

4. Next Steps towards PD

4.1. Stepwise Approaches for Introducing PD

4.1.1. Monitor candidate PDs

Firstly, MOF is suggested to identify and monitor PD candidates, supposedly during 2007. A set of necessary sub-steps may include:

- Identify candidate PDs.
- Identify benchmark bonds.
- Monitor auction and underwriting results for a year.
- Monitor trading results for a year.

4.1.2. Pilot-test PD

Secondary, MOF is suggested to pilot-test the PD system, supposedly during 2008. A set of necessary sub-steps may include:

- Design a tentative PD scheme (designator, membership, target securities, target transactions, obligations and privileges).
- Amend regulations (namely, Decree 141, Circular 29 and Circular 21).
- Pilot-test PD and monitor their performances.

Table & Chart 4-1: Example of PD pilot-test scheme in Vietnam (2008)

Designator		➤ MOF
Membership		➤ Banks and securities companies who clear minimum bidding and successful bidding commitments.
Target Securities		➤ Government securities with tenures of up to 5 years.
Target Transactions	Primary Market	➤ Auction, only. ➤ Retail excluded.
	Secondary Market	➤ Outright buy/sell (for reference price), only. ➤ Repo excluded.
Obligations	Primary Market	➤ Minimum bidding commitment by tenure (around 5 to 10% of issue amount per month, quarter and/or year). ➤ Minimum successful bidding commitment by tenure (around 3 to 5% of issue amount per quarter and/or year).
	Secondary Market	➤ Reference price quoting (indicative, not firm).
Privileges		➤ Exclusive access to auctions.

Source: Author's example schematization

4.1.3. Introduce and redesign PD

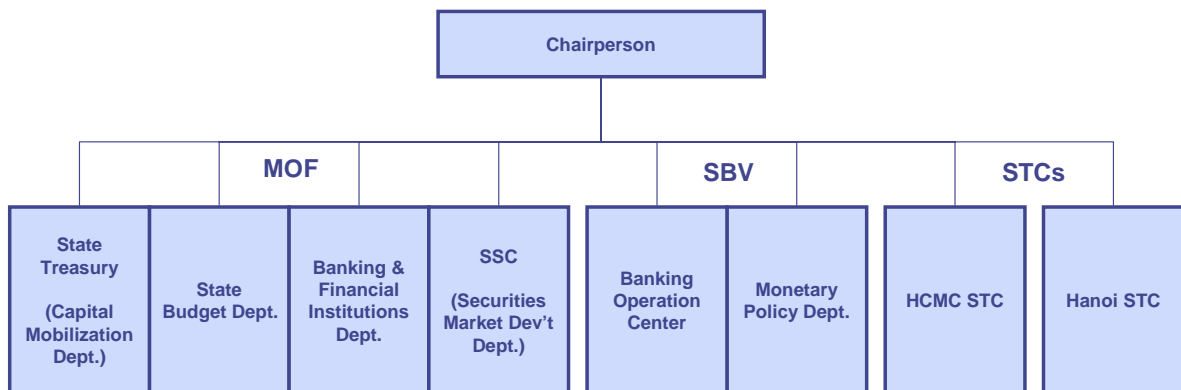
Thirdly, MOF is suggested to identify and monitor PD candidates, supposedly during 2009. A set of necessary sub-steps may include:

- Designate PDs
- Monitor PDs performances
- Redesign PD scheme by reflecting PDs performances

4.2. Implementation Formation

Reforms of both primary and secondary markets shall necessitate enormous efforts and changes in the way of business among relevant authorities and market participants. Therefore MOF is suggested to establish the formation of “Government Bonds Reform Committee” or alike at the earliest possible near future, in order to implement such reforms and to introduce PD. Should MOF want to establish a domestic debt management office, then such a committee or alike might facilitate its process.

Table & Chart 4-2: Example of structure of Government Bonds Reform Committee



Source: Author's schematization

4.3. Suggested Roadmap towards PD

In terms of timeline, suggested below is a roadmap for introducing PD in Vietnam.

Table & Chart 4-3: Suggested Roadmap towards PD

		2006	2007	2008	2009	2010	
3.1. Reform the primary market	3.1.1. Concentrate 2,3,5 years bonds to auction	Shift gradually					
	3.1.2. Concentrate 10-15 years bonds to underwriting	Concentrate					
	3.1.3. Announce annual issuance plan 3.1.4. Announce annual auction and underwriting plan 3.1.5. Announce quarterly auction and underwriting calendar		Start to announce				
	3.1.6. Relax ceiling interest rates	Narrow the gap	Merge to 5 years	Set at prime rate	Examine abolishing		
	3.1.7. Reopen	Examine regulations and taxation		Start to reopen			
	3.1.8. Diversify investor base	Encourage VSS and VPSC to buy in		Enhance other institutional investors			
	3.1.9. Strengthen domestic debt management	Reconcile data	Centralize database	Deepen domestic debt management			
	3.2. Reform the secondary market	3.2.1. Amend the reporting requirement	Amend a regulation	Start to require			
		3.2.2.. Buyback		Examine a regulation	Start to buyback		
4.1. Stepwise Approach for Introducing PD			Monitor PD candidates	Pilot-test PD	Introduce PD	Redesign PD	

Source: Author's schematization