, 2016, mainly because of the political leadership change in Vietnam. Also, scheduled transfers of large SOEs from the government to SCIC were not finished as planned, which affected the pilot testing planning. These incidents suggests that the consultants need to be flexible. Again, the longer stay in Vietnam would not allow such flexibility in execution of the project.

Periodic short-visits would require additional transportation cost and time and would not be successful without JICA experts' support who live in Vietnam.

We have learned from the project that there should be varieties of forms in transferring the knowledge and technology – long-stay vs. short-visit, and we should choose the one that best meets the counterparty's needs and expectations in achieving the ultimate goal of the project.

4. Component 1-2: Voting Guideline

Expected project purposes of the Phase 2 for the component of the Voting Guideline are:

- to monitor and review the implementation of the Voting Guideline (VG) 2015 that was submitted and approved by SCIC during the preceding project (Phase 1),
- to update and revise the contents of the VG if necessary to establish the VG 2016, and finally,
- to contribute to strengthening the capacity of SCIC in corporate finance management, with focus on the increase of the value of SOEs in the portfolio of SCIC, and to promote the divestiture of SOEs.

4.1. Outline of the 2015 Project (Addendum to Phase 1)

4.1.1. Background and objectives of the project

The objective of implementing this project was to assist SCIC to prepare and implement the Voting Guideline to be applied to the companies under the portfolio of SCIC. This project was planned to follow up the preceding assistance project implemented during FY 2014 and was prepared to answer

the request of the Ministry of Finance and SCIC to start the assistance as quickly as possible to realize the recommendation of the preceding project implemented by JICA in cooperation with the Government of Vietnam to strengthen the capacity of SCIC on corporate finance management of SOE.

As the result of this project it was expected that the capacity of SCIC in corporate finance management would be strengthened, with focus on the development of SOEs debt disposal mechanism which are closely connected to SOE restructuring and thus SCIC would be the pioneer of introducing the modern corporate governance regime into Vietnam, promote the restructuring and divestiture of SOE and allow SCIC to make efficiently new investments.

4.1.2. Outline of the project implementation and the outcomes

- Implementation team: In addition to the six Task Force members nominated by SCIC four experts from JERI with the assistance of four local consultants from StoxPlus (the same members all are the preceding project), in addition to the legal support by the staff of the Vietnam office of Nishimura & Asahi.
- Project period: from May to November 2015
- Outline of the activities:
 - i. Review recent discussions about the corporate governance in Vietnam
 - ii. Analyze the voting history by SCIC in the shareholders meetings of its portfolio enterprises in cooperation with the taskforce established in SCIC and list important issues frequently discussed in the shareholders meetings
 - iii. Discuss the “voting principles to be applied by SCIC” and prepare a draft Voting Guideline taking records of votes by SCIC and international examples into consideration
 - iv. Seek comments on the draft from related departments in SCIC and prepare the draft final of the Voting Guideline of SCIC, seek comments from related officials and staff, finalize the draft and get approval of the BOD of SCIC or its implementation (including implementation of necessary workshop/seminars)
 - v. In line with the progress of the work stated above, assist SCIC to establish a special task team in SCIC for the preparation of the Corporate Governance Code to be applied to the investee enterprises of SCIC
 - vi. Advice SCIC to level up the contents of the Industry Analysis Report reviewing the industry and enterprise information data base of SCIC for its efficient usage
- Approval of the VG: the draft was translated into Vietnamese and presented to the SCIC early September 2015 (English version was submitted to SCIC at the end of August 2015). The outline of the draft was explained in the seminars organized by SCIC, on September 8 and October 20, 2015 (the latter was the seminars to celebrate the 10th anniversary of SCIC).

4.1.3. Issues carried forward to Phase 2

- (1) Trial implementation of the VG and making necessary revision based on the experiences of the implementation
- (2) Assistance to organize the Task Force for the efficient implementation of the preparation for the corporate governance code of SCIC
- (3) Enhancing the existing company data base of SCIC and the capacity of industrial sector analysis by SCIC
- (4) Human resource development related to the industry research and analysis of the management of companies

4.2. The Project 2016 (Phase 2)

4.2.1. Project purpose

Based on the outcomes of the 2015 project, the purpose of the Phase 2 was set to:

Monitor and review the implementation of VG2015, update and revise the contents if necessary to establish VG 2016 and contribute to strengthening the capacity of SCIC in corporate finance management, with focus on the increase of the value of SOEs in the portfolio of SCIC and promote the divestiture of SOEs

4.2.2. Implementation scheme

- Consultant team: In addition to the Task Force members assigned by SCIC three experts from JERI with assistance of four local consultants from StoxPlus (the same members from the preceding project), in addition to the legal support by the staff of the Vietnam office of Nishimura & Asahi.
- Project period: from October 2015 to November 2016

4.2.3. Actual status of the VG implementation

The VG 2015 was approved by the Board of Management of SCIC early December 2015 and distributed to the state representatives (hereafter SR) of SCIC in late January, 2016.

SCIC started the trial application of the VG 2015 as the reference material for voting decision by the state representatives and based on experiences of the trial usage, SCIC would make revisions if necessary and prepare VG 2016. The VG 2015 was also uploaded in the web-site of SCIC⁶⁴ around the middle of August to seek comments from SR.

4.2.4. Work schedule of follow up survey of VG 2015 and the contents of its revision

(1) Survey schedule during 2016

- Latter half of May: Preparation of the survey sheets
- Latter half of June: Get approval of the BOM of SCIC for implementing the survey. Review the recent changes of legal framework related to the VG by the government
- July-August: Collection of the answer sheets of the survey and preliminary analysis results which were reported to Mr. Hien via TF. Implementation of the supplemental face to face interviews with some SRs.
- August-September: Revision of the VG2015 and preparation VG 2016, reflecting the survey results and feedback comments (Appendix 4-4). Case study was drafted based on the request from TF to help SR deepen their understanding of VG. Reference materials were also prepared and handed to TF as the introductory material (Appendix 4-5).

In addition to the survey using the inquiry sheets, supplemental face to face surveys were conducted to such six companies as those gave feedback comments to the survey and located in and near Hanoi or those that the consultant team could interview using telephone or internet.

The survey sheet and result is attached with this report (Appendix 4-1, 4-2 and 4-3).

⁶⁴ On August 17, 2016, the Vietnamese version was uploaded to the SCIC's website: <http://www.scic.vn/index.php/danh-cho-ngu-i-d-di-n.html>.

Table 4: Companies interviewed

Company name	Charter Capital (million VND)	Department	%SCIC	Address	Industry	SCIC's Group	ROE
Transportation & Vessel Renting JSC (VietFracht)	150,000	PMD 2	7.67%	Hanoi	Transport	B2	-5%
Geographic & Physic Technol	12,000	PMD 4	12.66%	Hanoi	Technolog	B2	3%
Vinamilk	12,008,963	PMD 3	45.05%	Ho Chi Minh	Beverage	A1	31%
Hau Giang Pharmaceuticals	847,293	PMD 3	43.44%	Can Tho	Pharmace	A1	23%
ACS Vietnam JSC	108,000	PMD 1	30.20%	Hai Phong	Communi	B2	-2%
Sai Son Cement JSC	195,160	PMD 1	16.40%	Hanoi	Construct	B2	5%

(2) Outcomes of interview survey

The issues for VG 2015 were pointed out as follows.

- 1) In relation to the item from 1.8 to 1.10 of VG 2015, a request was made to separate the description of election of board members from dismissal for more clarification.
- 2) In relation to the amendment of Decree 58/2012/ND-CP stipulated the foreign ownership in Vietnamese enterprises, a request was made to include a new item related to the “Ownership change” in the VG based on the articles stipulated in the Decree 60/2015/ND-CP.
- 3) In relation to the item 1.11 of VG 2015, a request was made to give more specification for the criteria to be applied when judging the appropriateness of the M&A cases.
- 4) In relations to the item 2.3 of VG2015, there were some cases that SCIC voted ‘For’ the implementation of ESOP (Employee Stock Ownership Plan). Taking such cases into consideration, requests were made to state specifically the cases that SCIC would vote ‘For’ to ESOP proposal.
- 5) In relation to cooperation between CGC and VG, a request was made to add a new item that how much consideration for CGC would be taken in appointment and dismissal of board members.
- 6) To deepen understanding of SR who are appointed from outside of SCIC, a request was made to add several typical cases that SR might face when applying the VG.
 - a) In addition to the above, the comments about the way of application were obtained as follows.

<Evaluation about the usefulness of the VG 2015>

- 60 out of 116 companies surveyed referred to the VG 2015 this year and almost all (115 out of 116) replied that reference to the VG was helpful. They consider that especially for newly appointed or not so well experienced SR, it was a good reference material.

“Application of VG by SCIC is considered as an encouraging tool for both SCIC and portfolio companies as it was agreed that the application of VG contributed to increasing transparency in decision making at the AGM and enhancing the communication between SCIC and the management people of the company.

- Three companies requested SCIC to consider including VG in its IT system such as

CPMS to facilitate the reference action by the representatives.

- b) Portfolio companies welcomed the active involvement of SCIC if it could supply constructive advices to them. They wished that SCIC might take the lead among shareholders to establish the constructive dialogues between major shareholders and the Board of Directors (BOD) as well as management of the company.
- c) Whereas many interviewed officers of SCIC indicated that they have been facing difficulties to persuade company management people and other shareholders as well when SCIC has only minority portion of the company's share. No matter how SCIC tried to comply with law, regulations or best practices in business society, if the management body has the majority of shares or supported by major shareholders, SCIC's adverse opinion against the proposed agenda by the management had been often rejected. They wished to have some measures to break through such situation.
- d) Majority of interviewed State Representatives admitted that by implementing periodical survey like this year, SCIC could have clearer understanding about the relationship between SCIC and portfolio companies. Looking at the outcomes of the survey, SCIC could get objective information and bird view about changes of interest/concerns of portfolio companies by industrial sector and by issues raised at the AGM, they said. They also added that the VG defined core and basic principles about SCIC's voting principles, there were many issues still required to be consulted with SCIC before AGM and if the case were like that requirement to refer VG might increase operational burdens of the representatives. In this connection many representatives requested to rationalize and decrease the number of items that were required report and consultation with SCIC before AGM.
- e) Finally many among interviewed State Representatives and officers of SCIC agreed the observation that SCIC might consider, in the near future, to publicly announce the annual voting results of SCIC, for example: how many cases there were that SCIC voted against the AGM agenda but majority of shareholders voted differently from SCIC's votes and the reasons why SCIC voted differently from other shareholders. This announcement might invite higher attention from Vietnamese enterprises for the improvement of their corporate governance.

4.2.5. Training course in Tokyo

During the Training courses in Tokyo in February 2016, contents of the follow up survey and its implementation schedule were discussed with the liaison officer of VG-TF (Ms. Tam).

4.2.6. Wrap up meeting

A wrap up meeting was held with the presence of Mr. Hien, Ms. Ngan and 3 TF members to discuss and confirm following issues: revisions of VG 2015, contents of the case study and schedule of works ahead. Final meeting was held during October 17 and 19 to confirm the contents of final modifications to VG 2016.

4.3. Suggestions by consultant (VG)

<Task force members>

In regard to this component, additional amendment to VG 2015, which had been developed in the preceding project, was performed. Compared to the component of CGC and KPI or the SCIC's attitude of last year, at the beginning, the SCIC relied on the persons in charge. Therefore, some arrangement was made to draw SCIC's seriousness as follows. However, there was no chance to

have a meeting at which all TF members gathered and the SCIC's passive attitude was not cleared out completely.

- (1) The task force members were selected from every related department and the deputy manager was appointed as the leader, who leads each work. (This leader worked effectively, but transferred outside in the middle of August. During leader's absence, it took some longer time to amend VG or confirm which contents would be selected as case study.
- (2) To avoid such a situation as above, schedule was arranged to send consultants continuously. Also, local consultants regularly made contact with SCIC's TF leader or the person in charge to confirm the progress and urge action.

<Additional interview>

Only questionnaire survey was not enough to know the current situation, some additional interviews were performed. However, the travel cost was not included in the component's budget, the interviews were performed to the companies within Hanoi by internet or telephone.

5. Component 2: Key Risk Indicators

5.1. Recommendations by the preceding project

In the project completion report, following comments are made by Phase 1, which is considered when developing the KRI for new investments:

Capacity development for new investments

SCIC had been analyzing multiple real estate development projects, such as office buildings and multi-purpose complex featuring TV broadcasting tower, as well as a factory for new drugs and a hospital. It is not clear if such investment strategy is consistent with the policy direction of Decision 929, which calls for SOE activities to be limited to the essential products/services and security/national defenses. (...)

Assistance on establishing Key Risk Indicators (KRI)

It is important for SCIC's operational improvement to establish appropriate risk management systems and organizations. However, SCIC had already retained Deloitte in early 2014 to carry out ERM system and the long-term roadmap for six years from 2014 through 2020, has already been submitted to SCIC management. We received the same request before the start of this project but could not do much as the Deloitte project had been progressing. Should JICA decide to take up this request in the 2nd phase, JICA needs to agree with SCIC beforehand on how to cooperate with Deloitte.

(Source: Section 11. Propositions for fulfillment of PDM Overall Goal, "Project Completion Report" March 2015)

5.2. Project scope

- a. Support establishing the KRI for new investment
- b. Covered transactions:

- Investment for projects
- Investment for financial instruments

The term “risk management” covers various scope and approach. During this project, the support to SCIC was carried out with focusing on establishing the KRI for new investment. Specifically, the project covers the said KRI, as well as related Organizational Risk Management Frameworks.

5.3. Activities and Output

5.3.1. Activities and Output in 2015

According to the following schedule, PwC consultant made regular visit to Vietnam and discussed with SCIC. In between the visits to Vietnam. PwC consultant carried out research activities on the issue that were not resolved during the previous visit.

Schedule	Activities and Output
October 13–16	Pre-kick off (confirmation on the objective of the project and schedule, etc.)
October 26-29	Kick-off (explanation of the outline of the KRI for new investment) Explanation and discussion of the establishing the KRI
November 16-19	Explanation and discussion of the establishing the KRI
November 24-27	Proposal and discussion of the drafted interim KRI and related Organizational Risk Management Frameworks
December 7-10	Proposal and discussion of the revised-drafted interim KRI and related Organizational Risk Management Frameworks
December 21-24	Proposal and discussion of the revised-drafted interim KRI and related Organizational Risk Management Frameworks (*)

(*) SCIC task force and PwC agreed basically on the contents of the draft. Then PwC consultant submitted the reorganized document after the turn of the year.

5.3.2. Activities and Output in 2016

According to the following schedule, PwC consultant made regular visit to Vietnam and discussed with SCIC during training in Japan. In between the visits to Vietnam. PwC consultant carried out research activities on the issue that were not resolved during the previous visit.

Schedule	Activities and Output
March 10–16	Proposal and discussion of the revised-drafted interim KRI and related Organizational Risk Management Frameworks during training in Japan
May 25-27	Proposal and discussion of the revised-drafted interim KRI and related Organizational Risk Management Frameworks Trial application to the existing investment and confirmation of the feasibility Workshop for risk management department and investment department (explanation and feedback)
June 20-23	Proposal and discussion of the revised-drafted interim KRI and related Organizational Risk Management Frameworks

	<p>Trial application to the existing investment and confirmation of the feasibility</p> <p>Workshop for risk management department and investment department (explanation and feedback)</p>
July 25-27	<p>Proposal of the final draft KRI and related Organizational Risk Management Frameworks</p> <p>Closing meeting</p>

5.4. Contents of the proposal

PwC consultant has proposed the final draft KRI and related management system as follows: (Refer to Appendix 5)

Chapter 1: Objective

Chapter 2: Assets subject to this framework and Control method,

Chapter 3: Investment limit

Chapter 4: Risk management for project investment, equity investment and bond investment

Chapter 5: Loss-cut rule for listed stock

Chapter 6: Staff turnover and Enrollment period

Chapter 7: Organizational Risk Management Frameworks

Chapter 8: Future issues on Risk management and Operation

5.5. Next steps

The SCIC's risk management department and investment department will be expected to apply the above system to the new investment and also establish the management system.

5.6. Suggestions by consultant (KRI)

The SCIC task force members for this component 2 were timely appointed at the beginning of the project and JICA experts supported us throughout the project that contributed to the effective and efficient project execution.

The PwC consultant periodically visited the counterparty for a few days per visit to meet with the task force members. At each meeting, clear objective was set in advance and what should be done in the next visit were agreed. Between each visit, PwC consultant made research in Japan on specific areas as part of the preparation for next visit. If necessary, sufficient communication by e-mails or telephone calls were made while consultant was in Japan. Overall, the project was executed in an efficient way.

As the concept of risk management was quite new to the counterparty, their understanding of the term, KRI (key risk indicators) was different from the general definition. It took longer time than initially expected to get to the level of certain common understanding. Generally, as a new concept such as KRI, CGC or VG requires longer time to be fully understood, periodic visit model could be a better option for providing knowledge (soft skill) transfer to the counterparty.

6. Recommendations

This project mainly targets the implementation of the following tools, 1) Corporate Governance Code (component 1-1: CGC), 2) Voting Guidelines (component 1-2: VG) and 3) Key Risk Indicators (component 2: KRI) in the broad context of the activation of the Vietnam state owned enterprises through the reform of the SCIC, an state owned investment company. These tools' implementation effectively archives its purpose with keeping in good condition of environment around enterprises and continuous consideration of the tools. A correlation chart is shown as following.

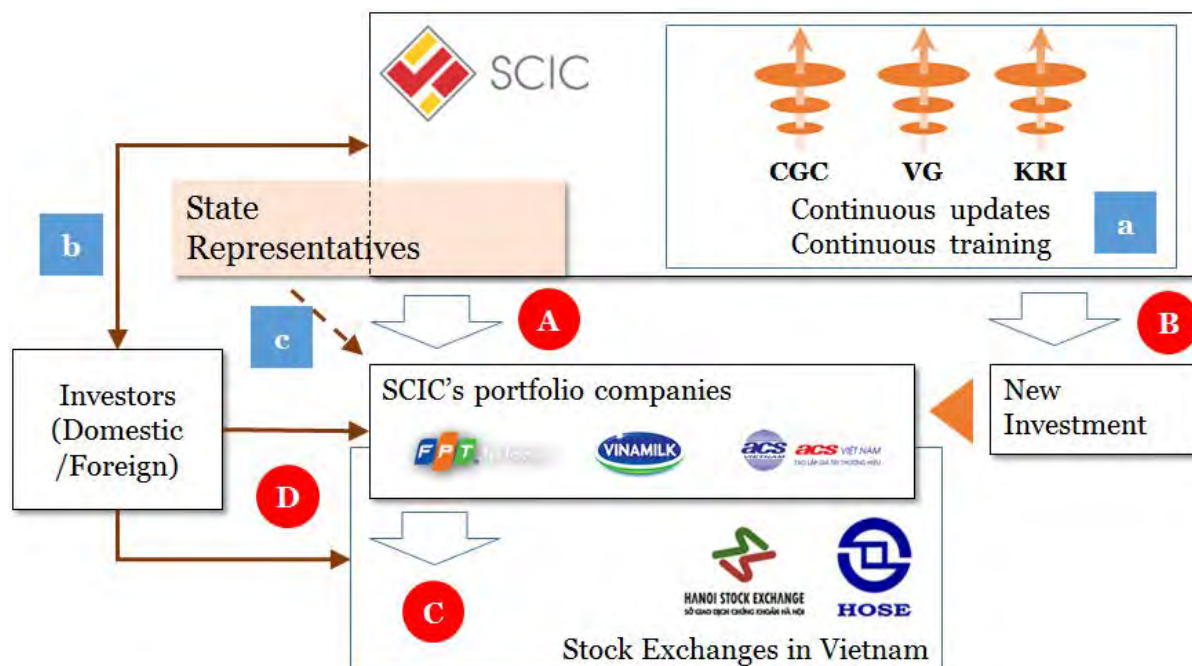


Chart 6-1: Correlation of three components (Source: PwC Aarata LLC)

6.1 Overview

- Expected effect of tool implementation and penetration

(1) Discipline for SCIC's portfolio companies ("A" on the correlation chart)

Firstly, the SCIC establishment of CGC as the rule for portfolio companies works for underpinning the quality of companies' corporate governance. Secondly, the establishment of the VG makes portfolio companies' activities in line with shareholders' profit through its clear position as shareholders. These activities enable portfolio companies to prepare the path to robust corporate governance and it benefits the portfolio companies through the establishment of the basis of the mid- to long term value creating.

(2) Sophistication of new investment consideration ("B" on the correlation chart)

One of the purpose of the SCIC is to enrich Vietnam wealth through the improvement of enterprise value and selling them in the market. The function to invest in other companies than what the SCIC current has would avoid the SCIC business shrunk. The KPI works as an instruction for new investment and the SCIC can add new state owned companies for which it can improve the potential corporate value.

(3) Best execution by the SCIC ("C" on the correlation chart)

The level of implementation of CGC might work as one of the signals of selling the portfolio companies for the SCIC when it considers the execution (divestment). The tools' implementation itself doesn't work as the best execution tools but if CGC/VG/KRI work effectively, the SCIC might be able to obtain the important information of the timing of the execution.

(4) Investors' investment ("D" on the correlation chart)

If CGC/VG/KRI work effectively, it works directly or indirectly to improve investors' credibility for the SCIC portfolio companies. This expects to result in increased investors' investment in SCIC portfolio companies as well as Vietnam stock markets.

- **Activities that accelerate the effect of tool improvement**

(1) Continuous improvement of the tools and education for SCIC staff ("a" on the correlation chart)

As mentioned above, this project's deliverables are expected to have an effect on various area. Continuous improvement of the tools based on the markets' environment and education for SCIC staff encourage the effect.

(2) Collaboration with other investors by the SCIC ("b" on the correlation chart)

SCIC can accelerate the constructive dialogue between the major shareholders and portfolio companies through sharing this project's deliverables with other investors. Also, as a bridge between the Vietnam companies and investors especially foreign investors, the SCIC can accelerate the effect of tools' implementation through the demonstration of its management activities and direct introduction of Vietnam companies to the investors.

(3) Involvement of the state representative ("c" on the correlation chart)

Through sharing this project's deliverables with the state representatives, SCIC can accelerate the effect of the implementation by getting awareness of the representatives while representatives system continues. If it goes to limit the intervention by the representatives, this project's deliverables work through the penetration to the SCIC staff.

Based on the above, the suggestions for each component are explained in the following:

6.2 Component 1-1: Corporate Governance Code

The application guidance of the CGC states that the continuous amendment and revision of CGC is necessary, however, in terms of enhancing governance of Vietnamese companies practically, the SCIC should consider the following aspects:

- SCIC should assume the leadership in enhancing the corporate governance awareness in Vietnam

It could be achieved by offering the trainings, workshops, and seminars to the SCIC officers and employees as well as state representatives, senior management, members of board of directors and supervisory board of the SCIC portfolio companies. SCIC could also offer the similar training programs to non-SCIC portfolio companies as a leader of corporate governance implementation in Vietnam.

As the State Securities Commission (SSC) and two stock exchanges (HNX and HOSE) are developing the corporate governance code for listed companies in Vietnam, SCIC should

participate to the project by sharing the experiences in developing the CGC for its portfolio companies.

- SCIC should utilize the corporate governance code for SCIC's portfolio companies

SCIC could not mandate the adoption of the CGC to its portfolio companies because SCIC does not have an authority to do so. In this context, the *adoption* of the CGC means, preparing the corporate governance report (CG report) in accordance with the CGC and its application guidance.

In the cases where a portfolio company does not *adopt* the CGC, relevant state representative or SCIC's portfolio manager should try to prepare the CG report using the available information and ask questions whenever necessary to understand the portfolio company's current status of corporate governance. It would be a good starting point of *constructive dialogue* between the enterprise and the SCIC as a shareholder, as well as a good analytical tool to assess the level of corporate governance of each portfolio company.

In any situations, the level of corporate governance of portfolio company should be taken into account when SCIC exercises the voting right with reference to 1.8 <Election of the members of board of directors/supervisory board> and 1.9 <Removal/dismissal of the members of board of directors/supervisory board> of the draft VG 2016.

The level of corporate governance is one of the most important components of non-financial information in the rating agency's checklist. We urge that each portfolio company should adopt the CGC and prepare the CG report, given the significance of its effect on the increased mid- to long-term corporate value.

One of the possible measures to assess the achievement of the corporate governance code project may be setting the annual quantitative target as the percentage (%) of portfolio companies who adopt the CGC and prepare the CG report. The target percentage should be determined by SCIC taking into account the future ownership transfer of enterprises including EGs and GCs from the Vietnamese government or ministries to SCIC and SCIC's divesting projections. Because SCIC's portfolio companies are changing from time to time, the target percentage may be further broken into two categories, one for the existing portfolio companies and another for the new portfolio companies, so that the level of achievement could be compared on a constant basis. Another measure may be the target percentage (%) of total market value or book value of net assets of portfolio companies which adopt the CGC and prepare the CG report. Again, the target percentage should be determined by SCIC. Following table presents some percentages from year 2017 to 2020 but these are examples only.

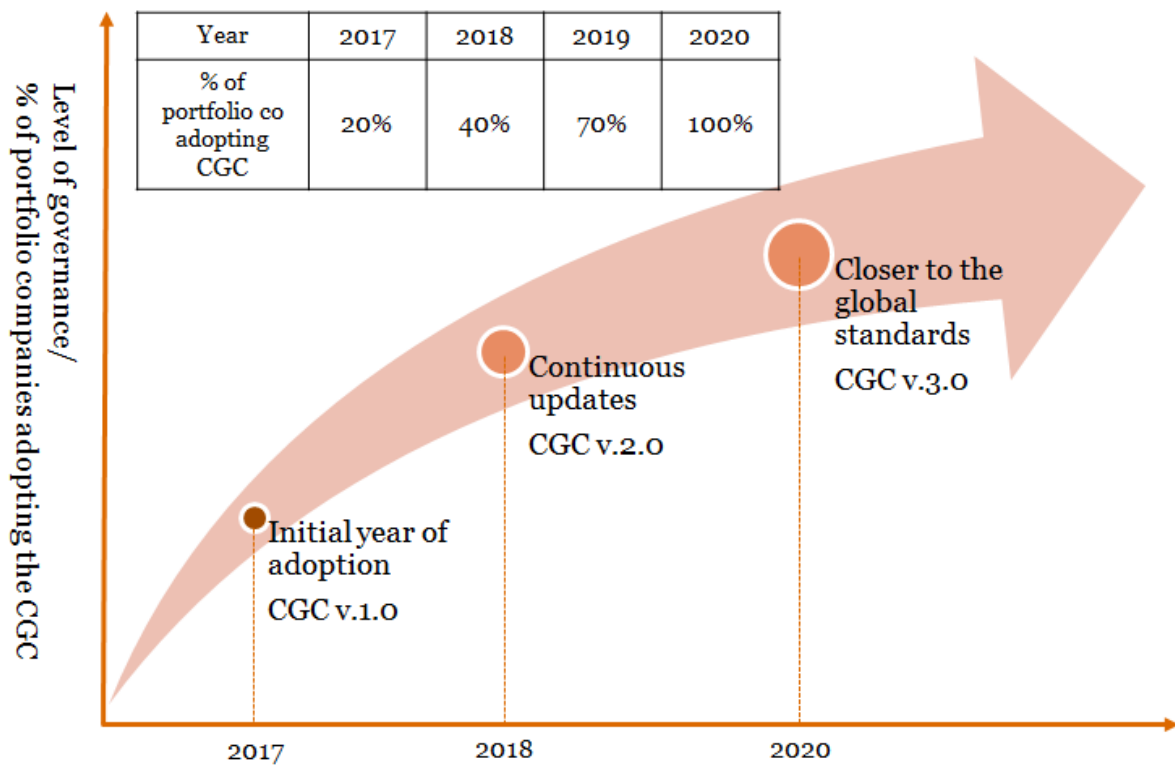


Chart 6-2: Provisional CGC’s milestone

(Source: PwC Aarata LLC)

- Legal framework needs further updates

Some of the code principles could not be applied due to the lack of supporting legal framework in Vietnam. For example, principles 2.2 and 2.3 refer to the hotline system where any employee should be able to report anonymously to the board of directors or equivalent a potential wrongdoing of the enterprise’s officers or senior management. Without legal protection against the possible revenge or abusive treatment from supervisors, the hotline system would not be operating effectively. Although the amended Vietnamese Law on Enterprise has modernized to secure the shareholders’ right, no measure like “Say-or-pay” in Principle 1.2 is reflected. Therefore, legal framework should be further updated.

Similarly, principle 4.16 suggests enterprise to implement an incentive compensation that links to the enterprise’s mid- to long-term performance. Generally, variety of stock options and other incentives require complex accounting treatment and taxation. Therefore, before implementing any new scheme of stock compensations, proper accounting for financial reporting purpose should be established and clarification of taxation matter should be shared and communicated with relevant parties.

These matters relating to legal framework, accounting and taxation should be discussed among relevant constituents.

- SCIC should enhance its own corporate governance by utilizing the former Section 5 of the draft CGC (Refer to Appendix 3-3 and 3-4)

In the process of developing the CGC for SCIC’s portfolio companies, as a shareholder of the portfolio companies, it was considered whether any action to enhance SCIC’s governance was necessary or not. When developing the VG 2015, it was considered that General Principles of judging, when SCIC’s voting as a shareholder, not covered by the individual VG would be

placed at the initial part of VG 2015. Then it was agreed at the meeting in October, 2015 that this would be considered at the process of developing CGC for SCIC's portfolio companies and was placed provisionally in Section 5 of the draft CGC.

As we discussed earlier in the CGC section, former Section 5 of the draft CGC describes the accountability and stewardship of the SCIC as a shareholder of a number of portfolio companies. It is recommended that SCIC should disclose it in English on its website or elsewhere in the public domain the content of the former Section 5 of the draft CGC to show SCIC's commitment, once the Decree 151 is finalized.

6.3 Component 1-2: Voting Guidelines

Sifting the gear up to the next phase of SCIC - Recommendations for the promising future of SCIC

- SCIC monitors in total 159 companies under its portfolio as of end of August 2016. SCIC received the government order to divest them as soon as possible. The divestiture shall be prompted with the companies whose performance is good. As the result of such divestiture, SCIC's operational profit might be decrease year by year while its operational burdens to monitor non-profitable companies under its portfolio might be increased. Facing such demographical changes of the portfolio companies, SCIC needs to consider how to improve the performance of the low or non-profitable companies in addition to increase the new investment.
- To go through such situation discussed above it is necessary for SCIC to enhance its following functions:
 - a) Enhance analytical capability of Vietnamese industrial sector and individual company as well on actual economic and financial situation including the perspectives of their business performance in the near future.
 - b) Enhance monitoring and advising capability of newly developed industrial sector and nursing SMEs and newly invested enterprises.
- SCIC has already a rich data base of portfolio companies with track records analytical results of them. So using such data base supply analytical information and reports periodically for its internal use is one thing. Supplying such information to the business society will be another; as such information will contribute to increase the peoples' understanding about SCIC's active contribution to the Vietnamese industrial and economic development.
- SCIC also can establish a data base of personnel listing experienced directors with expertise and performance records. SCIC could pool them as the potential directors to assist newly established Vietnamese enterprises asking them to give advices to manage companies or how to mitigate potential risks that such newly established companies might face.
- SCIC could establish good cooperation and relationship with foreign investors to intermediate business relationship between Vietnamese and foreign enterprises. Promotion of CGC and announcing VG of SCIC will contribute very much to establish such constructive relationship between the two.
- The table below implies a way how to make use VG efficiently to improve the transparency and efficiency of decision making process in the companies under the portfolio of SCIC and to establish more constructive dialogues between the shareholders and BOD as well as management body in the near future.

- It is recommended that SCIC help its portfolio companies to improve the quality of corporate governance by considering CGC and utilizing VG. For example, taking the SCIC’s classification of the portfolio companies into consideration (refer to Table 6.3), SCIC could allow SR to judge and vote by themselves without SCIC’s prior approval and instruction, referring the VG. In this way, SCIC will expected to improve more smooth relationship with its portfolio companies.
- Currently SCIC is at the starting point of the 1st phase. During this phase, SCIC shall (i) deepen understanding of the SR about concepts and contents of VG, (ii) review and decrease issues that SCIC is requiring prior report and request for instruction of SCIC/HQ taking the classification of the portfolio companies into consideration, and (iii) increase the number of issues that allows SR to judge and vote by themselves, referring the VG and report the results a posteriori to SCIC/HQ a posteriori. After several years, for example reviewing the outcomes of the first 3 year-period, SCIC may increase such items that will be left to the decision by SR clarifying the criteria for classifying issues to be submitted to the prior consultation of SCIC/HQ.

Table 6-3: Example model for the reference of VG

An idea of the efficient use of VG by SCIC in the next step		Requirement for reference of VG	
Categories of SCIC		1st phase (2-3years term)	after 3 years
A1	Actively retain for long-term investments Strategically hold	follow VG but report to SCIC before voting	as for issues clearly defined by VG, vote and report after; only special issues shall be reported to SCIC for consultation before making the vote
A2	SCIC has controlling stakes and will privatize according to the PM’s guidelines		
B1	Need to be restructured to increase state investment value before totally divesting		follow VG but report to SCIC before voting (increase business matching efforts)
B2	Need to be totally divested in the short-term	follow VG but report to SCIC before voting (in principle hold, watch and seek the opportunity for divesture)	follow VG but report to SCIC before voting (but vis-avis the companies that need to be restructured, seek the business matching opportunities more actively than the first phase using the company information database)

(Source: Japan Economic Research Institute Inc.)

6.4 Component 2: Risk management framework for new investments

Chapter 8 of the final draft “Risk management framework for new investment of SCIC” refers to the future risk management that should be considered by the SCIC after the initial implementation of the version 1.0 of the Risk Management Framework for New Investments.

Future risk management framework

- Market risk - When the asset types for the new investment is expanded, quantitative risk analysis, should be implemented.
- Liquidity risk -When the method of raising fund is expanded, liquidity risk management is necessary. Also, when relatively short term replacement of investment asset is performed, monitoring the rate of holding amount to issued amount is necessary in terms of market

liquidity. Furthermore, the risk management from the point of view of liquidity buffers is necessary.

- Credit risk-Risk management system for judging credit risk of the investment target is necessary. With this risk management system, counterparty risk management is also possible.
- Operational risk-Such systems preventing from fraud or error as voice recording, procedure manual and extensive double checking are necessary.

It is considered that investment for investment trust controls downside risk and prevent from huge loss when event risk occurs.

As mentioned above, risk management framework should be amended continuously and the additional risk management system for specific risk should be considered, if necessary.

6.5 Conclusion

The SOEs of newly developing countries, such as Vietnam, Indonesia and Malaysia, have been privatized. As the competition has intensified at the international market, the fair competitive environment with private companies is expected.

In Vietnam, the SOEs have been transferred to SCIC and then the SCIC is expected to enhance the SCIC’s portfolio companies’ governance by using the draft CGC or VG 2016 developed through this project. Once the portfolio companies’ corporate value is increased over the mid- to long-term, SCIC will sell the shares timely and apply the profit to the new investment by using “KRI” to manage risk.

When the cycle “transfer / enhancement of governance / increase of companies’ value / sell / new investment / enhancement of governance...” (Chart 6-4: SCIC’s investment cycle) is working effectively, the cycle would contributed to enhance Vietnamese companies’ profitability, leading to competitive business environment without government protection.

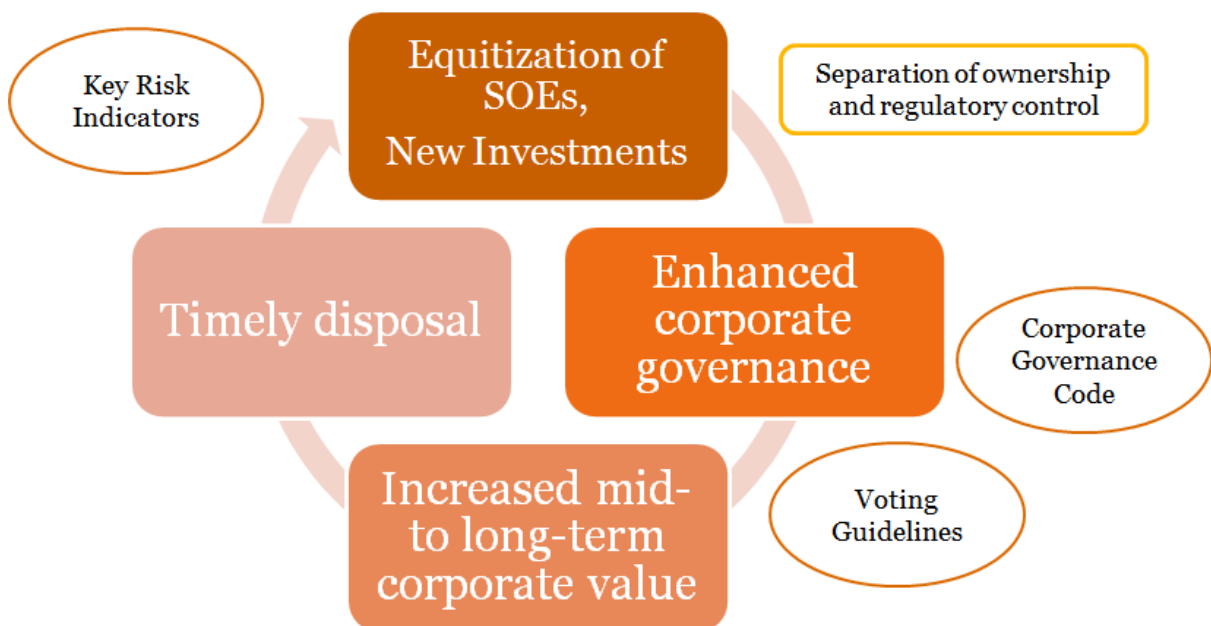


Chart 6-4: SCIC’s investment cycle

(Source: PwC Aarata LLC)

Separation of state ownership and regulatory functions

In the completion report of the Phase 1 of the Project, there were four recommendations of which three have been dealt within the scope of Phase 2; those are (1) Developing the corporate governance code, (2) Revising the voting guidelines, and (3) Developing the risk management system. The fourth recommendation was directed to JICA as follows:

Separation of state ownership and regulatory functions

The most significant contribution of SCIC's operational improvement toward PDM Overall Goal is to accelerate the transfer of SOEs not serving for public-policy purposes and in direct competition with private companies. If those SOEs are managed solely under the economic considerations, it will revitalize the whole economy not only by improving the management of SOEs but also by providing a level playing field for private competitors. However, while SCIC was established to perform such task, its role is still limited because ministries / provinces have resisted giving up their vested interest.

As new transfer of major SOEs to SCIC had gradually been resumed after the issuance of Decision 929, JICA should provide supports that further accelerate this process. More concretely, JICA should emphasize the importance of separating regulation / ownership functions to the government of Vietnam, and carry out projects that further improve SCIC's state capital management function, such as reinforcement of computer systems and supports on establishing internal regulations and reorganizations.

In response to the above recommendation upon completion of Phase 1 of the Project, JICA proposed in their final version of the "Policy Proposal Regarding State-Owned Enterprise and Banking Sector Restructuring Seeking to Consolidate the Restructuring of Vietnam's Industry & Financial System" (the "JICA Proposal") in July 2016 to the Vietnamese government leaders the following points:

- Currently, the Vietnam is considering establishing a new independent organization, "Single Ownership Entity," that manage the state capital of SOEs in order to separate the regulatory/administrative authorities from the state capital owners.
- It is desirable that the SCIC centrally manages and withdraw state capital invested in companies for which the state does not need to hold majority ownership, and both the new organization and the SCIC should work closely together, like wheels on the same axle, to manage and withdraw state capital.
- The proposed "Single Ownership Entity" could be, for example, structured by:
 - (1) Establishing a new government body to take the role by merging the related functions from the existing government bodies, similar model to the Chinese "State-Owned Asset Supervision and Administration Committee (SASAC)",
 - (2) Transforming SCIC to a form of holding company structure similar to the Singaporean Temasek Holdings, after strengthening capacity of SCIC, including human resources, or
 - (3) Strengthening the function of the Corporate Finance Department of the Ministry of Finance by transforming it to the General Directorate and having it to take the role from a viewpoint of "State Asset Management" and "Sourcing proceeds from selling state ownership (stocks) for the state budget" similar viewpoint to Japanese case.
- Though these are some examples of the structure of the "Single Ownership Entity," it is expected that the National Assembly, the Party, the Government and the other

stakeholders will discuss and carefully consider the structure suitable for the situation in Vietnam based on the experiences of foreign countries.

It is clearly mentioned in the “OECD Guidelines on Corporate Governance of State-Owned Enterprises (2015)” that a conflict of interest may occur if a government agency has both the function of a regulator/administrator and the function of an owner of SOEs. Because the separation of these two functions is a “principle prerequisite” to attaining a level playing field between SOEs and private companies as well as an efficient allocation of the state’s resources, as stated in the JICA Proposal, we mention here in this Project completion report again that the separation of regulatory/administrative authorities from state capital owners should be one of the highest priorities to achieve the higher level of corporate governance among all state owned enterprises in Vietnam.

Finally, all of the three tools, CGC, VG and KRI, have now been developed and ready for implementation by SCIC. SCIC should continuously update and upgrade these tools; these are used to enhance the corporate governance of the SOEs in Vietnam, leading to the enhanced corporate value of each SOE in mid- to long-term in future. The role of SCIC should not be underestimated. Rather, its significant role in the sustainable growth of Vietnamese SOEs is ever evolving, as well as stakeholders’ expectation of the SCIC’s role as a “bridging institution” towards SOE privatization through promoting investment by foreign and domestic investors.

7. Equipment

- HP M127FN Laser Printer (complex machine) (1 –one)

The above mentioned printer was provided by JICA Vietnam Office on Oct 12, 2015 and returned on Oct 19, 2016.

(End)

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Japan International Cooperation Agency (JICA)

Vietnam

**The project for enhancing corporate finance
management capacity to implement SOE
restructuring on State Capital Investment
Corporation (SCIC) -2**

Work Plan

November 30, 2015

(Revised: April 20, 2016)

PricewaterhouseCoopers Aarata

Japan Economic Research Institute Inc.

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1. Outline of the Project

1.1. Background

Under the technical cooperation project named “Enhancing corporate finance management capacity to implement state owned enterprises (SOEs) restructuring” (hereinafter referred to as the “Umbrella Project”) between the Japan International Cooperation Agency (JICA), the Ministry of Finance of the Socialist Republic of Vietnam (MOF) and its policy implementation entities including State Capital Investment Cooperation (SCIC), to strengthen the capacity in corporate management, supervision and governance for officials and staff of SCIC is defined as one of the important outputs shown as the output 4 of the Project Design Matrix of the Umbrella Project.

To achieve such an output of the Umbrella Project, JICA and SCIC have been implementing activities related to SCIC (hereinafter referred to as the “SCIC’s Sub-Project”) as follows:

<Phase 1-1 of the SCIC’s Sub-Project from September 2014 to March 2015>

JICA and the Japan Economic Research Institute Inc. (JERI) team (the “Team”), who are the consultants to co-work with SCIC to implement the related project activities to the abovementioned project’s output, reviewed and analyzed the current SCIC’s institutional structure, mandate, business strategy and related regulations to identify the business opportunities and needs of the capacity development of SCIC from September 2014 to March 2015. The Team concluded and shared with SCIC the following recommendations to enhance corporate finance management capacity of SCIC to implement SOEs restructuring in Vietnam.

- (i) As a state agency that manages state capital in hundreds of enterprises, SCIC should be “the pioneer” in promoting modern corporate governance practice in Vietnam, by establishing the voting guidelines (“VG”) and Corporate Governance Code (“CGC”), and to establish the Institute for Directorship to educate and accredit those who become board members of joint stock companies (“JSC”).
- (ii) Reinforcing the portfolio company database
- (iii) Establishing functional teams, such as a strategic industry team with industry research capability, a specialized divestiture team for specific purposes, and other specialized teams to support portfolio companies
- (iv) Expanding new investments gradually by identifying the areas where the government’s investments are justified, such as playing a role of “catalyst” to promote investment in strategic sectors and/or the areas that are difficult for private sectors to invest, by setting a specific target for each type of investments, and by setting clearly both a single entity exposure limit and a sector specific exposure limit.

Based on these recommendations, MOF, SCIC and JICA decided to implement the follow-up activities mainly focusing on establishing VG and CGC, and strengthening risk management process of SCIC. The activities on establishing VG has showed the progress as follows:

<Phase 1-2 of the SCIC's Sub-Project from May 2015 to October 2015>

For establishing VG, JERI was assigned by JICA in May 2015 to support SCIC in drafting the VG. JERI submitted the draft VG (hereinafter referred to as "VG 2015") in early September 2015 for SCIC's review and approval. The draft VG 2015 was reviewed and was submitted to the Board of Management for approval during the period between October and November 2015, and the Board approved it in December 2015.

After the approval by the Board, the VG 2015 will be put under the trial application and a follow-up survey will be conducted to review the outcomes of the application. The contents of the VG 2015 shall be revised if necessary based on the outcomes of the survey.

For the abovementioned follow up tasks of the VG 2015 and updating and revising it, JICA and SCIC agreed to assign JERI again in cooperation with the SCIC, and to assign SCIC's task force members (TF) who have been assigned for the preceding project.

In parallel with activities on establishing and application of the VG 2015, JICA and SCIC agreed to start activities related to establishing CGC and strengthening internal risk management of SCIC as the second phase of the SCIC's Sub-Project. The following section describes the components of the second phase.

1.2. Phase 2 of the SCIC's Sub-Project (Sub-Project 2) – Three components

Given the urgency and importance of the recommendations made in the preceding project, MOF, SCIC, and JICA all decided to implement the phase 2 – "the Project for enhancing corporate finance management capacity to implement SOE restructuring on State Capital Investment Corporation (SCIC) 2" (the "Sub-Project 2") in September 2015, which consists of the following three components:

- Component 1-1: Developing the draft Corporate Governance Code to be applied to the SCIC's portfolio companies,
- Component 1-2: Revising the Voting Guidelines applied to the SCIC's portfolio companies, and
- Component 2: Enhancing the internal risk management system of SCIC

To implement the Sub-Project 2, JERI and PricewaterhouseCoopers Aarata ("PwC") have formed a joint venture consultant team where PwC is acting as a lead consultant and mainly working on the components 1-1 and 2, while JERI is continue working on the component 1-2 with leverages from the preceding project.

Since CGC and VG are both important elements of good governance and are closely inter-related, PwC and JERI will closely communicate and coordinate each other during the Project to deliver the consulting services effectively and efficiently.

1.3. Objectives of Sub-Project 2

1.3.1. Overall objective (Goal) of Sub-Project 2

Strengthening capacity in corporate management, supervision, and governance for officials and staff of SCIC (same as the Output 4 of the Umbrella Project), specifically the capacity to accelerate innovation of state owned enterprises (“SOEs”) by further enhancing the SOEs’ healthy and efficient management.

1.3.2. Objective (Purpose) of Sub-Project 2

There are two project specific objectives:

- To contribute to the innovation of SOEs, SCIC should be “the pioneer” in promoting modern corporate governance practice in Vietnam by developing the internationally recognizable draft corporate governance code and voting guidelines to be applied to the SCIC’s portfolio companies, and
- To maintain healthy and efficient operations of the state capital by enhancing the internal risk management system of SCIC.
- For the component 1-2, project specific purpose is to monitor and review the trial implementation of the Voting Guideline (VG) 2015, update and revise the contents if necessary to establish VG 2016 and contribute to strengthening the capacity of SCIC in corporate governance, with focus on the increase of the value of SOEs in the portfolio of SCIC and promote the divestment of SOEs. (Added as of April 20, 2016)

1.4. Expected output of Sub-Project 2

1.4.1. Component 1-1 Developing the draft CGC

The output is the draft corporate governance code and its application guidance to be applied to the SCIC’s portfolio companies.

1.4.2. Component 1-2 Developing the VG

The output is the VG 2016 for increasing further the value of the enterprises in the portfolio of SCIC (“SCIC’s portfolio companies”) based on the results of monitoring and reviewing the actual trial implementation of VG 2015 vis-à-vis enterprises in the portfolio of SCIC. (Revised as of April 20, 2016)

1.4.3. Component 2 Enhancing the internal risk management system of SCIC

The output is the risk assessment methodology based on key risk indicators (“KRI”) for new investments of SCIC to enhance the internal risk management system of SCIC by reviewing the current situations and making recommendations.

2. Approaches of Sub-Project 2

2.1. Component 1-1 Developing the draft CGC

Using the most recent international corporate governance framework, such as “OECD Guidelines on Corporate Governance of State-Owned Enterprises (2015 Edition)” (“OECD SOE Guidelines”) and “G20/OECD Principles of Corporate Governance” (“OECD Principles”) as benchmarks, the draft CGC and its application guidance will be developed with close communication with SCIC and

other stakeholders. The SCIC's portfolio companies are expected to use the final CGC and its application guidance.

Other input in developing the draft CGC and its application guidance would include: (a) Gap analysis with reference to relevant Vietnamese laws and regulations, (b) Researches on other countries who have CGC in place, (c) Observations and recommendations by preceding project, and (d) Inputs from workshops for SCIC task force members and management.

The final draft CGC and its application guidance should be practical as well as well understandable both by SCIC staff and by SCIC's portfolio companies' management.

2.2. Component 1-2 Revising the VG

The VG 2015 approved in December 2015 and was distributed to the state representatives of the enterprises in the portfolio of SCIC for trial application using it as the reference material for the preparation of 2016 AGM from February 2016.

Follow-up survey of the trial application will be conducted by TF during May and July 2016. By leveraging experiences in the developing phase of the VG 2015 and analyzing the outcomes of the trial application of the VG 2015 to the SCIC's portfolio companies, VG 2016 is to be developed by updating the VG 2015.

The updated VG 2015 will be prepared by September as the VG 2016 and it shall be submitted to the Board of SCIC for approval before being officially applied.

Ultimate outcome is to transfer the know-how to the SCIC staff by working closely with them in developing the VG 2015/2016.

Expected project period would be:

Starting from the first trial application of the VG 2015 until end of October 2016 (Please refer to 7. Work Schedule, Component 1-2, of this document.) (Added as of April 20, 2016)

2.3. Component 2 Enhancing the Internal Risk Management System of SCIC

Using leverage by co-working with the SCIC staff who has considerable knowledge and experiences, establishing the KRI for new investments to contribute to the internal risk management system for the SCIC's new investments.

3. Specific procedures – activities and output of Sub-Project 2

3.1. Component 1-1: Developing the draft CGC

3.1.1. Work in Vietnam (October – December 2015)

a. Discuss and agree workplan with SCIC and Ministry of Finance

<Output>

A workplan is prepared and agreed with SCIC and MOF.

b. Hold initial meeting with SCIC task force members

<Activities>

Initial meeting with SCIC task force members is held in November/December 2015 to help them understand the concept of CGC, and PwC consultants to understand the current status of the corporate governance of SCIC's portfolio companies and to identify potential areas of focus by this interactive session. Timing will be determined in coordination with SCIC. It could be combined with the workshop if it is more efficient to do so.

<Output>

Meeting material and summary of the meeting results is prepared.

c. Perform a gap analysis

<Activities>

A gap analysis is performed by reviewing the relevant Vietnamese laws and regulations and SCIC's internal regulations, comparing them with the OECD Principles and the OECD SOEs Guidelines.

<Output>

A gap analysis report is prepared.

d. Perform research on other countries who have CGC in place

<Activities>

Perform research on other Asian countries that have CGC in place how they have developed the CGC (including analysis on the departures from the OECD Principles/Guidelines and their application policies). Sample countries would include: Singapore, Indonesia, Malaysia and Japan. UK and other countries would also be referred to as a leading best practice.

<Output>

A comparative analysis report is prepared.

e. Develop the first draft CGC

<Activities>

The first draft CGC to be applied to the SCIC's portfolio companies is developed in English by end of November 2015 based on the output of procedures b, c, and d above. The first draft CGC would include the principles for SCIC that are considered to be essential elements of the corporate governance as a governmental investment company.

<Output>

The first draft CGC in English is developed.

f. Develop the first draft application guidance of CGC

<Activities>

The first draft application guidance of the CGC would include but not limited to the following contents: scope, legal basis, application exemptions, effective date, disclosure requirements and format, assurance over disclosed information, monitoring and enforcement, subsequent revision of the CGC, and any other guidance that would be necessary to implement the CGC.

<Output>

The first draft application guidance of the CGC in English is developed by end of November 2015.

g. Hold the workshop with SCIC task force members and management (June-August 2016)

<Activities>

To help SCIC management and other relevant parties understand the first draft CGC and its application guidance both in English and in Vietnamese, the ~~second~~ workshop is held mainly by the SCIC task force members with support from PwC consultants. (Note: The division of roles in arrangements including cost for workshop(s) inviting participants from outside of SCIC shall be discussed and determined between JICA and SCIC accordingly.)

<Output>

Workshop material and the summary, together with a list of feedbacks from SCIC participants, are prepared. Timing will be determined in coordination with SCIC.

h. Discuss with MOF and international organizations (June – August 2016)

<Output>

Meeting materials and discussion summary are prepared.

3.1.2. Training in Japan (March 2016)

The objective of the training is to further understand how corporate governance system is working in Japan among public and private financial institutions, asset management companies and private enterprise group, by exchanges of views on:

- Underlying concept and objective of the corporate governance code in general that are derived from the experience of Japan,
- Global institutional investors' views and expectations to the Vietnamese enterprises, and
- Risk management system and practices of the major Japanese securities companies for new and existing investments.

<Output>

A training program is developed and agreed with SCIC and MOF in advance; Trainees (around 10 people) are selected from SCIC and MOF; Training time-schedule is prepared (10 day-training in Japan including travel time); Training materials are prepared; A feedback from all participants is obtained and summarized, and report that summarized the activities is prepared.

3.1.3. Follow-up procedures in Vietnam (June - August 2016)

a. Develop a final draft CGC and its application guidance to be applied to the SCIC's portfolio companies (by end of September 2016)

<Activities>

- SCIC is to select one or two appropriate sample company/companies in the portfolio of SCIC who are willing to apply the first draft CGC and its application guidance to test the applicability of the first draft CGC and its application guidance. A sample company (or two companies) is selected by SCIC by May 31, 2016.
- Plan the follow-up review procedures and agree with SCIC.
- Provide training sessions to the sample company/companies how to apply the first draft CGC and how to prepare the disclosures.
- Discuss with the SCIC task force members and department heads over the sample portfolio companies' CGC disclosures and assess the first draft CGC's applicability and usefulness.
- Revise the final draft CGC and its application guidance based on the results of the follow-up procedures described above. The revised final draft CGC and its application guidance should be modified by the any changes in the Vietnamese laws and regulations during the subsequent period after the first CGC draft and its application guidance was originally developed in December 2015.
- SCIC is to approve the revised final draft CGC and its application guidance and take necessary action (i.e. revision of Decision 24) to request its portfolio companies to implement the CGC and its application guidance (by end of December 2016).
- Prepare a final report

<Output>

- A final draft CGC to be applied to the SCIC's portfolio companies and its application guidance are developed in Vietnamese and in English.
- Any recommendations regarding to the post implementation of the CGC and its application guidance are communicated to SCIC in the final report.

3.2. Component 1-2: Revising the Voting Guidelines

<Activities> (Revised as of April 20, 2016)

Based on the trial application of VG 2015 approved by the Board of SCIC, the Team will make following monitoring activities for enhancing corporate governance management capacity of SCIC over its portfolio companies to increase the corporate value of those companies.

- a. To assist SCIC's TF of the Voting Guideline (VG) for monitoring the actual

application, reviewing the contents of the VG 2015 when necessary to update the contents, and preparing the decisive VG to be implemented by SCIC in 2016.

- b. In this connection, the JERI consultants will assist TF for preparing the questionnaire survey (as for the survey forms, please refer to the Attachment), collecting feedback comments from staff of SCIC using the questionnaire, including suggestions from the State Representatives of enterprises being under the portfolio of SCIC (SR), and analyzing the results.
- c. The JERI consultants will work closely in cooperation with the TF to revise the contents of VG 2015 taking into consideration recent changes of the legal framework by Vietnam and requesting advices from legal experts, both Vietnamese and international and in cooperation with the TF for drafting the Corporate Governance Code for SCIC's portfolio companies led by PwC.
- d. In order to motivate SCIC's portfolio companies to use Corporate Governance Code, BOD members' efforts of the portfolio companies for the improvement of Corporate Governance of portfolio companies will be included in the revision of VG 2015 as one of the criteria for nomination of BOD members based on the discussion dated on 15th of April 2016 among SCIC, JICA Vietnam office and JICA SOE project team.

The above activities are revised as of April 20, 2016. Consequently, corresponding PDM <activities> are also updated.

< Work Schedule for 2016> (Added as of April 20, 2016)

- a. Trial implementation of the VG: VG brochure was distributed in late January 2016. Preliminary (trial) implementation by SCIC is expected during February and June.
- b. Forms of the questionnaire survey to be used in the review of the trial implementation (follow-up Survey) will be prepared during April-May by JERI team in cooperation with TF members.
- c. Follow-up survey: The follow up survey shall be implemented during June and July by TF with the assistance of JERI team using the forms.
- d. Analysis the survey results and discussions in TF will be held during August to review and amend the VG 2015 if necessary based on the survey results.
- e. Review of VG for official implementation: Report the contents of the revision of VG2015 to the Board of SCIC in September to distribute it for the implementation with the official approval of SCIC (target date of the approval will be the end of October).

<Output>

VG 2016 based on the revision of VG 2015 which shall be approved by the Board of Directors of SCIC and implemented by SCIC in and after 2016. (Revised as of April 20, 2016)

3.3. Component 2: Enhancing the internal risk management system of SCIC

3.3.1 Support establishing the KRI for new investments

<Activities>

- Confirmation of the project scope and clarification
- Presentation of the drafted KRI including its basic concept
- Feasibility study of the drafted KRI
- Decision of the interim KRI
- Preparation of the interim report and Training

<Output>

An interim KRI is to be prepared based on the above procedures.

3.3.2 Support enhancement of the KRI for new investments

<Activities>

- Review status of implementation of the KRI
- Discussion of **revision of interim** KRI
- **Preparation of final report**

<Output>

An action plan for enhancement of KRI is prepared.

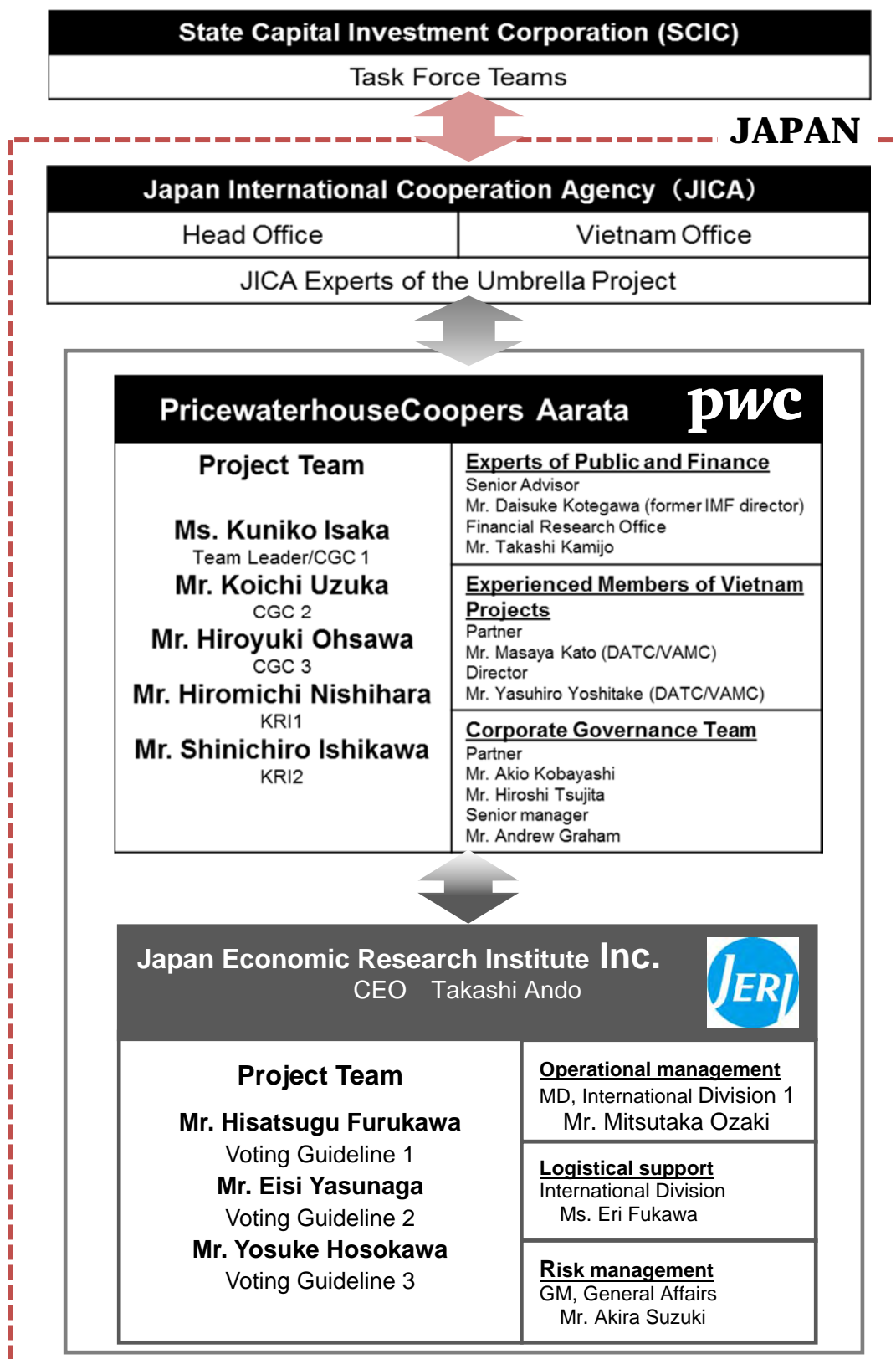
3.4. Final Reporting (July – October 2016)

<Output>

A set of completion reports that covers components 1-1, 1-2, and 2 in Japanese, Vietnamese, and English is prepared and submitted to MOF/SCIC/JICA by PwC/JERI.

4. Project implementation bodies

4.1. JICA Experts and a Joint Consultant Team (PwC and JERI)



4.2. Professional Background of the Consultant Team Members

Name	Role	Experiences
Kuniko Isaka (Ms) PwC	Team Leader/ CGC1	Worked for Indonesian oil & gas company PERTAMINA affiliate company in Tokyo, Lloyds Bank Plc., and PwC New York as a US-CPA. At present, director of PwC Aarata Japan, and a member of PwC Centre for Corporate Governance in Japan. Provided advisory services to the Tokyo Stock Exchange in developing the draft Japanese Corporate Governance Code.
Koichi Uzuka (Mr) PwC	Team Sub-Leader/ CGC2	PwC Tokyo, Financial Service Agency, Director, Leader of Insurance GRC group of PwC Aarata. A member of PwC Centre for Corporate Governance in Japan.
Hiroyuki Ohsawa (Mr) PwC	CGC3	PwC Tokyo, manager of Insurance GRC group of PwC Aarata.
Tomoko Kanno (Ms) PwC (Subject to JICA/PwC contract modification)	CGC4	PwC Tokyo, CPA of the US (New Hampshire), experienced advisor, mainly working on the regulatory governance enhancement advisory for financial institutions and on implementation of various company policies.
Hisatsugu Furukawa (Mr) JERI	VG1	Bank of Japan, MURC and JERI; ODA Projects (WB, ADB, long-term adviser of JICA to SBV; expert in finance, SME development, HRD and many others)
Eishi Yasunaga (Mr) JERI	VG2	DBI and JERI, Executive Vice President of JERI in charge of International Operations; ODA Projects (support for DAF, HRD in Asian countries and other policy based financial institutions in Asia and Africa, and others)
Yosuke Hosokawa (Mr) JERI	VG3	DBJ, Merrill Lynch, and JERI; M&A projects (adviser to aviation company, electric power company, and various kinds of manufacturers); ODA Projects (JICA, DBJ in corporate finance)
Hikomichi Nishihara (Mr) PwC	KRI 1	Bank of Japan, secondment to JBIC, PwC Tokyo, Partner of BCM(Banking/Capital Markets) of PwC Aarata
Shinichiro Ishikawa (Mr)	KRI 2	Bank of Japan, PwC Tokyo, Director of FS-GRC of PwC Aarata

PwC		
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JERI team will work with following local consultants to support the team and require legal advices from Nishimura & Asahi Vietnam Office when necessary

- StoxPlus Co.
 - Mr. Nguyen Quang Thuan, CEO
 - Ms. Nguyen Thi Quynh Lan, Manager of Research Services, Senior Consultant
 - Mr. Ha Hoang Giang, Consultant
 - Ms. Nguyen Ngoc Phuong Anh, Consultant
- Legal advisors: Nishimura & Asahi Vietnam Office (HCMC Office)
 - Ms. Hikaru Oguchi, Partner, Admitted in Japan & New York, Registered foreign attorney in Vietnam
 - Mr. Ha Hoan Loc, Attorney-at-Law, Admitted in Vietnam
- (Hanoi Office)
 - Mr. Shiro Muto, Attorney-at-Law, Admitted in Japan & New York, Registered foreign attorney in Vietnam
- (Tokyo Office)
 - Ms. Taeko Morita, Attorney-at-Law, Admitted in Japan & New York

5. Project Design Matrix (PDM) of Sub-Project 2

Narrative Summary	Objectively Verifiable Indicators (OVI)	Means of Verification (MOV)	Material Assumptions
<p>Overall Objective (Goal): Strengthening the capacity in corporate management, supervision, and governance for officials and staff of SCIC (same as the Output 4 of the Umbrella Project), specifically the capacity to accelerate innovation of state owned enterprises (“SOEs”) by achieving the SOEs’ healthy and efficient management</p>	TBD	TBD	TBD
<p>Project Objective (Purpose): (1) To contribute innovation of state owned enterprises, SCIC should be “the pioneer” in promoting modern corporate governance practice in Vietnam by establishing the Corporate Governance Code (“CGC”) to be applied to enterprises in the portfolio of SCIC.</p>	<p>The number of portfolio companies that apply the corporate governance code for SCIC’s portfolio companies.</p> <p>Task force members are capable of maintaining CGC by themselves and disseminating concept of CGC to other SCIC staff and portfolio companies.</p>	<p>Progress report</p> <p>Task Force members’ activity log</p>	<p>Active participation to the project (e.g. interviews, meetings and workshops) by the SCIC task force members and management as well as management of the SCIC’s portfolio companies.</p>

<p>(2)To maintain healthy and efficient operation and management of the state capital by enhancing the internal risk management system of SCIC.</p>	<p>The periodic reviews and revisions, if necessary, of the KRI for new investments by SCIC’s risk management department and TF members.</p>	<p>A periodic review log of the KRI for new investments.</p>	<p>Active participation to the project (e.g. interviews, meetings and workshops) by the SCIC task force members and management. Continuous review and update of the KRI by the SCIC task force members and management after initial implementation.</p>
<p>Output: Component 1-1 Developing the Corporate Governance Code (“CGC”) to be applied to the enterprises in the portfolio of SCIC</p>	<p>CGC to be applied to the SCIC’s portfolio companies and its application guidance are developed and approved by SCIC.</p> <p>The task force members’ and other key management’s level of knowledge and understanding of CGC are further</p>	<p>Approval of final draft of CGC and application guidance by SCIC</p> <p>Self-assessment after workshop and training program in Japan.</p>	<p>Active participation to the interviews, meetings, workshops and timely disclosure of necessary information by SCIC Task Force members and management.</p>

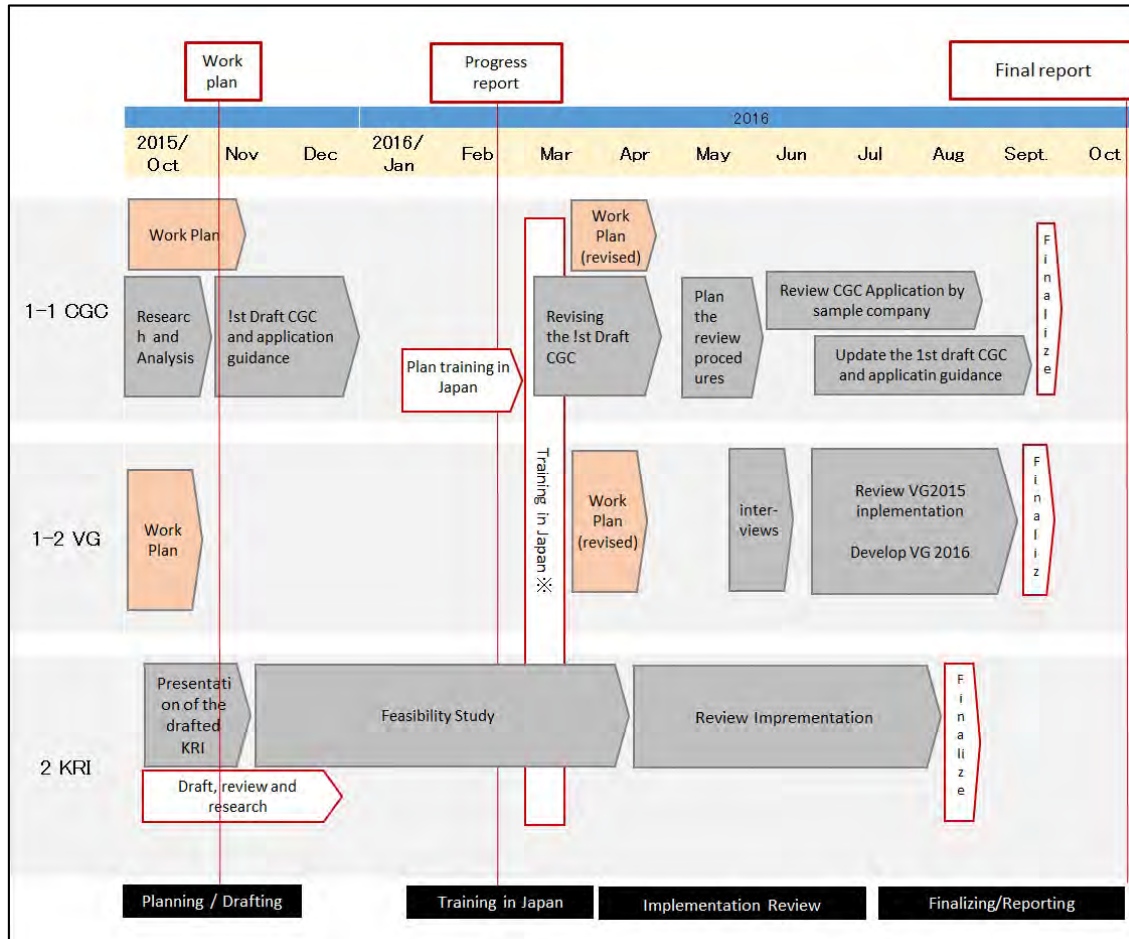
	enhanced.		
<p>Output: Component 1-2 To monitor and review the trial implementation of the VG 2015, update and revise the contents if necessary, to establish the VG 2016, and contribute to strengthening the capacity of SCIC in corporate governance, with focus on the increase of the value of SOEs in the portfolio of SCIC and promote the divestiture of SOEs.</p>	<ul style="list-style-type: none"> VG 2016 is prepared 	<p>VG 2016 and Progress report</p>	Active participation to the interviews, meetings, workshops and timely disclosure of necessary information by SCIC Task Force members and management.
<p>Output: Component 2 Enhancing the internal risk management system of SCIC by establishing the KRI for new investments</p>	<ul style="list-style-type: none"> The KRI for new investment is developed based on the review of current risk management system of SCIC 	Progress report	Active participation to the interviews, meetings, workshops and timely disclosure of necessary information by SCIC Task Force members and management.
Narrative Summary		Input	Material Assumptions
<p>Activities: Component 1-1: Corporate Governance Code (1) Work in Vietnam (October – December 2015)</p> <ol style="list-style-type: none"> a. Discuss and agree work plan with SCIC and Ministry of Finance b. Hold initial workshop with SCIC task force members and management (it could be combined with the 2nd workshop) c. Perform gap analysis 		Vietnam: <ul style="list-style-type: none"> SCIC Task force members and relevant department heads Office space and basic 	Timely assignment of task force members with sufficient availability of time and efforts.

<ul style="list-style-type: none"> d. Perform research on other countries who have CGC in place e. Develop the first draft CGC f. Develop the first draft application guidance of CGC g. Hold second workshop with SCIC task force members and management h. Discuss with Vietnamese government and international organizations 	<p>facilities</p> <p>Japan:</p> <ul style="list-style-type: none"> ▪ Experts and consultants ▪ Basic supplies 	<p>Active cooperation and participation to interviews, meetings, and workshops by task force members and other relevant staff within SCIC.</p> <p>Timely disclosure of necessary information by SCIC.</p>
<p>(2) Training in Japan (March 2016)</p> <ul style="list-style-type: none"> a. A training program is developed and agreed with SCIC and MOF in advance b. Trainees (around 10 people) are selected from SCIC and MOF c. Training time-schedule is prepared (10 day-training in Japan including travel time) d. Training materials are prepared e. A feedback from each participant is obtained and summarized f. A report that summarized the activities is prepared 	<p>Vietnam:</p> <ul style="list-style-type: none"> ▪ SCIC/MOF participants <p>Japan:</p> <ul style="list-style-type: none"> ▪ Instructors from various organizations ▪ Training materials ▪ Training facilities (JICA) ▪ Hotel accommodation (JICA) 	<p>Active participation to the training programs by all participants</p>
<p>(3) Follow-up procedures</p> <ul style="list-style-type: none"> a. Test the first draft of the CGC and its application guidance to be applied to the SCIC's portfolio companies by selecting one or two sample companies to apply b. Develop a final draft CGC and its application guidance to be applied to the SCIC's portfolio companies 	<p>Vietnam:</p> <ul style="list-style-type: none"> ▪ SCIC Task Force members and management ▪ Sample portfolio company's management and staff ▪ Workspace at SCIC and basic facilities 	<p>Timely selection of one or two SCIC's sample portfolio companies by May 31, 2016.</p> <p>Sample portfolio company management's consent</p> <p>Active participation by the selected sample portfolio companies</p>

	<p>Japan:</p> <ul style="list-style-type: none"> • Experts and consultants 	<p>Active participation by the SCIC task force members, other relevant staff and management</p>
<p>Component 1-2: Voting Guideline</p> <p>a. To assist SCIC’s Task Force (TF) for the Voting Guideline (VG) for monitoring the actual application, reviewing the contents of the VG when necessary to update the contents, and preparing the decisive VG to be implemented by SCIC in 2016.</p> <p>b. In this connection, the JERI consultants will assist TF for preparing the questionnaire survey, collecting feedback comments from staff of SCIC using the questionnaire, including suggestions from the State Representatives of enterprises being under the portfolio of SCIC (SR), and analyzing the results.</p> <p>c. The JERI consultants will work closely in cooperation with the TF to revise the contents of VG 2015 taking into consideration recent changes of the legal framework by the Government of Vietnam and requesting advices from legal experts, both Vietnamese and international and in cooperation with the TF for drafting the Corporate Governance Code for SCIC’s portfolio companies lead by PwC.</p> <p>d. In order to motivate SCIC’s portfolio companies to use Corporate Governance Code, BOD members’ efforts of the portfolio companies for the improvement of Corporate Governance of portfolio companies will be included in the revision of VG 2015 as one of the criteria for nomination of BOD members based on the discussion dated on 15th of April 2016 among SCIC, JICA Vietnam</p>	<p>Vietnam:</p> <ul style="list-style-type: none"> • SCIC task force members for VG and management • Workspace and basic facilities at SCIC <p>Japan:</p> <ul style="list-style-type: none"> • Experts and consultants • Office supplies 	<p>Assignment of a leader within the VG TF members</p> <p>Active participation by the SCIC task force members, relevant staff and management, and cooperation from state representatives</p>

office and JICA SOE project team.		
<p>Component 2:</p> <p>a. Support establishment of the KRI for new investments</p> <ul style="list-style-type: none"> ▪ Confirmation of the project scope and clarification ▪ Presentation of the draft KRI including its basic concept ▪ Feasibility study of the draft KRI ▪ Decision of the interim KRI <p>b. Support enhancement of the KRI for new investments</p> <ul style="list-style-type: none"> ▪ Review status of the implementation of KRI ▪ Discussion of revision of interim KRI 	<p>Vietnam:</p> <ul style="list-style-type: none"> ▪ SCIC Task Force members ▪ Office space and basic facilities <p>Japan:</p> <ul style="list-style-type: none"> ▪ Experts and consultants 	<p>Active participation by the SCIC task force members, relevant staff and management</p>

6. Work-flow of Sub-Project 2 (Revised as of April 20, 2016)



8. Preliminary agreements and requests to SCIC

8.1. Assignment of the Task force members

To implement the tasks within the component 1-2 of the Sub-Project 2, the JICA/JERI team has requested SCIC to appoint six SCIC TF members for VG, same number as previous project, and to include some members who were also the VG 2015 TF members. In addition, the team has requested SCIC to appoint a leader among the six appointees and share the name, title and contact address within SCIC including State Representatives.

For components 1-1 and 2, in response to the request by JICA/PwC team, following members were appointed as TF members on November 4, 2015:

- Connection Team – Executive Office:
Ms Dam Thuy Nga, Deputy Director
Mr Truong Dinh Tuan (Until November 30, 2015)
Ms. Nguyen Anh Tam (From December 1, 2015)
- CGC TF Members
Mr Le Thanh Tuan, Head of Portfolio Management Department (PMD) 4
Ms Do Thi Phuong Lan, PMD 2 : Main contact of this group
Mr Le Ba Nam Linh, PMD 1
Mr Tran Minh Duc, PMD 3
Mr Tran Trung Kien, PMD 4
- KRI TF Members
Mr Vu Hong Tuan, Deputy Director, Audit and Risk Management Department
Ms Nguyen Thi Tham, Deputy Manager, Risk Management Division, Risk Management Department (RMD), main contact of this group
Mr Cao Duy Ha, Deputy Manager of Investment Department (ID)
Ms Nguyen Thi Kim Anh, Deputy Manager of ID
Ms Nguyen Dieu Huyen Trang, Associate, RMD

These TF members are expected to take ownership of each responsible task within the Sub-Project 2 and to demonstrate leadership in SCIC in developing, proper applications and maintenance of the corporate governance code or key risk indicators for new investments.

To achieve the overall goal and project objectives for the Sub-Project 2, the PwC/JERI consultants believe that the TF members should play an important role as a leader of the corporate governance enhancement project throughout the Sub-Project 2.

8.2. Periodic communication

JICA/PwC/JERI team would request SCIC management to have a periodic communication throughout the project. Such communication could be face-to-face

meetings or e-mail exchanges.

8.3. Workspace for project consultants at SCIC premises

SCIC and JICA/PwC/JERI consultants have agreed that the consultants have access to a meeting room on the 24th floor of the SCIC Head Office premises as a project room for timely and effective communication throughout the Sub-Project 2.

8.4. Follow-up procedures for CGC

To perform the follow-up procedures in Vietnam described in section 3.1.3 of this document, JICA/PwC consultants request SCIC to select one or two sample companies who is willing to participate to the pilot program by **May 31, 2016** for testing the final draft of the CGC and its application guidance so that consultants have sufficient time to plan and prepare for the procedures.

In case SCIC's selection process is not completed by **May 31, 2016**, JICA/PwC consultants would **not** perform the review procedures **and the component 1-1 Corporate Governance Code shall be terminated as of May 31, 2016.**

8.5. This Work Plan

This work plan was originally prepared and agreed as of November 30, 2015 and subsequently revised as of April 20, 2016. Words and sentences highlighted in yellow are revised as of April 20, 2016.

(End)

Attachment (Added as of April 20, 2016)

Survey sheet 1: Preliminary application of VG 2015 (draft)

Survey sheet 1									
Voting Guideline - current situation of investee company				Notes for answering this sheet: numbers printed in [] are inputted based on the list of the portfolio companies					
				* if the given information in the column of is incorrect or changed, please write correct or new information in the column in blank.				Your sheet No. if necessary ()	
Code	Item	2015 Old	2015 New (Correct or revise the data printed in the left column if the data is not right or out of dated)	2016					
I About the portfolio company									
1.10	Company Code (given by SCIC)	BGT20							
1.20	Company name	Bac Giang Cement JSC							
1.30	Allocated group (check in the ☐)	B2		A-1 (invested strategically core group) ☐; A-2 (guided strategically core group) ☐; B-1 (flexible group) ☐; B-2 (divesture group) ☐					
1.40	Industrial Section (by main products/activities)	601010 - Other sector		Please chose and write the number of the industry classification shown in the right column: In case of '99. Others', please also specify the industry/sector;		1. Telecommunication; 2. Healthcare; 3. Financial Services (banking-insurance); 4. Information Technology; 5. Construction; 6. Water-Electricity-Gasoline; 7. Production of basic consumer goods (foods, beverages & drinks...); 8. Energy-Mining; 9. Transportation; 10. Agriculture; 11. Commerce/wholesale & services; 99. Others			
1.50	Type of the company	Joint Stock Company		1. Single-member limited liability company ☐; 2. Multiple-member limited liability company ☐; 3. Joint stock ☐; 4. Partnership ☐; 5. Private ☐; 6. Corporate group ☐; 7. Share holding company ☐; 8. Joint venture ☐; 9. Foreign owned ☐; 11. Listed ☐; at Hanoi EX ☐; at HCMX ☐; 12. un listed ☐;					
1.60	Province/address of the company registration	Thị trấn Tân Uyên, huyện Tân Uyên, tỉnh Lai Châu							
1.70	Chartered Capital amount (million VND or million USD)	58,173,000,000		1. VND ☐, 2. USD ☐ amount:					
1.80	of which, amount held by SCIC	2,703,250,000		1. VND ☐, 2. USD ☐ amount:					
1.90	Year that SCIC acquired the share of the enterprises	Tiếp nhận năm 2013		(19XX):					
1.10	Department/branch in charge	Portfolio Department Management 1		1. PMD 1 ☐; 2. PFD 2 ☐; 3. PMD 3 ☐; 4. PMD 4 ☐; 5. New Investment Dept. ☐; 6. North Branch ☐; 7. Central Branch ☐; 8. Southern Branch ☐; 9. Other Dept. ☐ (Please specify the name of the Dept.:)					
II About General Meeting of Shareholders (or Members' council) of the company									
2.10	Closing date of the annual accounting	December		1, 2, etc. (please write the number of the month):					
2.20	Month when Shareholders' meeting was held	April		1, 2, etc. (please write the number of the month):					

Survey sheet 2: For Joint Stock Company (draft)

Survey sheet 2

Voting Guideline - Research on the use of the VG; for limited liability company

Your sheet No. if necessary ()

I About the portfolio company		Write or check in the blank of the appropriate one		Your sheet No. if necessary ()						
1.10	Company name									
1.20	Company Code (given by SCIC)									
1.30	Chartered Capital amount (million VND or million USD)	1. VND <input type="checkbox"/> 2. USD <input type="checkbox"/>	amount:							
1.40	Number of shareholders									
1.50	Amount of shares held by SCIC	1. VND <input type="checkbox"/> 2. USD <input type="checkbox"/>	amount:							
1.60	Top 10 shareholders/controllers shareholders if any (with number of shares or percentage of shares)	Name of shareholders	number or percentage of shares held by the shareholder	Address or Province						
		1.	(shares /or %)							
		2.	(shares /or %)							
		3.	(shares /or %)							
		4.							
		5.								
		6.								
		7.								
		8.								
		9.								
10.										
1.70	Department/branch in charge	(please write below the number or the name of the Department/branch listed in the right):		1. Portfolio Department (PD) 1; 2. PD 2; 3. PD 3; 4. PD 4; 5. Investment Department; 6. Southern Branch; 7. Central Branch;						
II About General Meeting of Shareholders (or Members' council) of the company										
2.10	Date of the Shareholders' meeting (or Members' council)	Date: / / (dd/mm/yyyy)	1. Annual general meeting <input type="checkbox"/> ; 2. Extraordinary meeting <input type="checkbox"/>							
2.20	Number of shareholders presented in the meeting									
III Issues voted (write all the issues item by item)										
	No.* (choose appropriate number of category/issue in the Reference)	Instruction given by SCIC to the state representatives for voting	Date of report to SCIC prior to the shareholders' meeting	Date of instruction for vote form SCIC	Result of the votes	If the instruction was rejected, what was the adopted proposition and what are the reasons why the result was different from SCIC's instruction	Responses from external representative. (Please write what kind of responses did you receive from the management of the company.)	Did you refer to the VG? Please write <input type="radio"/> if yes, X if not	Were rational and instructions by VG helpful? Please write <input type="radio"/> if yes, X if not	Any comments or suggestions about the item for making the VG instruction more applicable?
3.10			/ / (dd/mm/yyyy)	/ / (dd/mm/yyyy)	1. accepted <input type="checkbox"/> ; 2. not accepted <input type="checkbox"/>					
3.20										
3.30										
...										
IV Issues discussed and voted in the Board of Directors meeting (write all the issues item by item)										
	No.* (choose appropriate number of category/issue listed in the Reference)	Instruction given by SCIC to the state representatives for voting	Date of report to SCIC prior to the member's council (dd/mm/yyyy)	Date of instruction for vote from SCIC (dd/mm/yyyy)	Result of the votes	If the instruction was rejected, what was the adopted proposition and what are the reasons why the result was different from SCIC's instruction	Please write what kind of responses, if any, did you receive from external representatives of the company.	Did you refer to the VG? Please write <input type="radio"/> if yes, X if not	Were the rational and instructions of VG helpful? Please write <input type="radio"/> if yes, X if not	Any comments or suggestions about the item: your comments for making the VG instruction more applicable?
4.10			/ /	/ /	1. accepted <input type="checkbox"/> ; 2. not accepted <input type="checkbox"/>					
4.20										
4.30										
...										
5.00	Please write what kind of responses did you receive from external representative(*1): whether the use of VG contributes to the smoother decision making in AGM?	not agree <input type="checkbox"/> agree <input type="checkbox"/>	(Please give us your comments/evaluation, if any, about the effectiveness of VG as a whole.)							
5.01	Does the external representative give a positive response to the usefulness of using VG?	not agree <input type="checkbox"/> agree <input type="checkbox"/>	(Please give us your comments/evaluation, if any, about the effectiveness of VG as a whole.)							

(*1) External representative means a representative who is not a SCIC officer. (ex; BoD members assigned as state representative from the portfolio company or the line ministry including local government.)

Survey sheet 3: Reference (draft)

Survey sheet 3: Reference:	
Chose appropriate number of issues for vote indicated in the reference below (if there are no suitable items, please write the issue and number X.99 as indicated below)	
No.	Items for vote
1.00	Operational Items
1.10	Approval of the Financial Statements and related documents
1.20	Approval of annual business plan
1.30	Approval of the long-term development strategy
1.40	Approval of income allocation (including disposal of surplus and decision on dividend considering dividend ratio)
1.50	Approval of investment
1.60	Approval of sales of assets, including approval of divestment of shares in other companies
1.70	Ratification of the BOD report, report of the Supervisory Board, and performance report of each BOD member
1.80	Election of member of the BOD, taking the director's attendance into consideration and the inclusion of at least one outsider or independent director in the BOD
1.90	Dismissal or replacement of the BOD member or Supervisory Board member
1.10	Appointment of Supervisory Board members
1.11	Appointment of Auditors, auditing companies or branch of a foreign auditing company in Vietnam to audit financial statements
1.12	Approval of M&A plan or approval of transforming, restructuring, dividing or dissolving the company
1.13	Other shareholders' proposals
2.00	Remuneration
2.10	Approval of remuneration and remuneration cap for BOD members and Supervisory Board members
2.20	Equity compensation plan
2.30	Setting or revising the maximum dilution level for the Employee Stock Ownership Plan (ESOP)
3.00	Article amendments
3.10	Amendment of statute (Charter), including expansion of business activities
3.20	Reduction of BOD members' term in office
3.30	Board structure and decrease in the maximum board size
3.40	Disclosure of information
4.00	Share Issuance Request
4.10	Increase of the charter capital
4.20	Approval to authorize the Board to issue or repurchase shares or grant a general mandate to the BOD to issue shares
4.30	Approval to repurchase shares
4.40	Creation or modification of preferred shares
5.00	Miscellaneous items related to the AGM
5.1	Vote 'Against' if the item does not satisfy the requirements in the Charter, Law on Enterprise and other regulations
5.2	Approval of establishing branches & representative offices, SCIC shall decide on a case-by-case basis

Survey sheet 4: To be asked to the State Representatives (in case of interview survey) (draft)

Voting Guideline (VG) - Comments or suggestions on the use of VG

-Please give us your comments on the usefulness of the Voting Guideline 2015 or any suggestions to make it more helpful for your company management.

5.10 Date when you answered to this survey sheet:		Date: / / (dd/mm/yyyy)	
5.20 Name of your company:			
<i>Questions:</i>		Please <input checked="" type="checkbox"/> in the appropriate column:	
		1. yes	2. no
5.30. About the use of VG:	1-1) Did you refer to the VG before AGM of this year? (If no, please answer 1-2)	<input type="checkbox"/>	<input type="checkbox"/>
	1-2) Could you share the reason ?		
	2-1) Is the VG useful for smoother voting procedure? (If no, please answer 2-2)	<input type="checkbox"/>	<input type="checkbox"/>
	2-2) Could you share the reason ?		
	3-1) Do you think each voting policy appropriate and benefitable for your portfolio company? (If no, please answer 3-2)	<input type="checkbox"/>	<input type="checkbox"/>
	3-2) Could you share the reason? If there is a specific item to be reconsidered, please share with us.		
	4-1) Do you think VG enables to understand SCIC's policy as a shareholder clearly? (If no, please answer 4-2)	<input type="checkbox"/>	<input type="checkbox"/>
	4-2) Could you share the reason?		
5) Please judge the effectiveness of VG. (put <input type="radio"/> to the appropriate number)	not agree (not effective) agree (effective) 		
5.40. Please write any comments, suggestions or requests for making the use of VG more helpful to you. (Additional items to be included or items to be amended in current items)	1)		
	2)		
	3)		
	4)		
	5)		
	...		
	...		
	...		
(filled by Mr./Ms. / SCIC Department , entrusted by the State Rep. of the company)			

Attachment 2 Project Design Matrix

2-1 Project Design Matrix (PDM) of Sub-Project 2 Final version

Narrative Summary	Objectively Verifiable Indicators (OVI)	Means of Verification (MOV)	Material Assumptions
<p>Overall Objective (Goal): Strengthening the capacity in corporate management, supervision, and governance for officials and staff of SCIC (same as the Output 4 of the Umbrella Project), specifically the capacity to accelerate innovation of state owned enterprises (“SOEs”) by achieving the SOEs’ healthy and efficient management</p>	TBD	TBD	TBD
<p>Project Objective (Purpose): (1)To contribute innovation of state owned enterprises, SCIC should be “the pioneer” in promoting modern corporate governance practice in Vietnam by establishing the Corporate Governance Code (“CGC”) to be adopted to enterprises in the portfolio of SCIC.</p>	<p>The percentage of portfolio companies that adopt the corporate governance code for SCIC’s portfolio companies.</p> <p>Task force members are capable of maintaining CGC by themselves and disseminating concept of CGC to other SCIC staff and portfolio companies.</p>	<p>Progress report</p> <p>Task Force members’ activity log</p>	<p>Active participation to the project (e.g. interviews, meetings and workshops) by the SCIC task force (TF) members and management as well as management of the SCIC’s portfolio companies.</p>

<p>(2)To maintain healthy and efficient operation and management of the state capital by enhancing the internal risk management system of SCIC.</p>	<p>The periodic reviews and revisions, if necessary, of the KRI for new investments by SCIC’s risk management department and TF members.</p>	<p>A periodic review log of the KRI for new investments.</p>	<p>Active participation to the project (e.g. interviews, meetings and workshops) by the SCIC TF members and management. Continuous review and update of the KRI by the SCIC TF members and management after initial implementation.</p>
<p>Output: Component 1-1 Developing the Corporate Governance Code (“CGC”) to be applied to the enterprises in the portfolio of SCIC</p>	<p>CGC to be adopted to the SCIC’s portfolio companies and its application guidance are developed and approved by SCIC.</p> <p>TF members’ and other key management’s level</p>	<p>Approval of final draft of CGC and application guidance by SCIC</p> <p>Hearing after the training program in Japan (the reason of</p>	<p>Active participation to the interviews, meetings, workshops and timely disclosure of necessary information by SCIC TF members and management.</p>

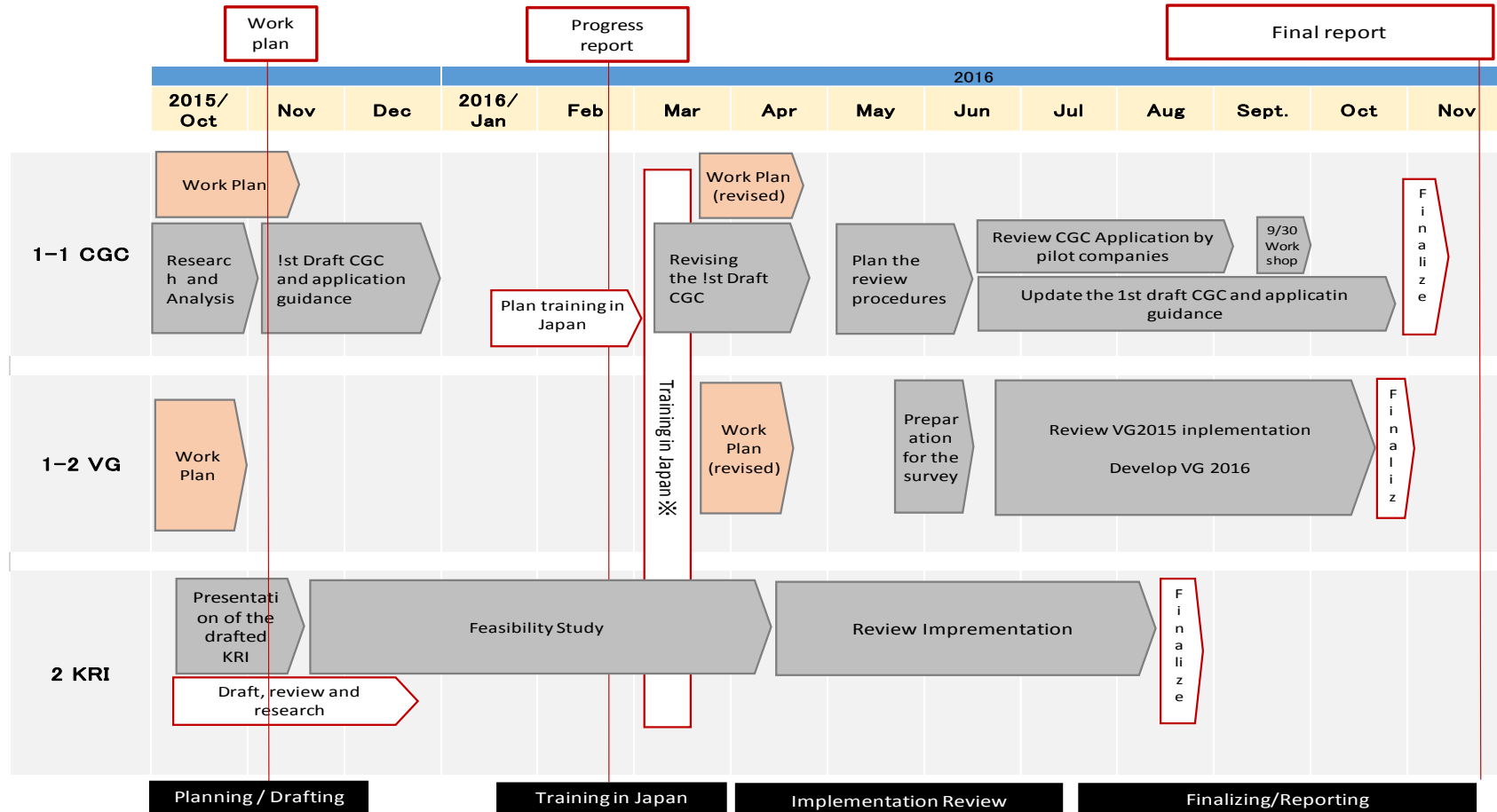
	of knowledge and understanding of CGC are further enhanced.	change is described in the section 2 of the completion report.)	
<p>Output: Component 1-2 To monitor and review the trial implementation of the VG 2015, update and revise the contents if necessary, to establish the VG 2016, and contribute to strengthening the capacity of SCIC in corporate governance, with focus on the increase of the value of SOEs in the portfolio of SCIC and promote the divestiture of SOEs.</p>	VG 2016 is prepared	VG 2016 and Progress report	Active participation to the interviews, meetings, workshops and timely disclosure of necessary information by SCIC TF members and management.
<p>Output: Component 2 Enhancing the internal risk management system of SCIC by establishing the KRI for new investments</p>	The KRI for new investment is developed based on the review of current risk management system of SCIC	Progress report	Active participation to the interviews, meetings, workshops and timely disclosure of necessary information by SCIC TF members and management.
Narrative Summary		Input	Material Assumptions

<p>Activities: Component 1-1: Corporate Governance Code (1) Work in Vietnam (October – December 2015)</p> <ol style="list-style-type: none"> a. Discuss and agreed work plan with SCIC and Ministry of Finance b. Hold initial workshop with SCIC TF members and management (it could be combined with the 2nd workshop) (Changed to (3)-c, for details, refer to 3.5.4 in the Project Completion Report) c. Perform gap analysis d. Perform research on other countries who have CGC in place e. Develop the first draft CGC f. Develop the first draft application guidance of CGC g. Hold second workshop with SCIC TF members and management (Changed to (3)-c, for details, refer to 3.5.4 in the Project Completion Report) h. Discuss with Vietnamese government and international organizations 	<p>Vietnam:</p> <ul style="list-style-type: none"> • SCIC TF members and relevant department heads • Office space and basic facilities <p>Japan:</p> <ul style="list-style-type: none"> • Experts and consultants • Basic supplies 	<p>Timely assignment of TF members with sufficient availability of time and efforts.</p> <p>Active cooperation and participation to interviews, meetings, and workshops by TF members and other relevant staff within SCIC.</p> <p>Timely disclosure of necessary information by SCIC.</p>
<p>(2) Training in Japan (March 2016)</p> <ol style="list-style-type: none"> a. A training program is developed and agreed with SCIC and MOF in advance b. Trainees are selected from SCIC and MOF(10 and 3, respectively) c. Training time-schedule is prepared (5 day-training in Japan excluding travel time) d. Training materials are prepared e. A feedback from each participant is obtained and summarized f. A report that summarized the activities was prepared 	<p>Vietnam:</p> <ul style="list-style-type: none"> • SCIC/MOF participants <p>Japan:</p> <ul style="list-style-type: none"> • Instructors from various organizations • Training materials • Training facilities (JICA) • Hotel accommodation (JICA) 	<p>Active participation to the training programs by all participants</p>

<p>(3) Follow-up procedures (April – Oct 2016)</p> <ol style="list-style-type: none"> a. Test the first draft of the CGC and its application guidance to be adopted to the SCIC’s portfolio companies by selecting one or two sample companies to apply b. Develop a final draft CGC and its application guidance to be adopted to the SCIC’s portfolio companies c. Training to the pilot companies (added) d. Discuss on portfolio companies’ application of CGC with TF (added) e. Revise the final draft of CGC and its application guidance (added) f. SCIC to approve the final draft of CGC and its application guidance (added) g. Hold the workshop (added) 	<p>Vietnam:</p> <ul style="list-style-type: none"> ▪ SCIC TF members and management ▪ Pilot portfolio companies’ management and staff ▪ Workspace at SCIC and basic facilities <p>Japan:</p> <ul style="list-style-type: none"> ▪ Experts and consultants ▪ Material for the seminar and training ▪ Presentation in the seminar 	<p>Timely selection of one or two SCIC’s portfolio companies for pilot by June 3, 2016.</p> <p>Sample portfolio company management’s consent</p> <p>Active participation by the selected pilot portfolio companies</p> <p>Active participation by the SCIC TF members, other relevant staff and management</p>
<p>Component 1-2: Voting Guideline</p> <ol style="list-style-type: none"> a. To assist SCIC’s Task Force (TF) for the Voting Guideline (VG) for monitoring the actual application, reviewing the contents of the VG when necessary to update the contents, and preparing the decisive VG to be implemented by SCIC in 2016. b. In this connection, the JERI consultants will assist TF for preparing the questionnaire survey, collecting feedback comments from staff of SCIC using the questionnaire, including suggestions from the State Representatives of enterprises being under the portfolio of SCIC (SR), and analyzing the results. 	<p>Vietnam:</p> <ul style="list-style-type: none"> ▪ SCIC TF members for VG and management ▪ Workspace and basic facilities at SCIC <p>Japan:</p> <ul style="list-style-type: none"> ▪ Experts and consultants ▪ Office supplies 	<p>Assignment of a leader within the VG TF members</p> <p>Active participation by the SCIC TF members, relevant staff and management, and cooperation from state representatives</p>

<p>c. The JERI consultants will work closely in cooperation with the TF to revise the contents of VG 2015 taking into consideration recent changes of the legal framework by the Government of Vietnam and requesting advices from legal experts, both Vietnamese and international and in cooperation with the TF for drafting the Corporate Governance Code for SCIC's portfolio companies lead by PwC.</p> <p>d. In order to motivate SCIC's portfolio companies to use Corporate Governance Code, BOD members' efforts of the portfolio companies for the improvement of Corporate Governance of portfolio companies will be included in the revision of VG 2015 as one of the criteria for nomination of BOD members based on the discussion dated on 15th of April 2016 among SCIC, JICA Vietnam office and JICA SOE project team.</p>		
<p>Component 2:</p> <p>a. Supported establishment of the KRI for new investments</p> <ul style="list-style-type: none"> ▪ Confirmation of the project scope and clarification ▪ Presentation of the draft KRI including its basic concept ▪ Feasibility study of the draft KRI ▪ Decision of the interim KRI <p>b. Supported enhancement of the KRI for new investments</p> <ul style="list-style-type: none"> ▪ Review status of the implementation of KRI ▪ Discussion of revision of interim KRI 	<p>Vietnam:</p> <ul style="list-style-type: none"> ▪ SCIC TF members ▪ Office space and basic facilities <p>Japan:</p> <ul style="list-style-type: none"> ▪ Experts and consultants 	<p>Active participation by the SCIC TF members, relevant staff and management</p>

2.2 Work-flow of Sub-Project 2



SCIC Seminar

Advanced Corporate Governance Standards and
Application into State-invested Enterprises

Draft corporate governance code for
SCIC's portfolio companies

September 30, 2016

<Version 1.1 >



Agenda

- Introduction
- Project Overview
- Draft corporate governance code (CGC)
- Draft Application Guidance (AG)

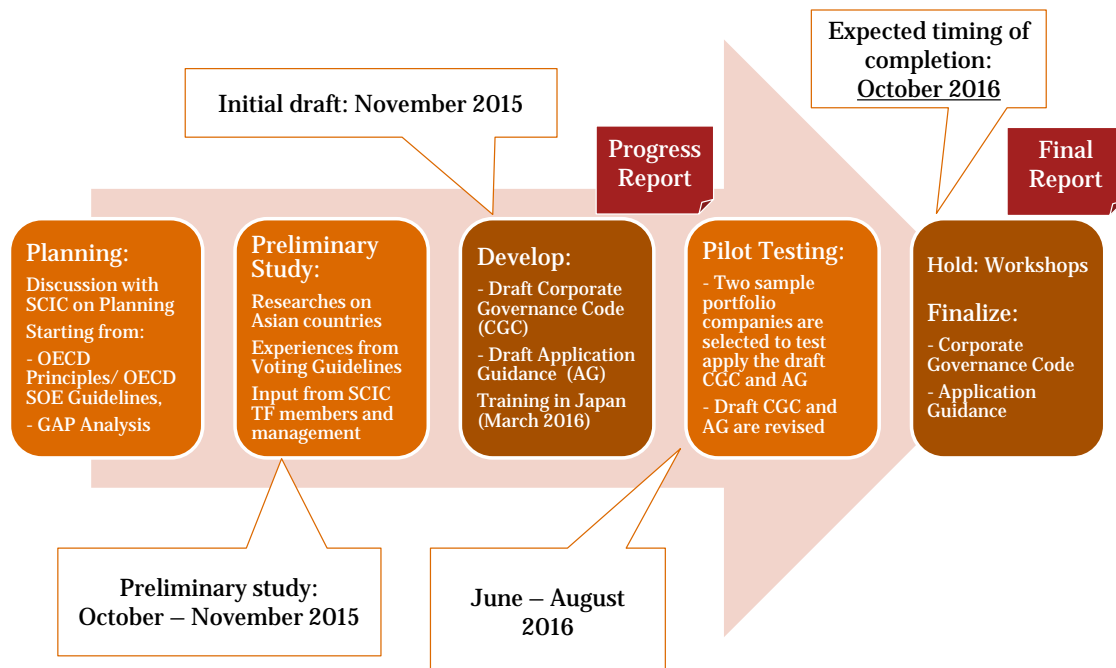
Introduction

- State Capital Investment Corporation (SCIC) is engaged with the Japan International Cooperation Agency (JICA) and its consultant, PricewaterhouseCoopers Aarata LLC Japan (PwC), to develop the draft corporate governance code (CGC) and its application guidance (AG) for SCIC's portfolio companies, as part of *the project for enhancing corporate finance management capacity to implement SOE restructuring on SCIC – Phase 2*.
- The CGC project started in October 2015 and the draft CGC has been developed based on the following:
 - ✓ OECD Principles 2015/OECD SOE Guidelines 2015
 - ✓ GAP Analysis (OECD Principles vs. SCIC's current rules & regulations)
 - ✓ Researches on other Asian countries (Indonesia, Malaysia, Singapore, and Japan)
 - ✓ Input from SCIC's CGC Task Force members and management

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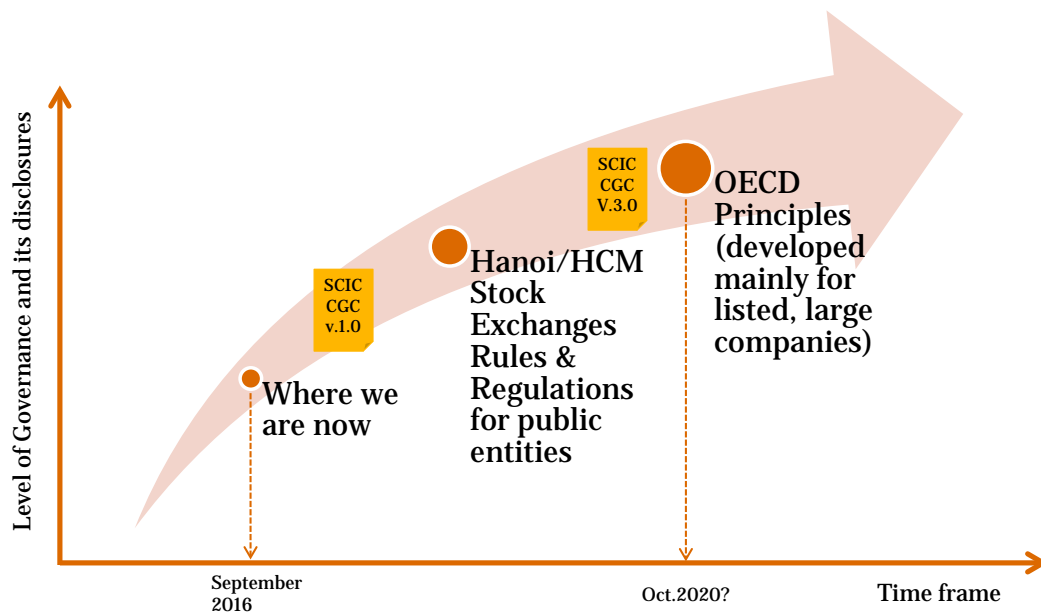
Project overview

Developing the Corporate Governance Code

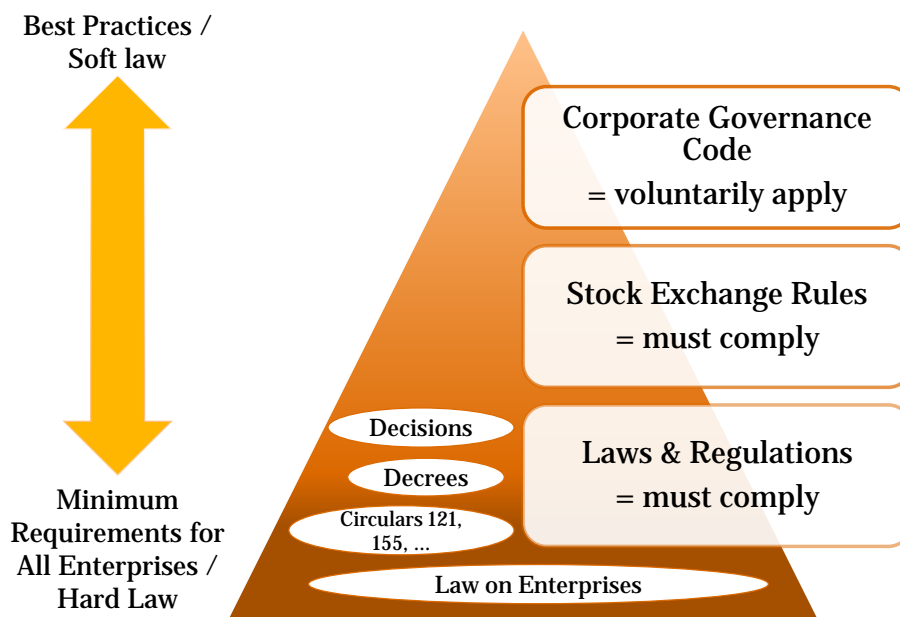


4

Corporate Governance Code for SCIC's portfolio companies - Target level



Corporate Governance Code (soft-law) and other rules & regulations (hard-law)



How we have developed the draft CGC? (1) ***Based on OECD Principles 2015 – Six principles***

I. Ensuring the basis for an effective corporate governance framework

- The corporate governance framework should promote transparent and fair markets, and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement.

II. The rights and equitable treatment of shareholders and key ownership functions

- The corporate governance framework should protect and facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

III. Institutional investors, stock markets, and other intermediaries

- The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.

IV. The role of stakeholders in corporate governance

- The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

V. Disclosure and transparency

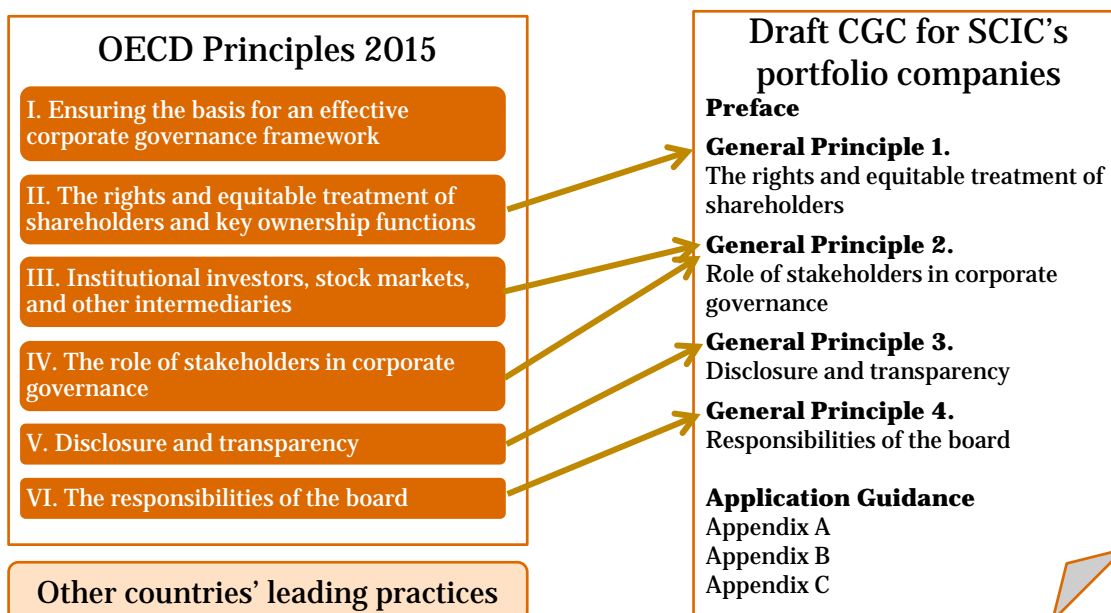
- The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

VI. The responsibilities of the board

- The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

7

Content of the draft corporate governance code **Content mapping with OECD Principles 2015**



8

Content of the draft corporate governance code (Revised as of August 31, 2016)

Part I.

- Section 1: The rights and equitable treatment of shareholders
- Section 2: Role of stakeholders in corporate governance
- Section 3: Disclosure and transparency
- Section 4: Responsibilities of the board

Part II.

- Preface
- Sections 1 to 4 with additional guidance
- *Appendix A: Reference to legal documents*
- *Appendix B: Terminologies*

Part III.

- Application guidance
- *Appendix C: A sample reporting format*

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Draft corporate governance code (August 31, 2016)

Preface	General Principle 1	General Principle 2	General Principle 3	General Principle 4
Background	1.1. Shareholder's right	2.1. Code of conduct	3.1. Disclosure of material information	4.1. Relations with Shareholders 4.2.- 4.3. Risk management and internal control
Principles-based approach	1.2. Shareholders meeting	2.2. – 2.3. Whistleblowing	3.2. Fair disclosure 3.3. Strategic investors	4.4. Corporate culture 4.5. Independent non-executive director
Comply (Apply) or explain	1.3. Equality	2.4. ESG matters	3.4. Narrative explanation	R4.6. Specialized committee 4.7.-4.8. Effective board – board diversity
How to adopt the Code	1.4. Related-party transactions		3.5. Disclosure of risks	4.9. Transparent procedure for a new director appointment
The Board	1.5. Minority shareholders		3.6. Internal controls	4.10. Sufficient time allocation 4.11. Separation of chairman/CEO
Structure of this document	1.6. – 1.7. Relations with shareholders		3.7. External auditor	4.12. Effective operation R4.13. Board evaluation
Corporate governance report			R3.8. Disclosure in English	R.4.14. Succession planning 4.15.-4.16. Remuneration
Listed companies			R3.9. Audit of financial statements	R4.17. Claw-back provision R4.18. Remuneration disclosure
Post implementation review			R3.10. Disclosure of individual director's appointment	R4.19. Pay ratio disclosure 4.20.-4.21. Training R4.22. D&O Insurance

Note: Items with "R" denote "Recommendations" and not "Principles" within the Code.

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Preface: What is “corporate governance”?

- Corporate governance (CG) is the system by which enterprises are directed and controlled.
- Corporate governance provides the structure through which the objectives of the enterprises are set, and the means of attaining those objectives and monitoring performance are determined.
- The purpose of corporate governance is to facilitate effective management that can deliver **the long-term success and performance of the enterprise.**
- **Board of directors or equivalent are responsible for the governance of their enterprises.**

CG is not just “managing the company” or “internal controls.”

CG is focusing on the “Long-term sustainability” (not a “short-term” profit).

“Board of directors” plays an important role in the good CG.

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Preface: Principles-based approach

SCIC’s portfolio companies vary in –

- Size (charter capital, revenue, total assets, net assets, the number of employees, etc.)
- Organizational structure (e.g. single-tier, two-tier board system) and management style
- Industry sector, business model and complexity of operation
- Risk profile and other attributions
- SCIC’s ownership %
- SCIC’s investment categories (A1, A2, B1, B2)



No single set of rules can be applied to **all** portfolio companies (“one size doesn’t fit all”); certain **flexibility** should be allowed.

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Preface: Comply (Apply) or explain approach (1)

- Clarification of the terms

Comply / tuân thủ

- Follow the “hard-laws” without exception

Apply / áp dụng

- Follow a principle within the corporate governance code or any other “soft-laws”

Adopt / Sử dụng

- Follow/Implement the entire corporate governance code as an internal policy

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Preface: Comply (Apply) or explain approach (2)

It provides **flexibility** in adopting the CGC.

<Example>

Principle 2.1. requires implementation of a code of conduct.

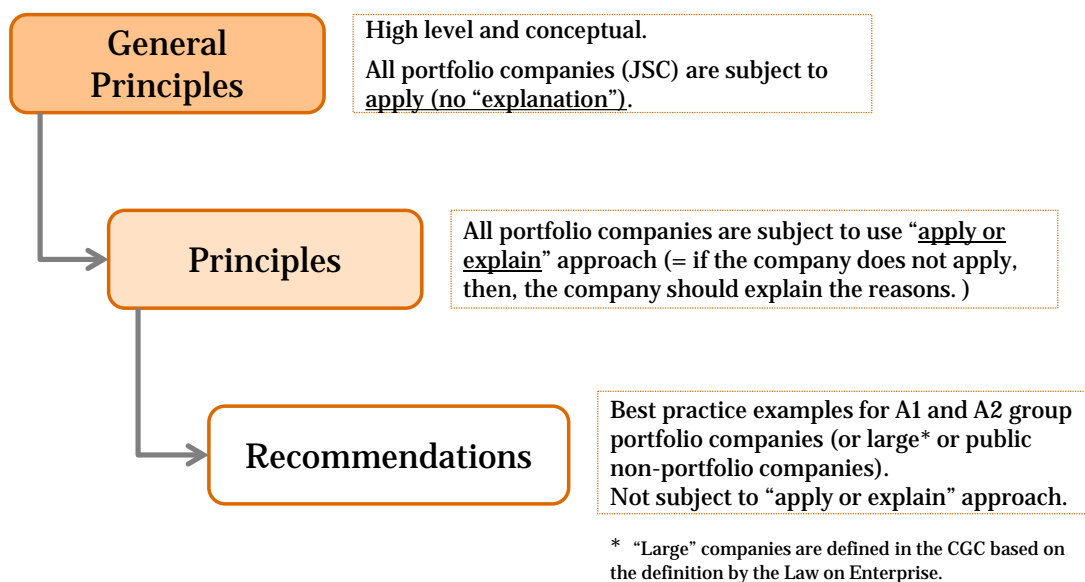
If an enterprise has already implemented the code of conduct, then, the enterprise is applying the Principle 2.1.

If an enterprise does not have a code of conduct in place, the enterprise should **explain** the reasons why. It could be either -

- The enterprise believes that the code of conduct is not necessary because it has other measures (need to explain further) to achieve the same outcome; or
- The enterprise believes that the code of conduct is beneficial so it is going to implement in near future (by specifying the timeline).

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Preface: Three-tier structure



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Preface: How to adopt the CGC by each group of portfolio companies

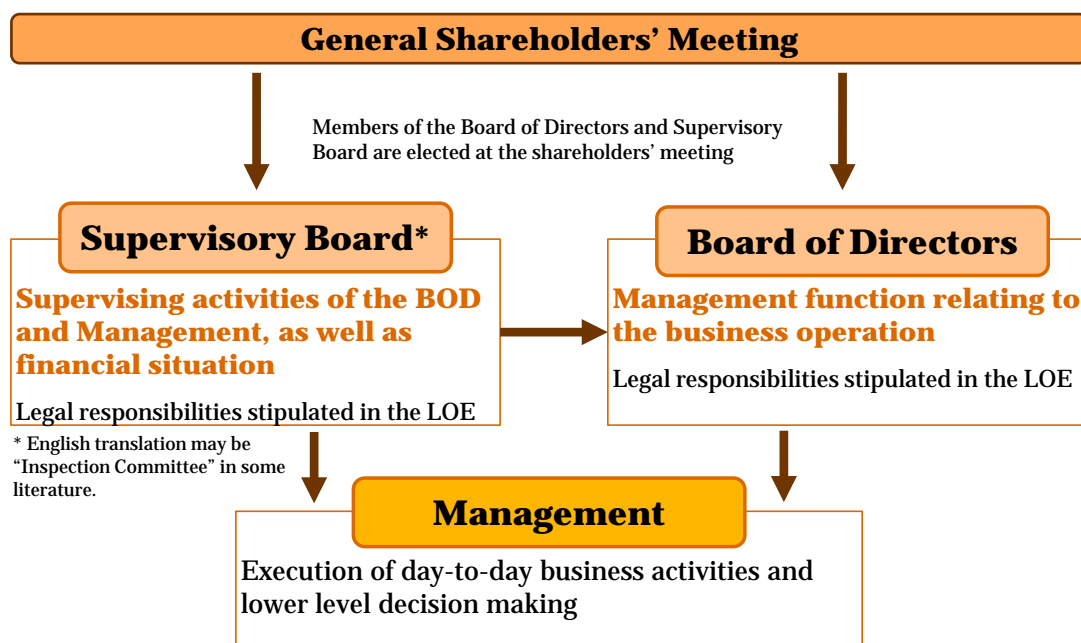
Code Component	SCIC’s portfolio companies (Note)		
	A1 and A2	B1	B2
	Large or public companies	Not large, non-public companies	Smaller companies
General Principles	Apply	Apply	Apply
Principles	Apply or Explain	Apply or Explain	Reference only
Recommendations	Recommended to apply	Reference only	Reference only

Note: When a company determines how to adopt the CGC, consider the size and structure of the company, complexity of the business,

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Terminology - The Board (Two-tier system)

Traditional model in Vietnam



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Terminology - The Board (Single-tier system)

Global standard/Newly introduced by LOE Highest decision making body



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Section 1: The right and equitable treatment of shareholders

General Principle 1.

Enterprises should take necessary measure to protect and facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective remediation for violation of their rights.

1.1 Shareholders should be sufficiently and timely informed and have the right to approve relevant decisions

1.2 Shareholders should have the opportunity to vote in general shareholders meeting (GSM)

1.3 All shareholders of the series of a class should be treated equally

1.4 Related-party transactions

1.5 Minority shareholders should be protected

1.6 Enterprise's policy on constructive dialogue with shareholders

1.7 Relations with shareholders

The OECD Principles 2015 says, "The corporate governance framework should protect and facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, **including minority and foreign shareholders**. All shareholders should have the opportunity to obtain effective redress for violation of their rights."

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Section 2: Role of stakeholders in corporate governance

General Principle 2.

Enterprises should fully recognize that appropriate cooperation with the stakeholders other than shareholders, is indispensable in achieving sustainable growth and increasing corporate value over the mid- to long-term.

2.1 Code of conduct

2.2 Whistleblowing - framework

2.3 Whistleblowing - point of contact

2.4 ESG matters - Environmental, social and governance matters/Sustainability issues

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Code of conduct

- Many companies have already implemented its own Code of Conduct for all employees/management. Some companies have different contents of the code of conduct for different group of people (e.g. finance/accounting department, executive directors)
- Continuous monitoring of its effectiveness and adherence by all employees is important.
- **Does your company:**
 - Provide training sessions for code of conduct?
 - Perform annual compliance confirmation?
 - Has mechanism through which any violation is timely reported?
 - Has internal policy for disciplinary actions?

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Environment, social and governance (ESG)

Provide enterprise's future sustainability information

Financial Information

- Financial statements
- Note disclosures
- Audit Report

Provide historical results of an enterprise's financial performance

Non-financial information

- **Strategy**
- **Corporate governance**
 - Board of Directors
 - Committees
 - Senior Management
- Environmental matters
- Social responsibilities
-

Provide more information as to long-term sustainability and growth potential of an enterprise
Also provide potential risk profile of an enterprise

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Section 3: Disclosure and transparency

General Principle 3.

Enterprises should make appropriate information disclosure in compliance with the relevant laws and regulations. Enterprises should also try to actively provide information beyond those required by laws, which includes both financial and non-financial information such as business strategies, business issues, risks and governance matters. The board should recognize that disclosed information should be accurate, clear and concise so that it will serve as the basis for constructive dialogue with shareholders.

3.1 Disclosure of material information

3.2 Fair disclosure

3.3 Strategic investors

3.4 Narrative explanation

3.5 Disclosure of risks

3.6 Internal controls

3.7 External auditor

R3.8 Disclosure in English

R3.9 Audit of annual financial statements

R3.10 Disclosure of individual nomination and appointment of directors

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Section 4: Responsibilities of the board

General Principle 4.

(1) The board should be responsible for monitoring management performance and achieving an adequate return for shareholders, while preventing **conflicts of interest** and balancing competing demands on the enterprise.

In order to fulfil their responsibilities, the board should be able to exercise **objective and independent judgment**.

(2) The board should be responsible to oversee the **risk management** system and systems designed to ensure that the enterprise is in compliance with applicable laws and regulations, while determining the nature and extent of the **principal risks it is willing to take** in achieving its strategic objectives.

(3) The board is not only **accountable** to the company and its shareholders but also has a duty to act in their (=the enterprise and its shareholders') best interests. In addition, the board is expected to take due regard of, and deal fairly with, other **stakeholder interests** including those of employees, creditors, customers, suppliers and local communities. Observance of environmental and social standards is relevant in this context.

In order to fulfil their responsibilities, board members should have **access to accurate, relevant and timely information**.

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General Principle 4. (1) **Responsibilities, Objective and independent judgment**

4.1 Relations with shareholders

4.5 Independent non-executive director

R4.6 Specialized committee

4.7 Board diversity – skills, experiences

4.8 Board composition – executive vs. non-executive, independent directors

4.9 Transparent procedures in appointment of new directors

4.10 Sufficient time allocation and commitment by each director

4.11 Separation of chairman and CEO

4.12 Effective operation of the board

R4.13 Board evaluation

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Principle 4.6. Specialized committee

Specialized committee **Audit committee**

- Audit committee is not same as “supervisory board” in Vietnam
- Audit committee members are **all board of directors** and usually all members have certain level of accounting/auditing experiences or knowledge (e.g. Sometimes described as “*financial literacy*”, “*financial sophistication*”, “*financial expert*” in English)
- Many jurisdictions in the world requires Audit Committee within the Board
- Some of the responsibilities include:

Assist the Board of Directors in its oversight of:

- The integrity and audit of the company’s financial statements,
- The company’s accounting, financial reporting and disclosure processes and the adequacy of the systems of disclosure and internal control established by management,
- Processes established by management to provide compliance with legal and regulatory requirements,
- The independent auditor’s qualifications, performance and independence,
- The performance of the company’s internal audit function.

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General Principle 4.(2) **Risk management and risk taking**

4.2 Risk management and internal control

4.3 Internal audit function

4.4 Corporate culture

R4.14 Succession planning for key executives

4.15 Executive directors' remuneration – design

R4.17 Claw-back provision

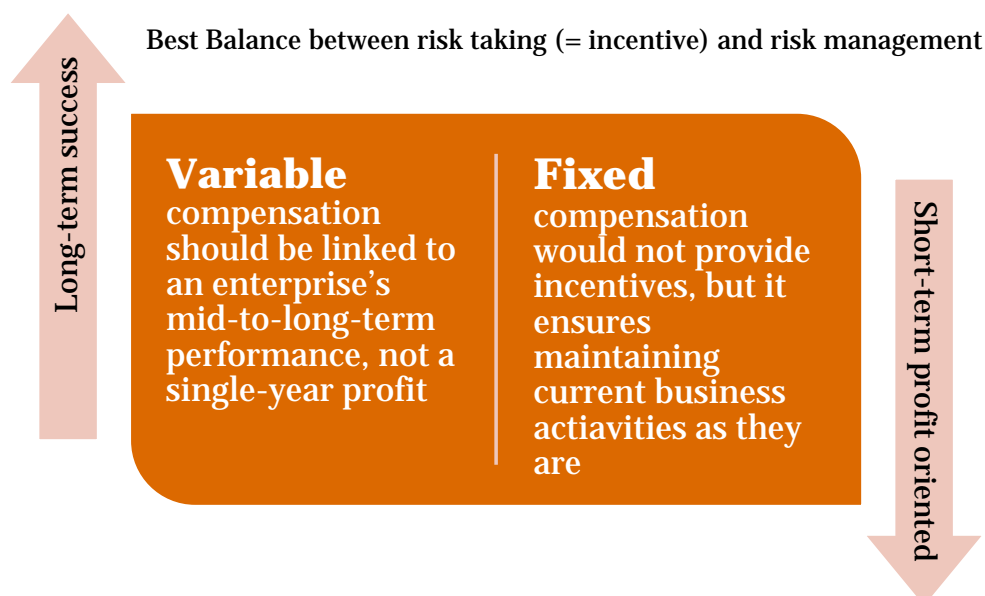
R4.18 Remuneration disclosures

R4.19 Pay Ratio disclosure

27

Principle 4.15. Executive directors' remuneration

Executive directors' remuneration - Design



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General Principle 4.(3)

Accountability

4.20 Director training

4.21 Director training – chairman’s duty

R4.22 D&O insurance

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D&O Insurance

Adequate coverage

- D&O insurance is a liability insurance to cover indemnification for losses or defense costs in the cases where directors and officers suffer losses from a legal action brought against any acts in their capacity as directors and officers. The enterprise should arrange appropriate insurance coverage in respect of such legal actions against its directors or officers if General Shareholder Meeting approves.
- However, D&O insurance coverage should not allow directors or officers to act without due care (moral hazard); the terms of the insurance policy should be examined carefully.
- **Shareholders should be informed of the terms of the D&O insurance policy including deductible amount and reason of why such amount is set at an appropriate level.**

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Application Guidance

Corporate governance report – Appendix C

Corporate Governance Report <Sample Only>

To: The shareholders

Name of the company
 Head office address: Telephone: Fax: Email:
 Charter capital:
 Securities code (if available):

I. Overview of the Enterprise's corporate governance policy/framework*

Narrative explanation of the Enterprise's corporate governance policy and framework.

II. Corporate Governance Statement*

Statement that the Enterprise applies the Corporate Governance Code (CGC) and whether the Enterprise does not apply any specific Principle or Principles as of the specified date.

If an enterprise is categorized as a "smaller enterprise" subject to certain exemption (i.e. applies only General Principles) for the purpose of applying the CGC, the enterprise is expected to state so here.

If an enterprise is categorized as a "smaller enterprise" but decided to apply the entire CGC without exemption (i.e. applies both General Principles and Principles), the enterprise is expected to state so here.

III. Explanation of reason for non-application of CGC*

No.	Principle # / CGC Requirement	Explanation of reasons/rationale why the Enterprise does not apply specific Principle of the CGC

At minimum, an enterprise is expected to describe the structure (single tier or two tier model), and general policy of the corporate governance here.

An enterprise is expected to state that it has been applying which part(s) of the CGC and whether there is any unapplied principle(s).

An enterprise is expected to explain why particular principle(s) cannot be applied by the enterprise.

Application Guidance

Corporate governance report – Appendix C

IV. Explanation of how the Enterprise applies CGC

Corporate Governance Report <Sample Only>

To: The shareholders

Name of the company
 Head office address: Telephone: Fax: Email:
 Charter capital:
 Securities code (if available):

I. Overview of the Enterprise's corporate governance policy/framework*

II. Corporate Governance Statement*

III. Explanation of reason for non-application of CGC*

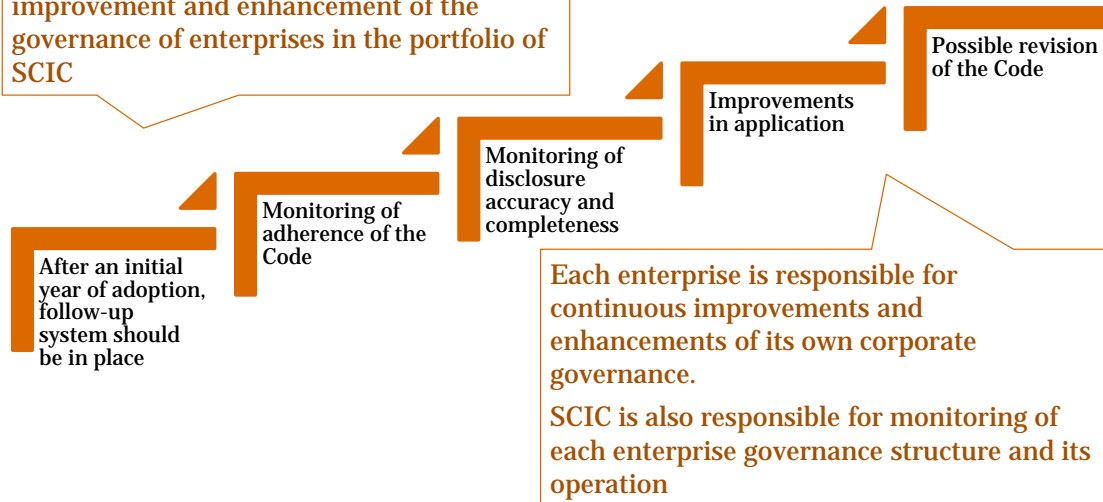
IV. Explanation of how the Enterprise applies CGC*

No.	Principle # / CGC Requirement	Explanation of how the Enterprise complies with a specific Principle of the CGC (If the Enterprise disclose the same information in other report such as Annual Report, cross-reference to the other report)

Post implementation review (PIR) and continuous updates

Developing the Corporate Governance Code is not a goal but a starting point of further improvement and enhancement of the governance of enterprises in the portfolio of SCIC

Note that this PIR process is NOT included in the current Project.



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Thank you.

Corporate Governance Code for SCIC's Portfolio Companies (Final Draft as of 31 October 2016)

Introduction*

PricewaterhouseCoopers Aarata LLC (PwC) has engaged with the Japan International Cooperation Agency (JICA) to support the State Capital Investment Corporation (SCIC) in developing a draft corporate governance code (CGC) to be applied to the SCIC's portfolio companies together with its application guidance by the end of September 2016. The draft CGC and its application guideline are to be incorporated into the SCIC's internal documentation after approval by the SCIC management. Detailed timelines, procedures and tasks are described in a separate work-plan dated November 30, 2015 and subsequent revisions thereon.

The draft CGC for the SCIC's portfolio companies is based on the *G20/OECD Principles of Corporate Governance – OECD Report to G20 Finance Ministers and Central Bank Governors (September 2015)* (the "OECD Principles 2015"). Although the OECD Principles 2015 mainly focuses on publicly traded companies both in financial and non-financial sectors, PwC believes that it is beneficial for the SCIC to use the OECD Principles 2015 as a basis to better manage its non-public portfolio companies that are going to be divested in the near future or those portfolio companies that SCIC intends to hold for a longer-period of time regardless of public or non-public classification. The OECD Principles 2015 and previous versions have been widely used as a benchmark by individual jurisdictions around the world.

The draft CGC (Sections 1 - 4) was prepared for discussions with the SCIC's Corporate Governance Task Force (TF) members. The first draft was prepared on November 16, 2015 and has been revised several times to reflect comments provided by the TF members and other department heads. The second draft includes the commentary section to explain some of the code principles, application guidance to reflect comments received through to December 25, 2015, as well as certain clarifications of terms such as "comply", "apply" and "adopt" identified at a meeting between the SCIC TF members and PwC consultants on April 15, 2016. Some of the comments received from the SCIC TF members through to May 27, 2016 have been reflected in the third draft (for pilot testing) but others have not. The comments that are *not* reflected in the third draft are to be discussed further among SCIC, JICA and PwC consultants as part of the pilot project.

The third draft of CGC was further revised as a result of the *pilot testing* in August 2016 to reflect the suggestions from two pilot companies. The major revisions include the following:

- Clarification between Principle or Recommendation;
- Reclassification from Principle to Recommendation (Pay Ratio Disclosure, D&O Insurance);
- Additional guidance as *commentary* for new concepts/principles;
- Additional example of “corporate governance report” as part of the application guidance; and
- Formatting changes (three parts: Part I, Part II and Part III)

In addition to the above revisions, the current version has been modified to reflect suggestions from the TF members in the areas as follows:

- Application matrix has been modified to be in line with the existing four categories of portfolio companies (A1, A2, B1 and B2)
- Identified mandatory disclosure items regardless of “apply” or “explain” in the corporate governance report.

Finally, Part I of the revised draft was reviewed by a legal expert for consistency with the Vietnamese laws & regulations.

We appreciated SCIC’s two portfolio companies for their active participation to the application tests (pilot testing) and input to the draft CGC. We also thank SCIC’s TF members for their continued efforts to refine the draft CGC and its application guidance.

31 October 2016

PricewaterhouseCoopers Aarata LLC

*: Note that this introduction is not a part of the Draft CGC.

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Part I. Corporate governance code

1. The rights and equitable treatment of shareholders

General Principle 1.

Enterprises should take necessary measures to protect and facilitate the exercising of shareholders' rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective remediation for violation of their rights.

Shareholder's right

Principle 1.1

1.1. Shareholders should be informed in a sufficient and timely manner, and the shareholders with voting rights have the right to approve, or participate in, decisions concerning fundamental corporate changes such as; 1) amendments to the statutes, or articles of incorporation or similar governing documents of the enterprise; 2) the authorisation of additional shares; 3) the election, removal, or dismissal of the members of Board of Directors or members of Supervisory Board (Inspection Committee); and 4) extraordinary transactions, including investment decisions valued 35% or more of the total value of the enterprise's assets and the transfer of all or substantially all assets that in effect result in the sale of the enterprise.

Shareholders' meeting

Principle 1.2

1.2. Shareholders with voting rights should have the opportunity to participate effectively and vote in general shareholders' meetings and should be informed of the rules, including voting procedures, that govern general shareholders' meetings:

- Shareholders should be furnished with sufficient information on a timely basis concerning the date, location and agenda of general meetings, as well as full disclosure regarding the issues to be decided at the meeting on a timely basis.
- Processes and procedures for general shareholders' meetings should allow for equitable treatment of all shareholders. Enterprise procedures should not make it unduly difficult or expensive to cast votes.
- Shareholders with appropriate rights should have the opportunity to ask questions to board of directors and supervisory board, including questions

relating to the annual external audit, to place items on the agenda of general meetings, and to propose resolutions, subject to reasonable limitations.

- **Say-on-pay:** Shareholders with appropriate rights should have the opportunity to participate in key corporate governance decisions, such as the nomination and election of board of directors and supervisory board members. Shareholders should be able to make their views known, including through votes at shareholders' meetings, on the remuneration of board of directors, supervisory board members and key executives, as applicable. The equity component of compensation schemes for board of directors, supervisory board members and employees must be subject to shareholder approval.

Shareholders' rights - equality

Principle 1.3

1.3. All shareholders of the same series of a class should be treated equally. Capital structures and arrangements that enable certain shareholders to obtain a degree of influence or control disproportionate to their equity ownership should be disclosed.

- Within any series of a class, all shares should carry the same rights. All investors should be able to obtain information about the rights attached to all series and classes of shares before they purchase. Any changes in economic or voting rights should be subject to approval by those classes of shares which are negatively affected, in addition to the general shareholders meeting's approval.
- The disclosure of capital structures and control arrangements should be required.

Related-party transactions

Principle 1.4

1.4. Related-party transactions should be approved and conducted in a manner that ensures proper management of any potential conflict of interest and protects the interest of the enterprise and its shareholders. "Related-party" or "related person" is defined by existing laws and regulations including accounting standards (VAS 26) differently. The enterprise should consider disclosing related-party transactions **beyond the requirements by other laws, regulations and accounting standards**, taking into account the enterprise's specific situations. For example, the enterprise may consider disclosing their internal rule of approving and disclosing related-party transactions. The enterprise may also consider disclosing employment of family members of key executives.

- Conflicts of interest inherent in related-party transactions should be addressed, and
- Members of the board of directors and the supervisory board as well as key executives should be required to disclose to the board of directors whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the corporation.

Minority shareholders

Principle 1.5

1.5. Minority shareholders should be protected from abusive actions by, or which are in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress. Abusive self-dealing should be prohibited.

Relations with shareholders

Principle 1.6

- 1.6. Enterprises' policies for promoting constructive dialogue with shareholders should include but are not limited to the following:
- Appointing a senior management or a director who is responsible for overseeing that constructive dialogue takes place;
 - Measures to ensure positive cooperation among relevant departments within the enterprises (e.g. investor relations, corporate strategic planning, finance & accounting and legal departments) to support such dialogue;
 - Measures to take necessary action to share views and concerns from shareholders with senior management, board of directors and supervisory board of the enterprises, and
 - Measures to control insider information when engaging in such dialogue.

Principle 1.7

1.7. Enterprises should engage in constructive dialogue with shareholders including institutional investors and both domestic and foreign strategic investors, outside of the general shareholders' meetings to contribute to sustainable growth and the increase of corporate value over the mid- to long-term. Constructive dialogue would be facilitating mutual understanding, building trust and confidence, as well as promoting value adding communications.

2. Role of stakeholders in corporate governance

General Principle 2.

Enterprises should fully recognize that appropriate cooperation with the stakeholders other than shareholders is indispensable in achieving sustainable growth and increasing corporate value over the mid- to long-term.

Code of conduct

Principle 2.1

2.1 Enterprises should implement a code of conduct for employees in order to express their values with respect to appropriate cooperation with and serving the interests of stakeholders and carrying out sound and ethical business activities including anti-bribery and corruption measures. Board of directors and supervisory board should have measures to help employees understand and apply the code of conduct. For large enterprises with a number of subsidiaries, board of directors and supervisory board of the parent enterprise should be also responsible for adherence to the code of conduct by subsidiaries' employees.

Whistleblowing

Principle 2.2

2.2 Enterprises should establish an appropriate framework for whistleblowing such that employees can report illegal or inappropriate behaviour, disclosures, or any other serious concerns without fear of suffering from disadvantageous treatment. The framework should allow for an objective assessment and appropriate response to the reported issues, and board of directors and supervisory board should be responsible for both establishing this framework, and ensuring and monitoring its enforcement.

Principle 2.3

2.3 Enterprises should establish a point of contact that is independent from the management. In addition, rules should be established to secure the confidentiality of the information provider and prohibit any disadvantageous treatment. A point of contact could be the third party legal counsel or any other independent bodies.

Environmental, social and governance (ESG) matters

Principle 2.4

2.4 Enterprises should take appropriate measures to address sustainability issues, including environmental, social and governance matters. With the recognition that dealing with sustainability issues is an important element of risk management, board of directors and supervisory board should take appropriate actions to this end. Board of directors and supervisory board are also responsible for maintaining and improving corporate governance set forth in this Code.

3. Disclosure and transparency

General Principle 3.

Enterprises should make appropriate information disclosure in compliance with the relevant laws and regulations. Enterprises should also try to actively provide information beyond those required by laws, which includes both financial and non-financial information such as business strategies, business issues, risks and governance matters.

Board of directors and supervisory board should recognize that disclosed information should be accurate, clear and concise so that it will serve as the basis for constructive dialogue with shareholders.

Disclosure of material information

Principle 3.1

3.1 Disclosures should include, but not be limited to, material information on:

- (i) The financial and operating results of the enterprise;
- (ii) Enterprise objectives and non-financial information;
- (iii) Major share ownership, including beneficial owners, and voting rights;
- (iv) Remuneration of the members of board of directors and supervisory board, and key executives;
- (v) Information about members of board of directors and supervisory board, including their qualifications, the selection process, other enterprise directorships and whether they are regarded as independent by board of directors;
- (vi) Related-party (broader concept than “related person”) transactions;
- (vii) Foreseeable risk factors;
- (viii) Issues regarding employees and other stakeholders;

- (ix) Governance structures and policies, including the content of any corporate governance code or policy and the process by which it is implemented, and
- (x) Explanation of the independence of the external auditor including duration of audit contract with current auditor (i.e. year of renewal), and audit fees to indirectly prove the quality of audit.

These items above are required to disclose by other laws or regulations. However, an enterprise should consider disclosing the additional information relevant to the enterprise's stakeholders voluntarily so that the stakeholders, shareholders in particular, could understand the enterprise more clearly.

Fair disclosure

Principle 3.2

3.2 Channels for disseminating information should provide for equal, timely and cost-efficient access to relevant information by users. An enterprise should be aware of the fair disclosure concept and should not provide particular material information only to a selected group of people.

Principle 3.3

3.3 An enterprise should distinguish strategic investors from other investors in a way where a strategic investor obtains information from the enterprise within a capacity of the enterprise management. Although a strategic investor's legal rights and obligations are generally balanced, an enterprise should consider fair balance between their rights and obligations.

Narrative explanation

Principle 3.4

3.4 Board of directors and supervisory board should ensure that the disclosed information is not "boiler-plated" but as enterprise specific as much as possible with sufficient detail so that the information adds value to investors. A "boiler-plate" disclosure does not provide meaningful information to users; it could be too generic or it could be copied from another enterprise's disclosure and does not tell their own stories but another enterprise's.

Disclosure of risks

Principle 3.5

3.5 An enterprise should disclose its overall exposure of risk and link it to its strategy and the business model, and explain how significant risks are mitigated. In addition, the enterprise should explain how its risk exposure changes over time.

Internal controls

Principle 3.6

3.6 An enterprise should disclose and explain its design and operating effectiveness of its internal control system over financial reporting and disclose necessary information to its shareholders.

External auditor

Principle 3.7

3.7 An enterprise and its external auditor should recognize the responsibilities that the external auditor owes towards shareholders and investors, and take appropriate steps to secure the proper execution of audits of the enterprise's financial statements. To secure the proper execution of audits, enterprises should engage with auditors soon after their election at the general shareholders' meeting so that the auditors have sufficient time to perform the effective and efficient audits.

Disclosure in English

Recommendation 3.8

3.8 It is recommended for certain large enterprises that such enterprises should consider disclosing information in English on a timely basis in addition to Vietnamese to facilitate decision useful information to foreign investors.

Timely audit of financial statements

Recommendation 3.9

3.9 It is recommended that the annual financial statements should be audited in a timely manner.

Recommendation 3.10

3.10 It is recommended that explanations with respect to the individual appointments, reappointments and nominations of the members of board of directors and supervisory board should be based on policies and procedures of board of directors and supervisory board, respectively, should be disclosed.

4. Responsibilities of the board of directors

General Principle 4.

- (1) Board of directors should be responsible for monitoring management performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the enterprise. In order to fulfil their responsibilities, board of directors should be able to exercise objective and independent judgement.
- (2) Board of directors should be responsible in overseeing the risk management system and systems designed to ensure that the enterprise is in compliance with applicable laws and regulations, while determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives.
- (3) Board of directors is not only accountable to the enterprise and its shareholders but also has a duty to act in their (i.e. the enterprise and its shareholders’) best interests. In addition, board of directors is expected to take due regard of, and deal fairly with, other stakeholder interests including those of employees, creditors, customers, suppliers and local communities. Observance of environmental and social standards is relevant in this context.
- (4) In order to fulfil their responsibilities, board of directors should have access to accurate and relevant information on a timely basis.

Relations with shareholders

Principle 4.1

4.1 There should be a dialogue with shareholders based on the mutual understanding of objectives. Board of directors as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. Board of directors should use the general shareholders’ meetings to communicate with investors and to encourage their participation.

Risk management and internal control

Principle 4.2

4.2 Enterprises should robustly assess their principal risks and explain how they are being managed or mitigated, and monitor their risk management and internal control systems including internal audit function.

Principle 4.3

4.3 Board of directors and supervisory board should ensure that the internal audit function evaluates and contributes to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

Corporate culture

Principle 4.4

4.4 One of the key roles for board of directors includes establishing the culture, values and ethics of the enterprise. It is important that board of directors sets the correct “tone at the top.” Board of directors should lead by example and ensure that good standards of behaviour permeate throughout all levels of the organisation. This will help prevent misconduct, unethical practices and support the delivery of long-term success.

Independent non-executive directors

Principle 4.5

4.5 Board of directors should be able to exercise objective independent judgement on corporate affairs by assigning a sufficient number of independent non-executive directors being capable of exercising independent judgement to tasks where there is potential for conflict of interest. Examples of such key responsibilities are ensuring the integrity of financial and non-financial reporting, the review of related-party transactions, nomination of board of directors and key executives, and board of directors’ remuneration.

Specialised committees

Recommendation 4.6

4.6 Board of directors should consider setting up specialised committees to support the full board of directors in performing its functions, particularly with respect to audit, nominations, and, depending upon the enterprise’s size and risk profile, with respect to risk management and remuneration. When committees of board of directors are

established, their mandate, composition and working procedures should be well defined and disclosed by board of directors.

Effective board of directors – diversity

Principle 4.7

4.7 Board of directors and its committees should have the appropriate balance of skills, experience, independence and knowledge of the enterprise to enable them to discharge their respective duties and responsibilities effectively.

Principle 4.8

4.8 Board of directors should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate board of directors' decision taking.

Transparent procedure for a new director appointment

Principle 4.9

4.9 Board of directors should ensure that there is a formal and transparent procedure for the appointment of new directors.

Sufficient time allocation

Principle 4.10

4.10 All directors should be able to allocate sufficient time to the enterprise to discharge their responsibilities effectively.

Separation of the chairman and CEO

Principle 4.11

4.11 A chairman of board of directors and a General Director (or CEO) should be separated. No single person shall hold the two positions simultaneously because these two roles have different responsibilities.

Effective operation of board of directors

Principle 4.12

4.12 An enterprise should consider establishing an effective supporting structure for board of directors. Under the direction of chairman of the board of directors, the supporting structure ensures sufficient and effective information flows within board

of directors including non-executive directors, its committees and senior management. The supporting function should facilitate induction training programs for the new members of board of directors and assist them with professional development programs as needed.

Board of directors' evaluation

Recommendation 4.13

4.13 The board of directors should undertake a formal and rigorous annual evaluation of its own performance. The objective of the annual performance evaluation is to assess the effectiveness and efficiency of board of directors. A summary of the assessment should be disclosed.

Succession planning

Recommendation 4.14

4.14 Based on the enterprise objectives, such as business principles, and specific business strategies, the board of directors should engage in the appropriate oversight of succession planning for the CEO and other key executives.

Remuneration

Principle 4.15

4.15 The board of directors should ensure that the enterprise has a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of *individual* directors. No director should be involved in deciding his or her own remuneration.

Principle 4.16

4.16 The board of directors should ensure that the enterprise's executive directors' remuneration is designed to promote the long-term success of the enterprise. Performance-related elements should be transparent, stretching and rigorously applied.

Clawback provision

Recommendation 4.17

4.17 When part of the executive directors' remuneration (incentive-based compensation) is linked to the enterprise's financial performance (e.g. EBITDA) and when such financial performance measurement is revised or restated as a result of errors or

misconducts found by external audit or any other regulatory proceedings, the enterprise should have the right to reclaim the excess amount of the incentive-based compensation that had been paid. The clawback provision may be included in the employment agreement or any other arrangements.

Remuneration disclosure

Recommendation 4.18

4.18 Remuneration for each member of the board of directors and key executives should be disclosed in sufficient detail.

Pay ratio disclosure

Recommendation 4.19

4.19 The enterprise should consider disclosing the following information in addition to other remuneration related disclosures:

- The median of the annual total compensation of all employees other than the chief executive officer;
- The annual total compensation of the chief executive officer; and
- The ratio of these amounts.

Training

Principle 4.20

4.20 All directors and supervisory board members should receive induction training upon joining the boards, and should regularly update and refresh their skills and knowledge.

Principle 4.21

4.21 The chairman of the board should ensure that the directors and supervisory board members continually update their skills and the knowledge and familiarity with the enterprise required to fulfil their roles as directors on board and board committees. The enterprise should provide the necessary resources for developing and updating its directors' and supervisory board members' knowledge and capabilities.

Directors' and officers' liability insurance (D&O insurance)

Recommendation 4.22

4.22 D&O insurance is liability insurance to cover indemnification for losses or defence costs in the cases where directors and officers suffer losses from a legal action brought against any acts in their capacity as directors and officers. The enterprise should

arrange appropriate insurance coverage with respect to such legal actions against its directors or officers if the general shareholders' meeting approves. However, D&O insurance coverage should not allow directors or officers to act without due care (moral hazard); the terms of the insurance policy should be examined carefully. Shareholders should be informed of the terms of the D&O insurance policy including deductible amount and reason of why such amount is set at an appropriate level.

Part II. Corporate governance code with additional guidance

Corporate Governance Code For SCIC's Portfolio Companies (Final Draft as of 31 October 2016)

Preface

Background

Corporate governance is the system by which enterprises are directed and controlled. Corporate governance provides the structure through which the objectives of the enterprise are set, and the means of attaining those objectives and monitoring performance are determined. The purpose of corporate governance is to facilitate effective management that can deliver the long-term success and performance of the enterprise. Board of directors or equivalent are responsible for the governance of their enterprises. If an enterprise or a country tries to obtain the full benefits of the global capital market, and if they are to attract long-term “patient” capital, corporate governance arrangements must be credible, well understood across borders and adhere to internationally accepted principles. Recently, Vietnam has been one of the best performing equity markets across the world; however, its market has been very volatile partly due to the large number of domestic individual investors who trade for short-term profit. In June 2015, the revised Decree 58 (amended by Decree 60 issued on 26 June 2015) was signed and certain foreign ownership restrictions for Vietnamese listed equity, except for banking and other selected sectors, have been lifted. As a result, increased foreign ownership of Vietnamese listed equity is anticipated. It is critical for SCIC and its portfolio companies to attract the right investors who can provide their capital with an intention to hold with the longer-term perspective. This is why SCIC needs to develop the corporate governance code (the “Code” or “CGC”) for its portfolio companies and these portfolio companies are encouraged to voluntarily adopt the Code.

Principles-based approach

As SCIC's portfolio companies vary in size (in terms of charter capital, revenue, total assets, net assets, the number of employees) and other attributes such as organizational structure, industry sector, business model, management style, risk profile and so on; it is often said that "one size doesn't fit all¹." To facilitate the general concept of corporate governance to the wide variety of the portfolio companies, the Code adopts a "principles-based approach" under which no formal rules are prescribed in detail; rather, ultimate objectives or expected outcome are explained so that each enterprise has certain flexibility in selecting how to attain the expected outcome.

Comply (Apply) or explain approach

The "comply or explain" approach is commonly used to principles-based corporate governance codes in many countries. It is a foundation of flexibility and it has been supported by both companies and shareholders. Under the "comply or explain" approach, an alternative to the principles must be explained and justified under the circumstances if strong governance can be achieved by other means.

In developing the Code in Vietnamese language, however, the word, "comply (in Vietnamese language, tuân thủ)" suggests that enterprises "must follow" the rule without any exceptions although the Code itself is not a set of hard laws that must be strictly complied with. Therefore, in the following part of the Code, "apply" instead of "comply" is used when describing the situation where an enterprise follows the General Principles, Principles and/or Recommendations within the Code.

Some Principles in the Code might not be suitable for a certain enterprise, taking into account its business model, size of the enterprise, management style or any other reasons. In these circumstances, the enterprise should provide reasonable explanation of non-application to the shareholders and other stakeholders. Non-application of a particular Code principle does not mean a *weak* corporate governance. Instead, shareholders and other stakeholders should carefully examine the reasons of non-application and assess whether the enterprise's *explanation* is reasonable or not. Reasonable and sufficient *explanations* should result in constructive dialogue between the enterprise and its stakeholders.

¹ In this context, "size" does not mean the size of an enterprise but a variety of enterprise attributes.

To evaluate an enterprise's each explanation, SCIC, as a shareholder, should pay due regard to the enterprise's individual circumstances and bear in mind in particular the size and complexity of the enterprise and the nature of the risks and challenges it faces.

It should be noted that when an enterprise's "explanation" under the "apply or explain" approach is not sufficient, SCIC should consider as a shareholder whether it should suggest the potential deficiencies in the portfolio company's corporate governance when exercising the voting rights, given all the relevant circumstances.

How to adopt the Code

The Code specified General Principles, Principles and Recommendations. General Principles are conceptual, high-level standards of good governance and aimed to be adopted by all companies; while Principles are expected to be applied by companies other than certain smaller ones using the "apply or explain" approach. Recommendations are the best practice examples that could be referred to by all companies, and are not subject to the "apply or explain" approach. In other words, the "General Principles" are expected to be applied to all portfolio companies while the "Principles" are applicable to companies other than **Group B2** (or *smaller companies*). The "Recommendations" are expected to be applied to **Groups A1** (or relatively large or public companies) and **A2** (or not large, non-public or not smaller companies). **Groups A1, A2, B1** and **B2** are defined by the SCIC to categorize its portfolio companies.

Alternatively, when an enterprise other than SCIC's portfolio companies wishes to use the Code, "Large or Public companies," "Not-large or non-public companies" and "Smaller companies" are used to categorize the enterprise. A large company is defined for the purpose of applying the Code as any enterprise with more than 300 employees or total capital over 100 billion VND². Smaller companies for the purpose of applying the Code are defined as any enterprise with less than 50 employees or total capital less than 10 billion VND³.

² These thresholds are in consistent with Article 3 of the Decree 56/2009/ND-CP. "Large-scale public company" is defined in the Article 2, Clause 2 of the Circular 155/2015/TT-BTC; "a public enterprise with the shareholder's equity of at least VND 120 billion as mentioned in the latest audited annual financial statements."

³ These thresholds are in consistent with Article 3 of the Decree 56/2009/ND-CP. Total capital is the priority criterion.

The following table presents the relationship between the SCIC's portfolio companies' four groups and how each group of four is expected to adopt each component of the Code:

Code Component	SCIC's portfolio company group		
	A1 and A2	B1	B2
	Alternatively, Large or Public companies	Alternatively, Not large, non-public companies	Alternatively, Smaller companies
General Principles	Apply	Apply	Apply
Principles	Apply or Explain	Apply or Explain	Reference only
Recommendations	Recommended to apply	Reference only	Reference only

Each group is defined by SCIC as follows⁴:

- **Group A1:** Includes companies that SCIC will actively retain for long-term investment.
- **Group A2:** Includes companies where SCIC holds 100% of capital; has controlling stakes or equity, and will privatize according to the Prime Minister's guidelines.
- **Group B1:** Includes companies that need to be restructured to increase state investment value before totally divesting. Companies in this group can also be considered to maintain state holdings or invest more if they prove profitable before divestiture.
- **Group B2:** Includes companies that need to be totally divested in the short-term. These companies fall into the rest (not included in Group A and B1). These are small-sized, poorly-performing or loss-making companies with potential risks. SCIC need to actively divest from these companies according to the plan of its Board of Directors and does not invest more.

These groupings should be the basis when adopting the Code by SCIC's portfolio companies. In the situations where the Code is adopted or referred by enterprises other than the SCIC's portfolio companies, alternative classification method, for example, by size (large or small),

⁴ As of December 31, 2015, the total number of portfolio companies was 197; and portfolio book value was VND 19,740 billion, according to the SCIC's website. The definition of each group can be found at <http://www.scic.vn/english/index.php/investment/16-investment/portfolio.html>

by public or non-public, by complexity of business, and other attributes that would potentially affect the enterprise's corporate governance model may be considered.

The Board (the board of directors and/or supervisory board)

The term the “Board (either “Board of Directors” or “Supervisory Board,” or both) as used in the Code is meant to embrace the different models of organizational structures. In the typical two-tier system, the “Board” as used in the Code refers to the “Board of Directors” and “Supervisory Board.” In the cases of single-tier system, which is introduced by the revised Law on Enterprises (LOE), the “Board” as used in the Code refers to the “Board of Directors.”

Entities other than joint-stock companies may use the Code as a reference material. In such case, the term the “Board” and “key executives” should be replaced by other terms used in respective organization structure. The Code is, however, written for the use by the joint stock companies (JSC) as defined by the Law on Enterprise (LOE).

There are variations of English translations of Vietnamese laws and regulations, where specific terminologies are translated differently. For the purpose of developing the Code and its application guidance, the Vietnamese term, “Hội đồng Quản trị,” is translated into English as “Board of Directors” although some literatures use the English translation of “Board of Management.” Similarly, the Vietnamese term, “Ban kiểm soát” is translated into English as “Supervisory Board” although some literatures use the English translation of “Inspection Committee.” Appendix B presents some of the key terminologies and definitions both in Vietnamese and English.

Structure of this document

Part I of this document consists of the four sections of the Code without any guidance and Part II consists of the four sections of the Code and additional guidance (reference to legal requirements, OECD Principles, and commentary) as follows:

Part I: Corporate governance code

Each of the four sections has:

- General principles
- Principles
- Recommendations

Part II: Corporate governance code with additional guidance

Each of the four sections has:

- General principles
 - Notes from OECD Principles 2015
- Principles/Recommendations
 - Commentary
 - Requirements under Vietnamese laws and regulations

Appendix A: Reference to legal documents

Appendix B: Definitions and terminologies

Part III: Application guidance

Application guidance

Appendix C: Sample corporate governance report

Certain laws and regulations are only applicable to public enterprises (e.g. Circular 155/2015/TT-BTC) while others (e.g. Law on Enterprises) are applicable to almost all enterprises. When applying the Code principles, each enterprise is expected to first identify which laws and regulations are required to be complied with carefully because those laws and regulations are *mandatory* to comply with and are not subject to the “apply or explain” approach.

The commentary section provides additional guidance when applying the Code principles. It also provides some of the examples but not all-inclusive type of examples.

Corporate governance report

The Code has 47 general principles, principles and recommendations. The SCIC’s portfolio companies who adopt the Code are expected to prepare and update a corporate governance report at least annually. The corporate governance report should be shared with the stakeholders by posting it on the enterprise’s website or by sending it to the shareholders. In the corporate governance report, the enterprise is expected to describe (1) the overview of the enterprise’s corporate governance policy/framework, (2) the corporate governance statement, (3) explanations of reasons for non-application of the CGC, and (4) explanations of how the enterprise applies the CGC, and other relating information such as the list of the members of board of directors.

A sample corporate governance report is shown in Part III, Appendix C of this document. Note that if an enterprise has already prepared other similar document, such as “corporate governance policy,” the enterprise may refer to such other document in the corporate governance report.

Disclosure requirements

Some of the principles and recommendations within the Code require disclosures that may be seen to be duplicative. However, each principle or recommendation has a different objective, for example, Section 3 requires each *enterprise* to make particular disclosures while Section 4 requires each *board of directors* to oversee such disclosures. Therefore, depending on the Code requirement, an enterprise should assess if it applies the Code principle/recommendation or not, based on *who* within the enterprise is responsible for the Code requirement.

Listed companies

Listed companies and certain public companies are subject to relevant stock exchange's rules and regulations, Law on Securities and related legal framework. Generally, such rules and regulations and legal framework require higher standards of transparency, accountability and corporate governance of the public and/or listed companies. As the Code is developed to facilitate a wider range of enterprises including non-public enterprises, most of the Code principles and recommendations have already been applied by such public or listed companies. These companies are expected to further enhance their disclosures by reference to the *Recommendations* part of the Code.

Post implementation review and continuous updates

The Code is a starting point for strong governance. The Code and its application guidance must be continuously reviewed and updated in accordance with the changes in circumstances. Once it is adopted by the SCIC's portfolio companies, post-implementation reviews (PIR) should be performed in the subsequent years. These PIR procedures are separately documented in the application guidance of the Code.

Section 1: The rights and equitable treatment of shareholders

1. The rights and equitable treatment of shareholders

General Principle 1.

Enterprises should take necessary measures to protect and facilitate the exercising of shareholders' rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective remediation for violation of their rights.

Notes from OECD Principles 2015:

Basic shareholder rights should include the right to: 1) secure methods of ownership registration; 2) convey or transfer shares; 3) obtain relevant and material information on the corporation on a timely and regular basis; 4) participate and vote in general shareholder meetings; 5) elect and remove members of the Board; and 6) share in the profits of the corporation.

Commentary:

General Principle 1 describes the core concept of the CGC which is to protect the rights of shareholders. Each enterprise is expected to have internal policies on these areas, in addition to the ones required by the Vietnamese laws & regulations. Generally, it is included in the enterprise charter or a separate document such as Corporate Governance Policy.

Requirements under the Vietnamese laws & regulations:

Under Article 113 of the Law on Enterprises, save for the ordinary shares, a JSC may also have preference shares. Each share of the different types provides its holder with different rights, obligations, and interests. For example, holders of dividend preference shares do not have the voting right, attend general shareholders' meeting, nominate candidates for board of directors and the Supervisory Board.

Shareholder's right

Principle 1.1

1.1. Shareholders should be informed in a sufficient and timely manner, and the shareholders with voting rights have the right to approve, or participate in, decisions concerning fundamental corporate changes such as; 1) amendments to the statutes, or articles of incorporation or similar governing documents of the enterprise; 2) the authorisation of additional shares; 3) the election, removal, or dismissal of the members of Board of Directors or members of Supervisory Board (Inspection Committee); and 4) extraordinary transactions, including investment decisions valued 35% or more of the total value of the enterprise's assets and the transfer of all or substantially all assets that in effect result in the sale of the enterprise.

Commentary:

- The meaning of “sufficiently and timely informed”: Article 171 of the LOE about “public disclosure of information on shareholding companies” stipulates that a shareholding enterprise shall publish the following information on its website (if any): the charter of the enterprise, curriculum vitae, academic standard and working experience of members of board of directors, members of the Supervisory Board, director or general director of the enterprise; annual financial statement passed by general shareholders’ meeting; reports on evaluation of annual operation results of board of directors and Supervisory Board. A public shareholding enterprise shall publish or publicly disclose information in accordance with the law on securities. A shareholding enterprise in which the State holds more than fifty (50) per cent of the charter capital shall publish and publicly disclose information as stipulated in article 108 and 109 of this law. Article 109 of the LOE stipulates “Announcement of abnormal information” and such information must be published on the enterprise’s website or provided in a printed materials (if any) within 36 hours from the occurrence of such events. The Code suggests earlier disclosure of such events (e.g. within 24 hours from the occurrence of such events) is one of the examples of “timely informed”.
- The meaning of “extraordinary transactions”: Items in addition to the ones described in the Article 109 of the LOE, that the enterprise believes that is unusual in occurrence (= infrequent) and in nature (= not in an ordinary course of the enterprise’s operation).
- The meaning of “result in the sale of the enterprise”: Although legal form of the transaction is not “a sale of the enterprise,” if such sale of significant assets is considered to be a transfer of significant profitable assets/business of the enterprise, then, it should be treated as such.
- The meaning of “the transfer of all or substantially all assets”: In this context, “transfer” include both sale and lease (both operating and financing leases) transactions where the enterprise is no longer able to control the assets. Since an “asset” is used by the enterprise to generate economic benefits either in the form of increased income or decreased expenses, a transfer of assets may be resulting in the decline in profitability of the enterprise that investors should know on a timely basis. How much is considered to be “substantial”? It depends on the enterprise’s business model and investor’s expectations.

Requirements under the Vietnamese laws & regulations:

- Article 114 of the LOE stipulates the *Rights of ordinary shareholders*.

Shareholders’ meeting

Principle 1.2

- 1.2. Shareholders with voting rights should have the opportunity to participate effectively and vote in general shareholders’ meetings and should be informed of the rules, including voting procedures, that govern general shareholders’ meetings:
- Shareholders should be furnished with sufficient information on a timely basis concerning the date, location and agenda of general meetings, as well as full disclosure regarding the issues to be decided at the meeting on a timely basis.

- Processes and procedures for general shareholders' meetings should allow for equitable treatment of all shareholders. Enterprise procedures should not make it unduly difficult or expensive to cast votes.
- Shareholders with appropriate rights should have the opportunity to ask questions to board of directors and supervisory board, including questions relating to the annual external audit, to place items on the agenda of general meetings, and to propose resolutions, subject to reasonable limitations.
- **Say-on-pay:** Shareholders with appropriate rights should have the opportunity to participate in key corporate governance decisions, such as the nomination and election of board of directors and supervisory board members. Shareholders should be able to make their views known, including through votes at shareholders' meetings, on the remuneration of board of directors, supervisory board members and key executives, as applicable. The equity component of compensation schemes for board of directors, supervisory board members and employees must be subject to shareholder approval.

Commentary:

- Proxy documents should be provided to the shareholders on a timely basis, preferably well in advance of the deadline determined by the laws & regulations.
- Think about, in the past years, what kind of questions your board of directors and supervisory board received from the shareholders and how they responded. What were the voting results? If the voting against the enterprise's proposal exceeded certain level, the enterprise should analyze the reasons and should take necessary action.
- An enterprise is expected to have a mechanism to collect shareholder's views even though each shareholder might not have right to vote for remuneration of each member of board of directors and supervisory board or a senior executive.

Requirements under the Vietnamese laws & regulations:

- The shareholders' meeting only votes on the total amount and calculation method of executive remuneration and bonuses (Articles 158.2.a. and 167.1 of the LOE). Refer to "say-on-pay" in Principle 1.2.
- Under Article 138(2) of the Law on Enterprises, the shareholder or group of shareholders holding at least 10% of ordinary shares for at least 6 consecutive months (or a smaller amount prescribed by the company's charter) have the right to propose additional matters to the agenda of general shareholders' meeting.
- Under Article 114 of the Law on Enterprises, the shareholder or group of shareholders holding at least 10% of ordinary shares for at least 6 consecutive months (or a smaller amount prescribed by the enterprise's charter) have the right to nominate the candidates for board of directors and the supervisory board.

Shareholders' rights - equality

Principle 1.3

1.3. All shareholders of the same series of a class should be treated equally. Capital structures and arrangements that enable certain shareholders to obtain a degree of influence or control disproportionate to their equity ownership should be disclosed.

- Within any series of a class, all shares should carry the same rights. All investors should be able to obtain information about the rights attached to all series and classes of shares before they purchase. Any changes in economic or voting rights should be subject to approval by those classes of shares which are negatively affected, in addition to the general shareholders' meeting's approval.
- The disclosure of capital structures and control arrangements is required.

Commentary:

- The “arrangements that enable certain shareholders to obtain a degree of influence or control disproportionate to their equity ownership” include an arrangement recently introduced in France in 2015, known as *Florange* double-vote law, where shareholders who own the shares longer than two years are granted double voting rights.

Requirements under the Vietnamese laws & regulations:

- Each share of the same type shall entitle its holder to the same rights, obligations and interests. (Article 113 -5 of LOE)
- Shareholders have all rights and obligations as prescribed by the Law on Enterprise, relevant documents, the company's charter, especially:

The right to fair treatment. Each shares of the same class bring the shareholders equal rights, obligations and interests. If the company has preferential shares, the rights and obligations attached to such preferential shares must be announced to the shareholders and approved by General assembly of shareholders (Article 3 -1-b) of Circular 121/2012/TT-BTC).

Refer to Appendix A. Reference to legal documents for “*Change of Rights.*”

Related-party transactions

Principle 1.4

1.4. Related-party transactions should be approved and conducted in a manner that ensures proper management of any potential conflict of interest and protects the interest of the enterprise and its shareholders. “Related-party” or “related person” is defined by existing laws and regulations including accounting standards (VAS 26) differently. The enterprise should consider disclosing the related-party transactions **beyond the requirements by other laws, regulations and accounting standards**, taking into account the enterprise's specific situations. For example, the enterprise may consider disclosing their internal rule of approving and disclosing

related-party transactions. The enterprise may also consider disclosing employment of family members of key executives.

- Conflicts of interest inherent in related-party transactions should be addressed, and
- Members of the board of directors and the supervisory board as well as key executives should be required to disclose to the board of directors whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the corporation.

Commentary:

- In the Code, the concept of “related-party” includes the concept of “related person” and additional parties that are considered to be important to disclose from the stakeholder’s point of view. The “additional parties” could vary depending on the circumstances each enterprise faces.
- Potential “conflicts of interest” may be addressed by explaining that the “terms and conditions” of transactions between the enterprise and a specific related-party is exactly the same as other non-related parties. Since investors are concerned about the potential conflicts of interest that may negatively affect the enterprise’s earnings, or fair business practices, each enterprise is responsible for disclosing the information on related-party transactions including pre-approval policy and how to collect a complete list of such transactions.

Requirements under the Vietnamese laws & regulations:

- “Related person” is a defined term in Article 4-17 of the LOE, “Interpretation of terms” as follows:

Related person means an organization or individual related directly or indirectly to an enterprise in the following cases:

- A parent company, the manager of a parent company and the person who has the power to appoint the manager of a subsidiary company in the corporate group;*
- A subsidiary company of a parent company in the corporate group;*
- A person or a group of persons being able to control the decision-making process and operations of such company through the management bodies of the company;*
- A manager of the company;*
- Husband, wife, biological father, adoptive father, biological mother, adoptive mother, biological children, adopted children, siblings, brothers-in-law, sisters-in-law of any manager of an company, any member, or any shareholder holding a share of capital contribution or controlling share;*
- An individual who is authorized to act as the representative of the persons, companies as stipulated in paragraphs a), b), c), d) and dd) of this clause;*
- An company in which the persons, companies as stipulated in paragraphs a), b), c), d), dd), e) and h) of this clause holding shares to the level that they can control the decision-making process of the management bodies of such company;*
- Any group of persons who agree to co-ordinate to take over shares of capital contribution, shares or interests in the company or control the decision-making process of the company.*

- Article 159 of the LOE, “public disclosure of relevant interests,” stipulates that the company must gather and update a list of related persons of the company and members of board of directors, inspectors, director or general director (or CEO) and other managers of the company must declare their relevant interests within the company. Such declaration must be made within seven working days from the date on which the relevant interests are earned.
- Chapter V, “Prevention of Conflicts of Interest”, Article 24 of the Circular No. 121/2012/TT-BTC, “Transactions with related persons,” stipulates the disclosure requirements of the related persons for public companies.
- “Related-party” is a defined term in the accounting standards VAS 26 as follows: *Related party*: parties are considered to be related if one party has the ability to *control* the other party or exercise *significant influence* over the other party in making financial and operating decisions.
- *Related-party transaction*: a transfer of resources or obligations between related parties, regardless of whether a price is charged.
- *Control*: ownership, directly, or indirectly through subsidiaries, of more than one half of the voting power of an company, or a substantial interest in voting power and the power to direct, by statute or agreement, the financial and operating policies of the management of the company.
- *Significant influence*: participation in the financial and operating policy decisions of an company, but not control of those policies. Significant influence may be exercised in several ways, such as representation on board of directors, participation in the policy making process, material inter-company transactions, and interchange of managerial personnel or dependence on technical information. Significant influence may be gained by share ownership, statute or agreement. With share ownership, significant influence is presumed in accordance with the definition contained in VAS 07 “Accounting for Investments in Associates”.

Minority shareholders

Principle 1.5

- 1.5. Minority shareholders should be protected from abusive actions by, or which are in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress. Abusive self-dealing should be prohibited.

Commentary:

- One such possible abusive actions may include the multiple voting shares that do not follow the “one share, one vote” model AND is unevenly preferable to the controlling shareholders. However, if minority shareholders have a right to vote on or approve the creation of such multiple voting shares, as well as any material changes to the attributes of such shares, it could be an effective means of redress.
- Other possible abusive actions may include but are not limited to pre-emptive rights, golden shares, and any other forms of restrictions on issuance of shares. To prevent potential abuse, minority shareholder approval on these actions should be considered.

Requirements under the Vietnamese laws & regulations:

- Exercising the right to attend general shareholders’ meeting (Article 140 of LOE)
- Rights to take legal proceedings against members of board of directors, director or general director (Article 161 of LOE)
- Demand for cancellation of resolutions of general shareholders’ meeting (Article 147 of LOE).
- Responsibility of major shareholders(Article 4 Circular 121/2012/TT-BTC)

Relations with shareholders

Principle 1.6

1.6. Enterprises' policies for promoting constructive dialogue with shareholders should include but are not limited to the following:

- Appointing a senior management or a director who is responsible for overseeing that constructive dialogue takes place;
- Measures to ensure positive cooperation among relevant departments within the enterprises (e.g. investor relations, corporate strategic planning, finance & accounting and legal departments) to support such dialogue;
- Measures to take necessary action to share views and concerns from shareholders with senior management, board of directors and supervisory board of the enterprise, and
- Measures to control insider information when engaging in such dialogue.

Principle 1.7

1.7. Enterprises should engage in constructive dialogue with shareholders including institutional investors and both domestic and foreign strategic investors, outside of the general shareholders' meetings to contribute to sustainable growth and the increase of corporate value over the mid- to long-term. Constructive dialogue would be facilitating mutual understanding, building trust and confidence, as well as promoting value adding communications.

Commentary:

An "engagement" is the term used for constructive mutual interaction between the enterprise and its shareholders, it is not a one-way communication. The general shareholders meeting is one of the important opportunities for both enterprise and its shareholders, however, the enterprise is expected to provide other opportunities for such mutual communications throughout the year.

Requirements under the Vietnamese laws & regulations:

- Shareholders have all rights and obligations as prescribed by the LOE, relevant documents, the enterprise's charter, especially;
- The right to be informed of periodic and irregular information about the enterprise's operation. (Article 3.1.(c) Circular 121/2012/TT-BTC)

Section 2: Role of stakeholders in corporate governance

2. Role of stakeholders in corporate governance

General Principle 2.

Enterprises should fully recognize that appropriate cooperation with the stakeholders other than shareholders is indispensable in achieving sustainable growth and increasing corporate value over the mid- to long-term.

Notes from OECD Principles 2015:

The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.

Commentary:

- General principle 2 emphasises the importance of **stakeholders** when an enterprise is trying to enhance its long-term value.
- **Stakeholders** include shareholders, employees, customers, vendors, suppliers, creditors, communities at large, and so on. Each enterprise might have a different priority among these stakeholders. One action by the enterprise may be beneficial to shareholders but not for other stakeholders. Therefore, when an enterprise is seeking long-term sustainable growth, the enterprise should consider not only shareholders' interests but also other stakeholders' benefits.

Code of conduct

Principle 2.1

2.1 Enterprises should implement a code of conduct for employees in order to express their values with respect to appropriate cooperation with and serving the interests of stakeholders and carrying out sound and ethical business activities including anti-bribery and corruption measures. Board of directors and supervisory board should have measures to help employees understand and apply the code of conduct. For large enterprises with a number of subsidiaries, board of directors and supervisory board of the parent enterprise should be also responsible for adherence to the code of conduct by subsidiaries' employees.

Commentary:

- Code of conduct may be named in different ways such as "code of ethics," "employees' ethical standards/handbook" and so on. Often, an enterprise has several different

ones for different groups of officers and employees within the enterprise. For example, the code of conduct for finance/accounting department employees generally has more robust standards to prevent fraudulent financial reporting.

- The code of conduct for foreign subsidiary enterprises should be modified to best fit for the local culture and to be line with the local laws & regulations. Many multinational enterprises disclose their code of conduct on their website.

Whistleblowing

Principle 2.2

2.2 Enterprises should establish an appropriate framework for whistleblowing such that employees can report illegal or inappropriate behaviour, disclosures, or any other serious concerns without fear of suffering from disadvantageous treatment. The framework should allow for an objective assessment and appropriate response to the reported issues, and board of directors and supervisory board should be responsible for both establishing this framework, and ensuring and monitoring its enforcement.

Principle 2.3

2.3 Enterprises should establish a point of contact that is independent from the management. In addition, rules should be established to secure the confidentiality of the information provider and prohibit any disadvantageous treatment. A point of contact could be the third party legal counsel or any other independent bodies.

Commentary:

- A hotline system is a telephone (or e-mail or other communication method) reporting system under which anyone (sometimes including external parties) could directly report to the enterprise's general counsel (house lawyer) or equivalent his/her concerns relating to the enterprise's business conduct **anonymously**.
- The number of reporting per year through such hotline may indicate the level of effectiveness of the system. If the number of reporting is too few or too many, it might not be operating effectively. For example, an employee would not use the hotline system to report his/her supervisor's wrongdoing if he or she is not protected against potential revenge by the supervisor. Therefore, in many countries, whistle-blower is protected by law from potential abusive treatment. On the other hand, if the number of reporting through hotline is too many, then, an enterprise should consider how to handle such a large number of reports efficiently.
- Board of directors and supervisory board should be aware of the nature of the reports through hotline and should ensure that the necessary action is taken.

Environmental, social and governance (ESG) matters

Principle 2.4

2.4 Enterprises should take appropriate measures to address sustainability issues, including environmental, social and governance matters. With the recognition that dealing with sustainability issues is an important element of risk management, board of directors and supervisory board should take appropriate actions to this end. Board of directors and supervisory board are also responsible for maintaining and improving corporate governance set forth in this Code.

Commentary:

- Environmental, social and governance (ESG) matters has become more and more important these days. Large institutional investors, such as global pension funds, are strategically investing in enterprises whose rating for ESG matters are higher than average, with a view that such investments will bring them better medium- to long-term returns.
- Financial analysts and investors are also increasingly focusing on an enterprise's non-financial information including ESG matters. Corporate governance is one of the most important ESG matters that these investors are looking at when evaluating the enterprises.
- Many global enterprises are disclosing voluntarily their "sustainability report" (in other word, Corporate Social Responsibility report) on their website. In the sustainability report, they typically describe, strategy and analysis, organizational profile, stakeholder engagement, environmental matters (emissions, energy, materials, water, etc.), governance matters (employment, labour/management relations, occupational health and safety, training and education, diversity and equal opportunity, human rights, non-discrimination, child labour, etc.), social matters (local communities, anti-corruption, etc.) and related compliance matters. Sustainability report or CSR report often refers to the "G4 Sustainability Reporting Guidelines – Reporting Principles and Standard Disclosures" issued by the Global Reporting Initiative (GRI), the United Nation's "Global Compact – Ten Principles 2000," or the "OECD Guidelines for Multinational Enterprises 2011" as a basis for reporting.
- Integrated reporting is another way of disclosing non-financial information together with traditional financial information. For details, refer to the following website: <http://integratedreporting.org/>

Section 3: Disclosure and transparency

3. Disclosure and transparency

General Principle 3.

Enterprises should make appropriate information disclosure in compliance with the relevant laws and regulations. Enterprises should also try to actively provide information beyond those required by laws, which includes both financial and non-financial information such as business strategies, business issues, risks and governance matters.

Board of directors and supervisory board should recognize that disclosed information should be accurate, clear and concise so that it will serve as the basis for constructive dialogue with shareholders.

Notes from OECD Principles 2015:

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the enterprise.

Commentary:

Although the General Principle 3 encourages disclosures beyond those required by laws, enterprises may use their discretion as to whether they should provide additional disclosures if disclosing such sensitive information (e.g. law suit, M&A, strategic alliance, and so on) would be disadvantageous.

Requirements under the Vietnamese laws & regulations:

- Disclosure requirements for public companies were stipulated in the Chapter II of Circular 52/2012/TT-BTC and have been replaced by the Chapter II – Information Disclosure of Public Companies- and Chapter III – Information Disclosure of Listed Organizations and Large-Scale Public Companies – of the Circular 155/2015/TT-BTC effective January 1, 2016.
- Disclosure requirements for non-public companies are stipulated in Article 1.2 of Decree 05/2013/ND-CP.

Disclosure of material information

Principle 3.1

3.1 Disclosure should include, but not be limited to, material information on:

- (i) The financial and operating results of the enterprise;
- (ii) Enterprise objectives and non-financial information;
- (iii) Majority share ownership, including beneficial owners, and voting rights;
- (iv) Remuneration of the members of board of directors and supervisory board, and key executives;

- (v) Information about members of board of directors and supervisory board, including their qualifications, the selection process, other enterprise directorships and whether they are regarded as independent by board of directors;
- (vi) Related-party (broader concept than “related person”) transactions;
- (vii) Foreseeable risk factors;
- (viii) Issues regarding employees and other stakeholders;
- (ix) Governance structures and policies, including the content of any corporate governance code or policy and the process by which it is implemented, and
- (x) Explanation of the independence of the external auditor including duration of audit contract with current auditor (i.e. year of renewal), and audit fees to indirectly prove the quality of audit.

These items above are required to disclose by other laws or regulations. However, an enterprise should consider disclosing the additional information relevant to the enterprise’s stakeholders voluntarily so that the stakeholders, shareholders in particular could understand the enterprise more clearly.

Commentary:

- The Principle 3.1 aims to encourage enterprise to disclose voluntarily additional information beyond those required by the existing laws & regulations. Non-public companies may refer to the disclosure requirements for public companies. Public enterprises subject to Circular 155/2015/TT-BTC may elect to disclose any additional information that the enterprise believes useful for its investors beyond the requirements of Circular 155/2015/TT-BTC.
- Non-financial information in (ii) above, is any information other than financial statements and its footnotes. Non-financial information would include but is not limited to policies on environmental and social matters, respect for human rights, anticorruption and bribery issues, and diversity in the enterprise’s board of directors. These examples are in line with the EU Directive 2013/34/EU.
- Item (viii) above, *Issues regarding employees and other stakeholders*, may include management/employee relations, including remuneration, collective bargaining coverage, and mechanisms for employee representation, and relations with other stakeholders such as creditors, suppliers, and local communities. The objective of such disclosure is to provide information that may materially affect or may have a significant impacts upon the performance of the enterprise.
- Disclosure rules by laws and regulations are the minimum mandatory requirements that enterprises should comply with. The Code intends to go beyond the minimum disclosure requirements mainly for the purpose of increased transparency and further encouraging the dialogue with stakeholders.

Requirements under the Vietnamese laws & regulations:

- Chapter VI of the Circular 121/2012/TT-BTC, providing regulations on corporate governance applicable to public companies, stipulates the disclosure requirements.

- Article 9 of the Circular 155/2015/TT-BTC, “Irregular information disclosure” stipulates the list of information that must be disclosed within 24 hours as follows:

Each public company must perform irregular information disclosure within 24 hours, from the occurrence of one of the following events:

- a) *The banking accounting of the company is blocked or unblocked after the blockage, unless the company requests the blockage of its banking account;*
- b) *Partially or completely suspending the business operation; adding or withdrawing one or a number of business lines; the operation is suspended or the Business registration certificate or the Establishment and operation permit or the operation permit; changes of the prospectus after receiving the certificate of offering registration issued by the SSC;*
- c) *Ratification of the decision of general shareholders’ meeting (including Resolution of general shareholders’ meeting, meeting minutes, or report on vote counting (in case of absentee voting of shareholders)). If general shareholders’ meeting ratify the decision on cancellation of the listing, the company must disclose the decision together with the affirmative vote ratio of shareholders not being major shareholders;*
- d) *The decision on purchase or sale of treasury shares; the expiry date on which the share purchase right of bondholders shall be performed together with the call option of shares the expiry date on which the convertible bonds are converted into shares; the decision on securities offering overseas and decision related to securities offering as prescribed in law on companies;*
- dd) *The decision on the dividend rate, forms and time of dividend payment, common shares issue; the decision on the share splitting and grouping;*
- e) *The decision on company restructuring (total division, partial division, consolidation), company dissolution; change in the name or the seal of the company; change in location, establishment or shutdown of the headquarters, branches or offices; amendments to the Charter, mid-term development strategies or plans and the annual business plan of the company;*
- g) *The decision on change in accounting period, applied accounting policies (excluding change due to regulations of law); notification of the audit firm entered into the contract of annual financial audit or change in the audit firm (after conclusion of the contract); audit firm refuses to audit the financial statement of the company; the retroactive adjustment results of the financial statement (if any); the auditor’s opinion except for an unqualified opinion;*
- h) *The decision on contributing capital to establish an company or buying stakes of a company leading such company become a subsidiary, a joint venture company, or an associate or the decision on selling stakes of its subsidiary, joint venture company, or associate leading such company is no longer its subsidiary, joint venture company or associate, or the decision on dissolution of a subsidiary, a joint venture company, or an associate; the decision on shutdown or establishment of a branch, a plant or a representative office;*
- i) *The decision of the general shareholders’ meeting or board of directors on ratification of a contract/agreement concluded with internal or relevant persons;*
- k) *The decision on issuance of convertible bonds or preferred shares;*
- l) *Upon the change in number of voting shares outstanding. Time of information disclosure:*
 - *If the company issues additional shares, the time of information disclosure shall be determined from the date on which the report on result of issuance sent to the SSC as prescribed;*

- *If the company conducts transaction of treasury shares, the time of information disclosure shall be determined from the date on which the report on results of transaction of treasury shares is sent as prescribed;*
- *If the company repurchase shares from officers according to the selective program of the company or repurchase odd-lot shares of the company through the securities company; the securities company purchases own shares at the request of the client or to rectify transaction errors, the company shall disclose the latest information within the first 10 days of the month upon the completion of the transactions.*
- m) *The company receives the Certificate of Company registration or the Establishment and operation license or the operation license which is amended;*
- n) *The company replaces, appoints, re-appoints, or dismisses an executive officer. Within 3 working days from the date of information disclosure in terms of the replacement, appointment, re-appointment of the executive officer, the company shall send the curriculum vitae of new executive officer (if any) to the SSC and the SE where the company listed or registered as prescribed in Appendix 3 issued herewith;*
- o) *The company receives a decision on prosecution, detention or criminal prosecution against an executive officer of the company;*
- p) *The company receives a judgment or a decision made by a court relating to the company's operation; or a decision on violations against the laws on taxation committed by the company sent by a tax authority;*
- q) *The decision on borrowing or issuance of bonds leading total of borrowings of the company accounting for at least 30 % of owner's equity as determined in the latest audited annual financial statement or the latest reviewed biannual financial statement.*

If the total of borrowings of the company accounts for at least 30 % of owner's equity as determined in the latest audited annual financial statement or the latest reviewed biannual financial statement, the company shall disclose information about the decisions on additional borrowing or additional bonds accounting for at least 10% of owner's equity as determined in the latest audited annual financial statement or the latest reviewed biannual financial statement;

- r) *The company receives a notification of receipt of the petition for initiation of company bankruptcy process;*
- s) *Other events occurs leading major impact on the production, business and administration of the company. (...omitted...)*

In case of listed or and large-scale public company, article 12 stipulates additional events that required to be disclosed in addition to above:

1. *The stakes of the owner or total assets decrease by at least 10% in the latest audited annual financial statement or the latest reviewed biannual financial statement.*
2. *There is a decision on increase/decrease in charter capital; a decision on investment in an organization, project, borrowing, lending or other transaction with value of at least 10% of total assets of the company as mentioned in the latest audited annual financial statement or the latest reviewed biannual financial statement; there is a decision on capital contribution of at least 50% of charter capital of an organization (according to the charter capital of such organization before the time of contribution); a decision on sale or purchase of assets with value of at least 15% of the total assets of the company as mentioned in the latest audited annual financial statement or the latest reviewed biannual financial statement.*
3. *The organization/company is approved or delisted at a foreign stock exchange.*

Article 10 of the Circular 155/2015/TT-BTC, "Information disclosure on request" stipulates as follows:

1. *The public company shall disclose information within 24 hours in any of the following cases upon receipt of the request of the SSC (the State Securities Commission) or the SE (Stock Exchange) where the company listed or registered:*
 - a) *Occurrence of events that causes serious effect to the legal interests of the investors;*
 - b) *There is any information about the company that cause major effect to the securities prices that needs verified.*
2. *The disclosed information on request must be detailed and contain reasons and evaluation of the truthfulness of the information and handling measures (if any). (...omitted...)*

Fair disclosure

Principle 3.2

3.2 Channels for disseminating information should provide for equal, timely and cost-efficient access to relevant information by users. An enterprise should be aware of the fair-disclosure concept and should not provide particular material information only to a selected group of people.

Commentary:

- “Fair Disclosure” concept should be adhered to if enterprise is public or aiming to be public in the near future. The enterprise should not disclose material non-public information such as earnings projection, key personnel changes, or M&A plans, to certain individuals or entities including news media companies (“selective disclosure”). Fair disclosure is a fundamental to the healthy capital markets.
- “Channels for disseminating information” may include, filing the annual report and other documents to the regulatory authority, posting to the enterprise’s website, interviews with media representative (e.g. newspaper article, TV broadcast), using the social network services (e.g. Facebook) and all other means.

Requirements under the Vietnamese laws & regulations:

No specific reference to “fair disclosure” in the Law on Securities (2010)

Principle 3.3

3.3 An enterprise should distinguish strategic investor from other investors in a way where a strategic investor obtains information from the enterprise within a capacity of the enterprise management. Although a strategic investor’s legal rights and obligations is generally balanced, an enterprise should consider fair balance between their rights and obligations.

Commentary:

Generally, a strategic investor’s rights and obligations should be balanced and no special treatment would be needed. However, under unusual circumstances where strategic investor’s rights is unfairly limited, certain measure to compensate the unbalance should be considered.

Requirements under the Vietnamese laws & regulations:

There is a definition of “strategic investor” under Decree 59/2011/ND-CP on transformation of companies with 100% state capital into joint stock companies.

Narrative explanation

Principle 3.4

3.4 Board of directors and supervisory board should ensure that the disclosed information is not “boiler-plated” but as enterprise specific as much as possible with sufficient detail so that the information adds value to investors. A “boiler-plate” disclosure does not provide meaningful information to users; it could be too generic or it could be copied from another enterprise’s disclosure and does not tell their own stories but another enterprise’s.

Commentary:

A boiler-plate disclosure means something that looks exactly like the “template” available to everyone and often suggests a negative example.

Disclosure of risks

Principle 3.5

3.5 An enterprise should disclose its overall exposure of risk and link it to its strategy and the business model, and explain how significant risks are mitigated. In addition, the enterprise should explain how its risk exposure changes over time.

Internal controls

Principle 3.6

3.6 An enterprise should disclose and explain its design and operating effectiveness of internal control system over financial reporting and disclose necessary information to its shareholders.

Requirements under the Vietnamese laws & regulations:

Article 165.4 of LOE stipulates Inspection Committee has responsibility to review, inspect and evaluate the effectiveness and efficiency of the internal control, internal audit, risk management and early warning system of the company.

External auditor

Principle 3.7

3.7 An enterprise and its external auditor should recognize the responsibilities that the external auditor owes toward shareholders and investors, and take appropriate steps

to secure the proper execution of audits of the enterprise's financial statements. To secure the proper execution of audits, enterprises should engage with auditors soon after their election at the general shareholders' meeting so that the auditors have sufficient time to perform the effective and efficient audits.

Requirements under the Vietnamese laws & regulations:

- External independent auditors for the purpose of applying the Code are certified public accountants or equivalent under the Vietnamese regulations.
- Article 15.3 c) of Decree 17/2012/ND-CP stipulates that "Enterprises and organizations with 20% or more of the voting rights held by state groups, state corporations in the end of the fiscal year must be audited for annual financial statements"

Disclosure in English

Recommendation 3.8

3.8 It is recommended for certain large enterprises that such enterprises should consider disclosing information in English on a timely basis in addition to Vietnamese to facilitate decision useful information to foreign investors.

Requirements under the Vietnamese laws & regulations:

- Regulations on Information Disclosure at the Hanoi Stock Exchange (issued together with Decision No. 250/QD-SGDHN on 06/06/2013 by the Chief Executive Officer of the Hanoi Stock Exchange)
- Article 3 of the Circular 155/2015/TT-BTC stipulates the rules for information disclosure and says, "The disclosed information in Vietnamese and English shall apply to the SE, SDC as prescribed by the SE and the SDC that are approved by the SSC. Other entities are recommended to disclose information in English as prescribed in the Regulation of the SE and the SSC. The disclosed information in English is provided for reference only."

Timely audit of financial statements

Recommendation 3.9

3.9 It is recommended that the annual financial statements should be audited in a timely manner.

Recommendation 3.10

3.10 It is recommended that the explanations with respect to the individual appointments, reappointments and nominations of the members of board of directors and supervisory board should be based on policies and procedures of board of directors and supervisory board, respectively, should be disclosed.

Commentary:

Often, "procedures" for the appointment, reappointments and the nomination of directors are documented in the form of a "nomination committee charter" or "nomination

committee's terms of reference" which contains, for example, how the nomination committee identifies suitable candidates for any appointment (e.g. the committee uses open advertising and/or external advisers to facilitate the search, and so on.)

Requirements under the Vietnamese laws & regulations:

- Article 170.2 of LOE stipulates JSC of which audit of annual financial statement is required by law.
- Article 3 of the Circular 155/2015/TT-BTC, "Rules for information disclosure" stipulates that the information disclosure must be sufficient, accurate and punctual.
- Chapter II of the Circular 155/2015/TT-BTC stipulates that each public company must disclose its audited annual financial statement within 10 days, from the date on which the audit firm signs the audit report provided not exceeding 90 days, from the end date of the financial year (December 31).
- Although this rule, "Information Disclosure of Public Companies," is applicable only for the public companies, non-public enterprises are encouraged to comply the similar "timely" information disclosures.

Section 4: Responsibilities of the board of directors

4. Responsibilities of the board of directors

General Principle 4.

- (1) Board of directors should be responsible for monitoring management performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the enterprise. In order to fulfil their responsibilities, board of directors should be able to exercise objective and independent judgement.
- (2) Board of directors should be responsible in overseeing the risk management system and systems designed to ensure that the enterprise is in compliance with applicable laws and regulations, while determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives.
- (3) Board of directors is not only accountable to the enterprise and its shareholders but also has a duty to act in their (i.e. the enterprise and its shareholders') best interests. In addition, board of directors is expected to take due regard of, and deal fairly with, other stakeholder interests including those of employees, creditors, customers, suppliers and local communities. Observance of environmental and social standards is relevant in this context.
- (4) In order to fulfil their responsibilities, board of directors should have access to accurate and relevant information on a timely basis.

Notes from OECD Principles 2015:

The corporate governance framework should ensure the strategic guidance of the enterprise, the effective monitoring of management by the Board, and the Board's accountability to the enterprise and the shareholders.

The Board should fulfil certain key functions, including:

- *Reviewing and guiding corporate strategy, major plans of action, risk management policies and procedures, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.*
- *Monitoring the effectiveness of the enterprise's governance practices and making changes as needed.*
- *Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.*
- *Aligning key executive and board remuneration with the longer term interests of the enterprise and its shareholders.*
- *Ensuring a formal and transparent board nomination and election process.*

- *Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related-party transactions.*
- *Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.*
- *Overseeing the process of disclosure and communications.*

Commentary:

Section 4 of the Code relates to the responsibilities of board of directors. Under the traditional two-tier board system, however, board of directors' responsibilities may be shared with other oversight function, such as supervisory board. Each enterprise may have a different supervisory function regardless of its selection of the structure. Thus, one enterprise's governance model may be different from others. That is the reason why each enterprise should disclose and explain how its board of directors and/or supervisory board works.

Requirements under the Vietnamese laws & regulations:

Article 134 of the LOE, "Organizational and management structure of shareholding companies" stipulates the following two models:

- a) General shareholders' meeting, a board of directors, supervisory board and director or general director (or CEO).
- b) General shareholders' meeting, a board of directors, director or general director (or CEO).

Articles 149 through 162 of the LOE stipulate various rights and duties of board of directors. Articles 163 through 169 of the LOE stipulate the various rights and duties of the Inspection Committee.

Relations with shareholders

Principle 4.1

4.1. There should be a dialogue with shareholders based on the mutual understanding of objectives. Board of directors as a whole have responsibility for ensuring that a satisfactory dialogue with shareholders takes place. Board of directors should use the general shareholders' meetings to communicate with investors and to encourage their participation.

Risk management and Internal control

Principle 4.2

4.2. Enterprises should robustly assess their principal risks and explain how they are being managed or mitigated, and monitor their risk management and internal control systems including internal audit function.

Principle 4.3

4.3. Board of directors and supervisory board should ensure that the internal audit function evaluates and contributes to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

Commentary:

To apply this code principle, an enterprise should not necessarily have the internal audit “department” within the entity; however, the enterprise should have certain internal audit “functions” within the enterprise - these could be outsourced or at least similar responsibilities should be operated effectively.

Corporate culture

Principle 4.4

4.4. One of the key roles for board of directors includes establishing the culture, values and ethics of the enterprise. It is important that board of directors sets the correct “tone at the top”. Board of directors should lead by example and ensure that good standards of behaviour permeate throughout all levels of the organisation. This will help prevent misconduct, unethical practices and support the delivery of long-term success.

Commentary:

- *Corporate culture* in this context means corporate values, attitudes, behaviours and all other enterprise’s conduct that the enterprise’s stakeholders are looking at. The corporate culture is a valuable intangible asset when it is healthy as it is creating and protecting the enterprise’s long-term value.
- Board of directors and supervisory board should demonstrate its leadership in developing a healthy corporate culture within an enterprise.

Independent non-executive director

Principle 4.5

4.5. Board of directors should be able to exercise objective independent judgement on corporate affairs by assigning a sufficient number of independent non-executive directors being capable of exercising independent judgement to tasks where there is a potential for conflict of interest. Examples of such key responsibilities are ensuring the integrity of financial and non-financial reporting, the review of related-party transactions, nomination of board of directors and key executives, and board of directors’ remuneration.

Notes from OECD Principles 2015:

Independent non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning.

Requirements under the Vietnamese laws & regulations:

- Article 134 of the LOE, “Organizational and management structure of shareholding companies” stipulates the independence requirements for each of the two organizational structures.
- Article 151 of the LOE, “Structure, criteria and conditions for acting as a member of board of directors.”
- Article 164 of the LOE, “Criteria and conditions for inspectors”

Requirements under the Vietnamese laws & regulations:

Non-public companies are not required to have non-executive or independent directors under law, whereas at least one-third of the total directors of the board of a public company must be non-executive directors (article 11.2 of Circular 121/2012/TT-BTC). A non-executive director is defined as person who is not the general director (or CEO), deputy general director, chief accountant or any other executive person as appointed by the company (Article 2.2 of Circular 121/2012/TT-BTC). At least one-third of the total directors of the board of a large public company or listed company, however, must be independent directors (Article 30.2 of Circular 121/2012/TT-BTC). A director is considered independent if:

- he or she is a non-executive director and not a related-party of the general director (or CEO), deputy general director, chief accountant or other executive persons as appointed by the company;
- he or she does not hold the position of director of the board, general director (or CEO) or deputy general director of any subsidiary, affiliate or company controlled by such a company;
- he or she is not a major shareholder or a representative of a major shareholder or his or her related-party;
- he or she has not previously worked at a legal or auditing firm providing services to the company for the last two years; and
- he or she is not a partner or his or her related-party with whom the company has an annual transaction value accounting for 30 percent of the total revenue or total buying product or service value of the company for the previous two years (Article 2.3 of Circular 121/2012/TT-BTC).

Specialized committees

Recommendation 4.6

- 4.6. Board of directors should consider setting up specialised committees to support the full board of directors in performing its functions, particularly in respect to audit, nomination, and, depending upon the enterprise’s size and risk profile, in respect to

risk management and remuneration. When committees of board of directors are established, their mandate, composition and working procedures should be well defined and disclosed by board of directors.

Commentary:

- A single board system with three committees, being the audit committee, nomination committee and compensation committee is a common structure of the enterprise except for Germany and Japan where a two-tier system is the most popular structure. If an enterprise has a Supervisory Board (Inspection Committee) and a Board of Directors (Management Board), then the roles and responsibilities of the audit committee being prescribed in the global standard such as OECD Principles 2015 should be read as those of Supervisory Board (Inspection Committee) unless otherwise prescribed in the enterprise's charter.
- For smaller board of directors (i.e. the total number of board members is less than seven), setting up a specialised committee might not always promote efficiency and effectiveness of the function of the Board. However, for larger board of directors, it is beneficial to have such specialised committees by discussing fully the specific areas in smaller number of board members.
- Among various specialised committees, the **audit committee** plays a key role in most countries in the world. It is indispensable and different from the traditional Supervisory Board (Inspection Committee)'s roles and responsibilities. Refer to the *OECD Principles 2015* for detail description of audit committee's roles and responsibilities.

Requirements under the Vietnamese laws & regulations:

For remuneration, salaries and other benefits of members of board of directors, the director or the general director (or CEO), Article 158 of the LOE stipulates the procedures.

Chapter VII of the Circular 121, "Large-scale Public Companies and Listed Companies" deals with the sub-committees of board of directors.

Notes from OECD Principles 2015:

Nomination committee

There should be a nomination committee which should lead the process for board appointments and make recommendations to the board. A majority of members of the nomination committee should be independent non-executive directors.

Audit Committee

The board should establish an audit committee of at least three, or in the case of smaller enterprises two, independent non-executive directors. In smaller enterprises the enterprise chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

- *The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:*
- *to monitor the integrity of the financial statements of the enterprise and any formal announcements relating to the enterprise's financial performance, reviewing significant financial reporting judgements contained in them;*

- *to review the enterprise's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the Board itself, to review the enterprise's internal control and risk management systems;*
- *to monitor and review the effectiveness of the enterprise's internal audit function;*
- *to make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;*
- *to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant jurisdiction's professional and regulatory requirements;*
- *to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and*
- *to report to the Board on how it has discharged its responsibilities.*

The audit committee should monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the Board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.

Effective board of directors – diversity

Principle 4.7

4.7. Board of directors and its committees should have the appropriate balance of skills, experience, independence and knowledge of the enterprise to enable them to discharge their respective duties and responsibilities effectively.

Principle 4.8

4.8. Board of directors should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate board of directors' decision taking.

Transparent procedure for a new director appointment

Principle 4.9

4.9. Board of directors should ensure that there is a formal and transparent procedure for the appointment of new directors.

Commentary:

Principle 3.10 refers to the disclosure of the appointment of new directors; whereas this principle refers to the responsibility of board of directors (sometimes including supervisory board under the traditional two-tier system) in its oversight function.

"A formal and transparent procedure" of the enterprise may include those processes beyond the ones required by the law, such as how the enterprise finds candidates, and so on.

Requirements under the Vietnamese laws & regulations:

Article 156 of the LOE, "Dismissal, removal and addition of members of board of directors," and Article 169 of the LOE, "Dismissal and removal of inspectors," deal with the selection/appointment of each member.

Sufficient time allocation

Principle 4.10

4.10. All directors should be able to allocate sufficient time to the enterprise to discharge their responsibilities effectively.

Commentary:

Sometimes non-executive directors assume more than two enterprise's directorship. Generally, more than four directorship of large or public companies should be discouraged. Otherwise, the director would not be able to spend sufficient time for each enterprise.

Separation of the chairman and CEO

Principle 4.11

4.11. A chairman of board of directors and a General Director (or CEO) should be separated. No single person shall hold the two positions simultaneously because these two roles have different responsibilities.

Commentary:

Some countries require strict independence of the chairman of board of directors at the time of initial appointment because these countries focus more on the chairman's oversight function. In the case that a chairman of board of directors is also a CEO of the enterprise, the enterprise is expected to explain how board of directors' oversight function is maintained.

Requirements under the Vietnamese laws & regulations:

- The chairman of board of directors and the general director (or CEO) are two separate positions with different powers under the laws, although a single person can simultaneously hold the two positions (Article 152.1 of LOE and article 10.3 of Circular 121/2012/TT-BTC).
- Where a shareholding company in which the State owns more than fifty (50) per cent of the total number of votes, the chairman of board of directors shall not be allowed to concurrently act as the director or general director. (Article 152.2 of the LOE)

Effective operation of board of directors

Principle 4.12

4.12. An enterprise should consider establishing an effective supporting structure for board of directors. Under the direction of the chairman of the board of directors, the supporting structure ensures sufficient and effective information flows within board of directors including non-executive directors, its committees and senior management. The supporting function should facilitate induction training programs for the new members of board of directors and assist them with professional development programs as needed.

Commentary:

The supporting function could be an enterprise secretary or a corporate secretary of the enterprise. The size and functionality of the supporting structure may depend of the size of board of directors and supervisory board and range of its activities.

Requirements under the Vietnamese laws & regulations:

Article 33 of the Circular 121, "Company secretary" prescribes the supporting function for the Board (BOD).

Board of directors' evaluation

Recommendation 4.13

4.13. The board of directors should undertake a formal and rigorous annual evaluation of its own performance. The objective of the annual performance evaluation is to assess the effectiveness and efficiency of board of directors. A summary of the assessment should be disclosed.

Commentary:

Generally, the board evaluation in the context of corporate governance is performed using the self-assessment questionnaire which covers, but is not limited to, the adequacy of board meeting agenda, frequency and duration of board meetings, quality, reliability and adequacy of information being provided to the board meeting, board composition including skills and expertise of board members, leadership, and other aspects of effective board as a whole. For the two-tier board system, Supervisory Board (Inspection Committee) members should also evaluate the effectiveness of board of directors by answering the self-assessment questionnaire.

Requirements under the Vietnamese laws & regulations:

Article 31(e) of the Circular 121 prescribes provisions on annual assessment of activities, reward and discipline of members of board of directors, members of the inspection committee, the executive director (general director (or CEO)) and other managers.

Succession planning

Recommendation 4.14

4.14. Based on the enterprise objectives, such as business principles, and specific business strategies, the board of directors should engage in the appropriate oversight of succession planning for the CEO and other key executives.

Commentary:

Key executives' succession planning has two aspects: (1) scheduled transition of key management personnel (e.g. retirement, expected termination of contract, scheduled rotation) and (2) unscheduled resignation in the middle of his/her term. An enterprise should have both plans to mitigate risks associated with unexpected interruption of business as a result of key management's change.

Remuneration

Principle 4.15

4.15. The board of directors should ensure that the enterprise has a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of *individual* directors. No director should be involved in deciding his or her own remuneration.

Principle 4.16

4.16. The board of directors should ensure that the enterprise's executive directors' remuneration is designed to promote the long-term success of the enterprise. Performance-related elements should be transparent, stretching and rigorously applied.

Requirements under the Vietnamese laws & regulations:

Remuneration for directors is determined in accordance with the basis and method as provided for under the company's charter (Article 158.2(a) of LOE and Article 16 of Circular 121/2012/TT-BTC).

Clawback provision

Recommendation 4.17

4.17. When part of the executive directors' remuneration (incentive-based compensation) is linked to the enterprise's financial performance (e.g. EBITDA) and when such financial performance measurement is revised or restated as a result of errors or misconducts found by external audit or any other regulatory proceedings, the enterprise should have the right to reclaim the excess amount of the incentive-based compensation that had been paid. The clawback provision may be included in the employment agreement or any other arrangements.

Remuneration disclosure

Recommendation 4.18

4.18. Remuneration for each member of the board of directors and key executives should be disclosed in sufficient detail.

Requirements under the Vietnamese laws & regulations:

HSX CG handbook IV 1.5 stipulates remuneration disclosure of individual board members (BOD) and key executives.

Pay ratio disclosure

Recommendation 4.19

4.19. The enterprise should consider disclosing the following information in addition to other remuneration related disclosures:

- The median of the annual total compensation of all employees other than the chief executive officer;
- The annual total compensation of the chief executive officer; and
- The ratio of these amounts.

Training

Principle 4.20

4.20. All directors and supervisory board members should receive induction training upon joining the boards and should regularly update and refresh their skills and knowledge.

Commentary:

Each board member should attend the training courses for corporate governance at competent institutions for a large scale public enterprise or listed enterprises as stipulated in Article 34 of Circular 121/2012/TT-BTC. Other companies should provide similar training courses either internally or externally to each director and supervisory board member.

Principle 4.21

4.21. The chairman of the board should ensure that the directors and supervisory board members continually update their skills and the knowledge and familiarity with the enterprise required to fulfil their roles as directors on board and board committees. The enterprise should provide the necessary resources for developing and updating its directors' and supervisory board members' knowledge and capabilities.

Requirements under the Vietnamese laws & regulations:

Article 34 of the Circular 121, "Training on corporate governance," stipulates that members of board of directors and the supervisory board, the executive director (general director (or CEO))

and the company secretary must participate in training courses regarding corporate governance at training establishments recognized by the State Securities Commission.

Directors' and officers' liability insurance (D&O insurance)

Recommendation 4.22

4.22. D&O insurance is a liability insurance to cover indemnification for losses or defence costs in the cases where directors and officers suffer losses from a legal action brought against any acts in their capacity as directors and officers. The enterprise should arrange appropriate insurance coverage in respect of such legal actions against its directors or officers if the general shareholders' meeting approves. However, D&O insurance coverage should not allow directors or officers to act without due care (moral hazard); the terms of the insurance policy should be examined carefully. Shareholders should be informed of the terms of the D&O insurance policy including deductible amount and reason of why such amount is set at an appropriate level.

Commentary:

- The UK Corporate Governance Code (September 2014) provision A.1.3 requires that "The enterprise should arrange appropriate insurance cover in respect of legal action against its directors."
- German Corporate Governance Code (Deutscher Corporate Governance Kodex) (2015) requires that "if the enterprise takes out a D&O (directors' and officers' liability insurance) policy for the Management Board, a deductible of at least 10 % of the loss up to at least the amount of one and a half times the fixed annual compensation of the Management Board member must be agreed upon. A similar deductible shall be agreed upon in any D&O insurance policy for the Supervisory Board. "Typically, D&O insurance policy will contain a wide range of exclusions and cover will not extend to criminal fines or regulatory penalties that can be imposed on a director or an officer for fraudulent, dishonest or illegal acts established by law or a court judgment.

Requirements under the Vietnamese laws & regulations:

Article 13.6 of Circular 121/2012/TT-BTC stipulates that "public companies may purchase responsibility insurance for members of board of directors after obtaining the approval from General assembly of shareholders. This insurance does not cover the responsibilities of members of board of directors related to the violations of laws and the company's charter."

Appendix A. Reference to legal documents

Note that the English translations below are not official translations; therefore, you should refer to the original laws & regulations in Vietnamese from the official source.

1.3 Reference to *Change of Rights*

Circular 121 Article 5 .2 -*the company's charter*- stipulates that public companies shall refer to the Charter Sample in the Appendix of this Circular to draw up their own charter. Article 16 – *Change of Rights* - of the Standard Charter in the Appendix to the Circular 121 stipulates as below:

The change or cancellation of the special rights attached to a class of preferred shares becomes effective when the shareholders holding at least 65% of the common shares attending the meeting have adopted simultaneously voted by the shareholders holding at least 75% of the voting rights of the said preferred shares. The organization of meeting of the shareholders holding one class of preferred shares to approve the change of the above rights is valid only when there are at least two (02) Shareholders (or their authorized representative) and holding at least one-third (1/3) the par value of the issued shares of that class. Where there is no sufficient number of deputies as mentioned above, the meeting shall be held within thirty (30) days later and the shareholders of that class (regardless of the number of people and number of shares) present personally or through authorized representatives are regarded as a sufficient number of delegates required. At the meeting of the shareholders holding the preferred shares mentioned above, the shareholders of that class present personally or through a representative may request a secret ballot. Each share of the same class have equal voting rights at the meetings mentioned above.

1.4 Definitions of ‘related-party’ in laws and accounting standard

(i) LOE (definition) - LOE Article 4

Clause 17. Related person means an organization or individual related directly or indirectly to an enterprise in the following cases:

- a) A parent enterprise, the manager of a parent enterprise and the person who has the power to appoint the manager of a subsidiary enterprise in the corporate group;
- b) A subsidiary enterprise of a parent enterprise in the corporate group;
- c) A person or a group of persons being able to control the decision-making process and operations of such enterprise through the management bodies of the enterprise;
- d) A manager of the enterprise;
- dd) Husband, wife, biological father, adoptive father, biological mother, adoptive mother, biological children, adopted children, siblings, brothers-in-law, sisters-in-law of any manager of an enterprise, any member, or any shareholder holding a share of capital contribution or controlling share;
- e) An individual who is authorized to act as the representative of the persons, companies as stipulated in paragraphs a), b), c), d) and dd) of this clause;
- g) An enterprise in which the persons, companies as stipulated in paragraphs a), b), c), d), dd), e) and h) of this clause holding shares to the level that they can

control the decision-making process of the management bodies of such enterprise;

- h) Any group of persons who agree to co-ordinate to take over shares of capital contribution, shares or interests in the enterprise or control the decision-making process of the enterprise.

(ii) LOE (approval of transaction) - Article 162 Contracts, transactions which must be approved by the general shareholders' meeting or Board of Directors

1. Contracts and transactions between the enterprise and the following entities must be approved by general shareholders' meeting or board of directors:

- a) Shareholders, authorized representative of shareholders holding more than ten (10) per cent of the total ordinary shares of the enterprise and their related persons;
- b) Member of board of directors; director or general director (or CEO) and their related persons;
- c) Enterprises stipulated in clause 2 of article 159 of this Law.

(iii) LOS Article 6

Clause 34. Affiliated person means an individual or organization with interactive relations in the following circumstances:

- a) Parents, adopted parents, spouses, children, adopted children and siblings of any such individual;
- b) Organizations in which there are individuals who are staff, the director or general director (or CEO), or the owner of more than fifteen (15) per cent of the voting shares in circulation;
- c) Members of board of directors or Inspection Committee, the director or general director (or CEO) and the deputy director or deputy general director and other managerial personnel of such organization;
- d) People who in a relationship with another person directly or indirectly control or are jointly controlled by such other person, or who jointly with another person are subject to the same control;
- dd) A parent company and its subsidiaries;
- e) A contractual relationship in which one person is the representative of the other.

Vietnamese Accounting Standard 26RELATES PARTY DISCLOSURES

03. This Standard deals only with those related-party relationships described below:

- a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- b) Associates (see VAS 07 "Accounting for Investments in Associates");

- c) Individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them significant influence over the enterprise, and close members of the family of any such individual. Close members of the family of an individual are those that may be expected to influence, or be influenced by, that person in their dealings with the enterprise, for examples: parent, spouse, progeny, siblings, etc.;
- d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the reporting enterprise, including directors and officers of companies and close members of the families of such individuals; and
- e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise. In considering each possible related-party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

1.5 Reference for Minority Shareholders' Interest

LOE 140 stipulates exercising the right to attend general shareholders' meeting

1. Shareholders may directly attend the meeting, authorize another person in writing to do so or apply one of other methods as stipulated in clause 2 of this article.
2. A shareholder shall be considered to attend and vote at general shareholders' meeting in the following cases:
 - a) To attend and vote directly at the meeting;
 - b) To authorize another person to attend and vote at the meeting;
 - c) To attend and vote via an online conference, using electronic vote or other electronic media;
 - d) To send his or her vote to the meeting by mail, fax or email.

LOE 161 stipulates rights to take legal proceedings against members of board of directors, director or general director

1. A shareholder or a group of shareholders holding at least one (01) per cent of ordinary shares for a consecutive period of six (06) months shall have the right to, in their name or in the name of the enterprise, take legal proceedings against a member of board of directors, director or general director in relation to his or her civil liability in the following cases:
 - a) Breaching the obligations of the managers of the enterprise as stipulated in article 160 of this Law;
 - b) Not properly performing the delegated rights and obligations; not performing, performing insufficiently, or failing to perform in a timely resolutions of the Board of the Directors;

LOE 147 stipulates demand for cancellation of resolutions of General Meeting of Shareholders as below:

Within ninety (90) days from the date the minutes of general shareholders' meeting are received or the minutes on results of counting of votes being written opinions from general shareholders' meeting are received, a shareholder or a group of shareholders stipulated in clause 2, article 114 of this Law shall have the right to request a court or an arbitrator to consider and cancel a resolution or a part of the resolution of general shareholders' meeting in the following cases: (...omitted...)

Circular 121-4/2012/TT-BTC stipulates responsibility of major shareholders as below:

1. Major shareholders must not take advantage to cause damage to the rights and interests of the enterprise and other shareholders.
2. Shareholders are responsible for disclosing information as prescribed by law.

Section 4 Responsibility of board of directors and/or supervisory board

Rights and duties of the chairman of the Board

LOE 152.3 stipulates rights and duties of the chairman of the Board as below:

- a) To prepare working plans and programs of board of directors;
- b) To prepare agenda, content and documents for meetings of board of directors; to convene and preside over meetings of board of directors;
- c) To organize for resolutions of board of directors to be passed;
- d) To monitor the implementation of resolutions of board of directors;
- dd) To chair the General Meetings of Shareholders, meetings of board of directors, and
- f) Other rights and duties stipulated in this Law and the charter of the enterprise.

Rights and duties of the members of the Board

LOE 155 stipulates rights of members of board of directors to be provided with information and documents. Duty of members of board of directors is not specified

Rights and duties of the members of board of directors

LOE149.2 stipulates rights and duties of Board of directors:

- a) To make decisions on medium term development strategies and plans, and on annual business plans of the company;
- b) To recommend the types of shares and total number of shares of each type which may be offered;
- c) To make decisions on selling new shares within the number of shares of each type which may be offered for sale; to make decisions on raising additional fund in other forms;
- d) To make decisions on the selling price of shares and bonds of the company;
- dd) To make decisions on redemption of shares in accordance with the provisions in clause 1 of Article 130 of this Law;

- e) To make decisions on investment plans and investment projects within the authority and limits stipulated in law;
- g) To make decisions on solutions for market expansion, marketing and technology;
- h) To approve contracts for purchase, sale, borrowing, lending and other contracts valued at thirty five (35) or more per cent of the total value of assets recorded in the most recent financial statement of the company, if the charter of the company does not stipulate another percentage or value. This provision is not applied to contracts and transactions stipulated in clauses 2.d, Article 135, clause 1 and 3, Article 162 of this Law;
- i) To elect, remove or dismiss the chairman of board of directors; to appoint, dismiss or to sign contracts or to terminate contracts with the director or the general director (or CEO) and other key managers of the company as stipulated in the charter of the company; to make decisions on salaries and other rights of such managers; to appoint an authorized representative to participate in the Members' Council or General Meeting of the Shareholders in other companies and to make decisions on the level of remuneration and other benefits of such persons;
- k) To supervise and direct the director or general director (or CEO) and other management personnel in their work of conducting the daily business of the company;
- l) To make decisions on the organizational structure and internal management rules of the company, to make decisions on the establishment of subsidiary companies, the establishment of branches and representative offices and the capital contribution to or purchase of shares of other companies;
- m) To approve the agenda and contents of documents for general shareholders' meeting; to convene general shareholders' meeting or to obtain opinions in order for general shareholders' meeting to pass resolutions;
- n) To submit annual final financial reports to general shareholders' meeting;
- o) To recommend the dividend rates to be paid, to make decisions on the time-limit and procedures for payment of dividends or for dealing with losses incurred in the business operation;
- p) To recommend re-organization or dissolution of the company, or to request bankruptcy of the company, and
- q) Other rights and duties stipulated in this Law and the charter of the company.

Rights and duties of the members of Inspection Committee

LOE 165 stipulates rights and obligations of Inspection Committee

1. An Inspection Committee shall supervise board of directors, director or general director (or CEO) in the management and administration of the company.
2. To inspect the reasonableness, legality, truthfulness and prudence in management and administration of business activities; systematic arrangement, consistency and appropriateness of accounting and statistical work and preparation of financial statements.
3. To evaluate the adequacy, legality and truthfulness of reports on business status, semi-annual or annual financial statements, reports on evaluation of the

management of board of directors and shall submit the evaluation reports to general shareholders' meeting at the annual meetings.

4. To review, inspect and evaluate the effectiveness and efficiency of the internal control, internal audit, risk management and early warning system of the company.
5. To review accounting books, accounting records and other documents of the company, the management and administration of the activities of the company when it considers necessary or pursuant to a resolution of the general shareholders' meeting or as demanded by a shareholder or group of shareholders as stipulated in clause 2 of Article 114 of this Law;
6. Upon request by a shareholder or a group of shareholders as stipulated in clause 2 of Article 114 of this Law, the Inspection Committee shall carry out an inspection within a period of seven (7) working days for the date of receipt of the request. The Inspection Committee must submit a report on results of the inspection of the issues required to be inspected to board of directors and the requesting shareholder or the group of shareholders within a period of fifteen (15) days from the date of completion of the inspection.
The inspections stipulated in this clause may not disrupt the normal activities of board of directors and shall not interrupt the administration of the business operations of the company.
7. To recommend to board of directors or the general shareholders' meeting the changes and improvements of the organizational structure, management, supervision and administration of the business operations of the company;
8. Upon discovery of a member of board of directors, director or general director (or CEO) who is in breach of the provisions in Article 160 of this Law, to give immediate written notice to board of directors and request the person in breach to cease the breach and take measures to remedy any consequences.
9. To have the right to attend the meeting and participate in the discussion at general shareholders' meeting, board of directors and other meetings of the company.
10. To have the right to use an independent consultant and internal audit division of the company to perform delegated duties.
11. The Inspection Committee may consult board of directors prior to submission of reports, conclusions and recommendations to general shareholders' meeting.
12. To exercise other rights and perform other obligations as stipulated by this Law, charter of the company and resolutions of general shareholders' meeting.

Appendix B. Definitions and Terminologies

Certain terms within the Corporate Governance Code for SCIC's portfolio companies (the "Code" or "CGC") are used with specific meanings.

In the Code, the following key terms, unless the context requires otherwise, have the following meanings:

- The "**Board**" or "**HĐQT và/ hoặc Ban Kiểm Soát**" is a function or sometimes a person in an enterprise which/who is in charge of the governance of the enterprise and oversees its management and its operation of the enterprise. For the traditional two-tier board model in Vietnam, a combined structure of a board of directors and a supervisory board, could be considered as a Board in the context of the Code.
- "**Board of Directors (BOD)**" or "**Hội đồng Quản trị (HĐQT)**" is defined by the Law on Enterprise. It oversees the management and monitors the activities of board of management ("Ban Giám Đốc or Ban Điều Hành). Generally, the BOD consists of both executive directors and non-executive directors. Throughout the Code, the oversight function of the BOD is emphasized.
- "**Supervisory Board**" or "**Ban Kiểm Soát**" is defined by the Law on Enterprise.
- "**Director**" or "**thành viên HĐQT**" is a member of the BOD.
- "**Management**" or "**cán bộ quản lý**" are those who are engaged in the activities of the enterprise and have authority and responsibility for planning, directing and controlling the activities of the enterprise.
- "**Senior Management**" or "**cán bộ quản lý cấp cao**" indicates higher level of management personnel, such as Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO) and other C-suites. He or she could be an executive director but not always an enterprise's member of board of directors.
- "**Key Executive**" or "**cán bộ quản lý (điều hành) chủ chốt**" is a key management of an enterprise who is subject to a special scheme of remuneration or a succession planning due to his/her significant roles and responsibilities within the enterprise. Such roles and responsibilities (e.g. CEO) may be different by enterprise depending on its business model, size or structure.

Part III. Application Guidance

Application Guidance

This application guidance should be used in conjunction with the Corporate Governance Code (the “Code” or “CGC”) for SCIC’s Portfolio Companies in the preceding part of this document. The application guidance should be revised by SCIC from time to time when relating legal/regulatory environment changes and when enterprises’ business practice changes.

1 Application and Reporting

- 1.1 The Code principles and recommendations sometimes go beyond the minimum prescribed by regulations. Each enterprise is expected to voluntarily adopt the Code using “Apply or explain” approach. In the global corporate governance literature, the term, “comply or explain” is usually used, however in Vietnamese translation, the word “comply (in Vietnamese, tuân thủ)” suggests compliance with hard-laws without any exceptions. As such, the Code uses the word, “apply” instead of “comply”.
- 1.2 SCIC’s portfolio companies that are categorized as **Groups A1 and A2** (or listed or public companies in terms of the Vietnamese regulations, if adopted by companies other than the SCIC’s portfolio companies) are encouraged to adopt the entire Code voluntarily and should explain how they have applied the principles within the Code, taking into account the guidance (“commentary” part of the Code) provided under each principle. For recommendations within the Code, **Groups A1 and A2** portfolio companies should consider applying them voluntarily but not necessarily use the “apply or explain” method.
- 1.3 SCIC’s portfolio companies that are categorized as **Group B1** (or not public not large or not smaller, if adopted by enterprises other than the SCIC’s portfolio companies) are encouraged to adopt voluntarily the General Principles and Principles part of the Code. For recommendations within the Code, **Group B1** portfolio companies should make reference to them, so as to further enhance their corporate governance system.
- 1.4 For SCIC’s portfolio companies that are categorized as **Group B2** (or smaller portfolio companies, if adopted by enterprises other than the SCIC’s portfolio companies), all four general principles are encouraged to apply. However, other

parts of the Code (principles and recommendations) should only be referred to when they consider the effectiveness of their corporate governance system.

- 1.5 Each enterprise is allowed to determine the best approach in adopting the general principles, principles and/or recommendations because there is no “one-size-fits-all” approach to the corporate governance code.
- 1.6 Each portfolio company is encouraged to report at least annually on its application of the Code in various ways including (1) displaying on the enterprise’s website, (2) including within the annual report, (3) direct communication to the shareholders, or in other accessible forms to the SCIC and other shareholders.
- 1.7 The annual report is an effective channel for enterprises to communicate their corporate governance practices with their stakeholders and enhance transparency. However, because the annual report is issued only once a year, other means including separate corporate governance report is strongly recommended for timely information disclosure purposes, given that such separate corporate governance report is updated more frequently than annually.
- 1.8 A comprehensive corporate governance report (either as part of the annual/semi-annual report or as a separate report), together with the audited financial statements, provide shareholders with a clear appreciation of the performance of the enterprise. Meaningful disclosures foster constructive dialogue between the Board (board of directors and supervisory board) and shareholders. This is a crucial element of strong governance and enables more informed and active shareholder participation.
- 1.9 **Appendix C** of this document presents the sample reporting format.
- 1.10 The corporate governance report should include contact details of an individual who can be reached for further information. (Appendix C)
- 1.11 The portfolio companies are encouraged to review their corporate governance policy/framework annually, and update them where necessary to reflect changes in actual practice. The corporate governance policy should briefly explain the enterprise’s commitment and views towards good corporate governance. (Refer to Appendix C, I. *Overview of the Enterprise’s Corporate Governance Policy/Framework*)
- 1.12 The corporate governance report should clearly state whether the enterprise adopts the Code or not, and which components (general principles, principles, or recommendations) of the Code that the enterprise is voluntarily applying as of the specified date of the year. (Appendix C, II. *Corporate Governance Statement*)

- 1.13 The corporate governance report should clearly state that which principle(s) are not applied with by the enterprise and clearly state the reasons why. The explanation of non-application should be concise but contain enterprise specific reasons. (Appendix C, III. *Explanation of reason for non-compliance with CGC*)
- 1.14 Explanations for non-application should not be “boiler-plated”. Each enterprise should try to explain the reasons why it does not apply the particular Code principles so that readers of the corporate governance report could understand the *effect of non-application*.
- 1.15 The corporate governance report should describe how the enterprise is applying the certain Code principles that requires “disclosure” by the enterprise. Specifically, Principle 1.4 Related-party transactions, Principle 1.6 Dialogue with shareholders, Principle 3.1 Disclosure of material information, and Recommendation 4.19 Pay-ratio (if applicable). (Appendix C, IV. *Explanation of how the Enterprise applies the CGC*)
- 1.16 For example, the principle 3.5 requires enterprises to disclose the overall exposure of risks. Each enterprise has a choice to disclose the required information by the Code in this section IV of the corporate governance report or cross-reference to other documents such as annual report where same content is disclosed.

Effective date and early adoption

- 1.17 Enterprises are encouraged to early adopt the Code and guidance set out in the Code, although the Code is effective as of 1 January, 2017 (subject to change depending on the SCIC’s internal approval process).
- 2 Monitoring and Review – Post Implementation Review (PIR)
- 2.1 Board of directors or equivalent will be responsible for their own organization’s monitoring on how they have applied the general principles, principles and/or recommendations of the Code.
- 2.2 In the initial year of adoption, SCIC’s Corporate Governance Task Force members will undertake the monitoring of the awareness of the CGC and voluntary adoption of the Code among SCIC’s portfolio companies.
- 2.3 The Code will be reviewed from time to time to assess its adoption status and reflect changes in the capital markets’ needs, Vietnamese laws and regulations, as well as global corporate governance trends and practices.

(End)

Appendix C. A sample reporting format

Following sample shows the additional information to be required by the Corporate Governance Code in sections I through VI; sections V through IX are copied from Appendix 05 of the Circular No. 155/2015/TT-BTC (replacing the Circular No. 52/2012/TT-BTC)

Although Circular No. 155 prescribes the disclosure rules for public companies, it is beneficial for non-public, non-listing companies if they are aiming to be listed in near future or if they are willing to enhance their governance related disclosure and transparency.

Requirements under the Vietnamese laws & regulations:

Appendix 05 of the Circular No.155/2015/TT-BTC stipulates the format of the “Report on Situation of Corporate Governance” for public companies, organizations issuing bonds, securities companies, asset management companies, and other entities subject to the Circular 155.

Corporate Governance Report <Example Only>

To: The shareholders

Name of the company

Head office address: Telephone: Fax: Email:

Charter capital:

Securities code (if available):

I. Overview of the Enterprise’s corporate governance policy/framework

Narrative explanation of the Enterprise’s corporate governance policy and framework.

<Example>

Corporate Governance and Objective of Establishing the Corporate Governance Policies

At the XYZ Corporation and its affiliated companies (hereinafter referred to as the “XYZ Group”), corporate governance is defined as the system of processes and practices based on the XYZ Principles and the XYZ Management Philosophy. The system is intended to ensure transparency and fairness in business and speed up management decisions and practices. This is done by connecting the entire process from oversight and supervision all the way to business execution in order to boost the XYZ Group’s competitive edge. XYZ’s corporate governance also involves building such a system and maintaining its proper function. The ultimate objective is to achieve sustainable enhancement of corporate value by earning the support of all stakeholders.

In accordance with this basic stance, the XYZ Group has set forth the following corporate governance policies (hereinafter referred to as the “Policies”) as the foundation for the Group's pursuit of continuous improvement of its corporate governance.

<XYZ Principles>

Our Mission

- To improve lives and contribute to a better society

Our Values

- Innovation Driven by Social Needs
Be a pioneer in creating inspired solutions for the future.
- Challenging Ourselves
Pursue new challenges with passion and courage.
- Respect for All
Act with integrity and encourage everyone’s potential.

<Management Philosophy>

We believe a business should create value for society through its key practices.

We are committed to sustainably increasing our long-term value by putting Our Mission and Values into practice.

- We uphold a long-term vision in our business practices to create solutions to society’s needs
- We operate as a truly global company through our fair and transparent management practices
- We cultivate strong relationships with all of our stakeholders through responsible engagement

(Note: This is one of the real example of multinational companies in Japan)

II. Corporate Governance Statement

Statement that the Enterprise adopts the Corporate Governance Code (CGC) and whether the Enterprise does not apply any specific Principle or Principles as of the specified date.

If an enterprise is categorized as B2 or a smaller enterprise subject to certain exemption (i.e. applies only General Principles) for the purpose of applying the CGC, the enterprise is expected to state so here.

If an enterprise is categorized as B2 or a smaller enterprise but decided to apply the entire CGC without exemption (i.e. applies both General Principles and Principles), the enterprise is expected to state so here.

<Example>

The Board of Directors of XYZ Corporation (the “Company”) declares the following:

- Pursuant to xxx (name of the SCIC’s internal regulation), as of April 30, 201x, the Company applies all the general principles, principles and recommendations of the corporate governance code for the SCIC’s portfolio companies (published and effective on January 1, 201x) (the “Code”), with the exceptions of the following principles and recommendation:
- Principle 4.5 – Independent non-executive director
- Principle 4.13 – Board evaluation
- Recommendation 4.19 – Pay ratio disclosure

The Company has been categorized by SCIC as Group A2 since January 1, 2013. As an A2 company, we are not required to report any exceptions to the Recommendations within the Code, we have decided to report all exceptions voluntarily to the stakeholders.

Hanoi, April 30, 201x

Board of Directors, XYZ Corporation

III. Explanation of reason for non-application of CGC

No.	Principle #/ CGC Requirement	Explanation of reasons/rationale why the Enterprise does not apply specific Principle of the CGC
		<i>If an enterprise applies all General Principles and Principles, then, the enterprise is expected to state so.</i>
<Example>		
Principle 4.5.	Independent non-executive director	<p>The board of directors of XYZ Corporation (the “Company”) consists of 12 members, of which 8 are executive and four are non-executive directors. However, there is no non-executive director who satisfies all requirements of independence prescribed by the LOE.</p> <p>We believe that two out of the four non-executive directors, namely, Mr. XX and Ms. YY could act like independent directors by expressing their objective independent opinions, given their characteristics and attitude toward other members of the board.</p> <p>In a meantime, the Company is eagerly seeking candidates to be our independent board members so that we could appoint at least</p>

		three independent directors at the next general shareholders meeting.
Principle 4.13	Board evaluation	Because of the unexpected turn-over of the Board of Directors during the year, the Company did not perform the annual board evaluation for the year ended December 31, 201x. However, we plan to perform the board evaluation in the coming year by using the self-assessment questionnaire.
Recommendation 4.19	Pay-ratio disclosure	Because of the significant reorganization of the Company during the year that lead to a spin-off of our major business line, we have decided not to disclose the pay ratio information in our 201x annual report. As the spin-off significantly affected the calculation of average annual salary of employees, the pay-ratio information during the transition period might be misleading the user of such information.

IV. Explanation of how the Enterprise applies CGC

No.	Principle #/ CGC Requirement	Explanation of how the Enterprise complies with a specific Principle of the CGC (If the Enterprise disclose the same information in other report such as Annual Report, cross-reference to the other report)
<p><Example 1> Making reference to other document available at the enterprise’s website:</p> <p>The Company upholds the aim and spirit of the Corporate Governance Code (hereinafter referred to as the "Code"), and these Policies articulate that the Company implements all of the principles set forth in the Code, including those principles that call for disclosure of specific items, in the Company’s corporate governance system and practices.</p> <p>These Policies are available at the XYZ Group Website:</p> <p><Insert the URL here></p> <p>For details regarding the Company’s implementation of the principles stated in the Code, please refer to “Corporate Governance Code Implementation Status” on p.X.</p> <p>For result of the evaluation of effectiveness of the board (stated as Recommendation 4.13 of the Code), please refer to "Overview of the Results of the Evaluation of the Board of Directors’ Effectiveness" on p.X.</p> <p>(... omitted ...)</p>		

(Note: This is one of the real example of multinational companies in Japan)		
<Example 2> No reference to other document		
Principle	Description of disclosure requirement	Description of application
Principle 4.13	Board evaluation	<p>The Board have conducted annual self-evaluation to determine whether the Board was functioning effectively. The chairman of the Board received comments from all directors and report to the Board on January 25, 201x with an assessment of the Board's performance, as well as the performance of each director. The assessment focused on the Board's and each member's contribution to the Company and specifically focused on areas in which the Board believe improvement could occur.</p> <p>These were discussed with the full board and concluded that our Board was operating effectively as of and for the year ended December 31, 201x.</p>

V. Activities of the Board of Directors (BOD):

1. Meetings of the Board of Directors;

No.	Member of the BOD	Position	Number of meetings attended	Ratio	Reason for not attending
	Mr./Ms. ...				

2. Supervision of Director (General Director) by the BOD;

3. Activities of sub-committees of the Board of Directors.

VI. Resolutions/Decisions of the Board of Directors

No.	Resolution/Decision No.	Date	Content

VII. Change in list of related persons of the public company in accordance with Article 6.34 of the Law on Securities (6-month/annual report):

No.	Name of organizati	Securities trading	Position at the	NSH No., date of	Address	Time of becoming	Time of no longer	Reason

	on/ individual	account (if available)	company (if available)	issue, place of issue		a related person	being a related person	

VIII. Transactions of internal shareholders and related persons (6-month/annual report):

4. List of internal shareholders and related persons

No.	Name of organization/ individual	Securities trading account (if available)	Position at the company (if available)	ID card/Passport No., date of issue, place of issue	Address	Number of shares owned at the end of period	Shares ownership ratio at the end of period	Note

5. Trading in shares:

No.	Person conducting trading	Relationship with internal shareholders	Number of shares owned at the beginning of the period		Number of shares owned at the end of the period		Reasons for increases, decreases (purchase, sale, conversion, bonus, etc.)
			Number of shares	Ratio	Number of shares	Ratio	

6. Other transactions: (transactions of internal shareholders/major shareholders and related persons of the Company).

IX. Other matters to be noted (6-month/annual report)

Chairman of the Board of Directors
(Sign and seal)

JICA/SCIC Project 2 Corporate Governance Code

Pilot Testing - Introduction

June 2016

<Version 1.5x>



Agenda

Introduction

Background

Project Overview

How we have developed the draft corporate governance code (CGC)

Contents of the draft CGC and Application Guidance (AG)

Q & A

Introduction

- Introduction
- Project team

3

Introduction (1)

- State Capital Investment Corporation (SCIC) is engaged with the Japan International Cooperation Agency (JICA) and its consultant, PricewaterhouseCoopers Aarata Japan (PwC), to develop the corporate governance code (CGC) and its application guidance (AG) for SCIC's portfolio companies.
- As part of the project, two sample portfolio companies are selected and expected to participate to the *pilot testing* of the draft CGC and AG.
- The objective of the *pilot testing* is to assess the feasibility of the draft CGC and AG before implementation.
- Any findings and comments during the course of performing the *pilot testing* will be discussed among SCIC's TF members and reflected in the finalizing process of the CGC and its AG.
- Contributions to the *pilot testing* by the two portfolio companies should be highly appreciated.

4

Introduction (2)

Corporate governance failures

Some of the recent incidents include:

- Olympus (2011) – financial reporting issue
- Toshiba (2015) – financial reporting issue
- Mitsubishi Motor (2016) – non-financial, compliance issue

5

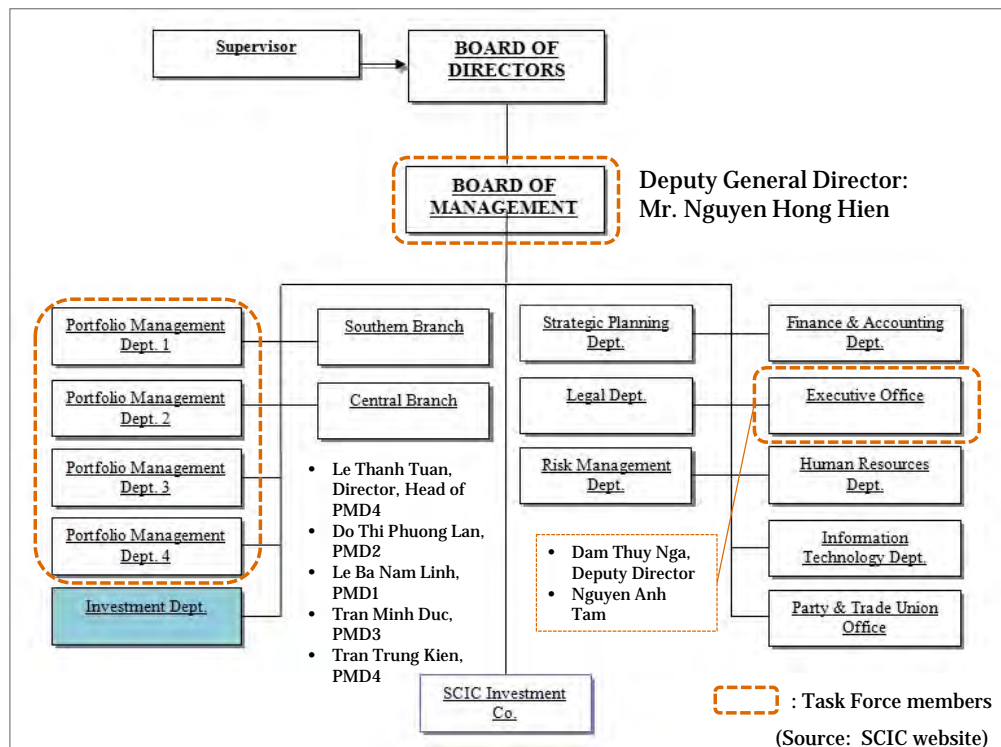
Introduction

Project Team Overview



6

Project Team - SCIC CGC Task Force



Background

- What is “corporate governance”?
- Why corporate governance is so important?
- What is our goal?

What is “corporate governance”?

- Corporate governance (CG) is the system by which enterprises are directed and controlled.
- Corporate governance provides the structure through which the objectives of the enterprises are set, and the means of attaining those objectives and monitoring performance are determined.
- The purpose of corporate governance is to facilitate effective management that can deliver **the long-term success and performance of the enterprise.**
- **Board of directors or equivalent are responsible for the governance of their enterprises.**

CG is not just “managing the company” or “internal controls.”

CG is focusing on the “Long-term sustainability” (not a “short-term” profit).

“Board of directors” plays an important role in the good CG.

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Why corporate governance is so important?

Good corporate governance is a “*must*” to obtain full benefits from global capital market. Why?

- ✓ A level of corporate governance is a measure to predict an enterprise’s **long-term sustainability** (= how successful in a long-term)
- ✓ Investors make their decisions based on the investee’s business strategy, financial information and non-financial information which derived from transparent corporate governance.

Therefore, corporate governance must be:

- Credible,
- Well-understood, and
- Internationally accepted principles.

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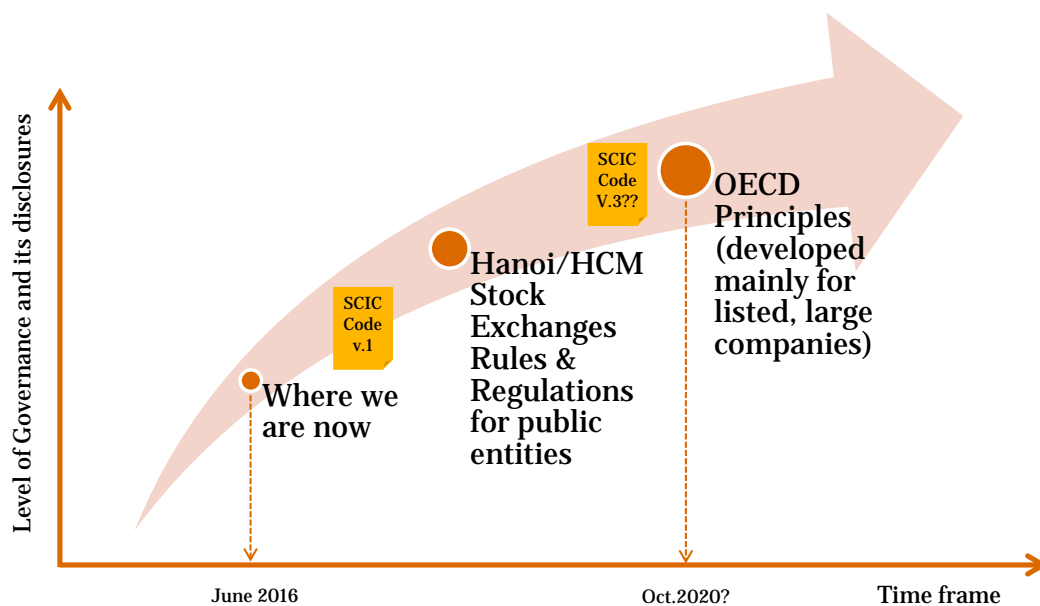
What is our goal?

To enhance the corporate governance among SCIC's portfolio companies by:

- Developing the corporate governance code (CGC) that is **comparable to the internationally recognized standards**, such as *G20/OECD Principles of Corporate Governance* (“OECD Principles 2015”);
- Voluntary application of the CGC by SCIC's portfolio companies by preparing the “**corporate governance report**” in a prescribed format; and
- Establishing the mechanisms through which SCIC could continuously monitor and assess the level of corporate governance of its portfolio companies.

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Corporate Governance Code for SCIC's portfolio companies - Target level



12

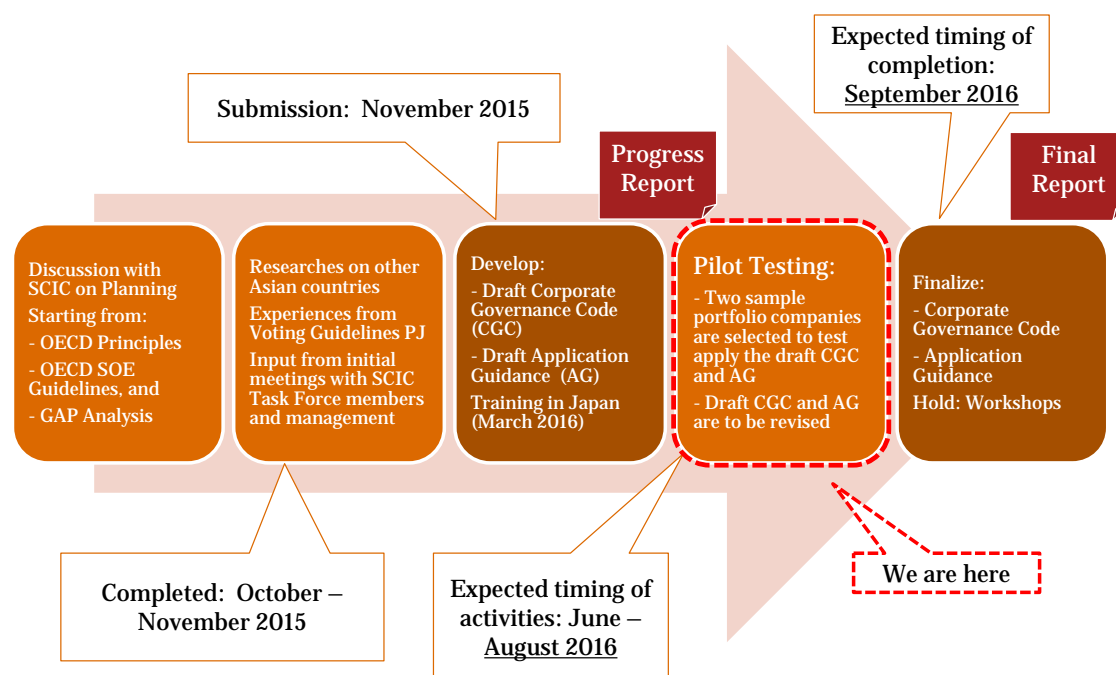
Project Overview

- Project overview
- Pilot testing

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Project overview (1)

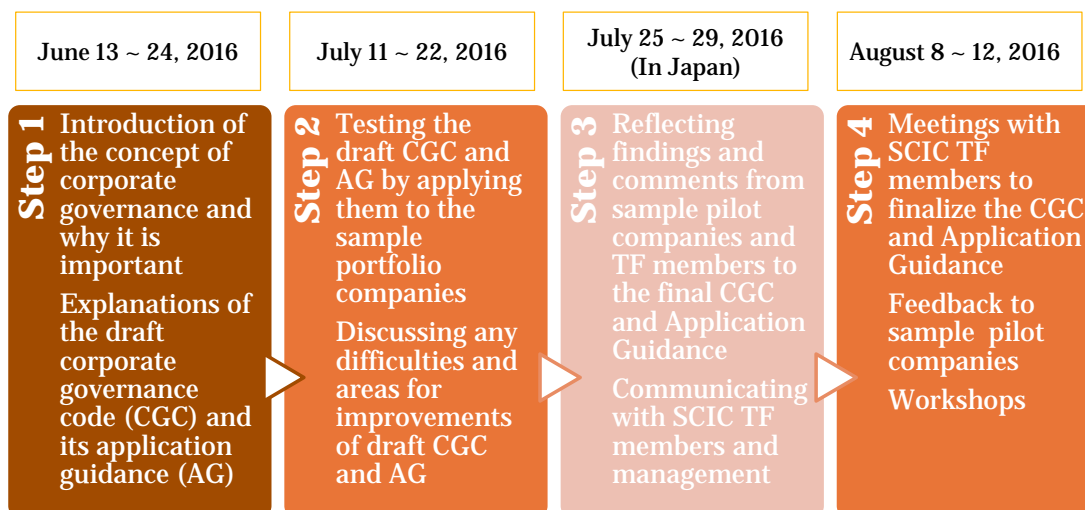
Developing the Corporate Governance Code



14

Project overview (2)

Pilot Testing - Timeline



The above schedule is a preliminary one; however, flexibility is limited due to the final deadline for project completion is set as the end of September 2016.

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Pilot Testing (1)

Step 1: June 13 ~ 24, 2016 (In Vietnam)

- ❑ Meetings with the sample pilot companies (Kick-Off)
- ❑ Introduction of the concept of corporate governance and why it is important
- ❑ Discussing overview of the draft corporate governance code (CGC) and its application guidance (AG)
- ❑ Explanations of the pilot procedures in July including requests for preparation.

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Pilot Testing (2)

Step 2: July 11 ~ 22, 2016 (In Vietnam)

- Testing the draft CGC and AG by applying them to the sample pilot companies. It requires *several extensive interviews* with the sample pilot company personnel.
 - “Testing” means sample pilot companies are expected to prepare the “corporate governance report” in a format included in the Appendix C to the AG of the draft CGC.
 - SCIC TF members and PwC consultants are working closely with the sample pilot company personnel in charge of the project in preparing the corporate governance report.
- Discussing any difficulties and areas for improvements of the draft CGC and AG
 - Some comments from one sample pilot company (“Company A”) may contradict from comments from another sample pilot company (“Company B”). TF members and PwC consultants work together to resolve such areas to develop the best CGC for the SCIC’s portfolio companies in general.

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Pilot Testing (3)

Step 3: July 25 ~ 29, 2016 (In Japan)

- Reflecting findings and comments from pilot companies and SCIC TF members to the final CGC and AG
 - Based on the comments received during the course of the pilot program, PwC consultants are going to modify the draft CGC and AG in Japan.
 - The revised draft CGC and AG (in English and in Vietnamese) will be reviewed by the SCIC TF members for further comments.
 - If necessary, teleconference is arranged between SCIC TF members, JICA experts and PwC consultants toward the finalization.
- Communicating with SCIC TF members and management
 - A revised draft CGC and AG will be circulated among SCIC department heads and other relevant parties for their comments.

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Pilot Testing (4)

Step 4: August 8 ~ 12, 2016 (In Vietnam)

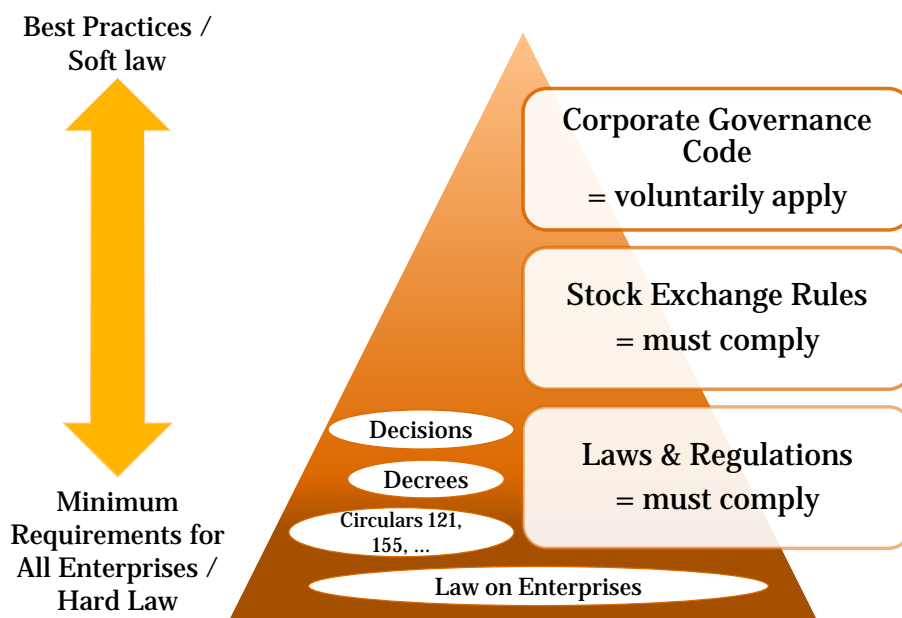
- Meetings with SCIC TF members to finalize the CGC and AG
 - After circulating the revised draft CGC and AG among relevant SCIC management, TF members and PwC consultants will discuss toward finalization (“near-final CGC draft”)
 - If necessary, we will reach-out other stakeholders for their comments on the near-final CGC draft and AG.
- Feedback to sample companies
 - A near-final CGC draft and AG will be shared with the sample pilot companies together with the thought process through the pilot testing.
- Workshops
 - The potential audience might include SCIC’s department heads, representatives, and portfolio companies who are interested in the adoption of the corporate governance code in future.
 - Date and place should be fixed as soon as possible

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How we have developed the draft corporate governance code (CGC)?

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How we have developed the draft CGC? (1) Corporate Governance Code and other rules



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How we have developed the draft CGC? (2) Based on OECD Principles 2015 – Six principles

I. Ensuring the basis for an effective corporate governance framework

- The corporate governance framework should promote transparent and fair markets, and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement.

II. The rights and equitable treatment of shareholders and key ownership functions

- The corporate governance framework should protect and facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

III. Institutional investors, stock markets, and other intermediaries

- The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.

IV. The role of stakeholders in corporate governance

- The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

V. Disclosure and transparency

- The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

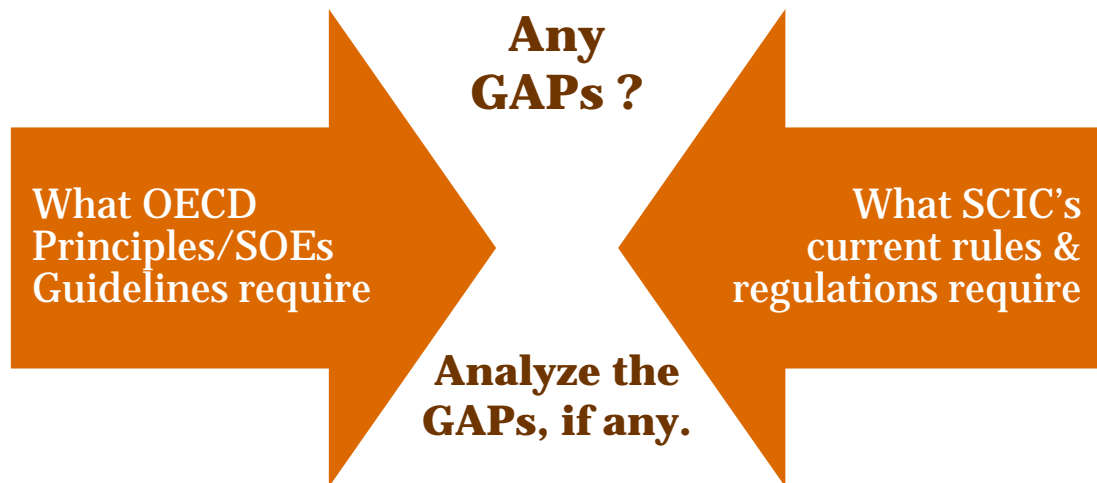
VI. The responsibilities of the board

- The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

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How we have developed the draft CGC? (3) GAP Analysis

To understand the current status and potential areas of difficulties in application of the CGC



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How we have developed the draft CGC? (4) Researches on other Asian countries



Points of Focus

- What are the major differences between the OECD Principles/SOE Guidelines and each country's CGC?
- Legal basis
- Application method
- Disclosure requirements
- Monitoring
- Any suggestions or implications to the SCIC's CGC project
- Reference materials include:
 - **ASEAN Corporate Governance Scorecard – Country Reports and Assessments (ADB)**

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How we have developed the draft CGC? (5) ***Several choices - Application***

One code for every enterprise

- Thought Process -
- Separate code for different group of portfolio companies?
 - Listed or non-listed
 - SCIC's investment strategy
 - Financial institutions vs. non-financial, Industry specific consideration
 - Large vs. small (what is a "large" enterprise?)

Exemptions for smaller companies

- Thought Process -
- One size doesn't fit all
- Exemptions would include:
 - Ways of application (e.g. some part of the CGC are exempted from application)
 - Timing (e.g. grace period for application)
 - Disclosure requirements (e.g. less disclosures for certain companies)

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How we have developed the draft CGC? (6) ***Several choices – Disclosures***

Basis of disclosure

- Application Guidance of the CGC specifies what should be disclosed (Not mandatory)
- CGC and AG will be incorporated into the SCIC's internal rules & regulations

Who's responsible

- Chairman of the Board of Directors?
- Board of Directors as a whole?
- Senior management (e.g. CEO)?
- Any others?

Where to disclose

- Part of annual financial reporting (non-financial information)?
- A separate requirement (e.g. corporate governance report)?

How often

- At least annually
- Whenever material event occurs (e.g. change of ownership, corporate structure change, changes in senior management)

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Contents of the draft corporate governance code

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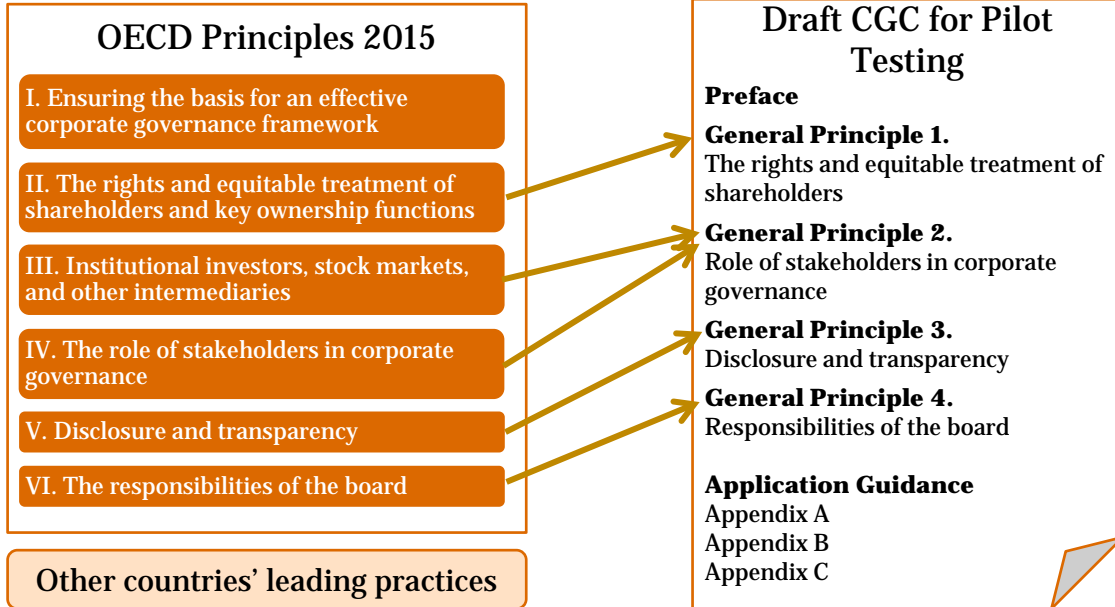
Content of the draft corporate governance code (Revised as of June 13, 2016)

- Preface
- Section 1: The rights and equitable treatment of shareholders
- Section 2: Role of stakeholders in corporate governance
- Section 3: Disclosure and transparency
- Section 4: Responsibilities of the board
- Application Guidance (as of June 13, 2016)
- Appendix A: Reference to legal documents
- Appendix B: Terminologies
- Appendix C: A sample reporting format

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Content of the draft corporate governance code

Content mapping with OECD Principles 2015



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Contents of the draft corporate governance code

Principles-based approach

Not a rule-based approach

SCIC's portfolio companies vary in –

- Size (charter capital, revenue, total assets, net assets, the number of employees, etc.)
- Organizational structure (e.g. single-tier, two-tier board system) and management style
- Industry sector, business model and complexity of operation
- Risk profile and other attributions
- SCIC's ownership %
- SCIC's investment categories (A1, A2, B1, B2)



No single set of rules can be applied to **all** portfolio companies (“one size doesn't fit all”); certain **flexibility** should be allowed.

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Contents of the draft corporate governance code

Terms

- Clarification of the terms

Comply / tuân thủ

- Follow the “hard-laws” without exception

Apply / áp dụng

- Follow a principle within the corporate governance code or any other “soft-laws”

Adopt / Sử dụng

- Follow/Implement the entire corporate governance code as an internal policy

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Comply (Apply) or explain approach

It provides **flexibility** in applying the CGC.

<Example>

Principle 2.1. requires implementation of a code of conduct.

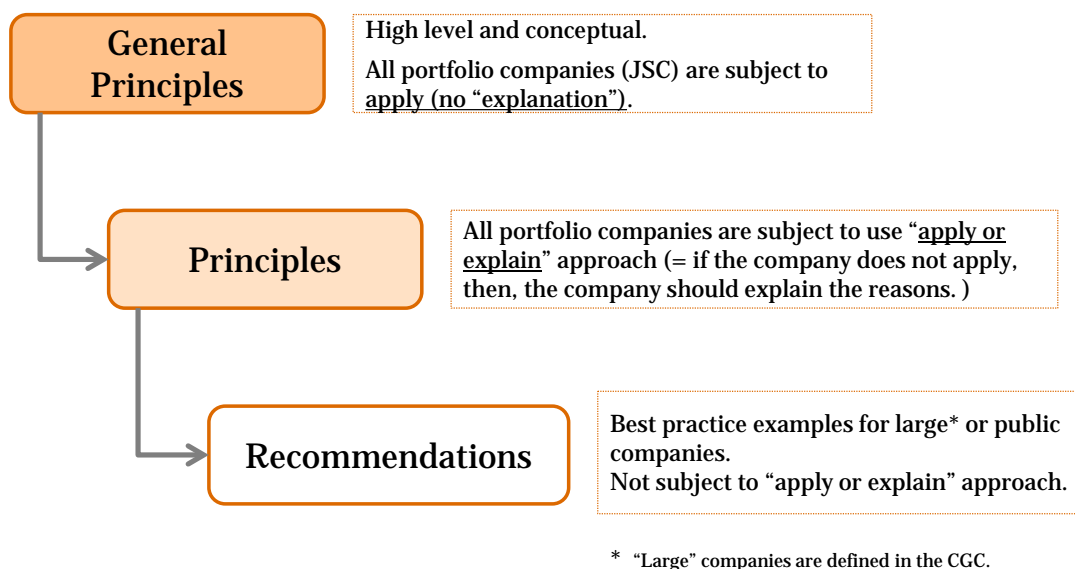
If an enterprise has already implemented the code of conduct, then, the enterprise is applying the Principle 2.1.

If an enterprise does not have a code of conduct in place, the enterprise should **explain** the reasons why. It could be either -

- The enterprise believes that the code of conduct is not necessary because it has other measures (need to explain further) to achieve the same outcome; or
- The enterprise believes that the code of conduct is beneficial so it is going to implement in near future (by specifying the timeline).

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Contents of the draft corporate governance code Three-tier structure – voluntary adoption



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Application of the CGC Who applies which part of the CGC

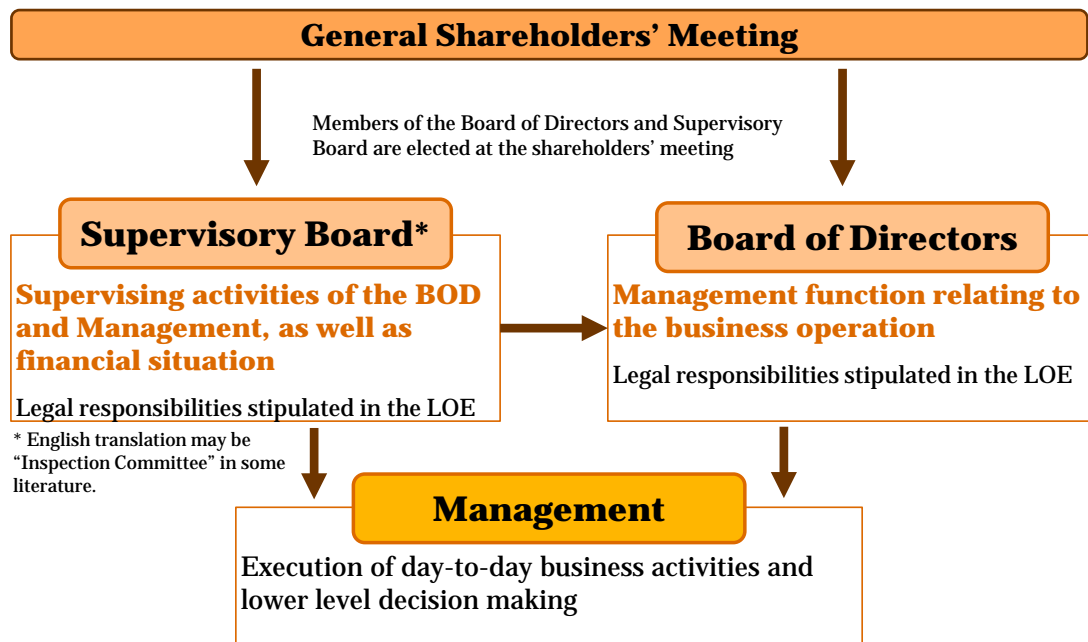
Code Component	SCIC’s portfolio companies (Note)		
	Large or public companies	Not large, non-public companies	Smaller companies
General Principles	Apply	Apply	Apply
Principles	Apply or Explain	Apply or Explain	Reference only
Recommendations	Recommended to apply	Reference only	Reference only

Note: The above SCIC’s portfolio companies could be categorized in a different way, such as SCIC’s investment classification category (A1, A2, B1, B2). We will discuss during the pilot testing for better application of the CGC.

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The Board (Two-tier system)

Traditional in Vietnam

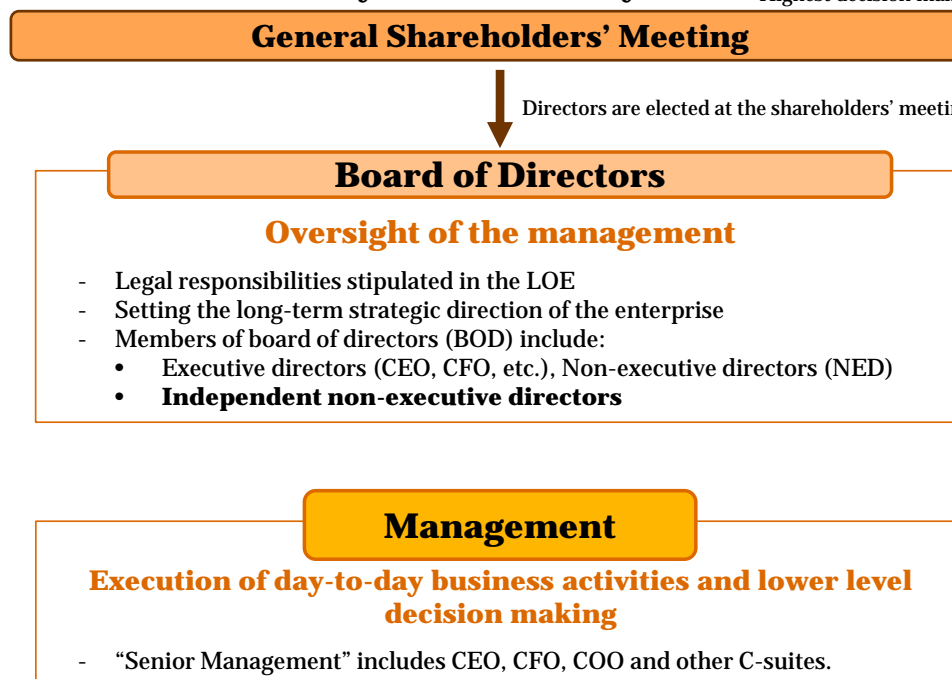


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The Board (Single-tier system) – New

Global standard/Newly introduced by LOE

Highest decision making body

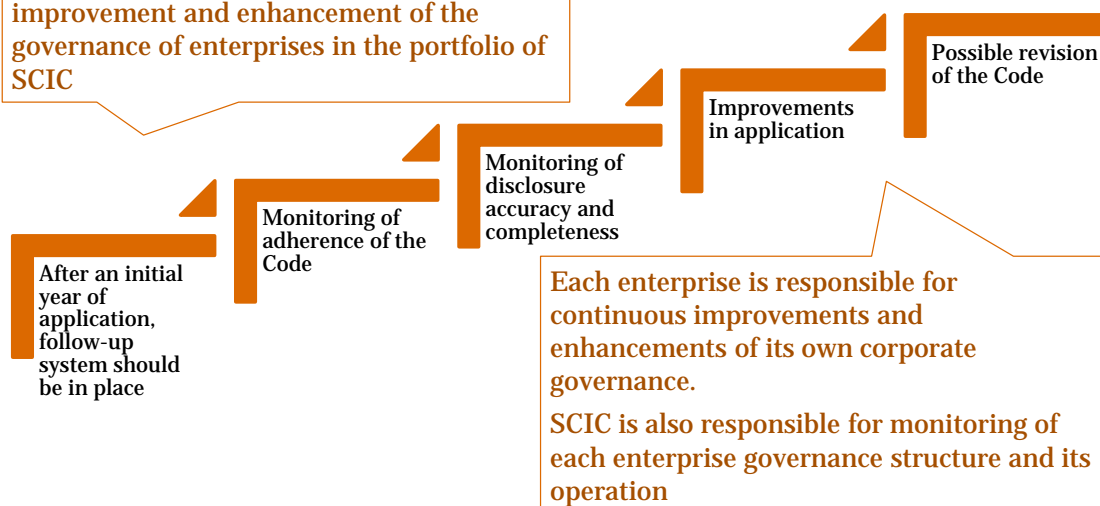


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Post implementation review (PIR) and continuous updates

Developing the Corporate Governance Code is not a goal but a starting point of further improvement and enhancement of the governance of enterprises in the portfolio of SCIC

Note that this PIR process is NOT included in the current Project.



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Draft Corporate Governance Code

Section 1

Section 2

Section 3

Section 4

Application Guidance

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Draft corporate governance code (June 13, 2016)

Preface	General Principle 1	General Principle 2	General Principle 3	General Principle 4
Background	1.1. Sufficient information	2.1. Code of conduct	3.1. Disclosure examples	4.1. Relations with Shareholders
Principles-based approach	1.2. Participation to GSM – say on pay	2.2. – 2.3. Whistleblowing	3.2. Fair disclosures	4.2.- 4.3. Risk management and internal control
Comply (Apply) or explain	1.3. Equality	2.4. ESG matters	3.3. Strategic investors	4.4. Corporate culture
The Board	1.4. Related-party transactions		3.4. Avoid boiler-plate	4.5. Independent NEP
The Structure of the Code	1.5. Minority shareholders		3.5. Disclosure of risks	R4.6. Specialized committee 4.7.-4.10. Effective board
Post implementation review	1.6. Constructive dialogue		3.6. Disclosure of internal controls	R4.11. Separation of chairman/CEO R4.12. Effective operation
	R1.7. Anti-take-over devices		3.7. Disclosure of External auditor	R4.13. Board evaluation
	1.8. Relations with shareholders		R3.8. Disclosure in English	R.4.14. Succession planning
			R3.9. -R3.10. Audit of financial statements	4.15.-4.18. Remuneration R4.19. Pay ratio
				4.20.-4.22. Training R4.23. D&O Insurance

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Section 1: The right and equitable treatment of shareholders

General Principle 1.

Enterprises should take necessary measure to protect and facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective remediation for violation of their rights.

1.1 Shareholders should be sufficiently and timely informed and have the right to approve relevant decisions

1.2 Shareholders should have the opportunity to vote in GSM

1.3 All shareholders of the series of a class should be treated equally

1.4 Related-party transactions

1.5 Minority shareholders should be protected

1.6 Enterprise's policy on constructive dialogue with shareholders

1.7R Anti-take-over devices

1.8 Relations with shareholders

The OECD Principles 2015 says, "The corporate governance framework should protect and facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, **including minority and foreign shareholders**. All shareholders should have the opportunity to obtain effective redress for violation of their rights."

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Related Party – scope

Should we expand the scope of “related party”?

Objective:
Prevention of conflicts of Interest



Several definitions of the “related parties” in Vietnamese laws

- LOE 4.17 - *Related person*
- LOE 162 - *Contracts, transactions which must be approved by the General Meeting of Shareholders or Board of Management*
- LOS 6.34 - *Affiliated persons*
- Circular 121, Chapter V
- Vietnam Accounting Standard 26

Consider if an enterprise should set the wider, more strict scope to request either approval or disclosure for the purpose of Corporate Governance Code compliance?

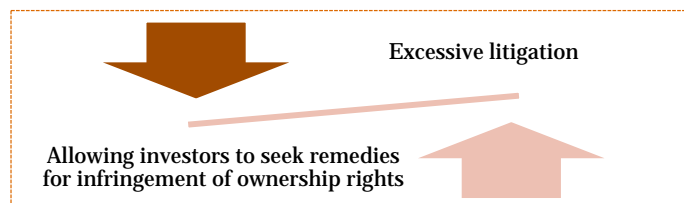
e.g. an employment of the relatives of management of the company

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Minority shareholder protection

Why it is important

- One of the many factors that foreign investors would consider in their investment decision making – their rights are protected or not.
- *Investor’s confidence that the capital they provide will be protected from misuse or misappropriation by corporate managers, board members or controlling shareholders is an important factor in the development and proper functioning of capital markets. (OECD Principles 2015)*
- LOE and other regulations require certain protections for minority shareholders to ensure equitable treatment, such as pre-emptive rights when a company increases its capital.
- Beyond these legal requirements, an enterprise should have **means of redress** (=remedy).



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Section 2: Role of stakeholders in corporate governance

General Principle 2.

Enterprises should fully recognize that appropriate cooperation with the stakeholders other than shareholders, is indispensable in achieving sustainable growth and increasing corporate value over the mid- to long-term.

- 2.1 Code of conduct
- 2.2 Whistleblowing - framework
- 2.3 Whistleblowing - point of contact
- 2.4 ESG matters - Environmental, social and governance matters/Sustainability issues

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Code of conduct

- Many companies have already implemented its own Code of Conduct for all employees/management. Some companies have different contents of the code of conduct for different group of people (e.g. finance/accounting department, executive directors)
- Continuous monitoring of its effectiveness and adherence by all employees is important.
- **Does your company:**
 - **Provide training sessions for code of conduct?**
 - **Perform annual compliance confirmation?**
 - **Has mechanism through which any violation is timely reported?**
 - **Has internal policy for disciplinary actions?**

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Whistleblower - Example Rio Tinto (UK)

“Whistleblowing” programme

The board has adopted a confidential and independently operated whistleblowing programme called Speak-OUT. This offers an avenue where employees, contractors, suppliers and customers of Rio Tinto managed sites can report concerns anonymously if they so choose, subject to local law. This can include any significant concerns about the business, or behaviour of individuals, including suspicion of violations of financial reporting, safety or environmental procedures or business integrity issues generally. The programme features web submission, a case management tool to better manage cases, and a reporting tool to allow for improved analysis of case statistics and reporting. Rio Tinto is also looking at ways to increase the positive awareness of Speak-OUT. The Audit Committee receives a report twice annually on Speak-OUT activity as does the Sustainability Committee with regard to calls to Speak-OUT impacting sustainable development issues.

(Source: Rio Tinto, Annual Report 2014)

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Environment, social and governance (ESG) Why it is important?

Financial Information

- Financial statements
- Note disclosures
- Audit Report

Provide historical results of an enterprise's financial performance

Non-financial information

- **Strategy**
- **Corporate governance**
 - Board of Directors
 - Committees
 - Senior Management
- Environmental matters
- Social responsibilities
-

Provide more information as to long-term sustainability and growth potential of an enterprise
Also provide potential risk profile of an enterprise

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Section 3: Disclosure and transparency

General Principle 3.

Enterprises should make appropriate information disclosure in compliance with the relevant laws and regulations. Enterprises should also try to actively provide information beyond those required by laws, which includes both financial and non-financial information such as business strategies, business issues, risks and governance matters.

The board should recognize that disclosed information should be accurate, clear and concise so that it will serve as the basis for constructive dialogue with shareholders.

3.1 Material information disclosures

3.2 Fair disclosure

3.3 Strategic investors

3.4 Not a boiler-plate disclosure

3.5 Disclosure of risks

3.6 Internal control system

3.7 External auditor

3.8R Disclosure in English

3.9R Audit of annual financial statements

3.10R Disclosure of individual nomination and appointment of directors

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Section 4: Responsibilities of the board

General Principle 4.

(1) The board should be responsible for monitoring management performance and achieving an adequate return for shareholders, while preventing **conflicts of interest** and balancing competing demands on the enterprise.

In order to fulfil their responsibilities, the board should be able to exercise **objective and independent judgment**.

(2) The board should be responsible to oversee the **risk management** system and systems designed to ensure that the enterprise is in compliance with applicable laws and regulations, while determining the nature and extent of the **principal risks it is willing to take** in achieving its strategic objectives.

(3) The board is not only **accountable** to the company and its shareholders but also has a duty to act in their (=the enterprise and its shareholders') best interests. In addition, the board is expected to take due regard of, and deal fairly with, other **stakeholder interests** including those of employees, creditors, customers, suppliers and local communities. Observance of environmental and social standards is relevant in this context.

In order to fulfil their responsibilities, board members should have **access to accurate, relevant and timely information**.

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General Principle 4. (1)

Responsibilities, Objective and independent judgment

4.1 Dialogue with shareholders

4.5 Independent non-executive director

4.6R Specialized committee

4.7 Board diversity – skills, experiences

4.8 Board composition – executive vs. non-executive, independent directors

4.9 Formal and transparent procedures in appointment of new directors

4.10 Sufficient time allocation and commitment by each director

4.11R Separation of the chairman and CEO

4.12 Effective operation of the board

4.13 Board evaluation

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Principle 4.6. Specialized committee

Specialized committee

Audit committee

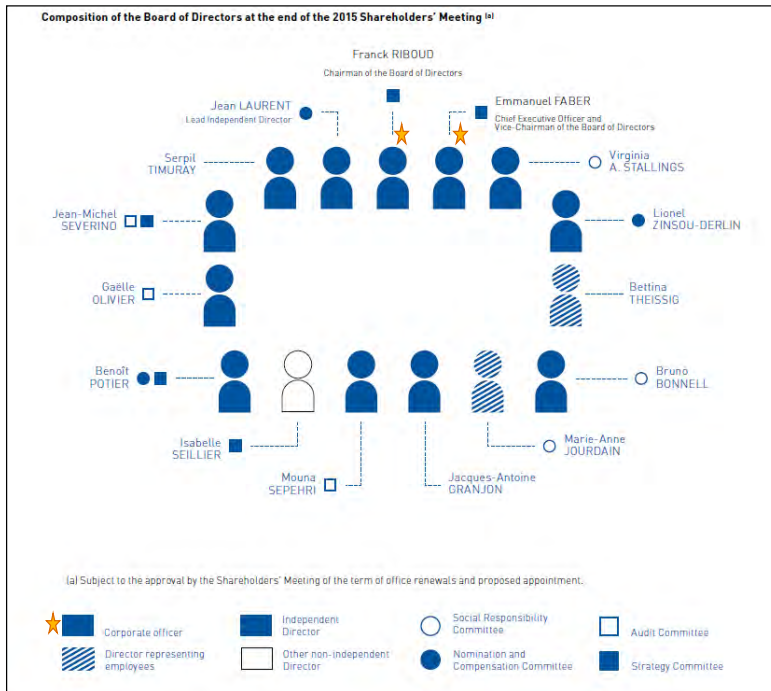
- Audit committee is not same as “supervisory board” in Vietnam
- Audit committee members are **all board of directors** and usually all members have certain level of accounting/auditing experiences or knowledge (e.g. Sometimes described as “*financial literacy*”, “*financial sophistication*”, “*financial expert*” in English)
- Many jurisdictions in the world requires Audit Committee within the Board
- Some of the responsibilities include:

Assist the Board of Directors in its oversight of:

- The integrity and audit of the company’s financial statements,
- The company’s accounting, financial reporting and disclosure processes and the adequacy of the systems of disclosure and internal control established by management,
- Processes established by management to provide compliance with legal and regulatory requirements,
- The independent auditor’s qualifications, performance and independence,
- The performance of the company’s internal audit function.

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Sample board of directors – DANONE (France)



- Single-Tier Model with specialized committees:
- audit committee,
 - nomination and compensation committee,
 - special responsibility committee,
 - strategy committee, and
 - executive committee.

Total 15 BOD members (Single Board)

- 2 corporate officers,
- 10 independent directors,
- 2 employee representatives,
- 1 other non-independent director

(Source: DANONE Registration Document 2014)

Board diversity – Example Microsoft (US)

The table below summarizes key qualifications, skills, and attributes most relevant to the decision to nominate candidates to serve on the Board of Directors. A mark indicates a specific area of focus or expertise on which the Board relies most. The lack of a mark does not mean the director does not possess that qualification or skill. Each director biography below describes each director's qualifications and relevant experience in more detail.

Experience, expertise or attribute	Gates	List-Stoll	Morfit	Nadelia	Nozaki	Panke	Peterson	Scharf	Skantton	Thompson	Warrior
Technology	■			■	■		■	■	■	■	■
Leadership	■			■	■	■	■	■	■	■	■
Global business	■	■		■	■	■	■	■	■	■	■
Financial	■		■			■		■	■	■	
Mergers and acquisitions		■	■		■			■	■	■	■
Public company board service and governance	■	■	■	■	■	■	■	■	■	■	■
Sales and marketing		■				■	■	■		■	
Ethnic, gender, national or other diversity		■		■		■	■			■	■

(Source: Microsoft Proxy Statement 2015)

Board evaluation - Example Vodafone Group (UK)

Performance evaluation

Each year the performance of the Board, its committees and directors is evaluated. Every third year the evaluation is conducted by an external advisor. This year the performance evaluation was conducted by Ffion Hague of Independent Board Evaluation. Mrs Hague is an independent advisor and has no other connection with the Company.

The evaluation process took place in the spring of 2013 and involved interviews with the Chairman, each Board member, the Company Secretary, senior management, senior executives who frequently interact with the Board or its committees, and the auditor, Deloitte LLP. Reports on the effectiveness of the Board and its committees were prepared by Mrs Hague. She discussed these with the Chairman and with the chairmen of the committees. Mrs Hague also discussed individual directors' performance with the Chairman and the Chairman's performance with Luc Vandevelde, the senior independent director. The Board and the Board committees considered the reports of their effectiveness at their meetings in May 2013. Mr Vandevelde gave feedback to the Chairman on his performance.

Mrs Hague's reports were positive about the performance of the Board and each of its committees. In particular, she highlighted the Board's strengths with respect to the seriousness with which it takes its accountability to shareholders, its focus on governance and the smooth operation of the Board and its committees. In light of Mrs Hague's review, the Board considers the performance of each director to be effective and has concluded that the Board and its committees provide the effective leadership and control required.

As a result of recommendations made in this year's Board performance evaluation, the Board has agreed:

- to develop further its approach to strategic planning and involve all the directors earlier in the process of strategy development;
- to provide more opportunities for the directors to meet with executives to assist in succession planning; and
- to ensure that induction of new directors enables them rapidly to contribute fully to the Board.

The Board will continue to review its procedures, its effectiveness and development in the financial year ahead.

Board effectiveness

Board effectiveness is reviewed every year. After last year's external performance evaluation the Board agreed:

- to develop further its approach to strategic planning and involve the directors earlier in the process of strategy development;
- to provide more opportunities for the directors to meet with executives to assist in succession planning; and
- to ensure the induction of new directors enables them rapidly to contribute fully to the Board.

Since then, the Chairman has introduced a number of improvements including: informing the Board regularly about possible Board appointments, trying to speed up the director appointment process, organising for senior executives to brief directors on various aspects of our business and increasing the number of opportunities available for senior executives to meet with the Board, e.g. through informal meetings or mentoring, and improving the induction programme for new directors.

Performance evaluation

Board effectiveness is reviewed by an external performance evaluation every three years. As an external evaluation was conducted last year, this year the Board performed an internal performance evaluation.

Disclosures in 2013

Disclosures in 2014

(Source: Vodafone Group Annual report 2013/2014)

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General Principle 4. (2) Risk management and risk taking

4.2 Risk management and internal control

4.3 Internal audit function

4.4 Corporate culture

4.14 Succession planning for key executives

4.15 Executive directors' remuneration – design

4.16 Claw-back provision

4.17 Formal and transparent procedures for developing executive directors remuneration policy

4.18 Remuneration disclosures

4.19R Pay Ratio disclosure

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Risk management and internal control

What mechanism in place?

<Sample Risk Assessment Matrix>

	Risk Rating					Overall Rating	Responsibility	Frequency of Review
	Bribery	Revenue recognition	Cyber security	Environmental	Other			
Internal location/business	X	X	X	X	X	Low	Internal audit/ Business unit	Annually
External/Supplier	X	X	X	X	X	Moderate	CFO	Annually
External/Distributor	X	X	X	X	X	Moderate	CFO	Quarterly
External/Agent	X	X	X	X	X	High	CFO	Quarterly
.....						
.....						

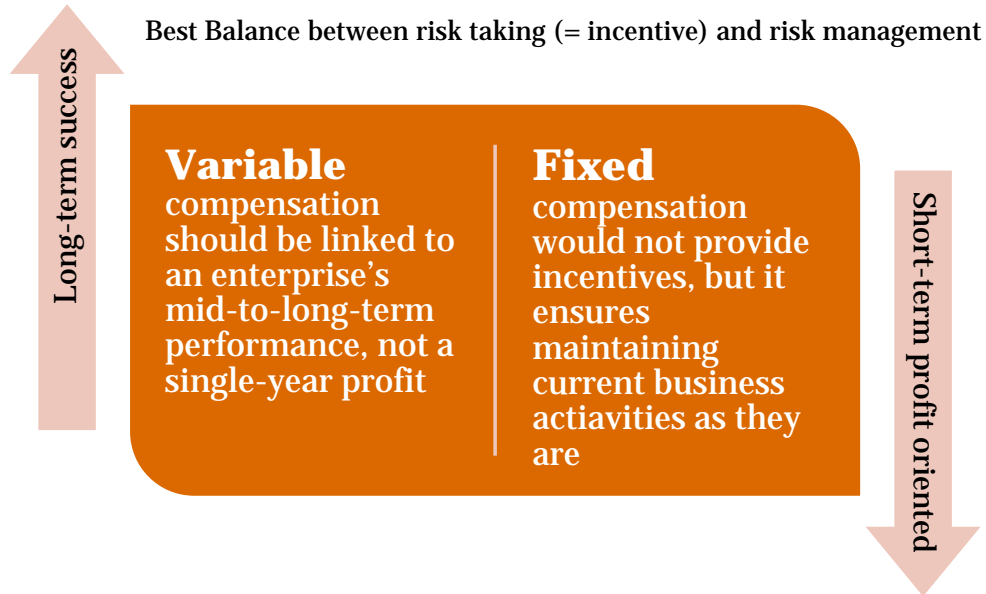
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Internal audit function

- Internal audit function could be outsourced.
- Generally, internal audit function **directly reports to the audit committee**, supervisory board, or board of directors as well as it reports to CEO and relevant senior management (= one level above what internal audit function is auditing).
- If an internal audit function reviews financial reporting process, it should not directly report CFO who is responsible for it.
- Internal audit function should maintain **objectivity and independence** from what it is auditing.

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Executive directors' remuneration



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General Principle 4. (3) **Accountability**

4.20 Director training

4.21 Director training – chairman's duty

4.22 Director training – corporate governance

4.23 D&O insurance

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D&O Insurance Adequate coverage

- D&O insurance is a liability insurance to cover indemnification for losses or defense costs in the cases where directors and officers suffer losses from a legal action brought against any acts in their capacity as directors and officers. The enterprise should arrange appropriate insurance coverage in respect of such legal actions against its directors or officers if General Shareholder Meeting approves.
- However, D&O insurance coverage should not allow directors or officers to act without due care (moral hazard); the terms of the insurance policy should be examined carefully.
- **Shareholders should be informed of the terms of the D&O insurance policy including deductible amount and reason of why such amount is set at an appropriate level.**

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Application Guidance Corporate governance report – Appendix C

Corporate Governance Report <Sample Only>

To: The shareholders

Name of the company
 Head office address: Telephone: Fax: Email:
 Charter capital:
 Securities code (if available):

I. Overview of the Enterprise's corporate governance policy/framework*

Narrative explanation of the Enterprise's corporate governance policy and framework.

II. Corporate Governance Statement*

Statement that the Enterprise applies the Corporate Governance Code (CGC) and whether the Enterprise does not apply any specific Principle or Principles as of the specified date.

If an enterprise is categorized as a "smaller enterprise" subject to certain exemption (i.e. applies only General Principles) for the purpose of applying the CGC, the enterprise is expected to state so here.

If an enterprise is categorized as a "smaller enterprise" but decided to apply the entire CGC without exemption (i.e. applies both General Principles and Principles), the enterprise is expected to state so here.

III. Explanation of reason for non-application of CGC*

No.	Principle #/ CGC Requirement	Explanation of reasons/rationale why the Enterprise does not apply specific Principle of the CGC

At minimum, an enterprise is expected to describe the structure (single tier or two tier model), and general policy of the corporate governance here.

An enterprise is expected to state that it has been applying which part(s) of the CGC and whether there is any unapplied principle(s).

An enterprise is expected to explain why particular principle(s) cannot be applied by the enterprise.

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Q & A

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Thank you.

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**Draft Section 5 of the Corporate Governance Code for
SCIC's Portfolio Companies (as of June 2016)**

Section 5: SCIC's roles as a shareholder

5. SCIC's roles as a shareholder

General Principle 5.

SCIC should enhance the medium- to long-term investment returns for its portfolio companies and beneficiaries (including ultimate beneficiaries) by improving and fostering the portfolio companies' corporate value and sustainable growth through constructive engagement based on in-depth knowledge of the companies and their business environment.

Requirements under the Vietnamese laws & regulations:

Chapter IV (article 88 – 109) of the LOE stipulates the state owned enterprises.

Notes from OECD SOE Guidelines:

- I. Rationales for state ownership - The state exercises the ownership of SOEs in the interest of the general public. It should carefully evaluate and disclose the objectives that justify state ownership and subject these to a recurrent review.*
- II. The state's role as an owner - state should act as an informed and active owner, ensuring that the governance of SOEs is carried out in a transparent and accountable manner, with a high degree of professionalism and effectiveness.*
- III. State-owned enterprises in the marketplace - Consistent with the rationale for state ownership, the legal and regulatory framework for SOEs should ensure a level playing field and fair competition in the marketplace when SOEs undertake economic activities.*
- IV. Equitable treatment of shareholders and other investors –Where SOEs are listed or otherwise include non-state investors among their owners, the state and the enterprises should recognise the rights of all shareholders and ensure shareholders' equitable treatment and equal access to corporate information.*
- V. Stakeholder relations and responsible business - The state ownership policy should fully recognise SOEs' responsibilities towards stakeholders and request that SOEs report on their relations with stakeholders. It should make clear any expectations the state has in respect of responsible business conduct by SOEs.*
- VI. Disclosure and transparency - State-owned enterprises should observe high standards of transparency and be subject to the same high quality accounting, disclosure, compliance and auditing standards as listed companies.*

VII. Stakeholder relations and responsible business – The boards of SOEs should have the necessary authority, competencies and objectivity to carry out their functions of strategic guidance and monitoring of management. They should act with integrity and be held accountable for their actions.

Principles:

5.1. Ownership policy

- The ultimate purpose of SCIC's ownership of portfolio companies should be to maximize value for society, through an efficient allocation of resources.
- SCIC's ownership policy including the exercise of shareholder's right should be accessible to the general public and widely circulated amongst the relevant ministries, agencies, SOE boards, management, and the legislature.

5.2. The SCIC's role as a shareholder

- SCIC should allow portfolio companies' full operational autonomy and should respect their independence.
- SCIC should enhance the transparency of the nomination and election of portfolio company boards and such nomination and election should be based on an appraisal of the variety of skills, competencies, knowledge and experiences required to protect from political interfere. SCIC should refrain board members from SCIC or other state organizations from attaining large proportions of BOD especially when SCIC is a dominant shareholder.
- However, it should be accepted that SCIC exercises shareholders rights effectively and appropriately with unique competencies such as legal, financial, economic and management skills that are experienced in carrying out fiduciary responsibilities.
- SCIC shall not make a shareholder proposal which SCIC would vote against under the VG. SCIC shall also refrain from exercising shareholders rights in a manner inconsistent with the Principles included in this Code.

5.3. Successive growth of the enterprises in market place

- SCIC should encourage portfolio companies to face market consistent conditions (without undue advantages or disadvantages relative to private enterprises) to strengthen its competitiveness for a long term development.
- SCIC should focus on the state ownership function and should prevent conflicts of interest between ownership function and other state's functions.

5.4. Equitable Treatment of Shareholders

- SCIC should closely monitor that all shareholders are treated equitably and encourage portfolio companies to develop an active policy of communication and consultation with all shareholders.
- SCIC should enhance the strategic shareholders' rights as fair compensation for the obligations imposed on, or the commitment made by, the strategic shareholder.
- SCIC should avoid abusive action as a dominant shareholder especially for the nomination and election of BOD members. Abuse can occur through inappropriate related party transactions, biased business decisions or changes in the capital structure favouring controlling shareholders.
- In cases of partial privatization of SOEs, SCIC and portfolio companies should take specific care to ensure the protection of minority shareholders including introducing efficient means of redress¹.

5.5. Stakeholder Relations and Responsible Business

- SCIC and SOEs should recognize and respect stakeholders' rights established by law or through mutual agreements in order to make portfolio companies sustainable and financially sound.
- SCIC should act and make decisions so that portfolio companies could make decisions for stakeholders, not for political interest

5.6. Disclosure and Transparency

- SCIC should encourage portfolio companies' disclosure of the following items;
- Remuneration policy of board members and key executives.
- Board member qualifications, selection process, including board diversity policies, roles on other company boards and whether they are considered as independent by the SOE board.
- Any material transactions with the state and other related entities.
- SCIC should encourage listed companies and large scale equitized SOEs to develop

¹ Refer to the commentary to Principle 1.5 of the draft Corporate Governance Code for SCIC's portfolio companies that says: One of the possible abusive actions may include the multiple voting shares that do not follow "one share, one vote" model AND unevenly preferable to the controlling shareholders. However, if minority shareholders have a right to vote on or approve the creation of such multiple voting shares, as well as any material changes to the attributes of such shares, it could be an effective means of redress. Other possible abusive actions may include but not limited to pre-emptive rights, golden shares, and any other forms of restrictions on issuance of shares. To prevent potential abuse, minority shareholder approval on these actions should be considered.

disclosure policy based on international standard in addition to the requirements of Vietnamese law.

5.7. The responsibilities of the boards of portfolio companies

- SCIC should encourage portfolio companies' board and their committees to be structured to act independently from the management such as the separation of the functions of the chair and CEO.

<Recommendations>

5.8. SCIC's role as an owner (New – for discussion only)

- SCIC should allow its portfolio companies full operational autonomy to achieve their defined objectives and refrain from intervening in their management. SCIC as a shareholder should avoid redefining its portfolio companies' objectives in a non-transparent manner.

(End)

JICA/SCIC2 Corporate Governance Code

Section 5 discussion <DRAFT v3.1>

July 2016

PwC Aarata LLC



Agenda

Background

Discussion Point:

- What is the appropriate name for Section 5 (*“new document”*)
- How to use the *new document* by SCIC
- How to disclose the content of *new document*
- SCIC’s current disclosure on the website

Next steps

Reference materials

- Other organizations’ disclosure examples
- UK Stewardship Code
- Santiago Principles

Background

- Section 5 of the draft corporate governance code (CGC) for SCIC's portfolio companies was originally included in the Principles part of the draft Voting Guidelines (VG) FY2015, which had been discussed among SCIC VG task force (TF) members, JICA experts, and JERI consultants. It describes the SCIC's roles as a shareholder and developed based on *the OECD Guidelines on Corporate Governance of State-Owned Enterprises 2015 Edition* ("OECD SOE Guidelines 2015").
- At the meeting on October 15, 2015, SCIC (Mr. Hien and VG TF members), JICA chief advisor and experts, JERI consultants and PwC consultants agreed that the Principles part of the draft VG should be removed from the draft VG but should be discussed further as part of the CGC discussions. In response to this meeting, the Principles part of the draft VG has been tentatively moved to the draft CGC as Section 5, although it is not a "CGC for portfolio companies" in its nature.
- The wording of the Section 5 should be revised in line with the new Decree that defines the SCIC's roles and responsibilities. The new Decree has been approved by MOF and expected to be enacted shortly.
- ***SCIC had an internal discussion and has decided to separate Section 5 from CGC (Sections 1 through 4) on 14th of July.***
- ***How to present/disclose the content of Section 5 is to be discussed further among relevant parties.***

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What is the appropriate name for Section 5, if separated from the CGC?

SCIC's

- Corporate Governance Statement/Declaration?
- Stewardship Statement?
- Mission Statement?
- Visions?
- Code of conduct?

Any other ideas?

- Wording should be revised in accordance with the name of document
(e.g. SCIC ***should do*** something... >>> SCIC ***does*** something...)

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4

How to use the new document (ex-Section 5)

- ✓ A formal declaration or statement that should be followed by SCIC **voluntarily** beyond legal requirements.
- ✓ It shows SCIC's **strong commitment/accountability** as a shareholder of each portfolio company.
- ✓ It **encourages SCIC's portfolio companies** to voluntarily adopt the corporate governance code (mutual, reciprocal commitment).
- ✓ It provides transparency to stakeholders.

Who is responsible for the new document?

Not all principles might not necessarily be followed by SCIC

Initial adoption/disclosure on the website

All principles should be followed (adhered) by SCIC

Continuous improvements and monitoring

Improve the level of adherence and disclose it

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How to disclose the new document (1)

- Disclosures in English on SCIC's website
- Reliability of the disclosed information
 - Generally, Supervisory Board (Inspection Committee) is responsible for the accuracy & completeness of an entity's information disclosure
 - In addition, an external independent auditor could provide certain assurance over disclosed information (negative assurance only)
- How often is the disclosed information updated?
 - From time to time but at least annually
- **Refer to the other organizations' current disclosures**

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How to disclose the new document (2) Current disclosure on the website



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Next steps

1. To determine the suitable name of the document of Section 5 and agree among relevant parties including SCIC, JICA and JICA consultants (JERI, PwC)
2. Modify the wording in accordance with the new Decree and new name of the document.
3. Determine how to use the document and who is responsible within SCIC.
4. Perform preliminary self-assessment of adherence of each principle by SCIC
5. Determine how to disclose it
6. Consider accuracy and completeness of disclosed information – any needs for the 3rd party assurance (audit)?
7. Obtain necessary approval within SCIC.
8. Implement the new document (= disclosure on the website)
9. Continuous reviews, updates and monitoring after initial adoption

Future milestone will be included in the PwC consultant's final report to JICA/SCIC.

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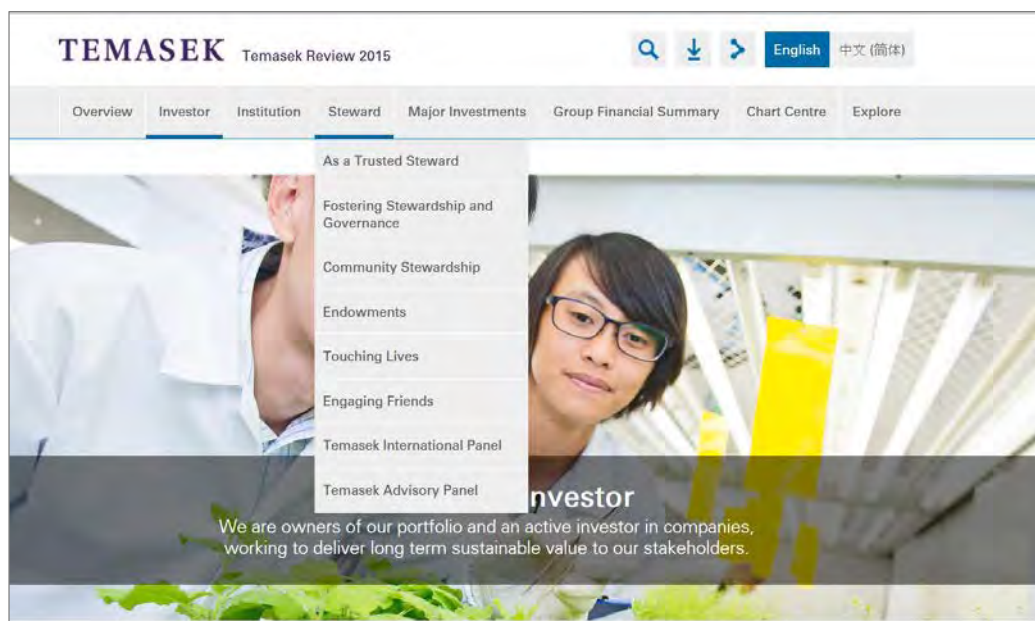
Reference materials

Examples of other organizations
UK Stewardship code
Santiago Principles

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Disclosure example – TEMASEK (1) **“Steward”**



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Disclosure example – TEMASEK (2)

Corporate governance

Corporate Governance

Temasek is a commercial investment company governed by the provisions of the Singapore Company Act.

Our governance framework emphasises substance over form, and long term over short term, and put institution over self. It provides for accountability and a robust balance between empowerment and compliance.

We espouse the principles of commercial discipline, built on our set of MERITT values, namely: meritocracy, excellence, respect, integrity, teamwork and trust.

As an investment company, Temasek owns and manages its assets, investing and divesting with full commercial discretion and flexibility under the guidance of our Board, including investment, divestment and business decisions.

Our commitment to deliver long term value is supported by a philosophy and culture of ownership.

Under Singapore's Constitution and laws, neither the President of the Republic of Singapore nor the Singapore Minister for Finance¹, our shareholder, is involved in our investment, divestment or other business decisions, except in relation to the protection of Temasek's own past reserves.

For further information on corporate governance, please see Institution in the Temasek Review 2015.

Footnotes:

¹Under the Singapore Minister for Finance (Incorporation) Act (Chapter 183), the Minister for Finance is a body corporate.

(Source: TEMASEK website <http://www.temasek.com.sg/abouttemasek/corporategovernance>)

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Disclosure example – TEMASEK (3)

Fostering stewardship and governance

Does SCIC comply with Santiago Principles?



(Source: TEMASEK Review 2016) <http://www.temasekreview.com.sg/steward/fostering-stewardship-and-governance.html>)

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Disclosure example – TEMASEK (4)

Statement by auditors – No material inconsistencies

We are the auditors of Temasek Holdings (Private) Limited ("Temasek"). We have audited the statutory consolidated financial statements of Temasek and its subsidiaries (the "Group") for the financial years ended 31 March 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015 and 2016 and have issued [unqualified audit reports](#). The audited statutory consolidated financial statements of the Group for the financial year ended 31 March 2007 were audited by [PricewaterhouseCoopers LLP](#) whose [auditors' report](#) were also unqualified.

Under the Singapore Companies Act, Chapter 50, Temasek is an exempt private company and is not required to publish its audited statutory consolidated financial statements.

Management is responsible for the preparation and presentation of the Group Financial Summary for the financial years ended 31 March 2007 to 2016. The Group Financial Summary consists of the Group Income Statements, Group Balance Sheets and Group Cash Flow Statements as at and for the financial years ended 31 March 2007 to 2016 and Group Statements of Changes in Equity for the financial years ended 31 March 2015 and 2016, which is prepared and presented based on the audited statutory consolidated financial statements. The Group Financial Summary does not contain all the disclosures required by Singapore Financial Reporting Standards applied in the preparation of the audited statutory consolidated financial statements of the Group. Reading the Group Financial Summary, therefore, is not a substitute for reading the audited statutory consolidated financial statements of the Group.

Our responsibility is to express an opinion on the Group Financial Summary based on our procedures, which were conducted in accordance with Singapore Standard on Auditing (SSA) 810 – *Engagements to Report on Summary Financial Statements*.

In our opinion, the Group Financial Summary is summarised and presented consistently, in all material respects, with the audited statutory consolidated financial statements of the Group.



KPMG LLP
Public Accountants and Chartered Accountants
Singapore

27 June 2016

Other Information in Documents Containing Summary Financial Statements
24. The auditor shall read other information included in a document containing the summary financial statements and related auditor's report to identify material inconsistencies, if any, with the summary financial statements. If, on reading the other information, the auditor identifies a material inconsistency, the auditor shall determine whether the summary financial statements or the other information needs to be revised. If, on reading the other information, the auditor becomes aware of an apparent material misstatement of fact, the auditor shall discuss the matter with management. (Ref: Para. A19)

(Source: SSA 810)

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(Source: TEMASEK Review 2016)

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Disclosure Example – Malaysia Khazanah (1)

OUR GOVERNANCE AND ACCOUNTABILITY FRAMEWORK

Khazanah is guided by a governance and accountability framework that establishes a clear structure of responsibility, authority and governance in how we operate. This is strengthened by internal systems and controls in the form of policies, procedures and guidelines on matters ranging from risk management and investment approvals to corporate values and ethical standards.

We make appropriate disclosures of our performance and operations, be they required by law and the relevant authorities or voluntary dissemination of information to our stakeholders, including the public, across various platforms and forums.

Our accounts are audited by an independent external auditor as well as the Auditor-General's Office, and the audited financial statements are submitted to the Companies Commission of Malaysia. We have also shared key information to the Public Accounts Committee (PAC).

We also make known to the public key information on our official website and annual publications including The Khazanah Report and Khazanah Corporate Responsibility Report.

Stakeholder engagement remains a priority for us. We organise various outreach programmes for the media, analysts and fund managers, government agencies, parliamentarians and civil society organisations. We hope these engagements will enhance their understanding about Khazanah.

Our mandate is closely tied to the Government's development aspirations. It guides our investment and operational approach. While it ensures consistency to our overall operation, it fulfils the objectives set out by our shareholders.

Like other strategic investment funds, Khazanah taps into international capital markets when the need arises. But we are mindful of any endeavour into the capital markets. Our security and investments are rated accordingly. We provide adequate and frequent disclosure of our financial position through rating agencies and market participants.

(continued to the next slide)

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Disclosure Example – Malaysia Khazanah (2)

OUR GOVERNANCE AND ACCOUNTABILITY FRAMEWORK

(continued from previous page)

We comply with statutory public disclosure requirements concerning our investments, divestments, and capital raising exercises. We also disclose financial data to our shareholder (Minister of Finance, Inc), Bank Negara Malaysia, and the Department of Statistics on a regular basis.

The Board of Directors governs our operations. The board members consist of representatives from the Government and the corporate sector with diverse professional backgrounds and expertise. Dato' Sri Mohd Najib Tun Abdul Razak, the Prime Minister of Malaysia and Minister of Finance, is the Chairman of our Board.

The Board meets regularly and is ultimately accountable and responsible for Khazanah's overall governance and performance.

A Board Charter sets out the roles and responsibilities of the Board in overseeing the management of Khazanah.

The Board is assisted by two subcommittees – the Executive Committee (EXCO) and the Audit and Risk Committee (ARC). The four-member EXCO comprises three Non-Executive Directors and an Executive Director, while the ARC consists of three Independent Directors.

Our Governance and Risk Management Framework serves as a guide for the effective management of risks, and to inculcate a culture of good corporate governance and risk management throughout the institution.

The framework comprises a Risk Management Policy, Schedule of Matters for the Board, Limits of Authority applicable to the Management, Code of Conduct as well as Policies and Procedures, which guide our employees in their actions and behaviours.

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The UK Stewardship Code (September 2012) (1) **Seven principles**

Principle 1 – Policy on stewardship

- Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Principle 2 – Conflicts of interest

- Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

Principle 3 – Monitoring of investees

- Institutional investors should monitor their investee companies.
- ***See Guidance for detail***

Principle 4 – Guidelines on intervention

- Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

Principle 5 – Collaboration with other investors

- Institutional investors should be willing to act collectively with other investors where appropriate.

Principle 6 – Voting policy and activity

- Institutional investors should have a clear policy on voting and disclosure of voting activity.

Principle 7 – Recording of activities

- Institutional investors should report periodically on their stewardship and voting activities.

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The UK Stewardship Code (September 2012) (2)

Principle 3 – Monitoring of investee companies

Effective monitoring is an essential component of stewardship. It should take place regularly and be checked periodically for effectiveness.

When monitoring companies, institutional investors should seek to:

- Keep abreast of the investee company's performance;
- Keep abreast of developments, both internal and external to the company, that drive the company's value and risks;
- **Satisfy themselves that the company's leadership is effective;**
- **Satisfy themselves that the company's board and committees adhere to the spirit of the UK Corporate Governance Code, including through meetings with the chairman and other board members;**
- **Consider the quality of the company's reporting;** and
- Attend the General Meetings of companies in which they have a major holding, where appropriate and practicable.

Institutional investors should consider carefully explanations given for departure from the UK Corporate Governance Code and make reasonable judgments in each case. They should give a timely explanation to the company, in writing where appropriate, and be prepared to enter a dialogue if they do not accept the company's position. (...omitted...)

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Santiago Principles (1)

Sovereign Wealth Funds Generally Accepted Principles and Practices (October 2008)

GAPP 1 The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).

GAPP 2 The policy purpose of SWF should be clearly defined and publicly disclosed.

GAPP 3 Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.

GAPP 4 There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

GAPP 5 The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

GAPP 6 The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

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Santiago Principles (2)

Sovereign Wealth Funds Generally Accepted Principles and Practices (October 2008)

- GAPP 7** The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.
-
- GAPP 8** The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.
-
- GAPP 9** The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.
-
- GAPP 10** The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.
-
- GAPP 11** An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.
-
- GAPP 12** The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.
-

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Santiago Principles (3)

Sovereign Wealth Funds Generally Accepted Principles and Practices (October 2008)

- GAPP 13** Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.
-
- GAPP 14** Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.
-
- GAPP 15** SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.
-
- GAPP 16** The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.
-
- GAPP 17** Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.
-
- GAPP 18** The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.
-

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Santiago Principles (4)

Sovereign Wealth Funds Generally Accepted Principles and Practices (October 2008)

-
- GAPP 19** The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.
-
- GAPP 20** The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.
-
- GAPP 21** SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.
-
- GAPP 22** The SWF should have a framework that identifies, assesses, and manages the risks of its operations.
-
- GAPP 23** The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.
-
- GAPP 24** A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.
-

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Q & A

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Survey sheet 1

Voting Guideline - current situation of investee company

Notes for answering this sheet: numbers printed in are inputted based on the list of the portfolio companies
 * if the given information in the column of is incorrect or changed, please write correct or new information in the column in blank..

Your sheet No. if necessary ()

Code	Item	2015 Old	2015 New (Correct or revise the data printed in the left column if the data is not right or out of dated)	2016
I	About the portfolio company			
1.10	Company Code (given by SCIC)	BGT20		
1.20	Company name	Bac Giang Cement JSC		
1.30	Allocated group (check in the <input type="checkbox"/>)	B2		A-1 (invested strategically core group) <input type="checkbox"/> ; A-2 (guided strategically core group) <input type="checkbox"/> ; B-1 (flexible group) <input type="checkbox"/> ; B-2 (divesture group) <input type="checkbox"/>
1.40	Industrial Section (by main products/activities)	601010 - Other sector		Please chose and write the number of the industry classification shown in the right column: In case of '99. Others', please also specify the industry/sector; 1. Telecommunication; 2. Healthcare; 3. Financial Services (banking-insurance); 4. Information Technology; 5. Construction; 6. Water-Electricity-Gasoline; 7. Production of basic consumer goods (foods, beverages & drinks...); 8. Energy-Mining; 9. Transportation; 10. Agriculture; 11. Commerce/wholesale & services; 99. Others
1.50	Type of the company	Joint Stock Company		1. Single-member limited liability company <input type="checkbox"/> ; 2. Multiple-member limited liability company <input type="checkbox"/> ; 3. Joint stock <input type="checkbox"/> ; 4. Partnership <input type="checkbox"/> ; 5. Private <input type="checkbox"/> ; 6. Corporate group <input type="checkbox"/> ; 7. Share holding company <input type="checkbox"/> ; 8. Joint venture <input type="checkbox"/> ; 9. Foreign owned <input type="checkbox"/> ; 11. Listed <input type="checkbox"/> ; at Hanoi EX <input type="checkbox"/> ; at HCMX <input type="checkbox"/> ; 12. un listed <input type="checkbox"/> ;
1.60	Province/address of the company registration	Thị trấn Tân Uyên, huyện Tân Uyên, tỉnh Lai Châu		
1.70	Chartered Capital amount (million VND or million USD)	58,173,000,000		1. VND <input type="checkbox"/> , 2. USD <input type="checkbox"/> amount:
1.80	of which, amount held by SCIC	2,703,250,000		1. VND <input type="checkbox"/> , 2. USD <input type="checkbox"/> amount:
1.90	Year that SCIC acquired the share of the enterprise	Tiếp nhận năm 2013		(19XX):
1.10	Department/branch in charge	Portfolio Department Management 1		1. PMD 1 <input type="checkbox"/> ; 2. PFD 2 <input type="checkbox"/> ; 3. PMD 3 <input type="checkbox"/> ; 4. PMD 4 <input type="checkbox"/> ; 5. New Investment Dept. <input type="checkbox"/> ; 6. North Branch <input type="checkbox"/> ; 7. Central Branch <input type="checkbox"/> ; 8. Southern Branch <input type="checkbox"/> ; 9. Other Dept. <input type="checkbox"/> (Please specify the name of the Dept.:)
II	About General Meeting of Shareholders (or Members' council) of the company			
2.10	Closing date of the annual accounting	December		1, 2, etc. (please write the number of the month):
2.20	Month when Shareholders' meeting was held	April		1, 2, etc. (please write the number of the month):

Survey sheet 2

Voting Guideline - Research on the use of the VG; for limited liability company

Your sheet No. if necessary ()

Item		Write or check in the blank of the appropriate one				Responses from external representative (Please write what)				
I About the portfolio company										
1.10	Company name									
1.20	Company Code (given by SCIC)									
1.30	Chartered Capital amount (million VND or million USD)	1. VND <input type="checkbox"/> 2. USD <input type="checkbox"/>	amount:							
1.40	Number of shareholders									
1.50	Amount of shares held by SCIC	1. VND <input type="checkbox"/> 2. USD <input type="checkbox"/>	amount:							
1.60	Top 10 shareholders/controllers shareholders if any (with number of shares or percentage of shares)	Name of shareholders		number or percentage of shares held by the shareholder	Address or Province					
		1		%						
		2		%						
		3		%						
		4		%						
		5		%						
		6		%						
		7		%						
		8		%						
		9		%						
10		%								
1.70	Department/branch in charge	(please write below the number or the name of the Department/branch listed in the right):			1. Portfolio Department (PD) 1; 2. PD 2; 3. PD 3; 4. PD 4; 5. Investment Department; 6. Southern Branch; 7. Central Branch; 99. Others (in case selecting others, please write the name of the department in the left column)					
II About General Meeting of Shareholders (or Members' council) of the company										
2.10	Date of the Shareholders' meeting (or Members' council)	Date: / / (dd/mm/yyyy) 1. Annual general meeting <input type="checkbox"/> ; 2. Extraordinary meeting <input type="checkbox"/>								
2.20	Number of shareholders presented in the meeting									
III	Issues voted (write all the issues item by item)	Instruction given by SCIC to the state representatives for voting	Date of report to SCIC prior to the shareholders' meeting	Date of instruction for vote form SCIC	Result of the votes	If the instruction was rejected, what was the adopted proposition and what are the reasons why the result was different from SCIC's instruction	Did you refer to the VG? Please write <input type="radio"/> if yes, X if not	Were rational and instructions by VG helpful? Please write <input type="radio"/> if yes, X if not	Any comments or suggestions about the item for making the VG instruction more applicable?	
		(A. Agree; B. Not Agree; C. Abstention)	/ / (dd/mm/yyyy)	/ / (dd/mm/yyyy)	1. accepted <input type="checkbox"/> ; 2. not accepted <input type="checkbox"/>					
		1.10	Approval of the Financial Statements and related documents							
		1.20	Approval of annual business plan							
		1.30	Approval of the long-term development strategy							
		1.40	Approval of income allocation (including disposal of surplus and decision on dividend considering dividend ratio)							
		1.50	Approval of investment							
		1.60	Approval of sales of assets, including approval of divestment of shares in other companies							
		1.70	Ratification of the BOD report, report of the Supervisory Board, and performance report of each BOD member							
		1.80	Election of member of the BOD, taking the director's attendance into consideration and the inclusion of at least one outsider or independent director in the BOD							
		1.90	Dismissal or replacement of the BOD member or Supervisory Board member							
		1.10	Appointment of Supervisory Board members							
		1.11	Appointment of Auditors, auditing companies or branch of a foreign auditing company in Vietnam to audit financial statements							
		1.12	Approval of M&A plan or approval of transforming, restructuring, dividing or dissolving the company							
		1.13	Other shareholders' proposals							
		2.10	Approval of remuneration and remuneration cap for BOD members and Supervisory Board members							
		2.20	Equity compensation plan							
		2.30	Setting or revising the maximum dilution level for the Employee Stock Ownership Plan (ESOP)							
		3.10	Amendment of statute (Charter), including expansion of business activities							
		3.20	Reduction of BOD members' term in office							
		3.30	Board structure and decrease in the maximum board size							
		3.40	Disclosure of information							
		4.10	Increase of the charter capital							
		4.20	Approval to authorize the Board to issue or repurchase shares or grant a general mandate to the BOD to issue shares							
		4.30	Approval to repurchase shares							
		4.40	Creation or modification of preferred shares							
		5.10	Vote 'Against' if the item does not satisfy the requirements in the Charter, Law on Enterprise and other regulations							
5.20	Approval of establishing branches & representative offices, SCIC shall decide on a case-by-case basis									

IV	Issues discussed and voted in the Board of Directors meeting (write all the issues item by item)	Instruction given by SCIC to the state representatives for voting	Date of report to SCIC prior to the member's council (dd/mm/yyyy)	Date of instruction for vote from SCIC (dd/mm/yyyy)	Result of the votes	If the instruction was rejected, what was the adopted proposition and what are the reasons why the result was different from SCIC's instruction	Did you refer to the VG? Please write <input type="radio"/> if yes, X if not	Were the rational and instructions of VG helpful? Please write <input type="radio"/> if yes, X if not	Any comments or suggestions about the item: your comments for making the VG instruction more applicable?
		(A. Agree; B. Not Agree; C. Abstention)	/ /	/ /	1. accepted <input type="checkbox"/> ; 2. not accepted <input type="checkbox"/>				
1.10	Approval of the Financial Statements and related documents								
1.20	Approval of annual business plan								
1.30	Approval of the long-term development strategy								
1.40	Approval of income allocation (including disposal of surplus and decision on dividend considering dividend ratio)								
1.50	Approval of investment								
1.60	Approval of sales of assets, including approval of divestment of shares in other companies								
1.70	Ratification of the BOD report, report of the Supervisory Board, and performance report of each BOD member								
1.80	Election of member of the BOD, taking the director's attendance into consideration and the inclusion of at least one outsider or independent director in the BOD								
1.90	Dismissal or replacement of the BOD member or Supervisory Board member								
1.10	Appointment of Supervisory Board members								
1.11	Appointment of Auditors, auditing companies or branch of a foreign auditing company in Vietnam to audit financial statements								
1.12	Approval of M&A plan or approval of transforming, restructuring, dividing or dissolving the company								
1.13	Other shareholders' proposals								
2.10	Approval of remuneration and remuneration cap for BOD members and Supervisory Board members								
2.20	Equity compensation plan								
2.30	Setting or revising the maximum dilution level for the Employee Stock Ownership Plan (ESOP)								
3.10	Amendment of statute (Charter), including expansion of business activities								
3.20	Reduction of BOD members' term in office								
3.30	Board structure and decrease in the maximum board size								
3.40	Disclosure of information								
4.10	Increase of the charter capital								
4.20	Approval to authorize the Board to issue or repurchase shares or grant a general mandate to the BOD to issue shares								
4.30	Approval to repurchase shares								
4.40	Creation or modification of preferred shares								
5.10	Vote 'Against' if the item does not satisfy the requirements in the Charter, Law on Enterprise and other regulations								
5.20	Approval of establishing branches & representative offices, SCIC shall decide on a case-by-case basis								
5.00	Please write what kind of responses did you receive from external representative(*): whether the use of VG contributes to the smoother decision making in AGM?					(Please give us your comments/evaluation, if any, about the effectiveness of VG as a whole.)			
5.01	Does the external representative give a positive response to the usefulness of using VG?					(Please give us your comments/evaluation, if any, about the effectiveness of VG as a whole.)			

(* External representative means a representative who is not a SCIC officer. (ex: BoD members assigned as state representative from the portfolio company or the line ministry including local government.)

Survey sheet 3: Reference:

Chose appropriate number of issues for vote indicated in the reference below (if there are no suitable items, please write the issue and number X.99 as indicated below)

No.	Items for vote
1.00	Operational Items
1.10	Approval of the Financial Statements and related documents
1.20	Approval of annual business plan
1.30	Approval of the long-term development strategy
1.40	Approval of income allocation (including disposal of surplus and decision on dividend considering dividend ratio)
1.50	Approval of investment
1.60	Approval of sales of assets, including approval of divestment of shares in other companies
1.70	Ratification of the BOD report, report of the Supervisory Board, and performance report of each BOD member
1.80	Election of member of the BOD, taking the director's attendance into consideration and the inclusion of at least one outsider or independent director in the BOD
1.90	Dismissal or replacement of the BOD member or Supervisory Board member
1.10	Appointment of Supervisory Board members
1.11	Appointment of Auditors, auditing companies or branch of a foreign auditing company in Vietnam to audit financial statements
1.12	Approval of M&A plan or approval of transforming, restructuring, dividing or dissolving the company
1.13	Other shareholders' proposals
2.00	Remuneration
2.10	Approval of remuneration and remuneration cap for BOD members and Supervisory Board members
2.20	Equity compensation plan
2.30	Setting or revising the maximum dilution level for the Employee Stock Ownership Plan (ESOP)
3.00	Article amendments
3.10	Amendment of statute (Charter), including expansion of business activities
3.20	Reduction of BOD members' term in office
3.30	Board structure and decrease in the maximum board size
3.40	Disclosure of information
4.00	Share Issuance Request
4.10	Increase of the charter capital
4.20	Approval to authorize the Board to issue or repurchase shares or grant a general mandate to the BOD to issue shares
4.30	Approval to repurchase shares
4.40	Creation or modification of preferred shares
5.00	Miscellaneous items related to the AGM
5.1	Vote 'Against' if the item does not satisfy the requirements in the Charter, Law on Enterprise and other regulations
5.2	Approval of establishing branches & representative offices, SCIC shall decide on a case-by-case basis

VOTING GUIDELINE SURVEY

OUTPUTS & FINDINGS

August 15, 2016

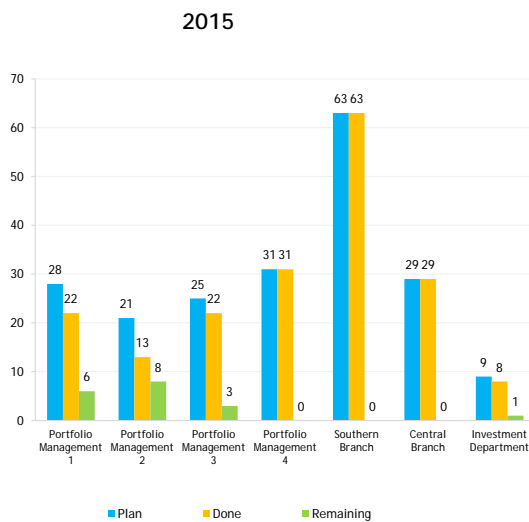


Table of contents

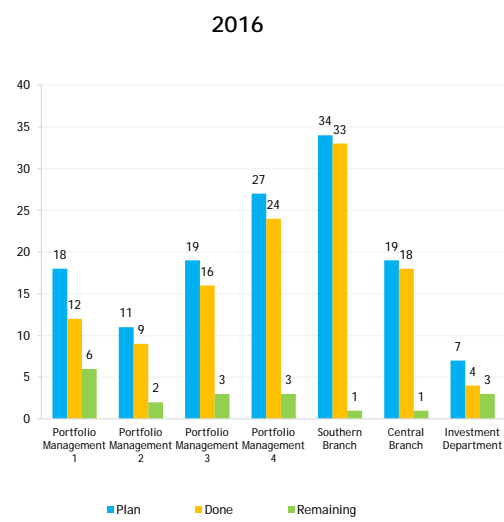
1. Status of survey collection
2. Analysis of issues voted in AGMs
3. Overall assessment of VG effectiveness

1. Status of survey collection

Status of survey submission by SCIC officers

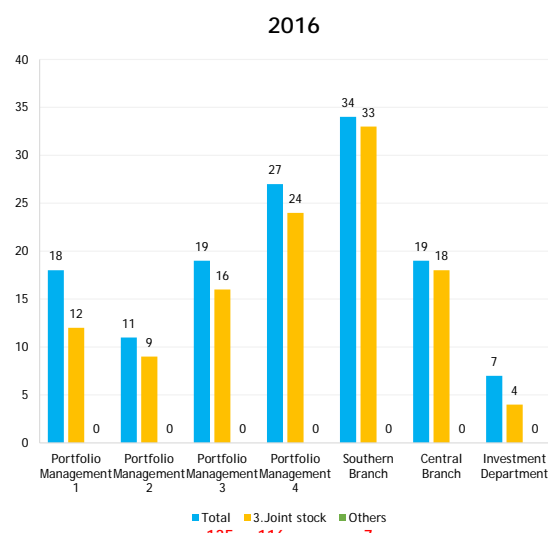
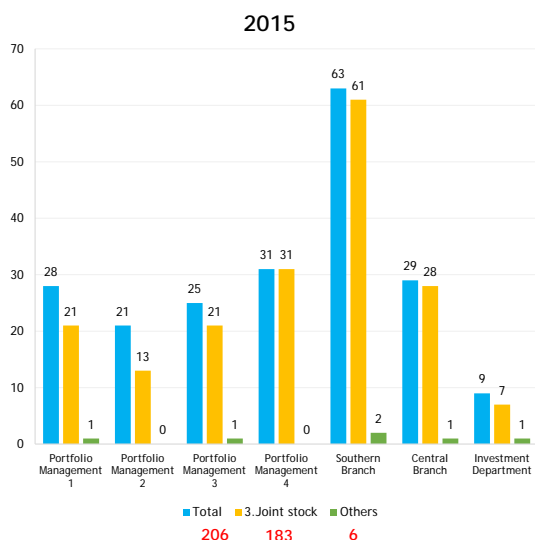


- 91% submitted (189/206)



- 86% submitted (116/135)
- Not yet submitted due to the lateness of some Portfolio Officers.
- Note: All the companies which have not held the AGM, companies which SCIC already divested capital or newly received (in total 35) are already excluded from the planned total number.

Types of portfolio companies

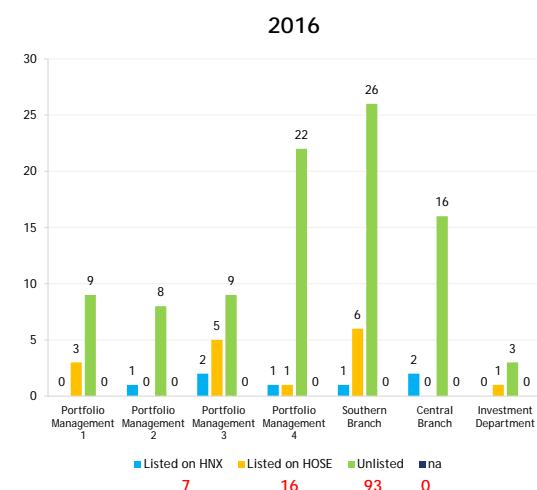
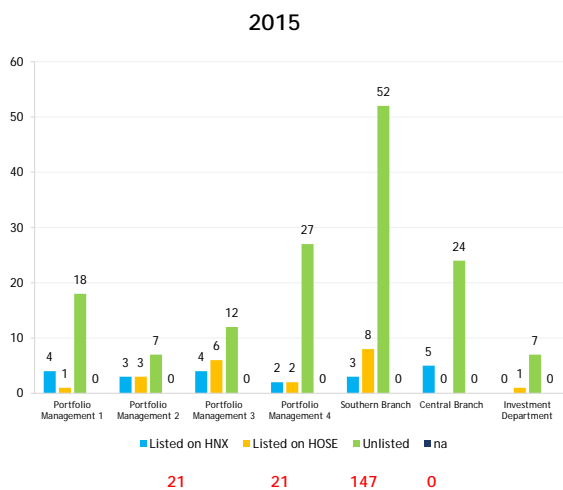


- Most of the portfolio companies are Joint-stock companies: 2015=89%, 2016=86%
- Others are Shareholding companies and One Member LLC

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4

Listing status of portfolio companies - mostly unlisted companies



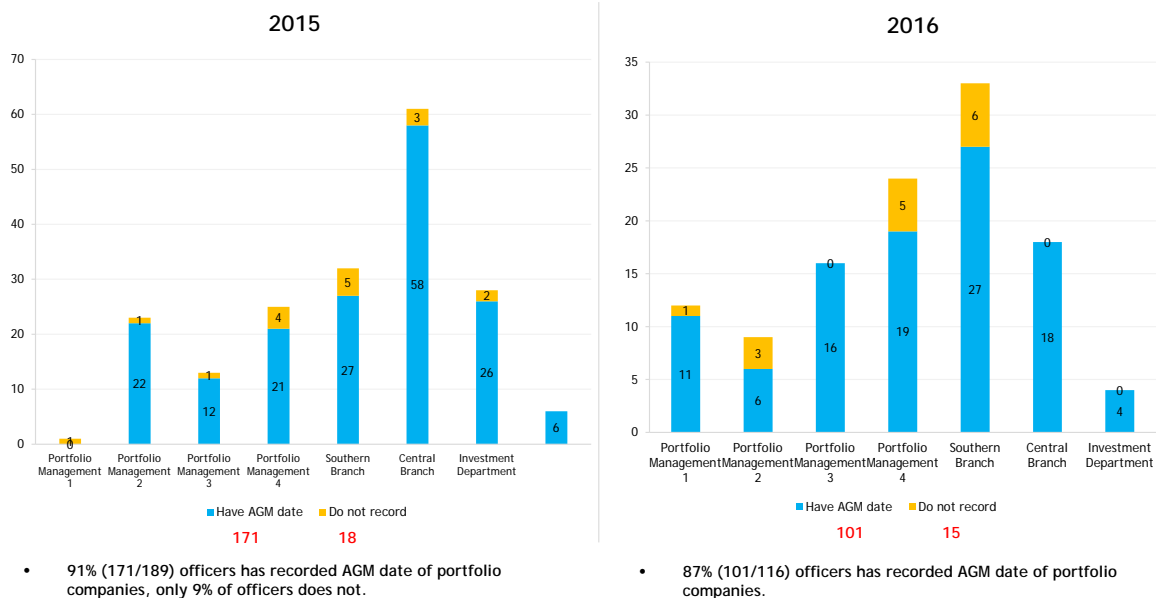
- Total number of listed companies are small: 42
- Total unlisted companies: 140
- Na:20

- Total number of listed companies are small: 23 (37 including OTC)
- Total unlisted companies: 93
- Only 20% (32% including OTC) of the portfolio companies are listed

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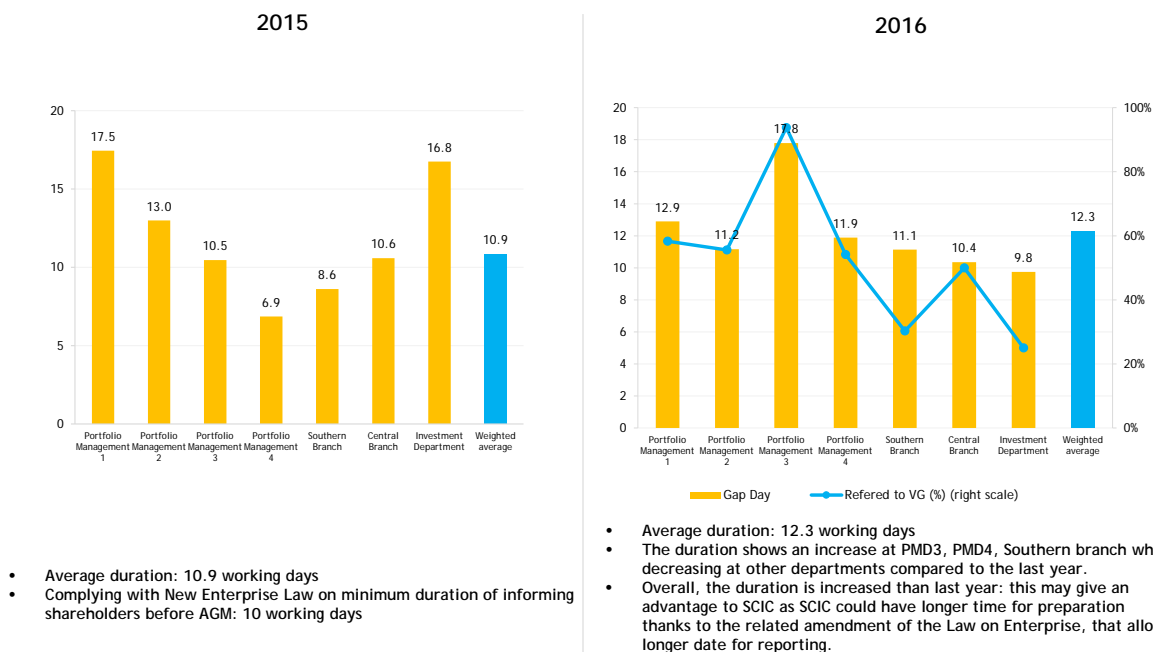
Records of AGM date (Y1 is most recent)



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Duration between Reporting date to SCIC and Date of AGM

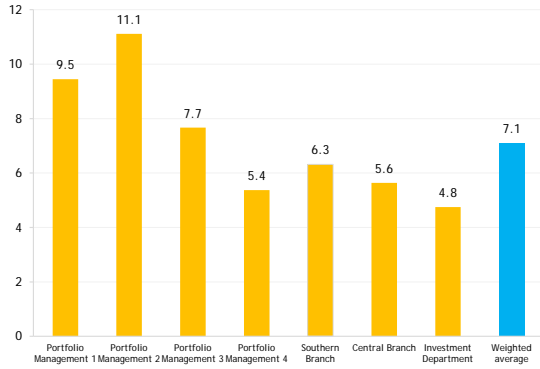


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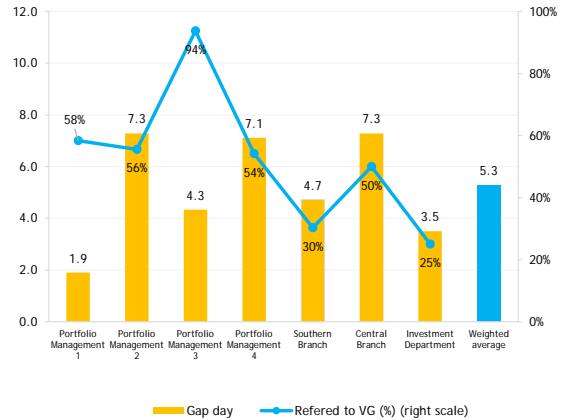
Gap of Reporting date to SCIC and Date SCIC gave advice

2015



- Average duration: 7.1 working days
- Duration stated in SCIC's internal regulation for Representative: 5 working days
- ➔ SCIC should shorten the duration of decision making.

2016



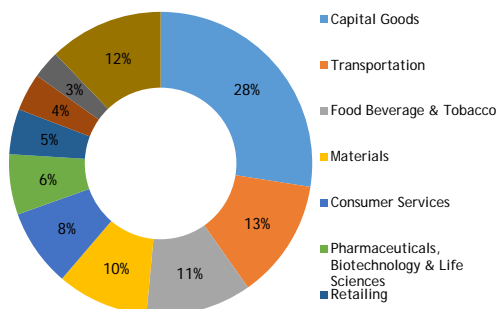
- Overall, the average duration is 5.3 working days, which was well reduced compared to the last year.
- PMD3 has the highest reference rate to VG, and significantly reduced the duration of giving advice to representatives. PMD 1 and Investment Dept. also reduced very much the duration.

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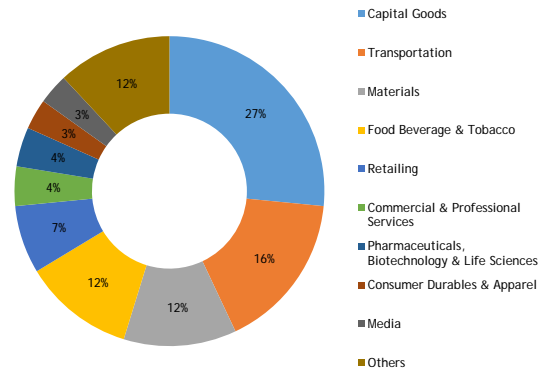
Frequency of each issue by sector

2015



- Capital Goods, Transportation, Food Beverage & Tobacco and Consumer Services are sectors with highest frequency of issues

2016



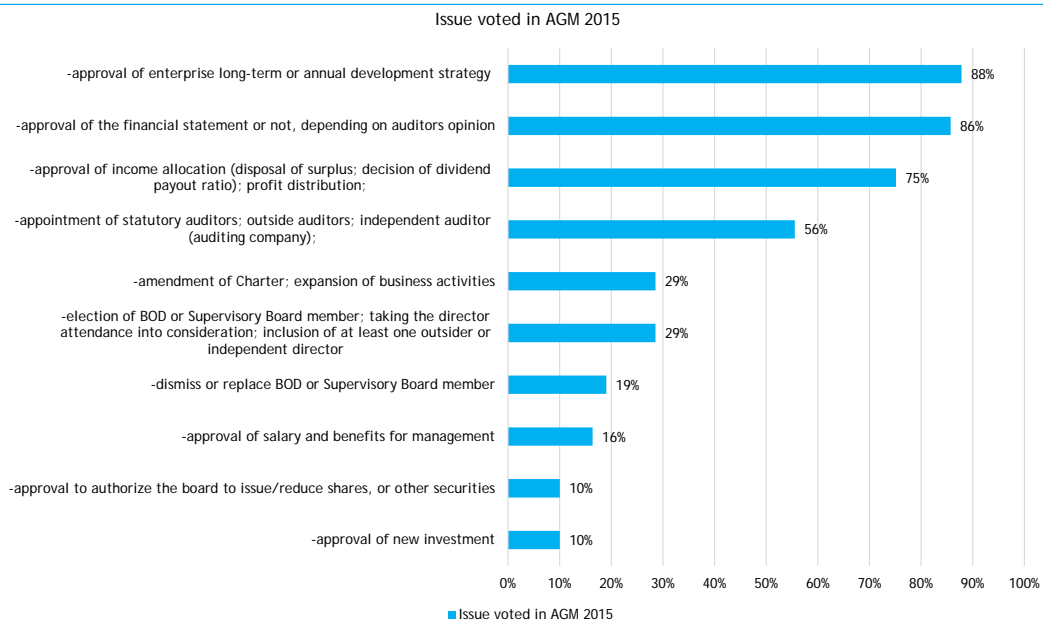
- Capital Goods, Transportation, Food Beverage & Tobacco and Consumer Services are sectors with highest frequency, the same as 2015.

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2. Analysis of issues voted in AGMs

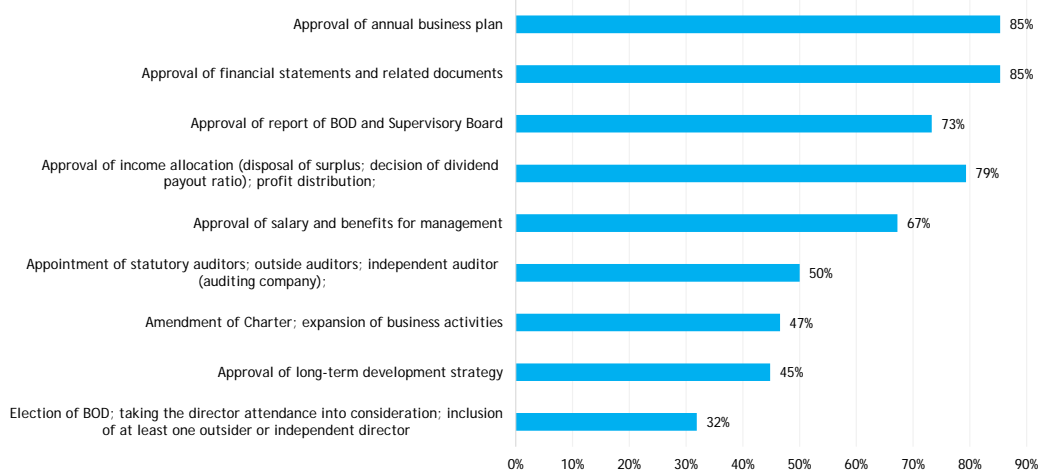
Analysis of issues voted in AGMs



- Most issues raised are typical ones with Joint-Stock Companies

Analysis of issues voted in AGMs

Top issues voted at AGM 2016



- The amendment of Charter or expansion of business activities becomes more frequently discussed issue, it has been discussed at 47% of AGMs this year compared to 29% last year.
- The approval of salary & benefit for management issues also increase significantly, from 16% to 67% in 2016.
- Whereas approval of long term development strategy seems to be decreased from 88% to 45% (though the classification of issues are slightly different in 2016 from that in 2015 survey).

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Guidance of SCIC and Voting result of AGMs

Guidance of SCIC and Voting result of AGM

SCIC guidance	Result of AGM	Year 2015	Year 2016
Yes	Accepted	699	693
No	Not accepted	13	12
Yes	Not accepted	14	4
No	Accepted	52	39
Total		778	748

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Guidance of SCIC and Voting result of AGMs

Voted Issues in AGM		2016	
Issue	Yes- Not accepted	No- Accepted	
Approval of financial statements and related documents	1.1	0	10
Approval of annual business plan	1.2	0	3
Approval of long-term development strategy	1.3	0	3
Approval of income allocation (disposal of surplus; decision of dividend payout ratio); profit distribution;	1.4	2	8
Approval of new investment	1.5	0	1
Approval of divestment of shares at other enterprises	1.6	0	0
Approval of report of BOD and Supervisory Board	1.7	0	6
Election of BOD; taking the director attendance into consideration; inclusion of at least one outsider or independent director	1.8	0	1
Dismiss or replace BOD or Supervisory Board member	1.9	0	0
Election of Supervisory Board member	1.11	0	0
Appointment of statutory auditors; outside auditors; independent auditor (auditing company);	1.12	0	0
Approval of M&A or restructuring, liquidation plan	1.13	0	0
Shareholder proposals	1.14	0	0
Amendment of foreign investors' ownership	1.15	0	0
Approval of salary and benefits for management	2.1	0	1
Approval of equity dividends	2.2	0	0
Approval of ESOP	2.3	0	0
Amendment of Charter; expansion of business activities	3.1	0	2
Terms of BOD	3.2	0	0
Amendment of BOD, numbers of BOD member	3.3	0	0
Information announcement	3.4	0	0
Increase charter capital	4.1	0	1
Approval delegacy for BOD to issue or repurchase shares	4.2	0	0
Approval to repurchase shares	4.3	0	0
Issuance or modification of the preferred shares	4.4	0	0
Approval of establishing branches & representative offices	5.2	0	0
Others	6	2	3
Total		4	39

- Approval of Financial statements, income allocation and the report of BOD and Supervisory Board are top 3 issues which SCIC's guidance was not accepted by AGM. The main reason are the minority ownership of SCIC in these companies.

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Approval of Financial Statements by audit opinions 2016

Financial statement qualification by number_Audit opinion

Responsible department	Y1 #	Unqualified (clean)	Qualified	AGM not accept	AGM accept
Portfolio Management 1	1	11	10	1	0
Portfolio Management 2	2	8	7	0	0
Portfolio Management 3	3	16	16	0	0
Portfolio Management 4	4	18	13	4	3
Southern Branch	5	24	22	0	0
Central Branch	6	18	14	2	2
Investment Department	7	4	4	0	0

- SCIC has been practicing to vote for FS in line with audit opinions.
- However, when SCIC has the minority ownership, it could not persuade AGM to accept such opinion (Refer to PMD4).

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3. Overall assessment on VG effectiveness

Application of Voting guideline at SCIC

	Did you (SCIC Officer and Representative) refer to the VG?	Were rationale and instructions by VG helpful?	Any comment/ suggestion about the items to make the VG instruction more applicable?
Yes	60	62	24
No	4	0	92
na	52	54	0

- Over half of officers and representatives admit that they refer to the VG and it is helpful to them. 4 companies did not refer to VG. For example: SCIC representative at Ben Tre construction material JSC did not refer to VG before voting. The rest is unknown (no answer yet).
- Some Comments supplied:
 - VG should be added to CPMS (a corporate governance software applied at SCIC) and upload to SCIC's website.
 - VG should be designed as a software application

Application of Voting guideline at SCIC

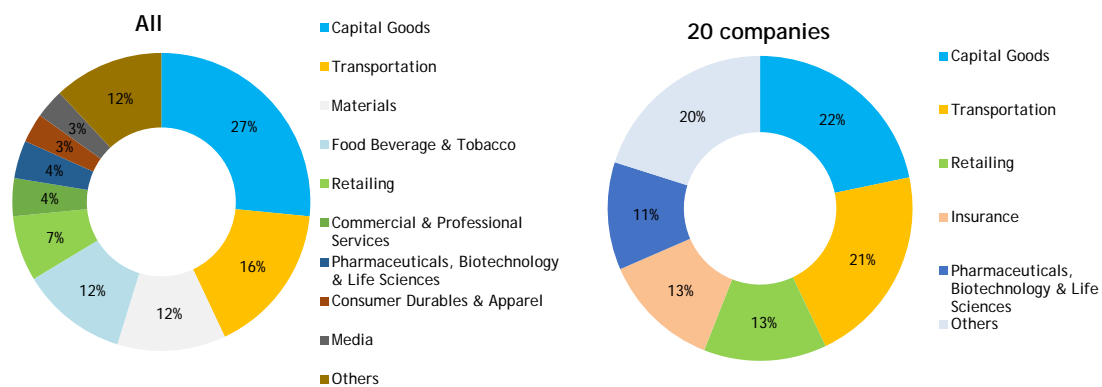
Rating for VG Efficiency	Rate	No. of Responses
1-Not effective		0
2-Somewhat effective		1
3-Effective		60
4-Highly Effective		11
5-Excellent		4
na		40
Total		116

- 65% (75/116) of officers/representatives reported to this survey admitted the effectiveness of application of Voting Guideline

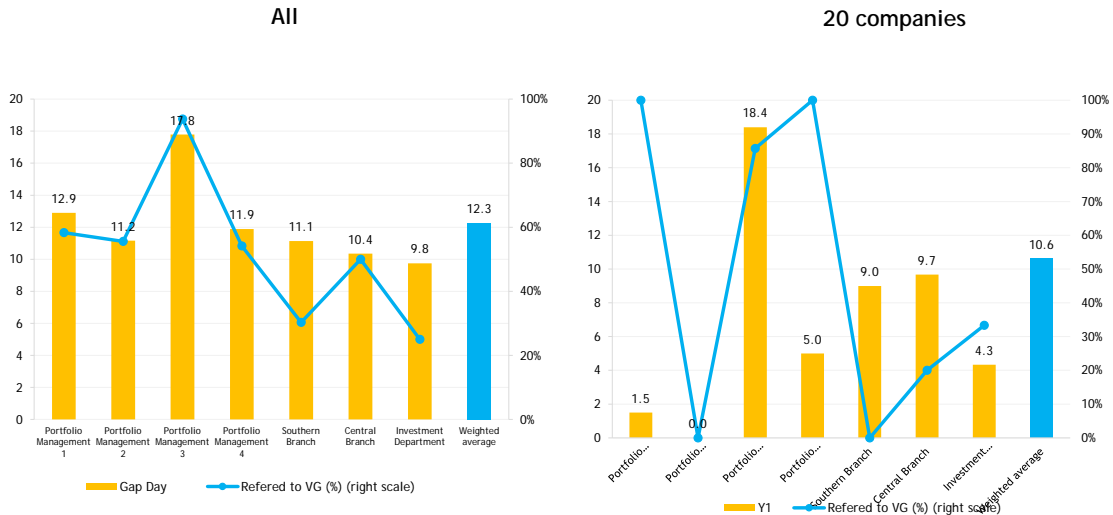
All vs. top 20 major companies (1): composition by industry sector

20 companies by sector

Sector	No. of company
Capital Goods	5
Transportation	5
Insurance	2
Pharmaceuticals, Biotechnology & Life Sciences	2
Materials	2
Retailing	2
Banks	1
Food Beverage & Tobacco	1

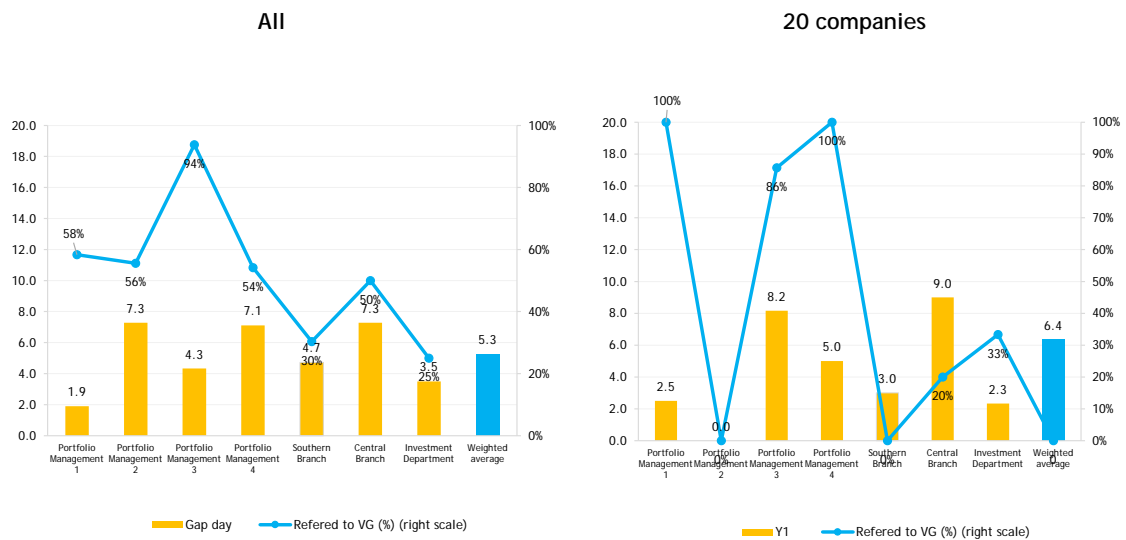


All vs. top 20 major companies (2): Duration between Reporting date to SCIC and Date of AGM



Note: number of companies by department are
 PMD1= 2, PMD2= 0, PMD3= 7, PMD4= 2, Inv. Dept.= 3,
 Central B.= 5, Southern B.= 1

All vs. top 20 major companies (3): Gap of Reporting date to SCIC and Date SCIC gave instructions



Note: same as slide 20

Thank you

Outcomes and Findings of the Survey
On the Application of the Voting Guideline

August 31, 2016

Task Force Team of SCIC
In Cooperation with JICA/JERI team

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1. Process of the survey.....	2
2. Survey results and findings.....	3
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4. Implications for the preparation of VG 2016.....	6
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2: Survey forms	

Note: Task force members

Ms. Dam Thuy Nga (TF leader, Executive Office)
Mr. Tran Cong Hoa (ex-TF leader, Executive Office)
Ms. Nguyen Anh Tam (Executive office: logistics)
Ms. Pham Thanh Hoa (PMD 1)
Ms. Do Thi Phuong Lan (PMD 2)
Mr. Nguyen Dinh An (PMD 3)
Mr. Hoang Anh Trung (PMD4)
Ms. Tran Linh Trang (Legal Department)

1. Process of the survey

1.1 Survey method

- The survey was implemented with the approval of the BOM following the preceding example of last year.
- The main objectives of the survey were to review the actual situation of the application of the Voting Guideline (VG) 2015 which were put into the trial application from February this year and to seek feedback comments on the effectiveness of its application and contents and modify the contents if necessary to make the VG most applicable for year 2016.
- Targeted addressees of the survey were the officers and staffs of SCIC (including some state representatives) who were in charge of the companies in the portfolio of SCIC (hereafter portfolio companies) as of end of June 2016 and using the survey sheet (the Form is attached as Annex 1). The survey sheet were sent to and collected from addresses via internet (e-mail). SCIC Task Force members (TF) for preparation and revision of the Voting Guideline 2015 worked closely to monitor the progress of collection of the survey answers.

1.2 Collection of answers

- Answers were collected from 57 officers/staffs of SCIC who were in charge of monitoring and leading the companies in the portfolio of SCIC and working in the Departments and branches stated below (number of officers/staffs cooperated to answer the survey):
 - Portfolio Management Department 1 (6)
 - Portfolio Management Department 2 (6)
 - Portfolio Management Department 3 (9)
 - Portfolio Management Department 4 (10)
 - Investment Department (4)
 - Central Branch (8)
 - Southern Branch (14)

- Total number of companies to be covered by the survey was 170. Of which actually eligible number of companies to implement the survey was 135 after excluding such companies that those who did not yet hold the Annual Shareholders Meeting (25), or SCIC already sold the shares (total 2), newly received (5), nearly bankrupt (2) or receiving no invitation to the shareholders meeting (1).

2. Survey results and findings

2.1 Results of the Survey

- (1) Among 135 companies surveyed, 116 gave answers by August 13. They were all Joint stock companies. The collection rate was 89% nearly the same level as last year (91%). Number of replies by departments were as follows:
PMD 1: 12 (out of 18), PMD 2: 9 (11), PMD 3: 16 (19),
PMD 4: 24(27), Investment Dept.: 4 (7),
Southern Branch: 33 (34), Central Branch: 18 (19)
[slide 3, 4]
- (2) Among 116, listed companies were only 23 (20% of all) and 37 (32%) including those who were listed in the OTC. [slide 5]
- (3) SCIC collected the information on AGM dates of about 87% of the portfolio companies (101 out of 116). [slide 6]
- (4) AGM information was reported to SCIC in average 12.3 working days before the AGM, which was earlier than last year (10.9 working days), reflecting the revision of related article of the Law on Enterprises (Law No. 68/2014/QH13, Article 139-1). The earliest case was reported by PMD 3 (in average 17.8 days, which was 10.5 days in last year). [slide 7]
- (5) Looking at the duration of receiving the report/notice of holding AGM from the portfolio company till sending back the voting

instructions from SCIC, it was in average 5.3 working days, which was clearly shorter than last year (7.1 days). All the departments and branches except for PMD 4 and Central Branch reduced very much the duration time.

By department, PMD1 reported the shortest duration of only 1.9 days and Investment Dept. was the 2nd with 3.5 days. The 3rd was PMD 3 with 4.3 days and with the highest percentage of reference to the VG (94%).

[slide 8]

- (6) Looking at the composition of the portfolio companies by industry sector, capital goods had the largest share with 27% and followed by transportation (17%). The composition was not so much changed from last year. [slide 9]

- (7) Importance of issues voted in AGM this year was changed from last year.

Issues most frequently discussed at the AGM of this year were 'Approval of annual business plan' (85% of discussed issues) whereas it was 'Approval of long-term or annual development plan' (88%) last year. 'Amendment of Charter or expansion of business activities' increased its percentage of issues discussed from 29% last year to 47% this year. 'Approval of salary & benefit for management issues' also increased significantly, from 16% in 2015 to 67% in 2016. Whereas, 'Approval of long term development strategy' decreased from 88% to 45% this year. [slide 11, 12]

- (8) Whether the guidance/instructions by SCIC for voting at AGM were accepted by the portfolio company or not, only 43 out of 748 issues were not accepted in 2016 much smaller number than last year (66 out of 778).

Among the issues that SCIC experienced oppositions from other shareholders, 'Approval of Financial Statements (FS) and related documents' were the most frequent issues (10 cases), followed by 'Approval of income allocation and profit distribution' (8 cases) and 'Approval of report of BOD and Supervisory Board' (6 cases). All

these three issues might have close relations with the accounting, especially income allocation or profit distribution of the company. [slide 13, 14]

One of the reasons suggested by the reporters was that SCIC has minority percentage of shares and that SCIC could not give any influence to the decision making of the company. It shall be noted that SCIC had been paying due attention to the audit opinions attached to the FS of the company and vote against for approving FS with qualified opinion but there were other shareholders who did not follow SCIC's opinion. It seems necessary for SCIC to raise more awareness of shareholders to the importance of audit opinions attached to the FS. [slide 15]

2.2 Evaluation of efficiency on application of the VG

- (1) Although about half (60 out of 116) of the companies referred to the VG 2015 this year, almost all (115 out of 116) admitted that the application of the VG was and would be effective. [slide 17, 18]
- (2) Not so many additional comments were supplied to the inquiry but three companies requested SCIC to consider uploading the VG on the web-site or include VG in its IT system such as CPMS to facilitate the reference action by the representatives. [slide 17]

3. Outcomes of interview survey

- 1) To get further confirmation about the reasons why there were such cases that SCIC's instructions for voting at the AGM were not agreed by the management or other shareholders, TF and JERI team implemented additional interview surveys with 6 companies asking the prior approval of the BOM of SCIC. The interview surveys were held during August 19 and September 1.
- 2) The issues newly pointed out through the interviews were as follows:

- a) SCIC has a minority share and majority of other shareholders were with the company's management decision. Thus even SCIC pointed out the inappropriateness to approve the financial statement (FS) attached with a qualified audit opinion and voted 'against' its approval in AGM, other shareholders did not pay due attention to the audit opinion nor SCIC's judgment.
- b) In relation to the amendment of Decree 58/2012/ND-CP stipulated the foreign ownership in Vietnamese enterprises, a request was made to include a new item related to the "Ownership change" in the VG based on the articles stipulated in the Decree 60/2015/ND-CP.
- c) In relation to the item 1.11 of VG 2015, a request was made to give more specification for the criteria to be applied when judging the appropriateness of the M&A cases.
- d) In relations to the item 2.3 of VG2015, there were some cases that SCIC voted 'For' the implementation of ESOP (Employee Stock Ownership Plan). Taking such cases into consideration, requests were made to state specifically the cases that SCIC would vote 'For' to ESOP proposal.

4. Implications for preparation of the VG 2016

- Application of VG by SCIC is considered as an encouraging tool for both SCIC and portfolio companies as it was agreed that the application of VG contributed to increasing transparency in decision making at the AGM and enhancing the communication between SCIC and the management people of the company.
- Portfolio companies welcomed the involvement of SCIC if it could supply constructive advices to them and wished that SCIC might take the lead among shareholders to establish the constructive dialogue between major shareholders and the management of the company.
- The revised version of VG 2016 is drafted taking the points stated above in 3. 2) into consideration. The revised draft shall be finalized after the

discussion for confirmation with TF, submitted to Mr. Hien and to the Board of SCIC for approval.

- By implementing periodical survey like this year, SCIC could have clearer understanding about the relationship between SCIC and portfolio companies. Looking at the outcomes of the survey, SCIC could get objective information and bird view about changes of interest/concerns of portfolio companies by industrial sector and by issues raised at the AGM. Thus SCIC could deepen discussions when reviewing its annual and mid-term strategy by analyzing the survey results and feedback comments/opinions supplied from the portfolio companies.

- SCIC shall continue to emphasize the importance of applying the international governance rule (Corporate Governance Code) and the VG to comply with the requirements of the expected TPP agreement. To invite higher attention from Vietnamese enterprises for the improvement of their corporate governance, SCIC may consider, in the near future, to publicly announce the annual voting results of SCIC, for example: how many cases there were that SCIC voted against the AGM agenda but majority of shareholders voted differently from SCIC's votes with the reasons why SCIC voted differently from other shareholders.

(End)

Annexes

1. Presentation material (slide)
2. Survey forms (not included here)



State Capital Investment Corporation
VOTING GUIDELINES

Draft VG 2016

Preface

The Government has been promoting equitization of SOEs and strengthening the competitiveness of Vietnamese enterprises. Under the rapid economic globalization, including economic unification in the ASEAN countries, Vietnamese enterprises are facing urgent needs to improve and modernize its corporate governance and increase the corporate value by improving its profitability. Alliance with strategic investors will be an efficient means to modernize corporate governance and increase the corporate value of Vietnamese enterprises.

SCIC, as the leading organization managing the state capital invested in SOEs and strongly supported the improvement of performance and profitability of investee enterprises before privatization. SCIC decided to prepare and publish the Voting Guideline used by SCIC's state representatives. The Voting Guideline is prepared under the component "Strengthen capacity for SCIC" of a JICA's project named "The project for enhancing corporate finance management capacity to implement SOE restructuring" by Japan Economic Research Institute (JERI).

(1) Objective

SCIC decided to prepare and publish this Voting Guideline (hereafter VG) applicable to investee companies to assist them in improving their corporate value as well as the shareholder value with medium and long-term perspective. This is the first clear announcement of introducing a modernized corporate governance system and improving the corporate value in Vietnam based on the international corporate governance code requested by the OECD. SCIC aims to improve the transparency of decision-making within enterprises by clarifying the relationship between the management and the shareholders. These guidelines shall be revised yearly taking into consideration the economic situation and corporate governance practices of Vietnamese enterprises.

By using VG, SCIC believes that SCIC's representatives will:

- Enhance representatives' capacity in studying enterprise's documents supported for voting decision making. Increasing representatives' professional manner.*
- Make the decision (or proposing to SCIC in case of matters must consult with SCIC) in accordance with SCIC's benefit based on the principle of securing and increasing capital efficiency, and increasing enterprise's value.*



State Capital Investment Corporation
VOTING GUIDELINES

(2) Requirements on the use of VG

VG is a reference document that the State Representatives shall refer to before the General Meeting of Shareholders (AGM) and consultation with SCIC. In addition to SCIC's regulation for representatives, it is mandatory that State Representatives have to make reference to matters specified in these guidelines as part of procedures that State Representatives have to follow before and during the AGM. For other issues not specified in these guidelines, State Representatives must request SCIC's opinion before voting in cases defined in the regulation for representatives. VG helps representatives as: (i) a reference for representatives before requesting SCIC's opinion; and (ii) a reference for representatives before voting in case of issues not needing SCIC's opinion.

The State Representatives will be requested to report the contents of the vote that they made and the result of the AGM to SCIC/HQ after the meeting, complying with the procedure for making related reports to SCIC/HQ.

(3) SCIC's orientation

With regard to the application of VG, SCIC considers this as a meaningful tool to enhance representative capacity and strengthen SCIC's operation efficiency through SCIC's state representatives at enterprises. VG shall be revised yearly taking into consideration the economic situation, corporate governance practices of Vietnamese enterprises and feedbacks from the State Representatives of SCIC. During the application of VG, SCIC expects to receive comments from the State representatives to improve it.



State Capital Investment Corporation
VOTING GUIDELINES

Voting Guidelines

(1) Interpretation of Terms

-*Audit opinion* refers to the published outcome of an auditor's review of a company's financial statements. The audit opinion assesses the truthfulness and reasonableness of the financial statements and their compliance with Vietnamese Accounting Principles.

-*Auditors* mean the persons who are granted certificates of auditors in accordance with laws and regulations, or those who have certificates granted from foreign countries recognized by the Ministry of Finance and passed the examination on Vietnamese laws.

-*BOD or Board* is the body managing the company and which has full authority to make decisions in the name of the company and to exercise the rights and perform the obligations of the company which do not fall within the authority of the General Meeting of Shareholders (AGM) which means “Hội đồng quản trị” in Vietnamese (Law No. 68/2014/QH13, Law on Enterprises, hereafter LOE, Art.149.1).

-*Dividend* means “a net profit paid to each share in cash or other assets from the residual profit of the joint stock company after all financial obligations are fulfilled” (LOE, Arts.4, 3).

-*Financial Statements and related documents* include (i) balance sheet, (ii) income statement, (iii) cash statement, (iv) note to financial statements, (v) reports to be discussed and approved at the AGM (LOE, Art.136), and (vi) annual business plan.

-*Independent audit* means an auditor practicing a profession, auditing firms, branches of foreign auditing firms in Vietnam, inspecting and giving their independent opinions on financial statements and other audit works under the audit contract (Law on Independent Audit 67/2011/QH12).

-*Investment* refers to all the investments stated in Article 144 of the Law on Enterprise and Article 3.5 of Law on Investment, including the purchase of new assets with significant amount, the value of which is 35% or more of total assets recorded in the most recent financial statements of the company or at other percentage or value as stipulated by the charter of the company (LOE, Art.135.2.d)

-*Long-term* means 5 years or longer.

-*Related parties* are the parties defined by Articles 4 and 17 of the LOE.



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-*Shareholder value* refers to the concept that the primary goal for a company is to increase the wealth of its shareholders (owners) by paying dividends and/or causing the stock price to increase. More specifically, it means planned actions by management and the returns to shareholders should outperform certain benchmarks, such as the cost of capital. The benchmarks shall be decided by SCIC.

-*State Representative* is an individual authorized by SCIC to exercise the rights and perform the responsibilities and obligations of the shareholder according to the provisions of the law, regulations, and SCIC's internal regulations.

-*Stock option (bonus share) or stock purchase option* means giving the right to purchase their own company's shares to the Director/General Director (CEO), BOD members, and employees with certain conditions. This is generally used as an incentive for them (Refer to Circular 162/2015/TT-BTC and Employee Share Ownership Plan).

-*Supervisory Board* refers to the board the function of which is to supervise the BOD ("Hội đồng quản trị" in Vietnamese) and the General Director with respect to management and administration of the company; also named as the Control Board or Inspection Committee. This board is not the managing body in charge of the daily operations and decision-making in the company (LOE, Art.165).

-*WACC (weighted average cost of capital)* is the calculation of a company's cost of capital in which each category of capital is proportionately weighted. The cost of capital invested in a company is composed of the cost of debt and capital stock, and the weighted average of both is calculated. The details of calculation formula shall be decided by SCIC's internal regulations.

-*Investee company* is a company under SCIC's portfolio list.



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(2) Specific items

1. Operational Issues

In principle, SCIC shall respect the independence in the operation of the companies under SCIC's portfolio list. In appropriate scope consistent with laws and SCIC's regulations, SCIC shall assist companies in increasing efficiency of management by enhancing transparent and timely decision-making; promoting efficient and productive use of resources in the best interests of shareholders, including foreign investors, to realize the sustainable growth of the enterprise by ensuring that all shareholders are treated equitably; and avoiding or reducing the conflicts of interest among shareholders and related parties.

1.1 Approval of the annual Financial Statements and related documents

Vote 'For' when the Auditor approves the Financial Statements with "Unqualified opinion or clean opinion".

Vote in principle 'For' if the Auditor approves the Financial Statements with "Emphasis of Matters" or insignificant "Qualified opinion".

Vote 'Against' in principle in the following cases:

- 1) The Auditor chooses the non-expression of opinion about the Financial Statements or expresses some reserved opinion (significant Qualified opinion, Disclaimer of opinion, and Adverse opinion), or**
- 2) Unclearness is identified related to the contents of Financial Statements or the audit procedure.**

In case of companies without any audit opinion, SCIC shall evaluate the Financial Statements in accordance with SCIC's internal regulations and decide on a case-by-case basis whether to vote 'For' or 'Against' the approval of the Financial Statements based on the result of the internal evaluation.



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Rational to the vote:

Companies with 20% or more of the voting rights held by state groups or public companies, securities listing organizations, securities issuing organizations and securities trading organizations, and other companies including public companies when they are required to be audited by relevant provisions of law and regulations shall be subject to compulsory audit of its annual financial statements. (Decree 17/2012/ND-CP, Art 15, 3(c), (d), Circular155/2015/TT-BTC, Art. 8, 1)

Audit opinions duly made to the annual account shall be respected.

However, SCIC may consider whether the issues raised by the auditors do not comply with the law on accounting standard or negatively influence the shareholder value, and against the approval if the result of the internal evaluation by SCIC will be negative. Such evaluation will be made based on the SCIC's criteria defined by SCIC/HQ.

Instruction to the State Representative:

The State Representative shall review the financial statement prior to the AGM and consult with the auditors if it is necessary to clarify the details of audit opinion and evaluate the importance of the issues to the shareholder value or sound management of the enterprises. The State Representative shall also review the comments of the Supervisory Board, if any.

When the State Representative considers the audit opinion as the case to vote against, the representative must report to SCIC/HQ 5 working days before the AGM and/or BODM his/her intention to vote against the request for approval in the AGM/BODM. Even if the auditor chooses the non-expression of opinion about the Financial Statements or expresses some reserved opinion (significant Qualified opinion, Disclaimer of opinion, or Adverse opinion), and SR considers it is appropriate to vote "against" even with such audit opinion, the SR shall report his/her judgment to SCIC/HQ before the vote.

As for non-listed companies with Supervisory Boards but without any audit opinion, the State Representative shall consult with SCIC/HQ for the result of internal evaluation and vote for or against based on the result of the internal evaluation of SCIC.



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As for small non-listed companies without Supervisory Boards, SCIC will encourage them to require auditors' opinion within 3-year term from the implementation of VG2015, taking into consideration the cost and benefit of requiring an independent auditor's opinion.

(Note) "Small non-listed companies" mean companies of which SCIC has a minority share and are not companies "with 20% or more of the voting rights held by securities listing, issuing and trading organizations at the end of the fiscal year. (Decree 17/2012/ND-CP, Art. 15 d)

1.2 Approval of annual business plan

Vote 'For' the approval of annual business plan if it is in line with the mid or long-term development strategy and is appropriately prepared

Rational to the vote:

The annual business plan of the company must be discussed and approved at the AGM (LOE, Art. 136.2). In principle, the State Representative votes for the annual business plan if it is prepared in line with the long-term development plan and includes all the factors defined by the charter of the company (LOE, Art.56, for Multi-member limited liability companies, and LOE, Art.136 for Joint Stock Companies).

Instruction to the State Representative:

Before voting on the plan, the State Representative shall at least consider the appropriateness of the proposed annual plan: whether the plan is made in line with the mid or long-term development strategy of the company, and includes an appropriate annual financial plan.

As guidance, the State Representative should ensure that the annual plan has been satisfactorily prepared by considering the following factors:

- (i) Whether the annual plan is prepared in line with the mid or long term development strategy of the company, taking into consideration the industry*



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situation, the performance of that company, and benchmark indicators or performance indicators of the company, if any.

- (ii) The State Representative should pay attention to big changes in the ratios or business activities compared to prior years, such as green-field investments or expansion to non-core business of the Company.*
- (iii) Whether the annual plan discusses important information input for discussions at shareholder level, such as market competition, the company's position, and a feasible implementation plan.*

1.3 Approval of the long-term development strategy

Vote 'For' if the contents of the long-term development strategy will contribute to increasing shareholder value. SCIC recommends that the BOD invites active and constructive discussions with major shareholders, including strategic shareholders, during preparations for the long-term development strategy.

Rational to the vote:

Long-term development strategy is the top issue to be voted in the AGM and one of the major issues that SCIC voted against during the recent years, although it has not always succeeded in persuading the management of the company.

Instruction to the State Representative:

SCIC's contact with portfolio companies is made via the State Representative. The State Representative shall pay attention to the preparation process of the long-term development strategy in the company and consider the following issues when making the decision whether to vote 'For' or 'Against' the strategy:

- Whether the discussion is about the core-business and core expertise of the management; this is to check cases wherein the companies may propose to shareholders to expand into risky greenfield areas or businesses that they don't have the expertise*
- Industry prospect and current market situation*
- Well forecasted long-term and annual financial plan*



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- *Availability of personnel resources, including participation of experienced directors or shareholders, to avoid cases wherein the company proposes an aggressive long-term strategy without recruiting qualified and skillful personnel in the management body*

To consider the issues mentioned above, the State Representative shall have prior discussions with the management in the BOD and/or BOD meeting as well as with major shareholders, including strategic shareholders, and try to acquire full understanding of SCIC's evaluation for the plan, thus inviting some revisions of the plan by the management when it is deemed necessary. This approach to implement constructive dialogues between the management and shareholders will contribute to elevating the feasibility of the plan and improving the business performance of the enterprise.

1.4 Approval of income allocation (including disposal of surplus and decision on dividend considering dividend ratio)

Generally vote 'For' for the approval of income allocation, unless the case is as follows:

- (i) if dividend ratio is going to be lowered without any reasonable explanation, although the own capital ratio is high enough, and there is no need to increase funds, or**
- (ii) when dividend ratio has been continuously low for more than 3 years without any reasonable justification, or**
- (iii) when management will increase the allocation to the management fees (remunerations and bonuses) and increase welfare fund but will not increase the shareholder value without any reasonable explanation, or**
- (iv) if the proposed allocation is deemed not to be compliant with the requirements of law.**

Generally vote 'For' most share dividend proposals if management demonstrates that the cash option is harmful to shareholder value.



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Rational to the vote:

Having too much cash or reserve in the enterprise shall be avoided. In such case, the excess surplus shall be distributed to the shareholders. Own capital ratio and dividend ratio will serve as the indicators to decide the appropriateness of the dividend policy of the enterprise. The details of the calculation formula of the ratio may be implemented by the company.

Instruction to the State Representative:

The State Representative shall monitor the decision-making by the management for realizing the appropriate income allocation policy. The State Representative shall lead them to increase the rate of return through efficient management of the resources mobilized by the company, paying due attention to the appropriateness of income allocation policy of the company. If the situation may be one of (i) to (iv) stated above, the State Representative shall vote against the proposed income allocation plan. The State Representative shall vote against the allocation of income if the Financial Statement itself shall not be approved.

For share dividend, vote shall be made on a 'case-by-case' basis, taking into account the following considerations:

- (i) Investment plan of the Company: in case the Company prefers to withhold cash available to finance its investment plan, the State Representatives will consider its financing options in general for the investment plan in order to decide whether to vote 'For' or 'Against' the proposal to pay dividend by shares instead of by cash to shareholders.*
- (ii) Cash position and the cost of operation of paying dividend by shares: If the company plans to pay dividend by shares, the State Representatives shall review the cash position of the company such as Cash Ratio (Cash and cash equivalents/Current Liabilities) and the cost that the company shall bear for paying dividend by shares.*
- (iii) Price and liquidity of its stocks: in technical aspects, share dividends will increase the number of outstanding shares and share price will be adjusted accordingly. As such, the State Representatives shall consider the impact of share dividends to the liquidity of its stocks. In this consideration, it is worthwhile for the State Representatives to evaluate the perception from the*



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market and other institutional shareholders with regard to the company's share price.

As for making interim dividend in cash, companies may pay (i) interim dividend or dividend advance based on the interim results for the first 6 months of the year, (LOE, Art.132, 2), or (ii) extra-dividends if the company exceptionally exceeds its earnings target.

The State Representatives shall consider following factors when voting 'For' the interim payment of dividends:

- (i) The interim dividend should be made based on the financial statements for the first 6 months which have been reviewed by an auditing firm.*
- (ii) It is anticipated that the company will make profit for the whole financial year and there are no extraordinary activities or events that could deteriorate the profit target of the company for the year.*

(Note) Details of the percentage and formula used for the calculation of the ratios mentioned above shall be decided by the company. However, SCIC will calculate on an annual basis the dividend ratio as 'paid dividend in cash / net income' and the owner capital ratio as 'owner's equity / total assets'.

1.5 Approval of investment

Vote 'For' if the amount of investment is considered appropriate compared with the capacity of the company and contents of the investment finance plan, and the supervision procedure of the plan are acceptable, and reasonable explanations are made by the management.

Vote 'Against' if the investment does not comply with the requirements of law, regulations, and the charter of the company.

Vote 'Against' if the investment plan will not increase the shareholder value.



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Rational to the vote:

Approval of new investment plan is one of the major issues often included in the agenda of the AGM and it is increasing in importance for the development of companies. According to the New Enterprise Law (LOE Art.135.2.d, and 149.2.h), the AGM “decides investment or sale of assets of which the values are equal to or higher than 35% of the total asset value written in the latest financial statement of the company, unless another rate is prescribed by the company’s charter”.

When evaluating the outcomes of the investment, SCIC shall consider the increase of shareholder value from a longer-term point of view. For this purpose SCIC will invite a constructive and forward-looking discussion on making the appropriate investment plan, and recommend that the management at least invite dominant shareholders to join the discussion in order to seek their advice during the preparation of the investment plan, especially if the size of investment is very large compared with the cash flow of the company.

Instruction to the State Representative:

Before voting on the plan, the State Representative shall at least consider the following factors:

- Appropriateness of the proposed business strategy and long-term development plan: whether they include new greenfield investments or projects that are not within the core expertise of the company*
- Expected return from the new investment, such as IRR and NPV*
- Whether the plan is made based on the reliable feasibility studies and financial plans prepared by a credible person/organization*
- Hurdle rate such as WACC for the project*
- Impact on capital structure, as excessive leverage from the borrowed fund for new projects may increase financial risks*

(Note) WACC:

To calculate WACC, multiply the cost of each capital component by its proportional weight and take the sum of the results. The method for calculating WACC can be expressed in the following formula:



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$$WACC = \frac{E}{V} * Re + \frac{D}{V} * Rd * (1 - Tc)$$

Where:

Re = cost of equity (expected return)

Rd = cost of debt (interest rate)

E = market value of the company's equity

D = market value (or book value) of the firm's debt

V = E + D = total market value of the firm's financing (equity and debt)(=company value)

E/V = percentage of financing that is equity

D/V = percentage of financing that is debt

Tc = corporate tax rate

The State Representative shall request an explanation about the investment plan in the BOD well in advance to the AGM, to understand whether the plan has been appropriately prepared, and the expected rate of return. In many companies in Vietnam the return on equity (ROE) is lower than the capital cost. In this case, the State Representatives shall discuss with the management how to increase the expected rate of return or reduce the necessary capital amount for the investment with the assistance of the Headquarter of SCIC.

The State Representative shall pay attention to the expected rate of return of the company and if it will not be higher than the capital cost or improved, or the annual net profit of the company will not be increased, such plan shall not be accepted in principle.

1.6 Approval of sales of assets, including approval of divestment of shares in other companies

Vote in principle 'Against' if the decision will not comply with the law, not increase shareholder value, or SCIC has already decided to divest from the company.



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Rational to the vote:

Sale of assets directly affects the value of the company's share in the market and thus, the shareholder value is also affected. The contents and purpose of the plan shall be evaluated well before the vote. If it is considered that the sale will decrease the shareholder value, it shall not be accepted.

The LOE (Art.135.2.d) states that the AGM shall “decide investment or sale of assets of which the values are equal to or higher than 35% of the total asset value written in the latest financial statement of the company, unless another rate is prescribed by the company's charter”. The cap of percentage of assets/shares to be sold should be decided in the charter of the company based on the articles of the LOE referred to above.

Instructions to the State Representative:

Before the vote, the State Representative shall review the following issues:

- *The negotiation process of the sales of assets, including whether it is made in compliance with the existing regulation and charter*
- *Valuation procedures of the asset to be sold*
- *Conflicts of interest, whether the sale is going to be made to related parties*
- *Impact on the balance sheet and the value of share*

Thus, the State Representative shall consider whether such sales might damage the competitiveness of its core business activities or hamper the growth momentum.

When SCIC has already entered into a share purchase agreement with other investor and the selling price is fixed, the State Representatives shall monitor the company to prevent such conduct that damage the value of the company and report to SCIC/HQ when necessary.

1.7 Ratification of the BOD report, report of the Supervisory Board, and performance report of each BOD member

Vote 'For' if the submitted reports are transparent and objective with enough information.

Vote “Against” if the financial statement has significant qualified opinion but



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the submitted report from Supervisory board does not have detailed evaluation and plan to monitor financial situation in order to reduce significant qualified opinions of auditors.

Rational to the vote:

The LOE (Art.136.2, c, d, and dd) states that the AGM shall discuss and ratify the following reports submitted to the AGM:

- a) Report of the BOD on business administration and performance of the Board of Directors and each member thereof;*
- b) Report of the Supervisory Board on the company's business outcome, performance of the Board, Director/General Director;*
- c) Self-assessment report of the Supervisory Board and of each Supervisor.*

Circular 121/2012/TT-BTC specifies the contents of the reports to be submitted to the AGM in case of public companies (Art.7 and 8).

Instructions to the State Representative:

If the contents of the reports are transparent and objectively prepared with enough information, the State Representative shall vote for the approval of the documents. However, as implementing regulations are not yet published, we shall wait for the detailed requirements to be published and the actions to be taken if the reports were not approved by the AGM.

1.8 Election and appointment of BOD member and Supervisory Board member

1.8.1 BOD member

The BOD shall be structured to have a practical separation of functions between the management and supervision, and shall be organized to allow supervision of the management to be implemented in an effective manner.

SCIC will recommend companies where it owns capital to include independent BOD members. In case there is no Supervisory Board, at least in listed companies, they must invite independent directors to constitute 20% of the Board members.



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If the situation falls into one or some of the cases mentioned below, vote 'Against' for electing the member(s):

- if the BOD member/candidate does not have enough experience or ability in managing a company, or
- if unfavorable social activities or lawsuits were reported to be related to the member/candidate, or
- if the independent member does not meet the criteria for independence*₁ provided by law, or
- if the person attended less than 75% of the BOD meetings without any reasonable explanation*₂, or
- if the number of BOD members is not considered appropriate compared with the size of the company, or
- if it is a plan to increase or decrease largely the number of BOD members without any reasonable explanation.

Vote on a case-by-case basis if BOD members//candidate are older than 80 years of age.

In making these recommendations, SCIC will not in general vote against the election of a CEO, managing director, executive chairman, or founder whose removal from the Board would be expected to have a material negative impact on shareholder value.

*(Note)

1) Criteria for Independence

SCIC will follow the requirements of the LOE (Art.151.2) and apply the following criteria to evaluate the independence of the BOD member or candidate for BOD member:

- (a) Not being a person currently working for the company or any subsidiary company of the company; or not being a person having worked for the company or any subsidiary company of the company for at least three preceding years;
- (b) Not being a person who is currently entitled to salary or remuneration from the company, except for allowances which members of the BOD are entitled to



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in accordance with regulations;

(c) Not being a person whose spouse, natural father, adoptive father, natural mother, adoptive mother, child, adopted child or sibling is a major shareholder of the company, or a manager of the company or its subsidiary company;

(d) Not being a person directly or indirectly** owning at least one per cent of the total voting shares in the company;

(e) Not being a person having been a member of the BOD or the Supervisory Board of such company for at least the preceding five years

(Foot note)** “Indirect” means the owners of the shares are the persons who are defined in (c) above or having shareholding via some related companies where the person has its dominant share.

2) Acceptable reasons for a BOD member’s absence are generally limited to the following:

- › Medical issues/illness;
- › Family emergencies;
- › The member has served on the board for less than a year; and
- › Missed only one meeting (when the total of all meetings is three or fewer).

Rational to the vote:

The BOD is the body managing the company and has full authority to make decisions in the name of the company and to exercise the rights and perform the obligations of the company which do not fall within the authority of the AGM (LOE, Art.149). The BOD also has the obligation to supervise and direct the director or general director and other managers in their work of conducting the day-to-day business of the company (LOE, Art.149.2.k, 152.2, Law 14/2003/QH11, Art.33). In principle, SCIC will recommend that the responsibility of managing the company and that of supervision shall be separate. The CEO of a company bears the responsibility of daily operations of the company, while the Chairman shall supervise the operational decision-making by the CEO. If this separation of the two functions is not implemented, it will be difficult for BOD to supervise the decision-making by the CEO from an objective point of view. International investors will recognize that such company where the separation of the two functions is not yet observed may have higher risk for making investment in the company, as the separation of the



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management and supervision is an internationally shared principle to mitigate the risk of failure of the corporate management.

In addition to this, the independence of the BOD member shall be respected to avoid conflicts of interest from occurring at least in the listed companies in HNX and HoSE. In case of Joint Stock Companies without a Supervisory Board, at least 20% of members of the BOD must be independent members and there shall be an Internal Auditing Committee affiliated to the BOD (LOE, Art.134).

As for the appropriate number of BOD members, the LOE requires it to be between 3 and 11 (Art.150). The appropriate size shall be considered within this limitation and taking the actual business size of the company or average size of the same section of industry into consideration.

In connection with the attendance rate of members in the BOD, all types of attendance, including proxy, online attendance, sending the votes, are allowed based on Article 153.9.c of the LOE.

Instruction to the State Representative:

The State Representative shall check the statutory criteria and independence criteria of the BOD members, referring to the information collected by the Headquarter of SCIC for confirmation when necessary.

The number of the BOD members shall be balanced with the size of the company. A large increase or decrease in the number of BOD members compared with the size of the company shall be rejected if any reasonable explanation is not made by the BOD.

As the charter of the company specifies the number of BOD members, the change of number of BOD members must follow the procedure for change of the charter and must be submitted to the AGM (LOE, Art.135.2),



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1.8.2 Supervisory Board member

Vote 'Against'

if a nominee fails to meet the criteria defined by LOE, Art. 164

Rational to the vote:

The LOE requires the following criteria for being a Supervisory Board member (Art.164):

- a) be legally competent and not be banned from business administration and enterprise establishment as prescribed by the LOE;*
- b) not be a spouse, birth parent, adoptive parent, birth child, adopted child, or sibling of any member of the Board, Director/General Director, or any other manager;*
- c) not hold managerial positions in the company;*
- d) satisfy other standards and conditions of relevant regulations of law and the company's charter;*

In addition, in case of Joint Stock Companies without a Supervisory Board, at least 20% of members of the BOD must be independent members and there shall be an Internal Auditing Committee affiliated to the BOD (LOE, Art.134.1.b). SCIC will recommend that the Supervisory Board have at least one professional auditor (LOE, Art.163.2). Also in case of listed joint-stock companies and companies of which over 50% of charter capital is held by the State, Supervisory Board members must be auditors or accountants (LOE, Art.164.2).

Instruction to the State Representative:

Before the appointment of the Supervisory Board members, it is necessary to check compliance with the criteria provided by the LOE, Article 164.

Before the vote, the State Representative shall collect information about the candidate and evaluate his/her conduct in the past.

The State Representative who is a Supervisory Board member shall pay due attention to the functional requirements as a member of the Supervisory Board and review other members' compliance with the functions.



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1.9 Discharge or removal of BOD member and Supervisory Board member

1.9.1 BOD member

Decide on a case-by-case basis but vote ‘For’ to discharge or remove the BOD member, if the BOD member is not contributing to increasing shareholder value for years, or if the BOD member has failed in managing a company or is under investigation for company mismanagement.

**Vote ‘For’ in principle to discharge or remove the member,
If the member of the investee company of SCIC, at least the listed company or large public company, has not been paying due attention to the requirements of the Corporate Governance Code (CGC) and not complying for years with the CGC requested by SCIC, or
if the member has not been complying for years with the disclosure of significant information required by law and regulations without any reasonable explanation.**

Rational to the vote:

To maintain the sound activity of the company with reasonable performance is the primary responsibility of the BOD members. The Supervisory Board shall monitor the soundness of activities by the BOD members and the CEO in compliance with the law and regulations and respecting shareholder value. If the performance of the BOD members is not acceptable, if the BOD members failed to manage the company effectively for several years, or if some of the BOD members are under investigation for other company mismanagement, they shall not be re-elected even as a BOD member. If the CEO was dismissed from the role as CEO but continues to stay as a member of the BOD, it shall not be accepted if the charter of the company does not allow the resigned CEO to keep the BOD member position.

Information disclosure to the shareholders is a crucial issue for shareholders to evaluate the company’s situation. SCIC shall recommend the company to comply with the information disclosure required by law and regulations. If the company has not been complying with the requirements on information according to the law and



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regulation without any reasonable explanation, SCIC may require the responsibility of the CEO or consider the discharge or removal of the responsible BOD and Supervisory Board member(s), if any, or the CEO. SCIC is now preparing the Corporate Governance Code. In this connection, if the member at least of the listed company or large public company of the investee company of SCIC has not been paying due attention to the requirements of the Corporate Governance Code (CGC) and not complying for years with the CGC requested by SCIC, SCIC shall vote 'For' in principle to discharge or remove the member. If it is obvious that the member will not be able to fulfill the attendance requirement, he/she shall not be appointed.*

(Note) "large company" here means the company whose charter capital is equal or more than 120 billion VND (the same criteria of the largeness applied by the Ho Chi Minh Stock exchange).*

Instruction to the State Representative:

The State Representative shall closely monitor the performance of the BOD members and their compliance with the law and regulations, including the CGC of SCIC, requesting and checking the contents of reports submitted to the BOD in timely manner. If the State Representative finds any misconduct by any of the BOD members, he/she shall report it immediately to SCIC/HQ and discuss the proposal to discharge or remove the member in the coming AGM or in the extraordinary general meeting to be held to discuss the issue.

1.9.2 Supervisory Board member

Vote 'For' to discharge or remove the supervisory board member if the member meets the cases prescribed by LOE Art.169

Rational to the Vote:

The LOE requires the following criteria for accepting the discharge or removal of a Supervisory Board member (Art. 169):

a) no longer satisfies the standards and conditions for the appointed (LOE. Art. 164);



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- b) fails to perform his/her rights and obligations for 6 consecutive months, except for force majeure events;*
- c) tenders a resignation which is accepted;*
- d) fails to fulfill his or her assigned duties or work;*
- e) commits a material breach or committing a number of breaches of the obligations of a Supervisory Board member as stipulated in the Law on Enterprises and the charter of the company;*
- f) Pursuant to a decision of the GMS.*
- g) other cases prescribed by the company's charter;*

Instruction to the State Representative:

Before the vote, the State Representative shall collect information about the Supervisory Board member and evaluate his/her conduct in the past and review whether the reason(s) of discharge or removal of the member complies with the conditions prescribed in Article 164 or b) or d) stated above.

1.10 Appointment of Auditors, auditing companies or branch of a foreign auditing company in Vietnam to audit financial statements

Vote 'Against'

- (i) if the Auditors, auditing firms, branches of foreign auditing firms in Vietnam are not qualified for independent audit according to the Law on Independent Auditing, or**
- (ii) when appointing Auditors who are involved in antisocial conduct in another company, or**
- (iii) if employing the same Auditor over 3 consecutive years (three times in succession)**

Rational to the vote:

The Securities Law defines that the listed companies and public companies must be audited by the approved auditing company (independent auditing company) (Art. 16. 3, 6. 15 and 101). The Law on Independent Auditors (Law 67/2011/QH12) and



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Decree 17/2012/ND-CP also request the annual financial statements of companies, such as companies with 20% or more of the voting rights held by state groups or corporations and companies with foreign invested capital, must be audited an authorized auditing companies (Art.37.1 and 2).The purpose of inclusion of independent Auditors is to have an evaluation of the account from a third party having objective stance with no related interest with the company, therefore, the independence criteria shall be respected when appointing Auditors, together with the appropriateness of the nominee as an auditor taking his/her conduct in the past into consideration.

The Law on Independent Auditors (Law 67/2011/QH12) provides the definition of independent auditors.

Selection of Auditors shall be proposed by SCIC or independent directors in case there is no Supervisory Board.

Instruction to the State Representative:

Before the appointment of the Auditor, it is necessary to check compliance with the independence criteria.

Before the vote, the State Representative shall collect information about the candidate as Auditors, auditing companies or branch of a foreign auditing company in Vietnam referring to the list of the Vietnam Association of Certified Public Accountants (VACPA), and evaluate his/her career and conduct in the past.

1.11 Approval of M&A plan or approval of transforming, restructuring, dividing or dissolving the company

Decide on a case-by-case basis but in principle vote 'For' if the plan is endorsed by the independent third party evaluation organization. Vote 'Against' if it is considered to produce negative influence on the profitability of the company.

Rational to the vote:

If the independent third party evaluation organization endorses the plan, it may be considered feasible and bring positive outcome to the company and the shareholder



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value. However, if the impact of applying such organizational reform is considered to be negative to the shareholder value, SCIC shall vote against the plan.

Instruction to the State Representative:

The State Representative shall review the neutrality of the third party evaluation organization and require detailed explanation of the evaluation of the plan given by such third party organization. If there are some ambiguities in the explanation, the State Representative shall raise questions and discuss with the management of the company to clarify the details of the plan and its expected outcome. If the State Representative is not sure for the possible outcomes of the proposed M&A, he/she should contact SCIC/HQ for consultation.

1.12 Ownership change

In case that the public company is going to request the AGM for approval of the increase of ownership of shares by the foreign investors, the vote shall be made as follows:

Vote 'For' if

- (i) the request complies with the articles stipulated by law and regulations including international agreements that Vietnam is the member, or**
- (ii) the company is doing business in the conditional business sector for foreign investors but no specific limits are stipulated by law and regulations, then foreign ownership in the company is maximum 49%, or**
- (iii) the company belongs to the unrestricted foreign ownership limit and the maximum percentage of the foreign ownership is within the limit stipulated by the charter of the company, or**
- (iv) the company operates in multi-business lines with different provisions on foreign ownership ratio, then the foreign ownership ratio shall not exceed the lowest level of the line (in which such company operates) with provisions on foreign ownership ratio, unless an international treaty contains some other provision, and**



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(v) if it will be the case of private offering, in addition to the conditions specified in item (i) to (iv) above, the conditions of the offering of the company share shall satisfy the conditions stipulated by law and regulations.

Rational to the vote:

The Government enacted the Decree 60/2015/ND-CP in 2015 which amended the Decree 58/2012/ND-CP and allowed several cases that the foreign ownership might be higher than 49% of the charter capital of the company. Thus if the company falls within one of the cases stated above (i)-(iv) (Decree 60/2015/ND-CP, Art. 2 a), SCIC shall vote 'For' when it is requested at the AGM to approve the increase of ownership of foreign investors. As the Decree also amended the article related to the private offering process, SCIC should also pay attention to the private offering process to secure the fairness and compliance of the process to the law and regulations (Decree 60/2015/ND-CP, Art.4).

Instruction to the State Representative:

The State Representative shall review the Decree 58/2012/ND-CP and its amendment Decree 60/2015/ND-CP, and whether the company is requested to follow other international treaties that Vietnam is the member which specifies the percentage of foreign ownership. If the requested case is the case stated above ((i), (ii), (iii) and (iv)) the representative may vote 'For'.

The State representative shall also monitor the private offering process to secure the fairness of the offering, especially if it is the case of private offering (Art.4, Decree 58/2012/ND-CP and Decree 60/2015/ND-CP).

If the representative could not judge for some reason that the case would comply with the stipulations mentioned above ((i) to (v)), the representative shall consult with SCIC/HO.

1.13 Other shareholders' proposals

Other shareholders' proposal shall be decided on a case-by-case basis:

Vote 'For' if the proposal is considered to contribute to enhancing the



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shareholder value and corporate governance of the company with reasonable cost,

Vote 'For' in principle if the proposal is to enhance the protection of shareholders, including strategic shareholders.

Rational to the vote:

A variety of issues might be raised in the shareholder proposal. If such proposal is a constructive one and will be implemented with reasonable cost, SCIC will support such proposal. In case it will produce any negative impact on the company, including a huge cost which will be neither covered nor justify the expected return for the implementation, the proposal shall be declined.

Instruction to the State Representative:

The State Representative shall review the contents of the proposal and discuss its acceptability and feasibility among shareholders prior to the AGM. If the representative is not sure whether the expected outcome is positive or not, he/she shall vote against the proposal. As for the cost of implementation of the proposal, if the estimated cost is far larger than the calculated cash flow, such implementation shall be reconsidered. The indicative criteria shall be defined by the internal regulation of SCIC.

The LOE allows only a shareholder or a group of shareholders holding at least 10% of total shares of the company within 6 months consecutively (or smaller percentage if allowed by the Company Charter) to make a proposal in the AGM. The proposal will be sent by document at least 3 working days before the AGM, according to Article 138.2 of the LOE.

2 Remuneration

2.1 Approval of remuneration and remuneration cap for BOD members and Supervisory Board members



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Vote 'Against' if the remuneration plan (cap) includes BOD members and Supervisory Board members who are responsible for any of the following situation:

- obvious business failure of the company, for example business performance, capital efficiency, or share price of the company have been depressed for years, share price is declining sharply, or business performance has apparently worsen,
- conducted acts against shareholder value, or
- the company committed antisocial conduct

Vote 'Against' when the payment of remuneration and bonus based on the performance for the year will be implemented before the termination of the accounting for the year.

Rational to the vote:

It is the responsibility of the management of the company to elevate the value of the company by generating profit and increasing the shareholder value. The AGM decides the total remuneration of the Board. However, if the performance of the company has been negative for several years, or if the management acts against the shareholders' benefit, any remuneration and bonus plan based on the performance of BOD members shall not be approved.

The remuneration, including bonus, and allocation of dividend shall be paid based on the result of the annual account and mid-term performance and after the approval of the accounting result. The payment of remuneration and bonus for BOD members and Supervisory Board members based on the performance of the company shall not be implemented before the termination and approval of the annual account for the year.

Instruction to the State Representative:

There are cases where the State Representatives are selected from the BOD members of the company who have their own shares at the company. This is often the reason why bonus plans are approved although SCIC voted against such proposal. The State Representative shall pay attention to the discussion of



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performance-based remuneration plan related to the BOD members and whether there are any of the cases mentioned above involving such BOD members.

2.2 Equity compensation plan

Vote in principle 'For' to allowing stock options, except for cases wherein

(i) such proposal includes giving stock options to independent directors or auditors or persons who have no involvement with the improvement of the business performance of the company, or

(ii) the option is exercised by lower price than the market price, or book value except for cases that law or regulation permit, or

(iii) total amount of the proposed stock option will lead to the dilution of existing shares more than the level specified by SCIC

Rational to the vote:

Equity compensation such as stock option is often introduced as a reward for the improvement of business performance of the company.

The equity compensation plan may increase active management of the company and increase shareholder value as the result of efficient management in the future. However, as it may often cause the dilution of existing stocks as the immediate outcome of the decision of such plan, the impact on the existing share price shall be calculated together with the appropriate level of the exercise price.

SCIC shall calculate the expected level of dilution of existing shares and set the limit of acceptable percentage of dilution.

SCIC recommends that if the total amount of issued shares under the proposed stock option to employees within 12 months will exceed 5% of the number of currently circulating shares of the company, such equity compensation plan shall not be approved (Circular 162/2015/TT-BTC applicable to public companies, Art.35)

Instruction to the State Representative:

The State Representative shall pay attention to the pricing of shares of the company (in case of companies listed in the stock exchange, unlisted public companies (UPCoM) or over-the-counter (OTC) market) and the contents of the compensation



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plan. As for the possibility of dilution, the State Representatives shall report in a timely manner to, and closely communicate with, the Headquarter of SCIC to evaluate the impact of the equity compensation plan.

2.3 Setting or revising the maximum dilution level for the Employee Stock Ownership Plan (ESOP)

Vote 'Against' the creation or expansion of the Employee Stock Ownership Plan (ESOP) if:

- (i) the total amount will exceed a percentage of paid-up capital of the company specified by SCIC, or**
- (ii) the criteria of the allocation scheme or the calculation formula is not disclosed, or**
- (iii) the company has insufficient capital sources for implementation on the basis of audited financial statements for the most recent period from the following sources: (a) surplus capital, (b) investment and development fund, (c) undistributed after-tax profit, and (d) other funds (if any) used to supplement the charter capital in accordance with law**

Vote 'For' if

- (iv) the issue plan fulfils the requirements of regulations, and***
- (v) no accumulated loss is recorded in the latest financial statements of the company, and***
- (vi) the issue plan is approved by SCIC***

Rational to the vote and Instruction to the State Representative:

ESOP is a share issuance plan to employees as a grant without any purchase price consideration, or as an option to purchase the share of the company at a price to be determined, and linked to the performance of the employees as an incentive scheme. But ESOP will produce a dilution of existing shareholder's value especially when it is implemented with lower price than the market price of the share. Thus the law allows ESOP to be admitted only when the company could ensure that sufficient



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financial resources based on the most recent audited financial statement of the company (Circular 162/2015/TT-BTC, Art.35).

The company should set a vesting period for exercising ESOP and ensure that these benefits shall be removed from employees who resigned from the company. The staggered period shall be decided by the company. By law, in case of public companies, the issued shares under the proposed stock option to employees within 12 months shall be in maximum 5% of the number of currently circulating shares of the company (Circular 162/2015/TT-BTC, Art.35). SCIC shall specify the maximum percentage stated in (i) company by company, taking into consideration the company's type or legal status, but it shall be lower than 5%. In Vietnam it is often the case that ESOP issuance is vested in maximum within 3 months after approval by the State Security Commission, but there are companies that require a staggered period of over 3 years. The latter case is in line with international practice. SCIC shall recommend that companies follow the international practice to contribute to maintaining the shareholder value.

3 Article amendments

3.1 Amendment of statute (Charter), including expansion of business activities

Decisions shall be made on a case-by-case basis but:

Vote 'For' if the amendments include a clause that will enhance and modernize the corporate governance of the company, including the appointment of independent BOD members.

Vote 'For' if the amendments will protect the rights of shareholders and will contribute to the increase of shareholder value.

Vote 'For' if the amendments include a clause that provides rights for a strategic shareholders such as preferred price, controlling ownership percentage, or veto rights, which are considered as fair compensation for the obligations imposed on, or the commitment made by them, except for the case that might affect SCIC's interest or restrain SCIC from the divestment.



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Vote 'Against' if the amendments are related to the continuous low business performance of the company or aim to let the company enter into a risky business that is not related with the core business of the company.

Vote 'Against' if the amendments include a clause that will increase the remunerations of BOD members but not include any increase of shareholder value.

Vote 'Against' if the amendments include issues that do not comply with law and regulations.

Rational to the vote:

An amendment of the charter or the expansion of business activities might hamper the quick and sound decision-making by the companies, reduce the optimal allocation of resources of the companies if the amendments are deemed not to contribute to improving current performance of the company, or lower the growth potential of the company, and in such cases, the amendment shall be declined.

Instruction to the State Representative:

The State Representative shall discuss in detail the proposed amendment of charter or the plan, including expansion of its business area to non-core sectors, question the purpose and expected outcomes prior to the AGM, and evaluate the appropriateness of such proposition. In case the company shall include a clause that will provide its strategic partners rights which will not violate the principle of equal treatment of all shareholders, SCIC will support such amendment if it is made to improve the business performance of the companies.

If it seems to be a case that might affect SCIC's interest or restrain SCIC from the divestment, the State Representative shall report the case to SCIC/HQ for consultation before making the vote.

As for the evaluation of the increase of shareholder value, the State Representative shall consult with SCIC/HQ.



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3.2 Reduction of BOD members' term in office

The term of BOD members shall not exceed 5 years and they may be reappointed for an unlimited number of terms.

The shortening of the term of a BOD member shall be decided taking the impact on the shareholder value into consideration.

Rational to the vote:

The term of BOD members shall be in compliance with regulations unless otherwise defined by the company charter (LOE, Art.150.2).

However, if he/she is an independent BOD member and engaged in the same company for long-term (5 years and longer), he/she shall no longer be considered an independent director. On the contrary, if the assignment period as an independent director is short, the director may not have had enough time and opportunity to fulfill his/her expected role in the company.

Instruction to the State Representative:

The State Representative shall vote appropriately without prior instruction of SCIC/HQ based on the provisions of the LOE (Art.150) but considering the requirements stipulated in Article 151.

3.3 Board structure and decrease in the maximum board size

Vote on a case-by-case basis deciding on the appropriateness of the amendments about the Board structure, including the addition of more conditions to discharge or remove a BOD member or there is a significant change in the number of BOD members.

Rational to the vote:

Having too many BOD members is a waste of resources and often hampers smooth and efficient decision-making. A company shall seek the optimal size of BOD members taking the size of the company into consideration.

According to the LOE, in case of a Joint Stock Company, the Board shall consist of 3 to 11 members (Art.150.1). In addition to this, the company may have 3 to 5



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controllers (Art.163.1). Within these allowances, SCIC will lead the BOD to rationalize the number of members taking cost efficiency into consideration.

Instruction to the State Representative:

In case of the change in the BOD structure and decrease in the maximum BOD size, the State Representative shall collect detailed information prior to the AGM and consult with SCIC/HQ on how to vote, and whether to vote for or against shall be on a case-by- case basis.

3.4 Disclosure of information

Vote 'For', if the BOD proposed to the AGM an amendment of charter that includes a clause to develop the contents of annual report, financial statement, etc., which will level up the disclosure of activities of the company and contribute to enhancing dialogue with shareholders.

Rational to the vote:

Disclosure is a key in developing the transparency of the companies and is a prerequisite condition for establishing a constructive dialogue between the management and the shareholders. SCIC shall be the leading agency to introduce the constructive dialogue between the management of the company and the shareholders for the improvement of the business performance of the company. In this connection, SCIC will support any proposal to level up the contents and methodology of information disclosure presented by the management or other shareholders, if any.

Instruction to the State Representative:

The State Representative shall continuously pay attention to the contents and methodology of disclosure of the company, discuss with SCIC/HQ about the disclosure practices by other companies in the portfolio of SCIC, and exchange opinions with other shareholders of the company about the supply of information to external investors.



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4 Share Issuance Request

4.1 Increase of the charter capital

Decide on a case-by-case basis when voting on the increase of the charter capital with reasonable explanations.

Vote 'Against' the increase of charter capital if it is obvious that such issuance will damage the shareholder value.

Vote 'Against' if the case is as follows, without any reasonable explanation:

- (i) when the dilution of the shares is large and damages the shareholder value, or**
- (ii) when the order of SCIC among shareholders will be changed as the result of the share issuance and SCIC will be placed into a more disadvantageous position than before as a result of the issuance.**

Vote on a case-by-case basis but in principle vote 'Against':

- (i) when the purpose of the increase is proposed as an anti-takeover defense measure, or**
- (ii) when a company that is listed by SCIC as a company to be divested in a year requests share issuance, or**
- (iii) when the implementation time of issuance of share is not specified.**

Rational to the vote:

Issuance of new shares directly gives influence on the price of the existing shares in the market. Issuance amount shall be controlled and limited so as not to have much negative impact on the value of shares held by the shareholders. Thus, it is required to set a certain limit for the issuance of new shares together with the purpose of issuing new shares.

Share issuance includes the case of share offering for strategic shareholders, share offering for existing shareholders, and issuing additional shares for stock swap at M&A.



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SCIC shall calculate the expected level of limit of share issuance for the purpose of avoiding the dilution of the value of shares and protecting the rights of SCIC as a shareholder. The level of dilution shall be decided by the internal regulations of SCIC.

Instruction to the State Representative:

In the cases stated above, the issuance of new shares may damage existing shareholder value. In such cases the State Representative shall vote against it. If the impact seems unclear, the State Representative shall consult with SCIC/HQ and request for its voting instruction before the vote.

4.2 Approval to authorize the Board to issue or repurchase shares or grant a general mandate to the BOD to issue shares

In principle vote 'Against' the proposition to entrust such decisions to the BOD.

Rational to the vote:

The LOE (Article.135) provides that the AGM shall decide the repurchase of more than 10% of total number of shares of each class of the company already sold. In case of a public company, it is necessary to ask for the approval of the AGM for redeeming its own shares to use as treasury shares of more than 10% but not more than 30% of the total number of issued ordinary shares, or to ask for the approval of the BOD for redeeming 10% or less of the total number of issued ordinary shares in each 12-month period (Decree 58, Art.37, and LOE, Art.130). Referring to this regulation, SCIC shall in principle not grant a general mandate to the BOD.

Instruction to the State Representative:

The State Representatives shall monitor discussions in the BOD and try to understand the objective of such decisions together with its appropriateness. If the State Representatives evaluate that the impact might be negative for SCIC (Ref. 4. (ii) Above), he/she shall consult with SCIC/HQ.



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4.3 Approval to repurchase shares

Vote 'For' in principle, if the repurchase of shares of the company complies with the requirements of the law and regulations and will increase shareholder value of the company and comply with law and the charter of the company.

Rational to the vote:

LOE (Art.130), Decree 58/2012/ND-CP (Art.37) and Decree 60/2015/ND-CP (Art.11) define the requirements for repurchase shares by public companies.

As the result of repurchase of existing shares, it is expected that the value of remaining shares will increase. Thus, it may be considered as a favorable operation to shareholders. However, repurchase of shares is an easy way to increase nominal return on equity (ROE). If the increase of ROE is not the result of increase of profit as the result of strengthened competitiveness of its core business, it will not help strengthen the real profitability of the company. As the repurchase of shares will also decrease the cash at hand of the company and may cause negative impact on the valuation of the shares in the market, such operation shall not be admitted.

Instruction to the State Representative:

The State Representative shall check whether the proposed plan to repurchase shares complies with the regulations, then evaluate whether the repurchase of shares will produce negative impact on the evaluation of the share in the market and decide whether to vote for or against it.

In addition to the case mentioned above, there are also cases wherein the company redeems shares upon demand by the shareholder who votes against a resolution on re-organization of the company or against a change to the rights and obligations of shareholders stipulated in the charter of the company according to the LOE, Article 129.



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4.4 Creation or modification of preferred shares

Vote 'Against' the request to create or modify shares of different classes without any reasonable explanation about the purpose of the creation or modification

Rational to the vote:

In addition to ordinary shares, the LOE (Art.113) provides for the following types of shares: (a) Voting preference shares; (b) Shares with preferred dividends; (c) Redeemable preferred shares; and (d) Other preferred shares defined by the company's charter. However, holding the voting preference shares is limited only to organizations authorized by the government and founding shareholders. The persons entitled to buy shares with preferred dividends, redeemable preferred shares, and other preferred shares shall be prescribed by the company's charter or the AGM. Shares with preferred dividends allow shareholders the priority order to receive dividends in return to the absence of the right to vote (LOE, Art.117.3). However, as the result of the creation or modification of shares to be issued, the percentage of ordinary share's voting right may be lowered or modified. Therefore, the creation or modification of shares of different classes shall be decided with clear objectives. If such objectives will not favor the existing shareholders, it shall not be approved.

Instruction to the State Representative:

The State Representative shall require an explanation from the BOD about the purpose of the creation or modification of shares of different classes and evaluate the effect that it will cause to the existing shareholder value. If the State Representative does not receive a reasonable explanation from the management, he/she shall vote against the plan.

5 Miscellaneous items related to the AGM (related to the items considered to be AGM approval matters by the Charter of the company)

5.1 Vote 'Against' if the item does not satisfy the requirements in the Charter, Law



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on Enterprise and other regulations.

Instruction to the State Representative:

The State Representative shall convince the company not to include anything that does not meet the legal requirements in the AGM items.

5.2 Approval of establishing branches & representative offices, SCIC shall decide on a case-by-case basis

Rational and Instructions to the State Representative:

Refer to 1.4

It is provided that the decision to establish branches and representative offices is made by the Member's Council (in case of an LLC) (LOE Art.56.2.i) or the BOD (Art.149.2.I). However, if the size of related investments is considered too large compared to the financial or business capability of the company, it may be brought as an item for approval to the AGM.

(End)



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Appendix:

Case study: some special cases related to the application of VG

Case 1: Voting procedure at Annual General Meeting (item 1.13 etc.)

[Case] The BOD of a public company planned to propose AGM amendments of the company's charter related to the voting rule to lower the minimum attendance ratio to 51% of the total voting shares, which has been 65% so far, and lower the majority vote for resolution at the AGM to 51% of the total number of voting slips of all attending shareholders, which was also 65% or 75% except for some special cases defined in LOE Art.144.

As the proposed rules were not consistent with LOE, Circular 121/2012/TT-BTC, the SSC's guideline on the organization of AGM 2016 (Official Letter No. 1183/UBCK- LCB dated 15 March 2016 and Official Letter No.2463/UBCK-QLCB dated 11 May 2016), SCIC decided to propose the BOD not to include the amendment in the agenda of the AGM 2016, However, as SCIC owned only minority share of 7.1% and could not veto the proposal, AGM approved the amendments of the charter proposed by the company's BOD.

[Possible alternative actions for State Representative]

- 1) Contact with other shareholders to veto the proposal together with SCIC.
- 2) Or divest the share of the company as soon as possible, using the procedure defined by the Decree 151/2013/ND-CP, Art 14.



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Case 2: Approval of Financial Statement with Qualified Audit Opinions (item 1.1)

[Case] Company A presented a financial statement (FS) with qualified audit opinion for approval of AGM. SCIS reviewed the opinion and voted “Against” the approval, but AGM approved it. SCIC has only a minority share of the company and could not get the majority support for denying the financial statement.

[Actions]

- At the AGM SCIC vote against the approval of the FS and related documents even it might not be obtain majority support. But if this issue was discussed in the BOD before the AGM, State representative should pointed out the inappropriateness of approving such FS in BOD.

State representatives should refer to the audit opinion, and if necessary calculate Key Risk Indicators (KRI) defined by SCIC/HQ to evaluate the appropriateness of the FS or performance of the company during the year, or consult with SCIC/HQ for such calculation. Based on the result of the calculation, the representative shall invite understanding of other shareholders about the inappropriateness of approving such documents.

- In fact there are such cases that although SCIC proposed not to approve the qualified FS in 2015, but could not have the majority’s support. Considering such a case might be happened, SCIC proposed at the same time to amend the charter of the company including the lowering of necessary majority vote (from 65% to 51%). This proposal was in line with the government recent amendment of the regulations by the government. Thus the second proposal was approved in AGM. SCIC also proposed to adjust three year FS including 2015. As the result of the approval of the amendment of the charter related to the percentage of shares to approve the vote, SCIC succeeded to reject the qualified FS for 2015. But if SCIC has only a minority share this strategy might not work. To seek out solutions under such unfavorable circumstances, SCIC shall explain and persuade other shareholders. To improve such circumstances SCIC could take following options:

- (i) inform the case to the Tax Department for investigation,
- (ii) include the case in its monthly report to state representatives, stating how many cases and what kind of issues that SCIC’s votes were not accepted during the year,
- (iii) include such information in SCIC’s annual report to raising public awareness, especially that of foreign investors.

Thus SCIC may contribute to and gradually improving the Corporate Governance of Vietnamese company.



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Case 3: Approval to repurchase shares (item 4.3)

[Case] An unlisted company B in the divesture list of SCIC plans to repurchase shares from employees using the retained profits or investment & development fund, SCIC should recommend the cash dividend or share dividend instead of repurchase shares from employees, as there's no basis to calculate the increase of share price on the market in case of share repurchase.

[Recommended actions]

- If it is a public company, vote “For” if the repurchase is going to be made in comply with the requirements stated in Section 2, Chapter III of Decree 58/2012/ND-CP and Art.11 and 12 of Decree 60/2015/ND-CP.

Generally the company will use undistributed earnings or development fund to finance the repurchase, State Representative should evaluate the outcomes of the repurchase operation whether it would increase the shareholders value or not. If the repurchase will be considered to affect the shareholder value negatively, State Representative had better to recommend the company to pay dividend by cash to the employees.

- Even if it is an unlisted company, it is possible to calculate the theoretical value of a share (or liquidation value of the company per share). SCIC should calculate the theoretical value per share of the company and judge whether the repurchase operation will lower the SCIC's book value of the company share.

Generally speaking, what is important for SCIC is to increase the company's value (and the shareholders value) as much as possible. So even if the company is included in the divesture list of SCIC, SCIC had better cooperate with the management to find out the opportunity of business matching or M&A with other companies to value up the company before divesting the company.



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Case 4: Actual example of M&A

[Case] Company C with core business in plastic packaging in Hanoi area proposed to acquire a company D operating in the same industry but with main market in HCMC. As preparation for the AGM, the Company C's management already prepared an analysis of the target company and included in a proposal report to shareholders with the rationale for the acquisition. SCIC is a minority shareholder in Company C.

[Recommended Actions]

- Since SCIC is a minority shareholder and has no “veto right” in the vote. But as M&A is an important decision making issue, the state representative shall consider the following issues and judge to vote for or against for the approval of this M&A transaction:

[1] Normally in M&A transactions, management of Company C must explain how it is well fit into the development strategy that shareholders have approved in prior BOD meetings. It might be the case that the company is pursuing a business growth by M&A and intending to pursue a new growth opportunity different from its current business activities. If it was the case, State representative should review and appraise the plan carefully whether it is feasible for Company C's business including legal compliance since this is a new area for the Company D.

[2] As part of the procedure, State representative should ask for detailed analysis of the transaction of the M&A plan, including:

- Legal considerations including anti-competition rules when the consolidated Company C will gain a significant market share as the result of the planned M&A.
- Synergies effects to the Company C expected to be produced from the M&A including projection of value increase (revenue and net earnings) during the projected period
- Source of funding for the M&A. SCIC should calculate the rate of return in details in case if the Company C proposed to use borrowings such as from banks to finance the transaction
- Post M&A integration plan including the corporate value creation and cultural integration to convert the target company into the Company C.

[3] Before the final approval of AGM it is idealistic for SCIC to advise Company C to engage professional service providers in the following aspects if such consultation was not yet implemented. But as following procedures are costly it will be feasible only for a large company. With small size companies SCIC may be



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required to conduct some of the following procedure by itself in this connection it is necessary for SCIC to develop its own capacity for industrial sector analysis. :

- Financial due diligence, preferably by some of the experienced accounting firms
- Tax due diligence, also preferably by some of the experienced firms
- Market or industry due diligence, preferably by a well-known research firm to ensure that the projection of market share and forecasted growth and values from M&A are feasible.
- Legal due diligence by a reputable lawyer firm to ensure the legal risks are identified and mitigated by the Company C
- Lastly, the most important is to make sure that the Company C has been applied an independent valuation process for the case, and explained shareholders with sufficient documents including the calculation of the expected profit of the deal. If the total cost of the M&A is smaller than the calculated value, vote "For".



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Case 5: Proposal to pay bonus to directors and/or dividend to shareholders without having sufficient resources (item 1.4)

[Case]

- 1) Pay bonus to directors:
 - If the company has not sufficient resources, it should not pay any bonus to directors.
- 2) Pay dividend to shareholders:
 - Vote case by case. In principle the impact is neutral for shareholders because (i) shareholders receive cash as the dividend, but instead (ii) the market price of shares decrease at the same time because of the outflow of cash (decrease of the asset) from the company. So SCIC shall evaluate the impact of the payment of cash dividend and the degree of decrease of the company's share price in the market.

[Actions]

- In general, whether the company has sufficient resources or not shall be judged as follows (Refer to the Law No. 68/2014/QH13 Art.132 and Circular No. 162/2015/TT-BTC Art.35):
 - Undistributed net profit in the most recent financial statements ,
 - No accumulated loss and capital surplus is recorded in the Balance Sheet of the company,
 - Outstanding amount of reserves and funds (investment and development fund and other funds), booked in the balance sheet,
 - If aggregated amount of above items are more than the dividend amount to be paid to the shareholders, it is considered that the company has sufficient resources for paying bonus to directors.
- If State representative of the company is not sure whether the company has sufficient resources or not, he (she) shall consult with SCIC/HQ.



State Capital Investment Corporation
VOTING GUIDELINES

Case 6: Equity Compensation Plan (item 2.2)

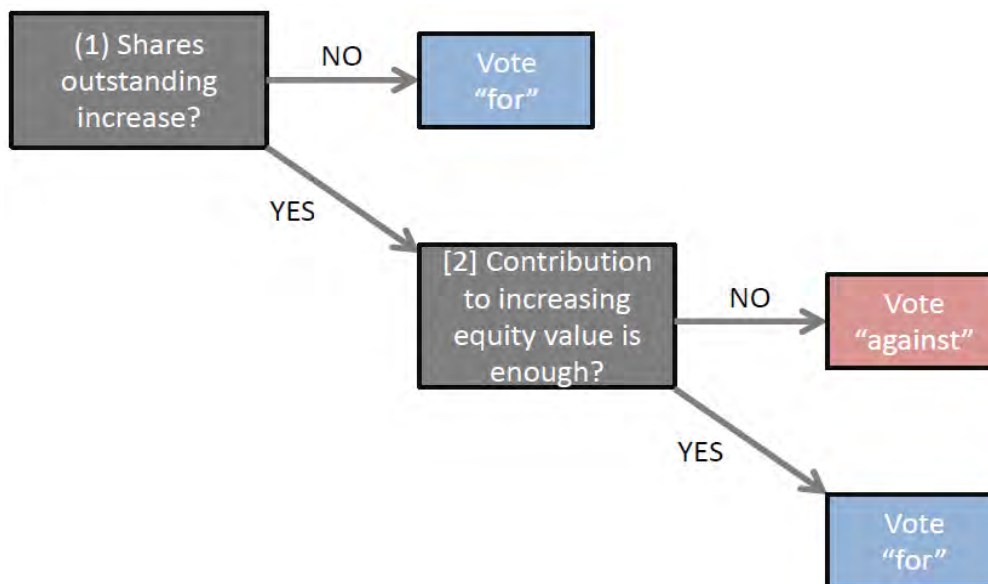
[Case] Company E proposed to implement an equity compensation plan based on the profit of the previous year (such as stock option to directors) although the company still has an accumulated loss.

[Action] As long as the company E has accumulated loss, no equity compensation plan shall be accepted. Because when a company has an accumulated loss, the stakeholders of the company (such as buyers, commercial banks, etc.) consider that the company's business performance has been in negative situation. In particular, the banks may be reluctant to extend further credit to the company.

State Capital Investment Corporation
VOTING GUIDELINES

[For reference]

Conceptual clarification for judging the possible dilution of shareholder value



- [1] Shareholders generally welcome the reduction of the number of stocks (ex. stock buy-back).
- [2] Shareholders should pay due attention to any operation that might cause dilution to their own portion of stake and evaluate carefully the outcomes that will be produced by the operation. The purpose of new issuance of shares is to contribute to increase the shareholder value per share (Earning per Share).
- [3] State representatives shall consider whether the proposed plan will increase shareholder value and the dilution of the value per share is smaller than the increase of the value.
- [4] In practice, state representatives shall vote “case by case” basis by asking advice from SCIC/HQ to evaluate the outcomes of the plan.
- [5] In case of M&A, the objective of the issuance of new shares and its terms and conditions shall be strictly examined to evaluate its outcomes before voting.

Generally Vote “For”	<ul style="list-style-type: none"> ● Stock buy-back ● Increasing dividend
on a case-by-case basis	<ul style="list-style-type: none"> ● M&A ● New share issue for asset purchase (ex. for new investment)
Vote “Against”	<ul style="list-style-type: none"> ● New issuance without reasonable explanation of the purpose ● Creation or expansion of new equity compensation plan within a limited time (ex. stock option)

(End of the Appendix)

**Material for Reference
for applying the Voting Guidelines 2016**

A. Preface: Core concept of the Voting Guidelines (VG) of SCIC

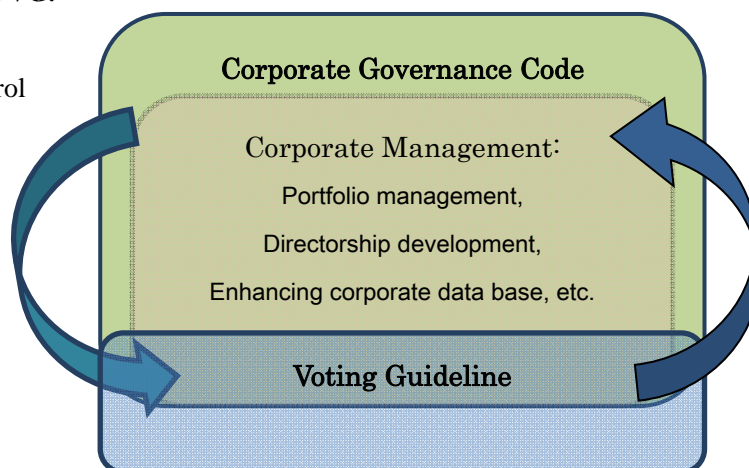
(1) Objectives of publishing VG

- (i) VG shall be applied to investee companies by SCIC to assist them in improving
 - (a) their corporate value and
 - (b) shareholder value, with medium and long-term perspective
- (ii) SCIC aims to improve the transparency of decision-making within enterprises by
 - (a) clarifying the relationship between the management and the shareholders and
 - (b) establishing the efficient constructive dialogues between the investee companies and SCIC.
- (iii) By referring VG, SCIC's representatives will
 - (a) enhance their capacity in studying enterprise's documents for voting decision making in accordance with SCIC's benefit based on the principle of securing and increasing capital efficiency of investee companies, or
 - (b) report and ask instructions from SCIC/HQ about matters that shall be consulted with SCIC

[Relationship with the Corporate Governance Code]

(i) Co-function of CGC and VG:

Structure and process for the managerial direction and control of a company



For Reference & Introductory Purpose of the Voting Guidelines

(ii) Purposes and expected outcomes of applying VG:

- 1) Increase operational efficiency: competitiveness & profitability
- 2) Ensure the inflow of external capital: access to capital
- 3) Long-term wealth: grow & expand business frontier
- 4) Enhance social status: better reputation

(iii) Governance scheme of a company:



Source: IFC, March 2004

(iv) Target people for the use of CGC/VG:

- 1) Executives and shareholders
- 2) Government officials, lawyers, judges
- 3) Investors
- 4) Educational institutions

(v) Key requirements of VG:

- 1) Transparency
- 2) Accountability
- 3) Constructive dialogue among stakeholders

(2) Use of VG

- (i) VG is a reference document that the State Representatives shall mandatory refer to, in addition to SCIC's regulations for representatives.

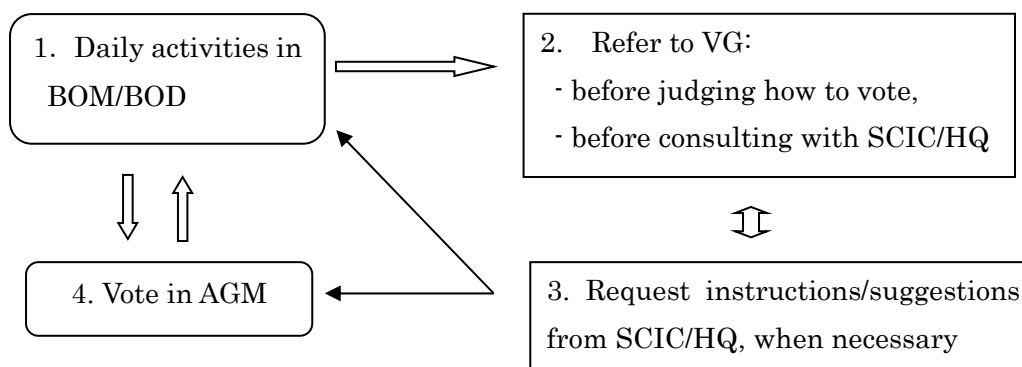
State Representatives shall refer to matters specified in these guidelines as part of procedures that State Representatives have to follow before and during the AGM: State Representatives shall refer VG before requesting SCIC's opinion and vote not requesting SCIC's prior opinion in case of issues that are clearly given instructions

For Reference & Introductory Purpose of the Voting Guidelines

how to vote in VG.

- (ii) For other issues not specified in VG and regulations for representatives, State Representatives must request SCIC's opinion in due course before voting.

Image of the working procedure in line with VG:



(3) Orientation for operation of VG

- (i) SCIC considers VG as a meaningful tool to enhance representative capacity and strengthen SCIC's operation efficiency through SCIC's state representatives at enterprises.
- (ii) VG shall be revised yearly by SCIC/HQ taking into consideration the economic situation, corporate governance practices of Vietnamese enterprises, and feedbacks from the State Representatives during the guidelines' application.
- In this connection, State Representatives shall feedback SCIC/HQ issues that were considered to be reflected in VG or necessary to have special consideration of SCIC each time when they noticed such issues.
- (iii) SCIC/HQ will review the application of VG annually and announce the actual results of VG application including issues that the investee companies did not accept SCIC's voting policy (or instructions given to the State Representatives).

(4) Laws and regulations to be referred to in applying VG

- Law No.14/2003/QH11 (Law on SE)
- Law No.67/2011/QH12 (Law on Independent Audit)
- Law No.68/2014/QH13 (Law on Enterprises)
- Law No.69/2014/QH13
- Law No.70/2006/QH11 (Securities Law)

For Reference & Introductory Purpose of the Voting Guidelines

- Decree No. 60/2015/ND-CP
- Decree No.61/2013/ND-CP (supervision & disclosure of SOE)
- Decree No.81/2015/ND-CP
- Decree No.87/2015/ND-CP
- Decree No.91/2015/ND-CP
- Circular No.52/2012/TT-BTC (guiding disclosure)
- Circular No.121/2012/TT-BTC
- Circular No.155/2015/TT-BTC
- Circular No.162/2015/TT-BTC
- Circular No.200/2015/TT-BTC
- Circular No.219/2015/TT-BTC

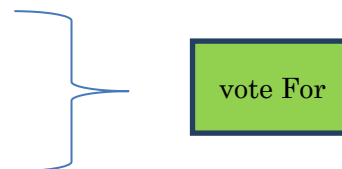
B. Check points and work flow

1.1 Approval of the Financial Statements and related documents

If

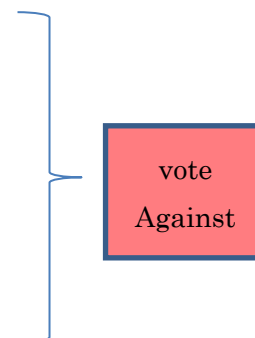
1. Auditor approves with

- 1) unqualified opinion or clean opinion
- 2) emphasis of matters or insignificant qualified opinion, in principle



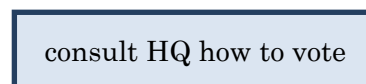
but auditor chooses

- 3) non-expression of opinion or some reserved opinion (significant qualified opinion, disclaimer of opinion, and adverse opinion), or
- 4) contents unclear, or
- 5) *SCIC considers that the issues raised by the auditors will not comply with the law on accounting standard or negatively influence the shareholder value*



If

2. No audit opinion added



(Work steps)

- 1) *Check the auditor's opinion attached to the financial statement (Ref. KRI Chapter 4-II), including whether the opinion is comply with the law on accounting standard*
- 2) *Review related documents, agenda and discussion minute of BOD meetings, for verification/confirmation the points raised by the auditor*
- 3) *Decide the vote taking the internal evaluation of the influence to the shareholder value by SCIC, if any, into consideration, and report to the SCIC/HQ*

(Law & regulations to be referred)

Compulsory audit: Decree 17, Art 15

Supervision methods & responsibility of SCIC: Decree 87, Art.11-12, Decree 61, Art.3, 6, 9, 21-23;

Supervision of subsidiaries: Decree 87, Art.13-17;

For Reference & Introductory Purpose of the Voting Guidelines

Supervision of capital invested overseas: Decree 87, Art.18-23;

Special financial supervisions: Decree 87, Art.24, 27, Decree 61, Art. 10, 12;

Assess of operation performance: Decree 87, Art 32-36, Decree 61, Art. 15-17, 24;

1.2 Approval of annual business plan

- Compare the annual business plan with the (mid- or long-term development) strategy of the company, then

If

1) it is in line with the development strategy and is appropriately prepared (well discussed beforehand in BOM or by related stakeholders)



vote For

If

2) core issues are different from the development strategy or major changes were included without discussions in BOM or among major stakeholders



vote Against

(Work steps)

- 1) *Review and compare the annual business plan with the development strategy of the company whether the plan is consistent with the strategy (Ref. KRI Chapter 4-II)*
- 2) *Refer to the mid- and long-term development plan of the government, whether it is in line with the government policy*
- 3) *Collect and study information about market situation/competition*
- 4) *Check strategies of other companies active in the same industrial sector or leading the sector*
- 5) *Judge whether the plan is agreeable or not, decide the vote and report it to SCIC/HQ*

(Law & regulations to be referred)

Approval of business plan: LOE, Art. 56, 136.

Criteria for assessment of FS: Decree 87, Art.28 -31; Circular 200, Art.12

Development plan & annual plan: Decree 81, Art.12-14,

Profit distribution & fund allotment: Decree 91, Art 31

1.3 Approval of the long-term development strategy

- 1) Pay attention whether the internal discussions were made including issues stated below during preparations for the development strategy:
 - (i) whether the discussion is about the core-business and core expertise of the management,
 - (ii) industry prospect and current market situation
 - (iii) well forecasted long-term and annual financial plan
 - (iv) availability of personnel resources, including participation of experienced directors or shareholders,and
- 2) Propose, if necessary, to invite major shareholders, including strategic shareholders, for active and constructive discussions, together with requesting efficient contribution to the discussion by SCIC/HQ



As the result of such discussions, if

- 3) it is considered that the contents of the long-term development strategy will contribute to increasing shareholder value



vote For

(Work steps)

- 1) *Review the BOD minutes on related discussions and discussion process including participants to such discussion meetings, issues discussed, advices or references requested from outside the company, etc.*
- 2) *Study information about market situation, in and outside Vietnam, including financial condition, labor market condition, and possible business alliance/cooperation with other companies, etc. (Ref. KRI Chapter 4-II)*
- 3) *Refer to the government policy*
- 4) *Discuss if necessary with SCIC/HQ before voting, decide the vote and report it to SCIC/HO*

(Note) Detail procedures for publishing 5 year business and investment plan

⇒ Refer to the Decree No.81/2015/ND-CP, Articles 12-19.

(Law & regulations to be referred)

For Reference & Introductory Purpose of the Voting Guidelines

Publishing business, investment plan, report & financial statements: Decree 81, Art.12-19, Law 70. Art.9, 16, Decree 61, Art.25-28;

1.4 Approval of income allocation (including disposal of surplus and decision on dividend considering dividend ratio)

Check the income allocation policy by the management and if

- 1) the management demonstrates that the cash option is not harmful to shareholder value



vote For

but if

- 2) the Financial statement itself shall not be approved because of reasons stated in item 1.1 of this VG, or
- 3) **dividend ratio** is going to be lowered, although the **own capital ratio** is high enough and there is no need to increase internal reserves, without any reasonable explanation, or
- 4) **dividend ratio** has been continuously low for more than 3 years without any reasonable justification, or
- 5) management will increase the allocation to the management fees (remunerations and bonuses) and increase provision for welfare fund but will not increase the shareholder value without any reasonable explanation, or
- 6) the proposed allocation is deemed not to be compliant with the requirements of law (on this final point, better to consult with SCIC/HQ before making the vote in AGM)



vote Against

- 7) As for **share dividend**, consider following issues and consult with SCIC/HQ before making the vote:
 - (i) in case the Company prefers to withhold cash available to finance its investment plan, consider its financing options in general for the investment plan
 - (ii) if the company plans to pay dividend by shares, review the cash position of the company such as Cash Ratio (Cash and cash equivalents/Current Liabilities) and the cost that the company shall bear for paying dividend by shares

For Reference & Introductory Purpose of the Voting Guidelines

- (iii) consider the impact of share dividends to the liquidity of its stocks and evaluate the perception from the market and other institutional shareholders with regard to the company's share price, as from technical point of view share dividends will increase the number of outstanding shares and share price will be adjusted accordingly.



- 8) As for the plan to **make interim dividend in cash**, if
 - (i) the interim dividend is made based on the financial statements for the first 6 months which have been reviewed by an auditing firm, or
 - (ii) it is anticipated that the company will make profit for the whole financial year and there are no extraordinary activities or events that could deteriorate the profit target of the Company for the year



(Work steps)

- 1) *Review the income allocation policy and actual performance of the company during recent year, check the dividend ratio, consider the necessity for the company to reserve cash at hand and liquidity ratio of the company (ex. Investment plan, or other needs to spend cash in the near future) (Ref. KRI Chapter 4-II)*
- 2) *Consider the performance of rivalry companies in the same sector*
- 3) *Judge the appropriateness of the proposed income allocation plan and decide the vote, consulting with SCIC/HQ when necessary; the vote shall be reported to SCIC/HQ with the reason(s) of the judgment*
- 4) *SCIC/HQ will calculate such ratios as dividend ratio or capital ratio on annual basis and share the result with the state representatives*

(Law & regulations to be referred)

Criteria to assess operational performance of companies: Decree 87, Art.28, Decree 61, Art.15-17, 24

Performance assessment: Circular 200, Art.12, 14; Circular 219, Art.8; Decree 91, Art 31

Payment of interim dividend or dividend advance: LOE, Article 132, Law 14, Art.17

1.5 Approval of investment (plan)

- 1) Review the proposed investment plan and request explanations about the plan in BOD well in advance to the AGM,
- 2) Compare the amount of investment with
 - the financial capacity of the company,
 - check the contents of the investment finance plan
 - and the supervision procedure of the plan

and,

consulting with SCIC/HQ if necessary, consider whether

- (i) the proposed business strategy and long-term development plan include new greenfield investments or projects that are not within the core expertise of the company
- (ii) expected return from the new investment, such as IRR and NPV
- (iii) the plan is made based on reliable feasibility studies and financial plans prepared by credible person/organization
- (iv) hurdle rate such as WACC for the project is acceptable
- (v) impact on capital structure cause excessive leverage from the borrowed fund for new projects which may increase financial risks

then,

- 3) discuss with the management how to increase the expected rate of return or how to reduce the necessary capital amount for the investment with the assistance of SCIC/HQ, if necessary

and if

- 4) points mentioned above are acceptable, and reasonable explanations are made by the management



vote For

but if

- 5) the investment does not comply with the requirements of law, regulations, the charter of the company, or
- 6) points mentioned above are not acceptable and the investment plan will not increase shareholder value



vote Against

(Work steps)

For Reference & Introductory Purpose of the Voting Guidelines

- 1) *Follow the process from 1) to 6) mentioned above (Ref. KRI Chapter 4-II)*
- 2) *Report the voting decision to SCIC/HQ before the vote*

*(Reference 1) Calculation of WACC
(the same as the main body of the VG)*

*(Reference 2) Analytical composition of ROE
=> refer to Appendix of this document*

(Law & regulations to be referred)

Approval of investment plan or sale of assets: LOE Art.135, 149;

Criteria to assess operational performance of companies: Decree 87, Art.28-31;

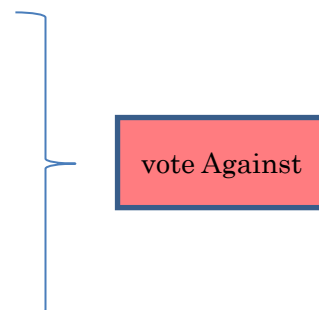
Performance assessment: Circular 200, Art.12, 14; Circular 219, Art.8; Decree 91, Art 31

1.6 Approval of sales of assets, including approval of divestment of shares in other companies

- 1) Review following issues before the vote
 - (i) The negotiation process of the sales of assets, including whether it is made in compliance with the existing regulation and charter
 - (ii) Valuation procedures of the asset to be sold
 - (iii) Conflicts of interest, whether the sale is going to be made to related parties
 - (iv) Impact on the balance sheet and the value of share

and,

- 2) if such proposal or decision will
 - (i) not comply with the law, or
 - (ii) not increase shareholder value, or
 - (iii) When SCIC has already decided to divest from the company, such sales might not damage the competitiveness of its core business activities or hamper the growth momentum



(Work steps)

- 1) *Review issues stated 1) above (Ref. KRI Chapter 5)*

For Reference & Introductory Purpose of the Voting Guidelines

- 2) *Decide the vote consulting with SCIC/HQ if necessary (especially 1) (ii) and 3) above) and report the vote to SCIC/HQ before making the vote*
- 3) *When SCIC has already entered into a share purchase agreement with other investor and the selling price is fixed, the State Representative shall monitor the company not to allow such conduct that damage the value of the company. The State Representative shall report to SCIC/HQ when necessary as soon as possible if he/she will notice such conduct by the company.*

(Law & regulations to be referred)

Transfer of capital investments: Circular 200, Art. 3, 6,

Sale of assets: LOE, Art.135

1.7 Ratification of the BOD report, report of the Supervisory Board, and performance report of each BOD member

If

- 1) the submitted reports are transparent and objective with enough information



vote For

but if

- 2) although the financial statement has significant qualified opinion, the submitted report from Supervisory board does not have detailed evaluations and plan to monitor financial situation in order to reduce significant qualified opinions of auditors



vote Against

(Work steps)

- 1) *Check the contents of the report and collect additional information where necessary*
- 2) *If you are not satisfied with the contents or way of submission of such reports, consult with SCIC/HQ and vote against it*

(Law & regulations to be referred)

Approval of reports by AGM: LOE Art.136;, Circular 121, Art.7-8;

Performance assessment: Circular 200, Art.11, 13;

For Reference & Introductory Purpose of the Voting Guidelines

Disclosure:, Decree 81, Art.10, 13-19, Decree 87, Art. 24-26, 28-36, 39-41; Decree 61, Art.25-28;

1.8 Election and appointment of BOD members and Supervisory board member

1.8.1 BOD member

In general, SCIC will

- 1) not vote against the election of a CEO, managing director, executive chairman, or founder whose removal from the Board would be expected to have a material negative impact on shareholder value

but

- 2) In case of **companies with the Supervisory Board**, if
- (i) BOD member does not have enough experience or ability in managing a company and fail to meet the, criteria defined by LOE Art 65, or if a nominee as a supervisor fails to meet the criteria defined by LOE, Art 164, or
 - (ii) unfavorable social activities or lawsuits were reported to be related to the member, or
 - (iii) the independent member does not meet the criteria for independence provided by law, or
 - (iv) the person attended less than 75% of the BOD meetings without any reasonable explanation, or
 - (v) the number of BOD members is not considered appropriate (3-11) compared with the size of the company, or
 - (vi) it is a plan to increase or decrease largely the number of BOD members without any reasonable explanation.

vote Against

- 3) if directors are older than 80 years of age

vote case-by-case

(Work steps)

For Reference & Introductory Purpose of the Voting Guidelines

- 1) *Check first the statutory criteria and independence criteria of the BOD members, referring to the information collected by SCIC/HQ for confirmation when necessary*
- 2) *Review whether the BOD has a practical separation of functions between the management and supervision, and the supervision of the management is implemented effectively or not.*
- 3) *SCIC shall recommend companies in the portfolio of SCIC to include independent BOD members. In case there is no Supervisory Board, at least in listed companies, they shall invite independent directors to constitute 20% of the Board members.*

(Note) Criteria for Independence defined by law are as follows:

- (a) Not being a person currently working for the company or any subsidiary company of the company; or not being a person having worked for the company or any subsidiary company of the company for at least three preceding years;*
- (b) Not being a person who is currently entitled to salary or remuneration from the company, except for allowances which members of the BOD are entitled to in accordance with regulations;*
- (c) Not being a person whose spouse, natural father, adoptive father, natural mother, adoptive mother, child, adopted child or sibling is a major shareholder of the company, or a manager of the company or its subsidiary company;*
- (d) Not being a person directly or indirectly* owning at least one per cent of the total voting shares in the company;*
- (e) Not being a person having been a member of the BOD or the Supervisory Board of the company for at least the preceding five years*

**《foot note》 “Indirect” means the owners of the shares are the persons who are defined in (c) above or having shareholding via some related companies where the person has its dominant share.*

- 4) *Check also the reasons for a BOD member’s absence are acceptable or not. Generally acceptable reasons are limited to followings:*
 - › Medical issues/illness;*
 - › Family emergencies;*
 - › The member has served on the board for less than a year; and*
 - › Missed only one meeting (when the total of all meetings is three or fewer).*

(Law & regulations to be referred)

Right and obligation of BOD members: LOE Art.149

Structure of BOD: LOE Art.134, 135, 150

Criteria for independence: LOE Art.151

Acceptable reasons for BOD member’s absence: LOE Art.153

1.8.2 Supervisory Board member

If a nominee fails to meet the criteria defined by law



vote Against

- 1) *Criteria for being the Supervisory Board member are as follows:*
 - a) *be legally competent and not be banned from business administration and enterprise establishment as prescribed by the LOE;*
 - b) *not be a spouse, birth parent, adoptive parent, birth child, adopted child, or sibling of any member of the Board, Director/General Director, or any other manager;*
 - c) *not hold managerial positions in the company;*
 - d) *satisfy other standards and conditions of relevant regulations of law and the company's charter;*
- 2) *In case of Joint Stock Company with a Supervisory Board,*
 - a) *at least 20% independent members shall be included in BOD*
 - b) *there shall be an Internal Auditing Committee affiliated to the BOD*

(Work steps)

- 1) *Check compliance of the candidates of BOD members with the criteria defined by law, and*
- 2) *Collect information about the candidate and evaluate the person's conduct in the past and compliance with the functional requirements before the vote*
- 3) *Report the vote to SCIC/HQ*

(Law & regulations to be referred)

Criteria for being a Supervisory Board member: LOE Art.164

In case of Joint Stock Company: LOE Art.134, 163

1.9 Discharge or removal of BOD member and Supervisory Board member

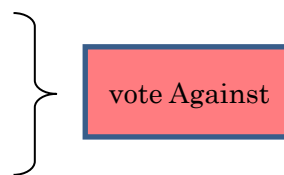
1.9.1 BOD member

In principle decide on a case-by-case basis

But if

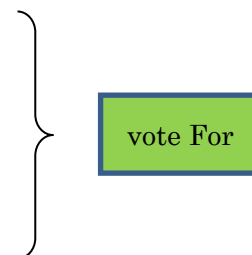
For Reference & Introductory Purpose of the Voting Guidelines

- the BOD member is not contributing to increasing shareholder value for years, or
- the BOD member has failed in managing a company, or
- is under investigation for company mismanagement



If in case that the company is an investee company of SCIC and if it is the listed company or large public company, and if the BOD member has

- not been paying due attention to the requirements of the Corporate Governance Code (CGC), and
- not complying for years with the CGC requested by SCIC, or
- not been complying for years with the disclosure of significant information required by law and regulations without any reasonable explanation.



(Note) “large company” here means the company whose charter capital is equal or more than 120 billion VND and having more than 300 shareholders (the same criteria of the largeness applied by the Ho Chi Minh Stock exchange).

(Work steps)

- 1) Confirm the companies’ status
- 2) Review and evaluate the conduct of the BOD member
- 3) Consider the possibility of nominating some other person to replace the director, consult with SCIC/HQ if you are not sure for finding some alternative candidate for the director and decide the vote
- 4) Report your vote to SCIC/HQ

(Law & regulations to be referred)

Independence of board members: LOE, Art.151, Law 14, Art.14, 31, 39;

Responsibility & obligations of BOD & control board: LOE, Art. 149, Decree 87, Art.27, Circular 121, Art.21; Law 14, Art.41-43, 45;

Membership composition: LOE. Art.150, Circular 121, Art.9, 10, 11, 29, 32, Law 14, Art.22-23, 28;

Membership nomination: LOE Art.135, Circular 121, Art.18;

Attendance rate: LOE, Art.149, 153;

Ranking of managerial person: Circular 200, Art 14;

1.9.2 Supervisory Board member

If the member is

- 1) *no longer satisfies the standards and conditions for the appointment;*
- 2) *fails to perform his/her rights and obligations for 6 consecutive months, except for force majeure events;*
- 3) *tenders a resignation which is accepted;*
- 4) *fails to fulfill his or her assigned duties or work;*
- 5) *commits a material breach or committing a number of breaches of the obligations of a Supervisory Board member as stipulated in the law and the charter of the company;*
- 6) *pursuant to a decision of the AGM*
- 7) *other cases prescribed by the company's charter;*



(Work steps)

- 1) *Collect information about his/her performance, note facts that clearly shows inappropriate management by the BOD member.*
- 2) *If the company is an investee company of SCIC and is a listed company or large* public company, check whether he/she did not comply with the law or regulations as well as CGC of SCIC*
(Note) Large company" here means the company whose charter capital is equal or more than 120 billion VND and with more than 300 shareholders (the same criteria of the largeness applied by the Ho Chi Minh Stock Exchange)
- 3) *Decide vote and, in case of making negative vote to the reappointment of the member, consult with SCIC/HQ before making the vote or before making a counter proposal to dismiss or replace the member*

(Law & regulations to be referred)

Selection & dismissal: Law 14, Art.25-27, 32-33, 36, 40;

Information disclosure: Circular 155, Art.3-6, Decree 87, Art.38-39, Law 70, Art.28;

Penalty for violation: Circular 155, Art.7;

For Reference & Introductory Purpose of the Voting Guidelines

Responsibility of parent company: Circular 122, Art.8

Responsibility of directors: Decree 87, Art 27;

1.10 Appointment of Auditors, auditing companies or branch of a foreign auditing company in Vietnam to audit financial statements

- 1) First, collect information about the candidate as Auditors, auditing companies or branch of a foreign auditing company in Vietnam referring to the list of the Vietnam Association of Certified Public Accountants (VACPA), and evaluate his/her career and conduct in the past

and if

- 2) the Auditors, auditing firms, branches of foreign auditing firms in Vietnam are not qualified for independent audit according to the Law on Independent Auditing, or
- 3) the Auditors are involved in antisocial conduct in another company, or
- 4) employing the same Auditor over 3 consecutive years (three times in succession)



(Work steps)

- 1) Implement 1) above, ask his/her reputations to reliable sources of information including SCIC/HQ or other branches
- 2) Decide vote checking 2)-4) above and report to SCIC/HQ before making the vote

(Law & regulations to be referred)

Compulsory audit: Law 70, Art. 6, 13;

Independent auditors: Law 67, Art.9 etc;

1.11 Approval of M&A plan or approval of transforming, restructuring, dividing or dissolving the company

- 1) Decide on a case-by-case basis, raising questions to and discuss with the management of the company to clarify the details of the plan and its expected outcome

but In principle, if

- 2) the plan is endorsed by the independent (neutral) third party evaluation organization



and if

- 3) it is considered to produce negative influence on the profitability of the company and shareholder value



(Work steps)

- 1) *Check whether the plan is endorsed by independent (neutral) third party evaluation organization including an established consulting company or a main bank of the company*
- 2) *Study related prior discussions in the BOD meeting and consult or discuss if necessary with other major shareholders about the feasibility of the plan*
- 3) *Consult with SCIC/HQ and decide the vote*

(Law & regulations to be referred)

Restructuring of administration & organization: Decree 81, Art.16-17;

1.12 Ownership change

If the company requests AGM to approve the increase of ownership of shares by the foreign investors and

- 1) the request complies with the articles stipulated by law and regulations including international agreements that Vietnam is the member, or
- 2) is doing business in the conditional business sector for foreign investors but no specific limits are stipulated by law and regulations and foreign ownership in the company is maximum 49%, or

For Reference & Introductory Purpose of the Voting Guidelines

- 3) belongs to the unrestricted foreign ownership limit and the maximum percentage of the foreign ownership is within the limit stipulated by the charter of the company, or
- 4) operates in multi-business lines with different provisions on foreign ownership ratio, then the foreign ownership ratio shall not exceed the lowest level of the line with provisions on foreign ownership ratio, unless an international treaty contains some other provision, and
- 5) in case of private offering, in addition to the conditions above the conditions of the offering of the company share satisfies the conditions stipulated by law and regulations



(Work steps)

- 1) Review whether the request is comply with the law and regulations, and international agreements if any the Vietnam is the member
- 2) In case of the private offering, monitor the process to secure the fairness of the offering
- 3) If the state representative is not clear the compliance with law and regulations especially the international agreement, he/she shall consult SCIC/HQ

(Law & regulations to be referred)

Decree 58/2012/ND-CP, Art.4

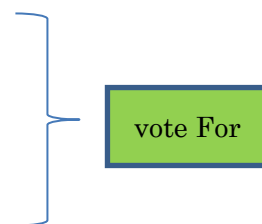
Decree 60/2015/ND-CP, Art 2, 4

1.13 Other shareholders' proposals

- 1) First, review the contents of the proposal and discuss its acceptability and feasibility among shareholders prior to the AGM
Vote shall be on a case-by-case basis,

If

- 2) the proposal is considered to contribute to enhancing the shareholder value and corporate governance of the company with reasonable cost, or
- 3) the proposal is to enhance the protection of shareholders, including strategic shareholders



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but if

- 4) it is not sure whether the expected outcome is positive or not, or
- 5) It is proposed by a shareholder or a group of shareholders holding less than 10% of total shares of the company or holding 10% or more of total shares of the company but shorter than 6 consecutive months (or smaller percentage in comply with the Company Charter), or
- 6) the proposal is not sent by document at least 3 working days before the AGM

vote Against

(Work steps)

- 1) *Implement 1) above and consult with SCIC/HQ for the vote*
- 2) *Contact and discuss with the management if necessary informing the opinion of or instruction from SCIC/HQ*
- 3) *Vote and report the outcome to SCIC/HQ*

(Law & regulations to be referred)

Shareholders' proposal: LOE, Art.138;

2 Remuneration

2.1 Approval of remuneration and remuneration cap for BOD members and Supervisory Board members

If

- 1) the remuneration plan (cap) includes BOD members and Supervisory Board members who are responsible for any of the following situation:
 - (i) obvious business failure of the company, or
 - (ii) share price of the company have been depressed for years, share price is declining sharply, or
 - (iii) business performance has apparently worsen, or
 - (iv) conducted acts against shareholder value, or the percentage of increase in remuneration is higher than that of the increase of enterprise value, or
 - (v) the company committed antisocial conduct, or

For Reference & Introductory Purpose of the Voting Guidelines

- 2) the payment of remuneration and bonus based on the performance for the year will be implemented before the termination of the accounting for the year



(Work steps)

- 1) *If it is the case of 1) and 2) above report to SCIC/HQ in due course that you will vote against before AGM*
- 2) *Make the vote and report it to SCIC/HQ*

(Law & regulations to be referred)

Wage of BOD & SB: Circular 121, Art. 13, 16, 22

2.2 Equity compensation plan

- 1) Pay attention to the contents of the compensation plan and report in a timely manner to, and closely communicate with SCIC/HQ to evaluate the impact of the equity compensation plan and possible dilution of existing stocks
- 2) and if the proposal to allow stock options
 - (i) includes giving stock options to independent directors or auditors or persons who have no involvement with the improvement of the business performance of the company, or
 - (ii) is exercised by lower price than the market price, or book value except for cases that law or regulation permit, or
 - (iii) total amount of the proposed stock option will lead to the dilution of existing shares more than the level specified by SCIC, or
 - (iv) the total amount of issued shares under the proposed stock option to employees within 12 months will exceed 5% of the number of currently circulating shares of the company



(Work steps)

- 1) *Review the compensation plan and send it to SCIC/HQ in a timely manner*

For Reference & Introductory Purpose of the Voting Guidelines

- 2) *Study the contents and contact with other major shareholders to ask their opinion about the plan (Ref. KRI Chapter 4-II)*
- 3) *Consult with SCIC/HQ for the vote informing the opinions of other major shareholders; if cases are 2)-5) above vote shall be against*
- 4) *Make vote and report the result to SCIC/HQ*

(Law & regulations to be referred)

Equity compensation by public companies: Circular 162, Art.35;

2.3 Setting or revising the maximum dilution level for the Employee Stock Ownership Plan (ESOP)

If

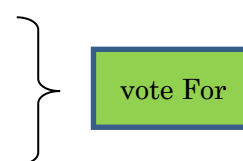
- 1) the total amount will exceed a percentage (maximum of 5% of the number of currently circulating shares of the company within 12 months by law or a percentage specified by SCIC lower than 5%) of paid-up capital of the company, or
- 2) the criteria of the allocation scheme or the calculation formula is not disclosed, or
- 3) the company has insufficient capital sources for implementation on the basis of audited financial statements for the most recent period from the following sources: (a) surplus capital, (b) investment and development fund, (c) undistributed after-tax profit, and (d) other funds (if any) used to supplement the charter capital in accordance with law, or
- 4) a vesting period for exercising ESOP is not set, or longer than 3 months* without getting approval by the State Security Commission and condition that these benefits shall be removed from resigned employees, or the staggered period is not decided by the company

(*Note that SCIC will recommend a company to allow a staggered period of over 3 years, in line with the international practice.)



But if

- (i) *the issue plan fulfils the requirements of regulations, and*
- (ii) *no accumulated loss is recorded in the latest financial statements of the company, and*
- (iii) *the issue plan is approved by SCIC*



For Reference & Introductory Purpose of the Voting Guidelines

(Work steps)

- 1) *Collect information about the plan and study whether the case is 1)-4) and (i)-(iii) above (Ref. KRI Chapter 5)*
- 2) *Report the plan and your vote to be made to SCIC/HQ before voting*
- 3) *SCIC/HQ shall set the percentage limit and calculation formula, and/or criteria for allocation scheme that SCIC will agree and inform them to State Representatives well before the AGM (better to include in this VG)*

(Law & regulations to be referred)

Stock option by public companies: Circular 162, Art.35;

3 Article amendments

3.1 Amendment of statute (Charter), including expansion of business activities

- 1) Decisions shall be made on a case-by-case basis.
- 2) To evaluate the appropriateness of such proposition
 - ⇒ discuss in detail the proposed amendment of charter or the plan and question the purpose and expected outcomes prior to the AGM, and
- 3) decide how to vote consulting with SCIC/HQ when necessary

When the amendment includes

- 1) a clause that will enhance and modernize the corporate governance of the company, including the appointment of independent BOD members, or
- 2) protection of the rights of shareholders and contribution to the increase of shareholder value, or
- 3) a clause that provides rights for a strategic shareholders such as preferred price, controlling ownership percentage, or veto rights, which are considered as fair compensation for the obligations imposed on, or the commitment made by, strategic shareholders



but if the amendment

For Reference & Introductory Purpose of the Voting Guidelines

- 1) is related to the continuous low business performance of the company or
- 2) aims to let the company enter into a risky business that is not related with the core business of the company, or
- 3) includes a clause that will increase the remunerations of BOD members but not include any increase of shareholder value, or
- 4) includes issues that do not comply with law and regulations



(Work steps)

- 1) *Collect information about the amendments; contents, purpose, reasons, and expected outcomes from the company*
- 2) *Consult with SCIC/HQ about the appropriateness of the amendments to be proposed*
- 3) *Discuss with major shareholders if necessary*
- 4) *Decide the vote and report the result to SCIC/HQ*

(Law & regulations to be referred)

Charter amendments: LOE Art.135

3.2 Reduction of BOD members' term in office

- 1) Term of BOD members exceeds 5 years and not *in comply with regulations unless otherwise defined by the company charter* }

A blue arrow points from the list of conditions to a red box with a blue border containing the text "vote Against".

but as for shortening of the term of a BOD member

- 2) if the impact on the shareholder value is not negative

A blue arrow points from the list of conditions to a green box with a blue border containing the text "vote For".

furthermore,

- 3) an independent BOD member has been engaging in the same company for long-term (5 years and longer)

A blue arrow points from the list of conditions to a red box with a blue border containing the text "vote Against".

and

For Reference & Introductory Purpose of the Voting Guidelines

- 4) the assignment period as an independent director **had better not be too short**, so that make the director have had enough time and opportunity to fulfill his/her expected role in the company

(Work steps)

- 1) *Study the need of the amendment; whether the case is 1)-4)*
- 2) *If case is 1)-3), report SCIC/HQ that you will vote against to such proposal before making vote*
- 3) *SCIC/HQ will decide the appropriate assignment period for independent directors and inform it to State Representatives in advance to the AGM (better to clearly state it in this VG)*

(Law & regulations to be referred)

Term of BOD members: LOE, Art.150, 151;

3.3 Board structure and decrease in the maximum board size

- 1) Collect detailed information prior to the AGM and consult with SCIC/HQ on how to vote, and whether to vote for or against
and
- 2) judging the appropriateness of the amendments about the Board structure, including the addition of more conditions to remove a BOD member or a significant change in the number of BOD members



vote case-by-case

(Work steps)

- 1) *Collect information about the needs and discussions related to the revision of the BOD structure and consider the appropriateness of the restructuring*
- 2) *Discuss with BOD members about the needs, if necessary, and consult with SCIC/HQ about your decision to vote for or against the proposal*

(Law & regulations to be referred)

Board structure: LOE, Art.150, 163; Decree 81, Art. 17-18, Circular 121, Art.11, 19, 30;

Sub-department: Circular 121, Art.32

3.4 Disclosure of information

- 1) Pay attention to the contents and methodology of disclosure of the company,
- 2) Discuss with SCIC/HQ about the disclosure practices by other companies in the portfolio of SCIC,
- 3) Exchange opinions with other shareholders about the contents and methodology of supplying information to external investors

and when

- 4) BOD proposes to the AGM an amendment of charter that includes a clause to improve the contents of annual report, financial statement, etc., which will level up the disclosure of activities of the company and contribute to enhancing dialogue with shareholders



vote For

(Work steps)

- 1) *Study about the disclosure requirements by law and those of the Stock Exchange in case of listed companies, review the contents of disclosure of the company and check the procedure of deciding the contents as well as the compliance with the required procedures for disclosure (refer to the Circular No.155/2015/TT-BTC, Articles 3-11, and the Decree No. 81/2015/ND-CP, Articles 12-19.*
- 2) *Discuss with SCIC/HQ and exchange opinions about the contents and procedure of disclosure of the company with other major shareholders if necessary before the vote*
- 3) *In case that you will disagree the contents and/or procedure of deciding the contents of disclosure of the company, inform SCIC/HQ about your decision to vote against the agenda of the AGM before the vote*

(Law & regulations to be referred)

Rules & methods of disclosure: Circular 155, Art.3-11, Law 70, Art.100-104, Decree 61, Art. 25-28, Circular 52, Art.3-13, 15-17, 33 etc;

Publishing method: Decree 81, Art.12-19

4 Share Issuance Request

4.1 Increase of the charter capital

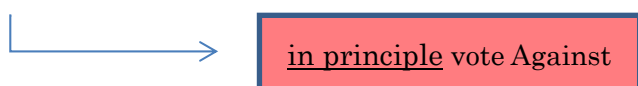
- 1) Collect detail information and reasonable explanation about the plan of the increase of charter capital from the management
- 2) consult with SCIC/HQ to calculate the expected level of the limit of share issuance (to avoid the dilution of the value of shares and for protecting the rights of SCIC as a shareholder)

and if

- 3) it is obvious that the issuance will damage the shareholder value, or
- 4) the case is as follows, without any reasonable explanation:
 - (i) the dilution of the shares is large and damages the shareholder value, or
 - (ii) the order of SCIC among shareholders will be changed as the result of the share issuance and SCIC will be placed into a more disadvantageous position than before as a result of the issuance



- 5) Case-by-case but if
 - (i) the purpose of the increase is proposed as an anti-takeover defense measure, or
 - (ii) the company is listed as a company to be divested in a year by SCIC, or
 - (iii) the implementation time of issuance of share is not specified



(Work steps)

- 1) *Check the explanation/reasons about the plan to increase the charter capital, consult with SCIC/HQ whether to accept the plan or not*
- 2) *Decide the vote based on the cases 3) - 5) indicated above and inform your decision of the vote to SCIC/HQ before AGM*

(Law & regulations to be referred)

Issuance of shares: LOE, Art.113, 117

For Reference & Introductory Purpose of the Voting Guidelines

4.2 Approval to authorize the Board to issue or repurchase shares or grant a general mandate to the BOD to issue shares

- 1) Monitor related discussions in the BOD and understand the objective of such decisions to consider the appropriateness

If it is proposed

- 2) to entrust such decisions to the BOD



in principle vote Against

but if it is proposed

- 3) to redeem its own share to use as treasury shares of more than 10% but not more than 30% of the total number of issued ordinary shares, or to ask for the approval of the BOD for redeeming 10% or less of the total number of issued ordinary shares in each 12-month period, and if the impact of such redemption might not be negative for SCIC



vote For

(Work steps

- 1) *Review the reasons of the proposal and judge whether they are appropriate or not*
- 2) *If the case is as 3) stated above vote for but it is not such a case, vote against*
- 3) *Inform your judgment to vote for or against to SCIC/HQ before making the vote in AGM*

(Law & regulations to be referred)

Repurchase of shares: LOE, Art.130, 135; Decree 58, Art.37; Decree 60

4.3 Approval to repurchase shares

If

- 1) the repurchase of shares of the company will increase shareholder value of the company and comply with law and the charter of the company



in principle vote For

But as repurchase of shares is an easy way to increase nominal return on equity (ROE)

For Reference & Introductory Purpose of the Voting Guidelines

if

- 2) *the increase of ROE is not the result of increase of profit as the result of strengthened competitiveness of its core business it will not help strengthen the real profitability of the company*



(Work steps)

- 1) *Review the plan of repurchasing shares, consult with SCIC/HQ about the expected outcome, whether it will increase the value of shareholders or not*
- 2) *If it is obvious that the plan will increase the value, vote for and inform SCIC/HQ about the vote*
- 3) *But if it is not clear whether the repurchase will increase shareholder value, consult with SCIC/HQ before making the vote to decide for or against*

(Law & regulations to be referred)

Repurchase of shares: LOE, Art.130, 135; Decree 58, Art.37;

4.4 Creation or modification of preferred shares

- 1) *Require an explanation from the BOD about the purpose of the creation or modification of shares of different classes*
- 2) *evaluate the effect that it will cause to the existing shareholder value, consulting with SCIC/HQ if necessary*

If it is requested

- 3) *to create or modify shares of different classes without any reasonable explanation about the purpose of the creation or modification*
- 4) *the expected holding entities/person of the voting preference shares are not the organizations authorized by the government and founding shareholders, or*
- 5) *the persons to buy shares with preferred dividends, redeemable preferred shares, and other preferred shares are not prescribed by the company's charter or the AGM*



(Work steps)

For Reference & Introductory Purpose of the Voting Guidelines

- 1) *Review the explanation/reasons of the purpose of creating preferred shares or modifying them*
- 2) *Evaluate the effects to the existing shares as the result of such plan, if the cases are such as stated 1)-3) above vote against*
- 3) *Inform the vote to SCIC/HQ before making the vote at the AGM*

(Law & regulations to be referred)

Creation of shares: LOE, Art.113, 117

5 Miscellaneous items related to the AGM (related to the items considered to be AGM approval matters by the Charter of the company)

5.1 if the item does not satisfy the requirements in the Charter, Law on Enterprise and other regulations



5.2 Approval of establishing branches & representative offices, when if the size of related investments is considered too large compared to the financial or business capability of the company



(Work steps)

- 1) *In case of 5.1, your vote shall be against*
- 2) *In case of 5.2, collect data of other companies in the same industrial sector, consulting with SCIC/HQ if you do not have enough information, and compare the size of the investment and business capacity of the company, such as availability of human resource, financial capability, support from its parent or related company, etc.*
- 3) *When you decide the vote for case-by-case issues, report SCIC/HQ before making the vote at AGM*

(Law & regulations to be referred)

Establishing branches & representative offices: LOE, Art.56, 149;

(End)

For Reference & Introductory Purpose of the Voting Guidelines

Annex: Analytical breakdown of ROE

ROE = net profit / own capital = EPS (earnings per share) / BPS (book-value per share)
= PBR (price to book-value ratio) / PER (price earnings ratio)

ROE = (net profit / sales) x (sales / total assets) x (total assets / own capital)

Factors that affect ROE are:

- (1) Net profit rate ----- (1-1) profit rate before tax
 - (1.1.1) gross profit margin
 - (1.1.2) ratio of cost to sales
 - (1.1.3) ratio of administrative and selling expense to sales
 - (1.1.4) operating income to sales
 - (1.1.5) EBIT margin
 - (1.1.6) EBITDA margin
- (1-2) effective income tax rate

- (2) Turnover ratio of sales--- (2-1) current asset turnover ratio
 - (2.1.1) stock (inventory) turnover period (days)
 - (2.1.2) collection period of cash
- (2-2) fixed asset turnover ratio
 - (2.2.1) operating ratio (percent of capacity use)
 - (2.2.2) yield rate
 - (2.2.3) investment
 - (2.2.4) sales per unit space

- (3) Financial leverage---- (3-1) interest bearing liability ratio
- (3-2) interest bearing liability / EBITDA
- (3-3) interest coverage ratio
- (3-4) core-Tier 1 ratio
- (3-5) foreign currency funding

Risk management framework for new investment of SCIC

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The information described in this document shall be adopted under your own responsibility.

Chapter1 Purpose

This document describes the risk management framework with focusing on the Key Risk Indicator for new investment of SCIC (hereinafter “the KRI”).

- KRI: Measure used in management to indicate the quantitative or qualitative check point to complied with when doing new investment.

Chapter2 Assets subject to this framework, Control method and Organizational risk management framework

I. Subject assets

The subject assets of this risk management framework with focusing on the KRI is as follows;

- Project investment
(The main investments until 2020)
- Investments in financial assets such as bond and stock
(The main investments after 2020)

* Target investments exclude the transaction relating to the followings.

- Funds for support of arrangement and development of enterprises (SOE Restructuring fund).
- Loss is not posted in SCIC.

II. Control method

The following controls are applied to the KRI for each subject assets.

Soft Limit	<ul style="list-style-type: none">· To monitor the compliance· In cases violation occurs, the reason of the violation shall be confirmed; and what needs to be done thereafter shall be determine.
Hard Limit	<ul style="list-style-type: none">· The limit that must be complied· If violation is occurred, subject assets must be sold.

III. Organizational framework

Investment Department shall apply the KRI to investment decisions. After the investment execution, Investment Department shall monitor the KRI in order to consider whether to continue that investment.

If Investment Department makes investment decision, Risk Management shall monitor the KRI independently in order to oversee the Investment Department's decision. After the investment execution, Risk Management shall monitor the KRI independently for the confirmation of Investment Department's observance of the KRI.

Then Risk Management shall give the warning in case of the judgment between Investment Department and Risk Management is different.

Internal Audit shall review the status described above.

Chapter3 Investment limit

Based on the investment policy and investment strategy of SCIC, SCIC shall set the investment limit of the following items, and ensure that each KRI shall be complied.

*Management of the balance evaluation by the most recent market value

I. Investment limit by industry type and Subject assets, etc.

SCIC shall set the investment ceiling by the following items. Specifically, "Key industries and fields", "Projects, Industries and Fields with economic efficiency", "Subject assets", "Industry type" and by soft limit/hard limit

Control	Item		KRI						Monitoring frequency	
			2016	2017	2018	2019	2020	2030		
Hard Limit	Key industries and fields		70%							
	Projects, industries, and fields with economic efficiency		30%							
Soft Limit	Subject assets	Stoks · Project investment	74.0%	75.7%	78.3%	79.2%	81.2%	82.0%	Whenever transaction is executed / Annually	
		Bond		13.0%	15.2%	16.9%	16.0%	14.0%		15.0%
			Maturity	* The investment ratio of fixed-rate bonds and floating-rate bonds will not be KRI for the time being. SCIC should consider to make KRI to regulate the investment ratio of fixed-rate bonds and floating-rate bonds if the investment to fixed rate bond will be increased.						
		Liquid assets	Fixed rate bond : Equally held to 1-5 years							
	Industry type	Financial Services	13.0%							
		Industry - Construction	9.1%							
		Healthcare	4.8%							
		Telecommunications/Electric	4.8%							
		Consumer products	4.8%							
		Information technology	3.0%							
Water - Electric - Gas	8%									
Other efficient industries and fields	11%									

(Source)

- ✓ "Key industries and fields "and "Projects, industries, and fields with economic efficiency"
Phần 2 / 1 / 3. / 3.3. Định hướng đầu tư.
- ✓ "Subject assets"
Bảng: Tỷ trọng tài sản giai đoạn 2016–2020 và định hướng 2030
- ✓ "Industry type"
Bảng: Tỷ trọng tài sản giai đoạn 2016–2020 và định hướng 2030

II. Investment Concentration Limit by single name

From the point of view of the suppression of the downside risk, SCIC shall set the investment limit for concentrated investment to the single name.

Control	Item	KRI	Detail	Monitoring frequency
Soft Limit	Securities	① The assets to the same issuer shall not exceed 10%. However, ② The total value of the assets held by SCIC in the issuer in each of which it invests more than 5% shall not exceed 40%. In other cases, the assets to the same counterparty shall not exceed 5%. * Item/Stock taken over from government is exempt from this Investment Concentration Limit.	All investment ratio shows the percentage of net assets.	Daily
	Deposits and government bonds	20%		

(Source)

- ✓ DIRECTIVE 2001/108/EC / 10.Article 22.

Chapter4 Risk management for project investment, stock investment and bond (hereinafter excluding government bonds) investment

SCIC shall set KRI based on "regulations on investment decisions of SCIC," and "SCIC ERM Policy".

Regarding the insufficient points in the above regulations, SCIC add supplements KRI from different points of view that are not prescribed in the said regulations.

I. Project Investment

○ Quantitative criteria

Control	KRI	Detail	Monitoring frequency
Soft Limit	IRR	Vietnamese '5 Government bond yields +2% * SCIC shall implement the interest rates depending on the investment period as IRR in the future.	By half-year
	Delay period	Period required for legal proceedings: 6 months or more	Monthly
		Enforcement period : 12 months or more since the investment decision is made.	
	Excess of cost	Excess of cost is 30% or more comparing to the initial budget	Quarterly
	Profit after tax	<ul style="list-style-type: none"> Profit after tax is less than 95% of the initial budget. Loss of risk (such as delay, excess of cost and so on) is more than 0.2% of previous profit after tax. 	
Revenue	<ul style="list-style-type: none"> Revenue is less than 95 % of the initial budget Loss of risk (such as delays, excess of cost and so on) is more than 1% of previous revenue. 		
Hard Limit	Scale of investment	<ul style="list-style-type: none"> In compliance with the existing law on the equity ratio. 	As soon as an event occurs

○ Qualitative criteria

Control	KRI	Detail	Monitoring frequency
Soft Limit	「regulations on investment decisions of SCIC」 Chapter 2, Article 5	Qualitative items that are prescribed in the section of “the project investment activities”	Quarterly
	Project analysis	<ul style="list-style-type: none"> • SCIC can involve the management of the investee (i.e. “hands on).For example. The directors are dispatched. • There was not any delay of construction in the past. The contractor has the ability to complete the construction. • The project is carried out in accordance with the governmental policies. • There is not any significant fact that may affect the progress of the projects such as expropriation of land 	
	Compliance check	There is not any disrepute information of companies and executives.	

II. Stock and bond investment

○ Quantitative criteria

• Stock investment

Control	KRI	Detail	Monitoring Frequency
Soft Limit	ROE	ROE is more than industry average and economic grows rate.	Quarterly
	ROI	ROI is more than industry average.	
	Credit rating	Above BBB (if any)	

• Bond investment

Control	KRI	Detail	Monitoring Frequency
Soft Limit	Credit rating	BBB or higher (if any)	Quarterly
	Interest level	Vietnamese '5 government bond yields + 2%	Daily
	Maturity	<ul style="list-style-type: none"> • Only within five years to redemption • Portfolio of the fixed-rate bond Equally held of each maturity (from 1 year to 5 years). 	

○ Qualitative criteria

- Stock and bond investment

Control	KRI	Detail	Monitoring Frequency
	Investment grade / Non-investment grade	Invest only in investment grade stock and bond. (if any) * If SCIC will implement investment grade system in the future, SCIC should consider to alter Soft Limit to Hard Limit.	Quarterly
Soft Limit	「regulations on investment decisions of SCIC」 Chapter 2, Article 6・7・8	Qualitative items that are prescribed in the section of “the stock and bond investment activities”.	
	Corporate analysis	<ul style="list-style-type: none"> • Is financial information disclosed periodically? (half-year or quarter) • Is there any negative audit opinion? • Is business plan disclosed? • The sales and profitability trends are not less than industry average. • Is loss in 2-year succession recorded? Is this loss temporary? • The capital adequacy ratio is more than industry average. • Other additional analysis is required (e.g. in real estate, determine whether the project is behind the schedule) 	
	Compliance check	There is not any disrepute information of companies and executives.	

Chapter5 Loss-cut rule

SCIC shall set the loss cut point. Then the policy for "judgment of sale" shall be considered.

- Listed stock (*)(**)

Control	KRI	Detail	Monitoring Frequency
Soft Limit	Listed stock's rate of decline of the price since the acquisition	5% or more and less than 10% (Reporting to : Relevant department Middle management)	Daily
		10% or more and less than 21% (Reporting to: Senior management)	
Hard Limit		21% or more. (Reporting to: Board meeting /CEO)	

(*) Loss-Cut Rule will not be applicable to the medium/long term stock owned by the strategic reason. It shall be regulated by other quantitative and qualitative criteria. In this case, the investment purpose must be specifically defined as "medium/long term stocks" and segregated management is required.

(**) Loss-Cut Rule will not be applicable to unlisted stock. Unlisted stock shall be regulated by other quantitative and qualitative criteria.

- Listed Bond(excluding government bonds)

Control	KRI	Detail	Monitoring Frequency
Soft Limit	Bonds rate of decline of the price since the acquisition	5% or more and less than 10% (Reporting to: Relevant department Middle management)	By half-year (Regardless of the above, SCIC shall monitor as soon as an event occurs.)
		10% or more and less than 21% (Reporting to: Senior management)	
Hard Limit		21% or more. (Reporting to: Board meeting /CEO)	

- (*) Loss-Cut Rule will not be applicable to unlisted Bond. Unlisted bond shall be regulated by other quantitative and qualitative criteria.

Chapter6 Staff turnover and Enrollment period

For preventing the growth of fraud risk by prolonged enrollment period, SCIC shall set the KRI for the enrollment period.

According to Vietnamese law and regulations, in order to prevent civil servants from any fraudulent conduct and to allow them to gain sufficient experience of different roles, the enrollment period is set at 03 years for management position.

SCIC shall refer to Vietnamese law for the enrollment period of management.

Staff in charge of investment takes roughly about 7 years to become proficient.

Control	KRI	Detail	Monitoring Frequency
Soft Limit	Enrollment period	Management: 3 years	By year
		Staff in charge of investment: 10years	

Chapter7 Organizational Risk Management Frameworks

I. Segregation of Duties

- In order to prevent fraudulent conduct and failed transaction processing, it is necessary for relevant departments and individuals to check/monitor one another.

II. Separation of the organization and the authority

- To ensure the separation of the organization between front office (dealers) and back office (administrative functions) for preventing fraud.
- Placement of the prohibition on executing order of the transaction by decision maker of the investment.

III. Mutual confirmation of the transaction statements

- Back office shall gain the transaction statement directly from counterparty and check with the statement of the front office for preventing dealer's fraudulent transaction,

IV. Access Control to the front office

- Carrying out the entrance and exit control for front office (e.g. fingerprint authentication)

V. Preventing the insider trading

Regarding the insider trading on individual account, all SCIC executives and employees (not only the executives and employees relating to the investment) shall be regulated and managed.

Main things to be regulated and managed are as follows.

- Placement of the prohibition on the execution of buy and sell of the stocks and bonds by SCIC executives and employees who gained the information on the material fact.
(* Material fact: The fact before the publication that includes the information of the SCIC's investment plan to any issuers.

- Transaction is prohibited even if there is no relation between the transaction and the material fact. For example, even the transaction for conversion into cash and the transaction by self-determination are prohibited.
- To obligate the reporting of the all owned securities and each transaction to SCIC by all executive and employees.
- Reporting shall be done whenever buying and selling the securities is executed.
- In cases the transaction value is worth VND 50,000,000 and above (at which the reporting must be made at year end), the transaction must be reported.

VI. General provisions

- Management framework described in this document and the status of implementation shall be subject to annual review by internal auditors.
- Management framework described in this document shall be revised whenever the investment strategy of SCIC has been changed.

Chapter8 Future risk management and operational framework

SCIC will be required to consider to further sophisticate the risk management relating to the subject assets, from the perspective of market risk, liquidity risk and credit risk and so on.

The matters required for consideration are as follows.

I. Future risk management framework

A. Market Risk

- If the types of assets to be invested will be extended, SCIC shall be required to consider to develop the quantitative risk analysis framework for example utilizing VaR.

B. Liquidity Risk

○ Financing structure

- SCIC will be required to grasp the status of financing needs depending on financing structure.
By grasping the status of financing needs, SCIC will be able to consider whether to make investments in liquid assets or illiquid assets.
For example all financing is procured from stock, all subject assets can be illiquid assets.
- For the time being, all procurement of SCIC is from stock, therefore subject assets can be illiquid assets. However if SCIC will expand the financing method to non-equity finance, SCIC will be required to manage liquidity risk relating to financing structure.

○ Replacement of stocks

- If SCIC will perform replacement of assets in a relatively short period of time, it is assumed that SCIC will hold highly liquid assets of a certain percentage.

- In this case, from the viewpoint of market and liquidity, the percentage of the SCIC's holding amount against issue amount will be required to be monitored.
- Although SCIC has the investment policy that assumes a long-term investment (bonds are held-to-maturity), if SCIC will perform replacement of assets in a relatively short period of time, it will be required to manage it from the viewpoint of liquidity buffer.

C. Credit risk

- In order to determine the credit risk of subject assets, SCIC will be required to consider the risk management framework for development of the scoring model.
- For the development of the scoring model, the accumulation of data relating to default events will be required.
- By applying the above-mentioned risk management framework, the management of counterparty risk (stock brokerage) can be conducted.

D. Operational Risk

- Dealer' telephone conversations will be required to be recorded and stored.
- It will be prohibited to bring in of personal handy phone and other personal belongings.
(Personal belongings will be required to be put in a transparent bag, if it will be necessary to bring in.)
- Information passing using the storage medium will be prohibited.
- For preventing the failed transaction processing, preparation of the procedure manual and thorough double check will be required.

II. Future operational framework

A. Investment in the fund

- For preventing substantial losses when the event risk occurs, investment in the fund will be required to be considered.