

# Vietnam Corporate Governance code

– Towards international  
best practices



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## Objective

This newsbrief is to provide an overview of the main content of the first Vietnam Corporate Governance (CG) Code and highlight the recommended practice for each of the 10 CG principles that businesses should aim towards.

## Note from our Partner

I am excited to share this Newsbrief on our country's latest efforts in promoting strong CG practices. This is necessary in enhancing the efficiency and transparency of a stock market. Its importance include:

- Ensuring the long-term sustainability of the company in the best interest of its shareholder and stakeholders
- Creating market confidence and business integrity
- Contributing to a company's competitiveness and reputation while facilitating access to capital markets
- Helping develop financial markets and spur economic growth

There are 3 key sections in this Newsbrief: (A) Introduction, (B) Highlights of the CG Code, (C) Key recommendations. As always, PwC is ready to support you as you journey towards alignment with leading international Corporate Governance practices and go beyond mere compliance with laws and regulations.

### **Hoang Hung**

Business Solutions Partner


A member of Vietnam Corporate Governance Initiative (VCGI) and Vietnam Institute of Directors (VIOD)


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## Introduction of the Code

Corporate Governance practices have well been accepted as necessary in enhancing the efficiency and transparency of a stock market. The first Vietnam Corporate Governance Code of Best Practices for Public and Listed Companies (The Corporate Governance Code) has been developed by the State Securities Commission of Vietnam with support from the International Finance Corporation (IFC), World Bank and Swiss State Secretariat for Economic Affairs (SECO) in an effort to raise the quality of listed companies practices and ultimately, enhance investor confidence and enable the growth of the Vietnam stock market and national economy.

## Target groups of the Code

 Public and listed companies

 Policymakers intending to evaluate and improve the company's CG framework and practices, potentially issuing a "Comply or Explain" CG Code in the near future

 Other companies seeking guidance and adoption of appropriate or relevant best practices

## Compliance with applicable legislation

All efforts have been taken to ensure there is no conflict between this Code and other laws and regulations. However, if a conflict should arise, then laws and regulations prevail.



Law on Enterprise 2014  
Law on Securities 2016



Decree No.71/2017/ND-CP  
Decree No.5/2019/ND-CP



Circular No.95/2017/TT-BTC  
Circular No.155/2015/TT-BTC

## Adoption of the Code

### Public and listed companies are encouraged to

- Use this Code as a guiding document to adopt good corporate governance practices
- Regularly disclose their implementation status of this Code in the Corporate Governance in different channels (i.e. company's website, annual report, etc.)

Voluntary adoption and related disclosure will be regularly monitored by the State Securities Commission of Vietnam (SSC), as issuer of this Code, and also via the Ho Chi Minh City Stock Exchange (HOSE) and Hanoi Stock Exchange (HNX) channels.

## Structure of the Corporate Governance Code

Vietnam's CG Code of best practices draws upon the G20/OECD Principles of Corporate Governance, the 2017 Association of Southeast Asian Nations (ASEAN) Corporate Governance Scorecard, as well as other countries' CG Codes. Vietnam's CG Code is divided into 5 areas consisting of 10 Principles as well as sub-principles. These are summarised in the following pages.

**5**  
areas

**10**  
principles



## (1) The Responsibility of the Board



**Principle 1:** Establishing clear Roles, Responsibilities and Commitment of the Board

**Principle 2:** Establishing a Competent and Professional Board

**Principle 3:** Ensuring Effective Board Leadership and Independence

**Principle 4:** Establishing Board Committees

**Principle 5:** Ensuring Effective Performance for Board

**Principle 6:** Establishing and Maintaining an Ethical Corporate Culture

This is the most important area. It allows stakeholders to understand:

- The important roles and accountabilities of the Board and its members in directing and governing the company in their fiduciary duties to the shareholders
- Framework and mechanism for the Board members to undertake and discharge their duties in an transparent and effective manner
- Best practices for a balanced and competent Board which focus on its independence, its structure and composition and performance evaluation

### Key highlights and developments

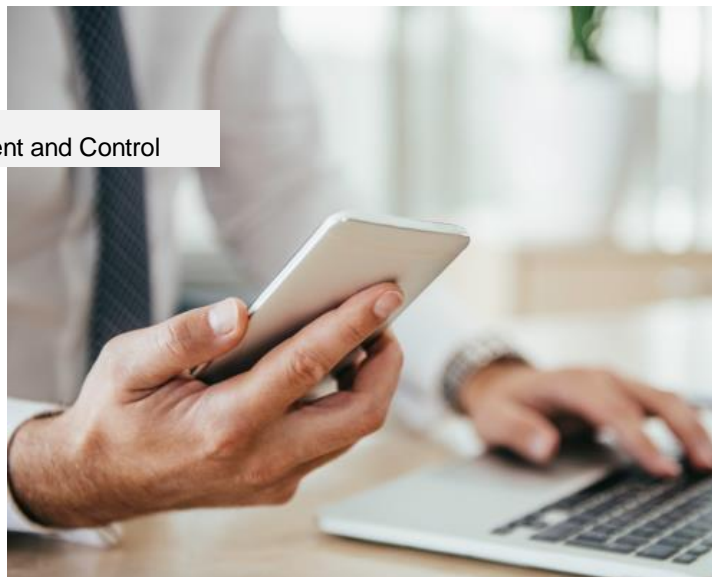
- **Disclosing Board's Charter on Company's website** where roles, responsibility and accountability are defined. These include setting risk appetite and relevant controls; performance objectives including ESG criteria; accounting and financial reporting systems; independent audit; potential conflicts of interest; and succession planning for key positions.
- **Board members should clearly understand their fiduciary duties** to act with care and due diligence in the best interest of the company and shareholders, while taking into account the interest of relevant stakeholders.
- **Diversity in composition should be complemented by breadth and range of qualifications and experience.** This is demonstrated through a skill matrix that describes roles and capabilities required.
- **A formal nomination process for all members** prior to election at shareholders' meetings. Board members should not serve as paid consultants or advisors to the company.
- **Appointment period:** Independent directors are encouraged to only serve for a maximum of nine cumulative years and an independent "lead director" should be appointed.
- **Oversight responsibilities:** Effectiveness in the Board's oversight responsibilities could be enhanced with the establishment of an audit committee, a risk management committee and a corporate governance, nomination and remuneration (CGNR) committee with each comprising of a minimum three non-executive directors, and a majority, including the committee chairman should be independent.
- **Code of Business Conduct:** The Board should implement and monitor compliance of a Code of Business Conduct and Ethics, for promotion of an ethical corporate culture.
- **Annual self-assessment:** There will be annual self-assessment for the Board's performance with transparent review criteria and process supported by the CGNR and/or periodic involvement of third parties.



## (2) Control Environment

### Principle 7: Establishing a Sound Risk Management and Control Environment

This area describes more specifically the Board's ultimate responsibility in overseeing the establishment and functioning of the company's internal control system under an effective risk management framework. The Code suggests a three-line of defense model containing internal controls, risk management and internal audit with reference to different leading standards and benchmarks like COSO, COBIT, BASEL and IIA's. Cyber security risk is also a new concept in risk management to the Board's attention.



### Key highlights and developments

- **Risk management and internal control frameworks** should be adopted by the Company under oversight of the Board that take ultimate responsibility over the existence and implementation of these frameworks. Internationally recognised practices like "the Three Lines of Defence" model (developed by IIA), together with different well-known risk and control frameworks (COSO, COBIT, BASEL etc.) are strongly and officially recommended.
- **An Internal Audit function should be established** (in line with recent regulations) with a direct reporting line to the Board (or its Audit Committee) that has ultimate oversight roles ensuring the highest independence of the Internal Audit function. IIA's standards and guidance together with relevant local requirements are considered as international best practices.
- Risk management activities with a central **ERM (enterprise risk management)** are to be effectively executed by the management and monitored by the Board's Audit Committee or Risk Committee (if any). The Board should dedicate time for risk management strategy and set the risk appetite and risk tolerance.
- The Board's adoption of ERM should **encompass cybersecurity risk as well as establishing the necessary compliance and risk management functions**. A supporting whistle-blowing mechanism should be developed for employees and stakeholders.
- **The Board Audit Committee plays a vital role in selecting, evaluating, and overseeing the quality and independence of external auditors**. Audit Committee should ensure the external auditors should refrain from providing any non-audit services to the Company. Non-audit services provided should be free of conflicting interest and the non-audit fees, if any should not exceed the audit fees.



## (3) Disclosure and Transparency

### Principle 8: Strengthening Company Disclosure Practices

Following this principle, the Board should ensure and oversee adequate, effective and transparent communication and disclosure to shareholders and stakeholders. There should be policies and procedures for communicating and disclosing information including relevant financial and non-financial reporting (Environmental and Social). Information on performance and remunerations of Board members and key executives are recommended.

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## (4) Shareholder rights

### Principle 9: Establishing a Framework for Effective exercise of Shareholder Rights

The Code defines the Board's roles to ensure the equitable treatment and protection of all shareholder rights by adopting relevant policies and procedures. These include ensuring existence of a fair and consistent dividend policy and compliance of a Related-Party Transaction policy.

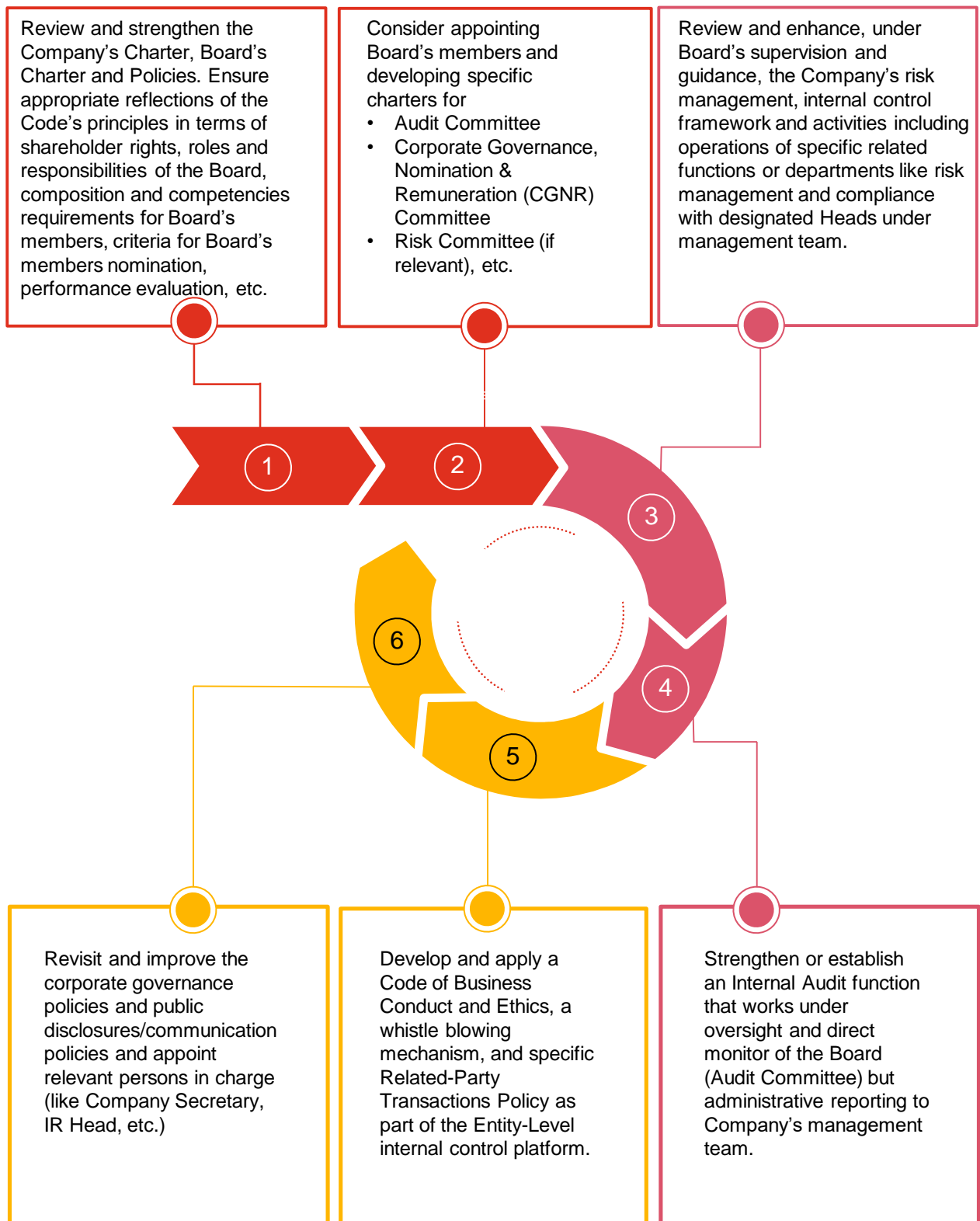
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## (5) Stakeholder relations

### Principle 10: Building Effective Stakeholder Engagement

Effective engagement with stakeholders who are affected by the Company's operation is ruled by relevant policies endorsed by the Board. This is about the relationship and engagement with stakeholders along the Company's value chain such as suppliers, customers, employees, society and environment, etc. for sustainable development/growth. It also recommends anti-corruption and anti-bribery policy as part of the Company's Code of Business Conduct and Ethics.

## Actions to consider for adoption of the CG code



# Contact us

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. For further information, please reach out to us.



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