

## **I. Section I: Findings and Recommendations**

### **1. Overview of Government Bond Markets**

#### **1.1. Legal and Regulatory Framework**

##### **1.1.1. Legal framework**

Decree No. 141/2003/ND-CP of November 20<sup>th</sup>, 2003 on issuance of government bonds, government-guaranteed bonds and local administration's bonds provides for the primary market of government securities. Decree 141 defines government bonds as "a type of debt securities, issued by the Government for given terms, with denominations and interests, certifying the Government's debt-repaying obligation towards bond owners." Under Decree 141, MOF has issued a number of its Decisions and Circulars to guide procedures in detail for issuing government bonds. Besides, SBV has also enacted a set of Decision and Circular on bidding of T-bill and foreign currency bonds, among six products of government bonds.

As for the secondary market, Decree No. 144/2003/ND-CP of November 28<sup>th</sup>, 2003 on securities and securities markets broadly provides for listing and trading of government securities as well as securities companies' businesses including reporting regime to STCs. Besides, SBV has stipulated a number of its Decisions regarding OMO, discount/rediscount, bond-collateralized lending, overdrafts and overnight lending, etc., almost all of which provide for trading of government securities between SBV and credit institutions.

##### **1.1.2. Regulatory framework**

Under Decrees 141 and 144, MOF provides for regulations on issuance and trading of government bonds at most. SSC, among a number of departments of MOF, serves as a regulator on secondary market in general, and STCs regulate details of reporting requirements to its member securities companies.

Besides, SBV regulates a variety of bond-related transactions between SBV and credit institutions as well as between credit institutions and their counterparties. SBV is a special member of HCMC STC, but is not required to report its bond-related transaction with credit institutions to STC.

## 1.2. Primary Market

### 1.2.1. Variety of government bonds

Decree 141 categorizes government bonds into six as follows:

- Treasury bills
- Treasury bonds
- Centrally-run works' bonds
- Investment bonds
- Foreign currency bonds
- National construction bonds

MOF assumes the responsibility of the issuance plans of government securities including Treasury bills, Treasury bonds, centrally-run works' bonds and foreign currency bonds. For these, MOF is to "work out plans for incorporation in the State budget estimates" (according to Decision No.66/2004/QD-BTC, hereinafter referred to as "Decision 66"). Among six types of government bonds, the issuance of national construction bonds is separately stipulated by Ordinance No. 12/1999/PL-UBTVQH10.

Usages of mobilized funds differ depending on the types of government securities. Among them, Treasury bonds and Treasury bills are issued to offset deficit of the State budget, whereas other types of government securities are issued for public works, investments and other public objectives.

Table & Chart 1-1: Usage of mobilized funds for each type of government bonds

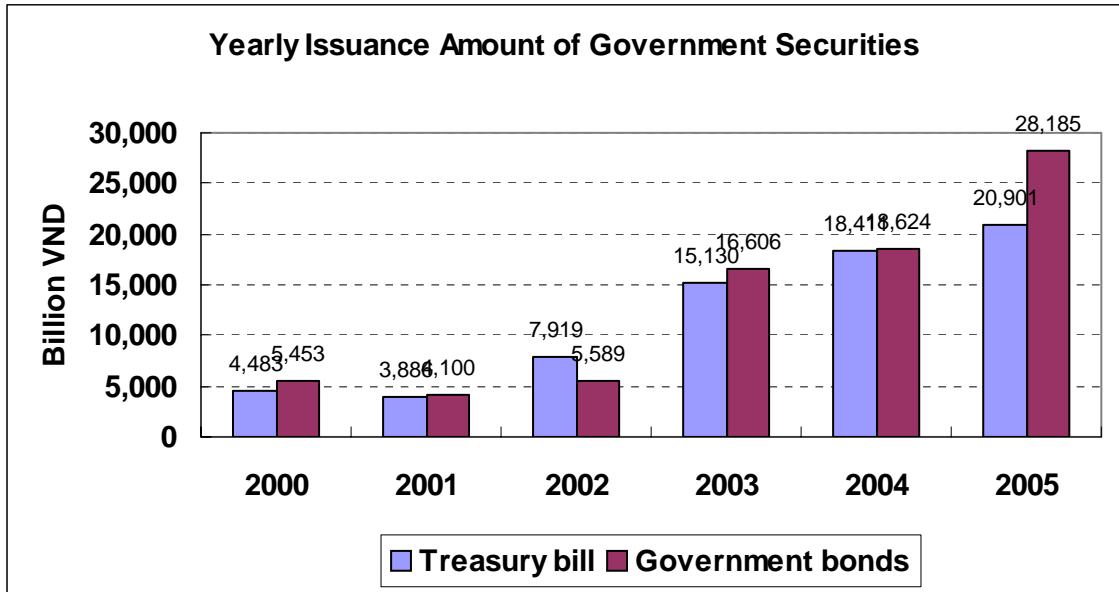
	Usage of funds
Treasury bills	To offset temporary deficit of state budget
Treasury bonds	To offset state budget deficit
Centrally-run works' bonds	Under the Prime Minister's decisions, for projects which are invested with central budget, have been included in plans but not yet provided with budget in the year
Investment bonds	For investment according to the Government's policies
Foreign currency bonds	Fore the objectives designated by the Prime Minister
National construction bonds	For investment in the construction of national important works and other essential works

Source: Author's schematization from Decree 141 and relevant Decisions and Circulars

MOF has steadily increased yearly issuance volumes of government securities since year 2000, reaching 20,901 billion VND for bills, and 28,905 billion VND for bonds in 2005. Compound annual growth rate of issuance volume is 38%, much higher than GDP growth, which indicates that debt-to-GDP ratio has also been increasing steadily.

On the other hand, outstanding volume as of yearend of 2005 reached 90.7 trillion VND (or 69.5 trillion VND excluding T-bills).

Table & Chart 1-2: Yearly issuance amount of government securities

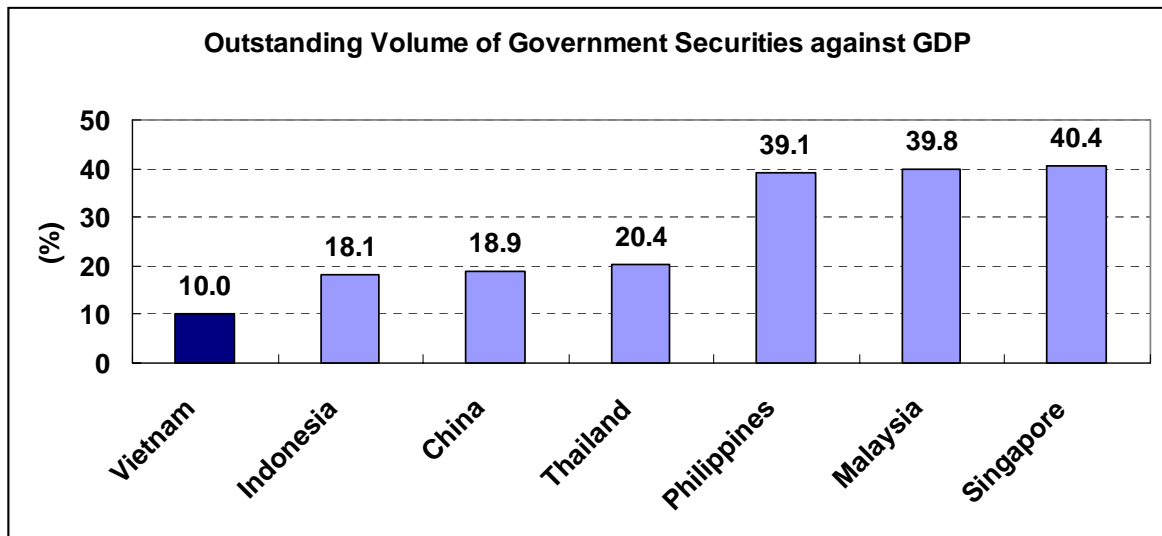


Note: Government bonds include Treasury bond, centrally-run works bond, investment bond, national construction bond and foreign currency bond.

Data source: MOF

Still, compared with other selected ASEAN+3 countries, ratio of government securities outstanding to GDP is still low at 10%.

Table & Chart 1-3: Outstanding volume of government securities against GDP



Note: as of June 2005

Data source: "Asia Bond Indicators," ADB Asian Bonds Online

### **1.2.2. Issuing organizations**

The issuing organization of Treasury bills, Treasury bonds, centrally-run works' bonds, national construction bonds and foreign currency bonds is the State Treasury, and the issuing organizations of investment bonds are State-run financial institutions, financial or credit organizations designated by the Prime Minister. Currently, only the DAF issues investment bonds.

For T-bills, MOF may “entrust the State Bank, State-run commercial banks” for issuance and repayment operations, and currently it delegates this function to SBV.

### **1.2.3. Issuance modes**

There are four types of issuance modes (channels) for government bonds, namely bidding (auction), underwriting, issuance agents and retail. Eligible channels are designated for each type of government securities.

Bidding (auction) is conducted either at SBV or STCs, and is applied to Treasury bills and foreign currency bonds (at SBV), Treasury bonds, centrally-run works' bonds and investment bonds (at HCMC and/or Hanoi STCs). In bidding, interest rate is determined uniformly at the highest bid-winning interest rate.

Underwriting means “underwriting organizations assisting the issuing organizations in carrying out procedures before issuing bonds into the securities market, distributing bonds to investors, undertaking to buy bonds for resale or to buy the remaining bonds not distributed up” (Decree 141). For each underwriting, issuing and underwriting organizations agree on the terms and conditions, including interest rate, underwriting charge, bond volume to be underwritten, minimum bond volume which must be distributed to investors, bond selling mode and other relevant matters (Circular 29). Underwriting organizations are required to distribute at least 50% of bond value they underwrite to investors.

Issuance agents mean “the other organizations entrusted by the issuing organizations to sell bonds to investors.” This channel is currently not used for government bonds.

Retail means “directly handing bonds and collecting money from every buying subject by the issuing organizations.” Although “retail” is the usual translation for the Vietnamese term “Ban le,” it does not necessarily mean that the buyers are only individuals (organizations are also eligible buyers, as explained later). Rather, this channel is characterized by “direct sales to end-investors” by the State Treasury.

Table & Chart 1-4: Government bond issuance modes

	Issuer	Issuance Modes				
		Bidding		Under- Writing	Agent	Retail
		SBV	STCs			
Treasury bills	State Treasury	X				
Treasury bonds	State Treasury		X	X	X	X
Centrally-run works' bonds	State Treasury		X	X		X
Investment bonds	State-run financial institutions, financial or credit organizations		X	X		X
Foreign currency bonds	State Treasury	X				X
National construction bonds	State Treasury	--	--	--	--	--

Note 1: X: Stipulated by Decree 141, --: Not specifically stipulated by Ordinance 12.

Note 2: In practice national construction bonds are retailed by the State Treasury.

Source: Author's schematization from Decree 141 and Ordinance 12

In year 2005, T-bills had the largest volume of issuance among government securities, followed by Treasury bonds and centrally-run works' bonds. The major modes of issuance for Treasury bonds, centrally-run works' bonds and investment bonds were underwriting and retail, followed by bidding (auction) at STCs.

Table & Chart 1-5: Annual issuance of government bonds (2005)

		Auction through SBV	Auction through STC	Underwriting	Retail	Total
1 Treasury bill	Up to 1 year	20,901	-	-	-	20,901
	(Percentage)	100%	0%	0%	0%	100%
2 Treasury bond	(Subtotal)	-	2,185	6,795	2,479	11,459
	(Percentage)	0%	19%	59%	22%	100%
3 Centrally-run works bond	(Subtotal)	-	50	3,150	7,385	10,585
	(Percentage)	0%	0%	30%	70%	100%
(Treasury and Centrally-run works bond)	2 year	-	-	586	-	586
	3 year	-	-	275	-	275
	5 year	-	2,235	8,369	-	10,604
	10 year	-	-	320	5,500	5,820
	15 year	-	-	395	-	395
	Unknown	-	-	-	4,364	4,364
	Discrepancy	-	-	-	-	-
	(Subtotal)	-	2,235	9,945	9,864	22,044
	(Percentage)	0%	10%	45%	45%	100%
4 Investment bond	2 year	-	-	230	-	230
	10 year	-	-	1,025	-	1,025
	15 year	-	75	1,690	-	1,765
	Unknown	-	-	-	-	-
	Discrepancy	-	55	250	-	305
	(Subtotal)	-	130	3,195	-	3,325
(Percentage)	0%	4%	96%	0%	100%	
5 Natinal construction bond	2 year	-	-	-	2,816	2,816
	(Subtotal)	-	-	-	2,816	2,816
	(Percentage)	0%	0%	0%	100%	100%
6 Foreign currency	(Subtotal)	-	-	-	-	-
	(Percentage)	0%	0%	0%	0%	0%
<b>Total</b>	Up to 1 year	20,901	-	-	-	20,901
	2 year	-	-	816	2,816	3,632
	3 year	-	-	275	-	275
	5 year	-	2,235	8,369	-	10,604
	10 year	-	-	1,345	5,500	6,845
	15 year	-	75	2,085	-	2,160
	Unknown	-	-	-	4,364	4,364
	Discrepancy	-	55	250	-	305
	(Total)	20,901	2,365	13,140	12,680	49,086
	(Percentage)	43%	5%	27%	26%	100%

Data source: MOF

Similar trend can also be observed from the outstanding amount, with T-bills and Treasury bonds having the largest outstanding amount. Major issuance modes for Treasury bonds, centrally-run works' bonds and investment bonds are retail and underwriting, while bidding (auction) comprises only a small portion.

Table & Chart 1-6: Outstanding amount as of yearend 2005

	Type of bond	Auction through SBV	Auction through STC	Underwriting	Retail	Total
1	T-bills	20,901 100%				20,901 100%
2	Treasury bonds		4,437 16%	9,148 33%	14,141 51%	27,726 100%
3	Centrally- run work bonds		1,171 6%	5,215 27%	13,054 67%	19,440 100%
4	Investment bonds		1,324 8%	14,674 92%		15,998 100%
5	National construction bonds				5,382 100%	5,382 100%
6	Foreign currencies bonds	232 19%			1,006 81%	1,238 100%
	<b>Total</b>	<b>21,133</b> <b>23%</b>	<b>6,932</b> <b>8%</b>	<b>29,037</b> <b>32%</b>	<b>33,583</b> <b>37%</b>	<b>90,685</b> <b>100%</b>

Unit: Billion VND

Data source: MOF

#### 1.2.4. Ceiling interest rates

Decree 141 stipulates rules on interest rates for each type of government bonds, as in the following table. In general, interest rates are to be determined by the Finance Minister periodically (Decision 66), and currently are reviewed and set on a monthly basis for each tenure. Same rate is applied for Treasury bonds, centrally-run works' bonds and investment bonds.

Under Decree 141, these rates (hereinafter referred to as "ceiling rates") do not necessarily apply for bonds auctioned at STCs or SBV. However, due to the following regulations, ceiling interest rates practically apply for auctions as well.

- Decision 66 stipulates "the Finance Ministry shall suspend the issuance when "interest rates of issued bonds exceed the ceiling rate or interest rate amplitude announced by the Finance Ministry (Article 12)," which seems to apply regardless of issuance modes.
- Circular No.21/2004/TT-BTC (guiding the bidding for government bonds and others) stipulates "the Finance Minister shall announce the ceiling interest rate in each period" (although ceiling rate "may not be prescribed" depending on specific conditions).

Table & Chart 1-7: Interest rate setting methods by type of government bonds

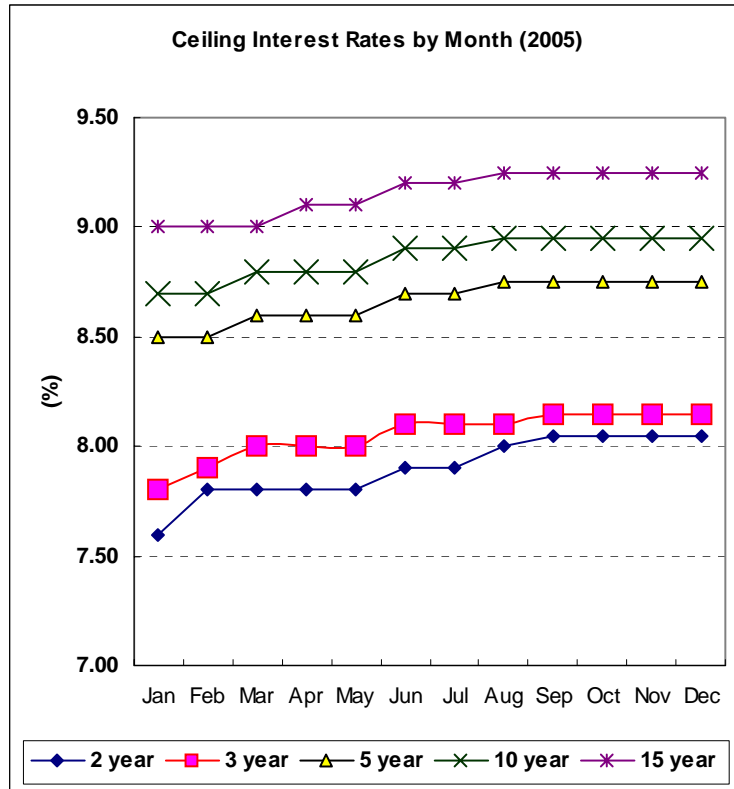
	Interest rate setting method
Treasury bills	➤ The volumes and interests of T-bills shall be formulated through bidding results. (Article 19, Decree 141)
Treasury bonds	➤ Treasury bond interests shall be decided by the Finance Minister on the basis of the practical situation of the financial market at the time of issuance. In case of bidding for interests, the interests shall be formulated according to the bidding results. (Article 25, Decree 141)
Centrally-run works' bonds	➤ The interests on centrally-run works' bonds shall be decided by the Finance Minister on the basis of the practical situation of the financial market at the time of issuance. In case of bidding for interests, the interests shall be formulated according to the bidding results. (Article 32, Decree 141)
Investment bonds	➤ The Finance Minister shall decide on the ceiling interest rate on investment bonds for each period on the basis of the practical situation of the financial market and the issuing organizations' demands for capital mobilization. In case of bidding for interests, the interests shall be formulated according to the bidding results within the ceiling limit already decided by the Finance Minister. (Article 37, Decree 141)
Foreign currency bonds	➤ The Finance Minister shall decide on the issuing time, currencies, level, interest rates, denominations and terms of foreign-currency bonds. (Article 43, Decree 141)
National construction bonds	➤ The specific interest rate for each issuance of bonds shall be prescribed by the Government (Article 10, Ordinance 12)

Source: Author's schematization from Decree 141 and Ordinance 12



Following is the ceiling interest rates of Treasury bonds, centrally-run works' bonds and investment bonds for each tenure during year 2005.

Table & Chart 1-8: Ceiling Interest Rates by Month (2005)



Data source: VCBS

### 1.2.5. Eligible participants to the primary market

Subjects entitled to be bidding members, underwriters or buyers of each type of government securities are stipulated in Decree 141. Further, the following regulations stipulate the eligibility criteria to be participants in each issuance modes:

- Decision No.29/2004/TT-BTC (underwriting and agent issuance)
- Decision No.111/2004/QD-NHNN (foreign currency bonds)
- Circular No.19/2004/TT-BTC (T-bills and foreign currency bonds)
- Circular No.21/2004/TT-BTC (bidding)
- Circular No.32/2004/TT-BTC (issuance through State Treasury System)
- Ordinance No. 12/1999/PL-UBTVQH10 (national construction bonds)

Following table shows eligible participants for each type of government securities.

Table & Chart 1-9: Eligible participants by type of government bonds

	T-bills	Treasury bonds, centrally-run works' bonds and investment bonds			Foreign currency bonds		National construction bonds
	Bidding	Bidding	Underwriting	Retail	Bidding	Retail	Retail
Credit institutions	X	X	--		X		X
Banks			X				
Finance companies			X				
Insurance	X	X			(X)		X
Investment funds	X	X	X		(X)		X
Foreign investment fund branches	X	X			(X)		X
Securities companies		X	X				X
Other financial institutions			X				X
Enterprises, economic organizations		X		X		X	X
State Bank	X						X
Political, socio-political, socio-political-professional, socio-professional org.				X		X	X
Vietnamese citizens				X		X	X
Foreigners working and residing in Vietnam				X		X	X

Note 1: X: Eligible, --: Not specifically stipulated.

Note 2: Insurance includes insurance companies and insurance funds.

Note 3: (X) for foreign currency bonds means: eligible according to Circular 19, but not eligible according to Decision 111.

Source: Author's schematization from Decree 141, Ordinance 12, etc.

In year 2006, following institutions are the designated participants in underwriting and issuance agents for government securities.

Table & Chart 1-10: Eligible underwriters of government bonds (2006)

<b>I.</b>	<b>Commercial Banks</b>
1	Vietcombank
2	Agriculture and Rural Development Bank
3	Industrial Commercial Bank
4	Investment and Development Bank
5	Ho Chi Minh Housing Development Commercial Bank
6	Sai Gon Industrial Commercial Bank ( Sacombank)
7	Phuong Nam joint Stock Commercial Bank.
8	Standard Chartered Bank, Hanoi
<b>II.</b>	<b>Securities companies</b>
1	Securities company of Investment and Development Bank
2	Securities company of Asia Commercial Joint Stock Bank
3	Thang Long securities company
4	Vietcombank securities company
5	Securities company of Agricultural and Rural Development Bank
6	Bao Viet securities company
7	Ho Chi Minh Securities company
8	De Nhat Securities company
9	Securities company of Industrial Commercial Bank

Source: Decision No. 10 /2005/QĐ-BTC and Decision No. 795/QĐ-BTC

In addition, for bidding at STCs, STCs are to review and determine the eligibility conditions on an annual basis (Circular 21). In year 2005, following institutions were the auction members at Hanoi and HCMC STCs.

Table & Chart 1-11: Government bonds auction members at STCs (2005)

<b>HCMC STC</b>		
1.	Incombank	NH01
2.	Housing Development Bank	NH02
3.	Vietcombank	NH03
4.	BIDV Nam Ky Khoi Nghia branch	NH04
5.	Eximbank	NH05
6.	Sacombank	NH06
7.	Vietnam Social Security	NH07

8.	Manulife Vietnam	NH08
9.	Prudential Vietnam	NH09
10.	Phuong Nam Bank	NH10
11.	PetroVietnam Finance Company	NH11
12.	AIA Insurance company	NH12
13.	Deutsche Bank, HCM branch	NH13
14.	Ho Chi Minh Securities company	CK01
15.	Vietcombank Securities company	CK02
16.	Bao Viet Securities Company	CK03
17.	BIDV Securities company	CK04
18.	Incombank Securities company	CK05
19.	Agribank Securities company	CK06
20.	Hai Phong Securities company	CK07
21.	ACB Securities company	CK08
22.	Saigon Securities company	CK09
23.	Thang Long Securities company	CK10
<b>Hanoi STC</b>		
1	AIA Insurance company	
2	De Nhat Insurance company	
3	Bao Viet Securities Company	
4	Hai Phong Securities company	
5	ACB Securities company	
6	Incombank Securities Company	
7	Agribank Securities company	
8	Vietcombank Securities company	
9	BIDV Securities company	
10	Sai Gon Securities company	
11	Thang Long Securities company	
12	Ho Chi Minh Securities company	
13	Vietcombank Financial Leasing company	
14	Postal Savings company	
15	Vinashin	
16	Vinatex Finance Company	
17	Manulife Vietnam	
18	Chinfon Bank	

19	Dragon Capital Market Ltd.	
20	BIDV	
21	Incombank	
22	Vietcombank	
23	Vietnam International Bank	
24	Techcombank	
25	Maritime bank	
26	Sacombank	
27	Vietnam Insurance Corporation	

Source: HCMC and Hanoi STCs

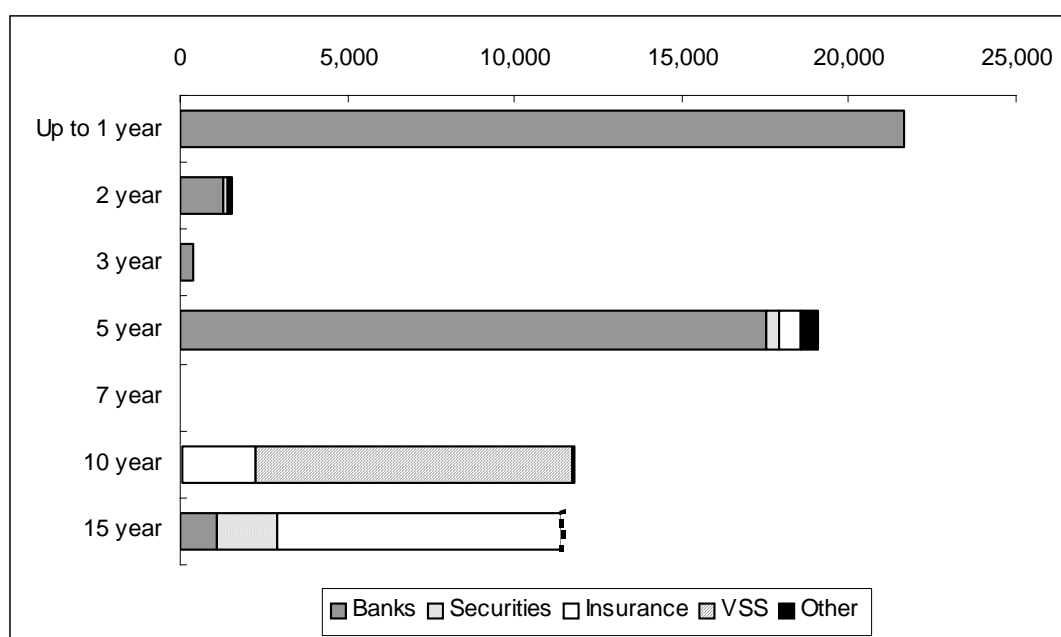
### 1.2.6. Investors

According to Decree 141, the following institutions are entitled to buy Treasury bonds, centrally-run works' bonds and investment bonds. Since these three types of government bonds comprise 70% of the whole outstanding amount, most investors are considered to fall under the following categories.

- Credit organizations
- Insurance companies, insurance funds, investment funds
- Vietnamese enterprises and economic organizations of all economic sectors
- Foreign organizations operating lawfully in Vietnam
- Vietnamese citizens, overseas Vietnamese and individuals being foreigners working and living lawfully in Vietnam

Following chart shows the composition of end-investors for T-bills, Treasury, centrally-run works' and investment bonds issued through auction and underwriting, as well as those "retailed" to VSS<sup>1</sup>. Banks hold most of bonds with tenures of up to 5 years, and life insurers and VSS hold most of 10 and 15 years bonds.

Table & Chart 1-12: Outstanding volume by end-investors (Dec2005/Jan2006)



Note 1: Market value of 2-15 years bonds as of 23 January 2006 (except for outstanding volume of VSS as of yearend 2005); outstanding volume of up to 1 year as of yearend 2005.

Note 2: Data includes only T-bill, treasury, centrally run-works and investment bonds issued through auction and underwriting modes, as well as those "retailed" to VSS.

Unit: Billion VND

Data source: MOF, SBV, HCMC STC and VSS

<sup>1</sup> VSS buys government bonds (in registered form) through retail.

## 1.3. Secondary Market

### 1.3.1. Trading methods

Trading of listed securities is to be conducted through trading members via trading system of HCMC STC<sup>2</sup>. Currently, trading members of HCMC STC are limited to securities companies. Therefore, all transactions of listed bonds are done through the brokerage by securities firms, including inter-bank transactions and buy/sell-backs (repos)<sup>3</sup>.

There are two trading methods applied in HCMC STC: one is order-matching transaction, and the other is negotiable transaction (or put-through method). The latter method was allowed and introduced since August 16, 2004, and has quickly spread as a trading method for bonds, as this method matches the product characteristics of bonds.

In terms of types of transactions at HCMC STC, two types of transactions are considered to exist. The first one is outright, whereby one party sells or buys particular bonds with the other party. The other is repo (in a broad sense), whereby one party sells or buys particular bonds with the other party, with formal or informal agreement to buy back or sell back the same bonds after a particular period of time (including “discount and rediscount” method stipulated by the State Bank). The latter type of transaction (hereinafter referred to as “repo” in a broad sense) has become increasingly popular after the State Bank’s decision to allow credit institutions to “discount and rediscount” valuable papers for clients (Decision No.1325/2004/QD-NHNN).

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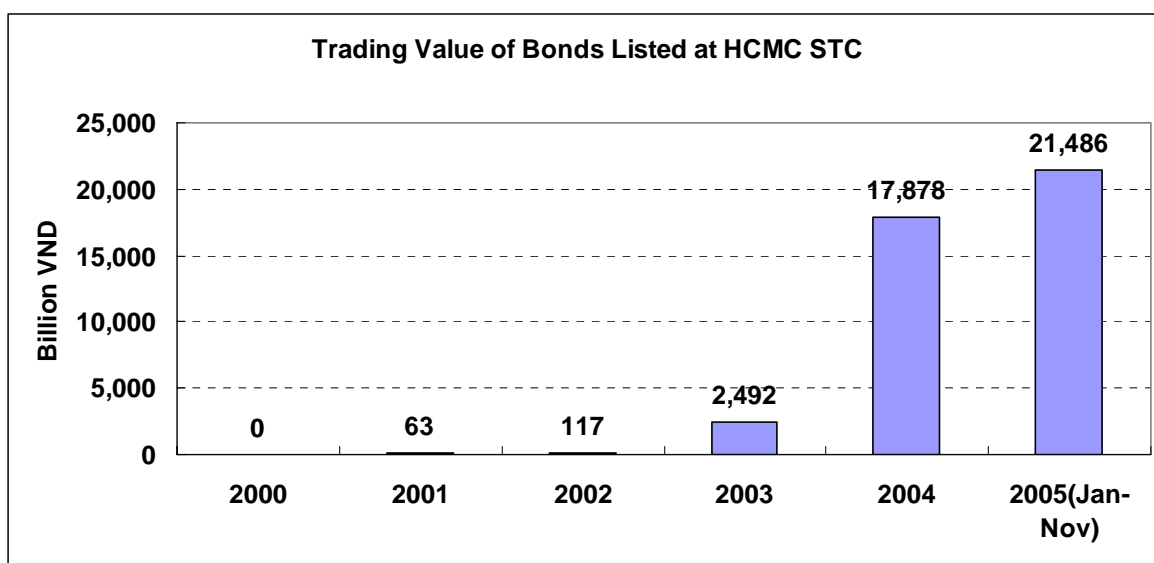
<sup>2</sup> Government bonds, government-guaranteed bonds and local administration bonds are required to be listed at HCMC STC.

<sup>3</sup> Exception is the transactions between the State Bank and credit institutions, whereby credit institutions can trade bonds through the custody accounts of SBV at STC.

### 1.3.2. Trading volumes

Trading of bonds at HCMC STC has seen rapid growth since year 2004 (as shown in the graph below), mainly due to the regulation on discount and rediscount as written above (Decision 1325). Among the total trading value of 21,486 billion VND during January to November 2005, as much as 85 to 90% is considered to be repo, according to NRI's interviews with market players.

Table & Chart 1-13: Trading Value of Bonds Listed at HCMC STC



Note 1: Bonds listed at HCMC STC include government bonds (besides treasury bill), not a few local administrations' bonds, and a few credit institutions' bonds.

Note 2: Trading here means put-through or negotiable transactions.

Data source: HCMC STC

Since most of the transactions are considered to be repo, the purpose of trading at STC is mostly short-term financing. Below table compares STC trading with open market operations (OMO) by the central bank. Market players trade each other through STC more frequently than with SBV, but its value per transaction remains smaller. For banks, bond trading at STC can be deemed to be a supplementary tool to OMO with the State Bank.

Table & Chart 1-14: OMO by SBV vs. Trading through HCMC STC (Jan-Oct/Nov2005)

	Open Market Opr.		HCMC STC
	SBV Buy	SBV Sell	(Put-through)
<b>Value</b>	81,265	1,800	21,486
<b>Number of Transactions</b>	119	8	1,041
<b>Value per Transaction</b>	683	225	21

Unit: Billion VND, except for number of transactions

Note1: Trading activities include both outright and buy/sell-back transactions. Among them, around 80-85% are considered to be the latter (according to NRI's market



interview), and therefore comparable to OMO in terms of their functions for banks.

Note2: Data for OMO is for period between January to October 2005, and data for HCMC STC is from January to November 2005.

Data source: SBV and HCMC STC

### 1.3.3. Intermediaries

Intermediaries in the secondary market are securities companies, who are the trading members of HCMC STC<sup>4</sup>. Below is the list of members as of March 2006.

Table & Chart 1-15: List of members at HCMC STC

No	Name	Full name	Function
1	<a href="#">ACBS</a>	ACB SECURITIES COMPANY Ltd.	Brokerage - Dealing - Underwriting - Portfolio management - Finance and investment consultancy
2	<a href="#">AGRISECO</a>	AGRIBANK SECURITIES COMPANY Ltd.	Brokerage - Dealing - Underwriting - Portfolio management - Finance and investment consultancy
3	<a href="#">BSC</a>	VIETNAM INVESTMENT & DEVELOPMENT BANK SECURITIES COMPANY Ltd.	Brokerage - Dealing - Underwriting - Portfolio management - Finance and investment consultancy
4	<a href="#">BVSC</a>	BAOVIET SECURITIES JOINT STOCK COMPANY	Brokerage - Dealing - Underwriting - Portfolio management - Finance and investment consultancy
5	<a href="#">DAS</a>	EASTERN ASIA BANK SECURITIES COMPANY Ltd.	Brokerage - Dealing - Portfolio management - Finance and investment consultancy
6	<a href="#">FSC</a>	FIRST SECURITIES JOINT STOCK COMPANY	Brokerage - Dealing - Underwriting - Portfolio management - Finance and investment consultancy
7	<a href="#">HASECO</a>	HAIPHONG SECURITIES JOINT STOCK COMPANY	Brokerage - Dealing - Portfolio management - Finance and investment consultancy
8	<a href="#">HSC</a>	HOCHIMINH CITY SECURITIES CORPORATION	Brokerage - Dealing - Underwriting - Portfolio management - Finance and investment consultancy
9	<a href="#">IBS</a>	INCOMBANK SECURITIES COMPANY Ltd.	Brokerage - Dealing - Underwriting - Portfolio management - Finance and investment consultancy
10	<a href="#">MSC</a>	MEKONG SECURITIES CORPORATION	Brokerage - Finance and investment consultancy
11	<a href="#">SSI</a>	SAIGON SECURITIES INCORPORATION	Brokerage - Dealing - Underwriting - Finance and investment consultancy
12	<a href="#">TSC</a>	THANGLONG SECURITIES COMPANY Ltd.	Brokerage - Dealing - Underwriting - Portfolio management - Finance and investment consultancy
13	<a href="#">VCBS</a>	VIETCOMBANK SECURITIES COMPANY Ltd.	Brokerage - Dealing - Underwriting - Portfolio management - Finance and investment consultancy

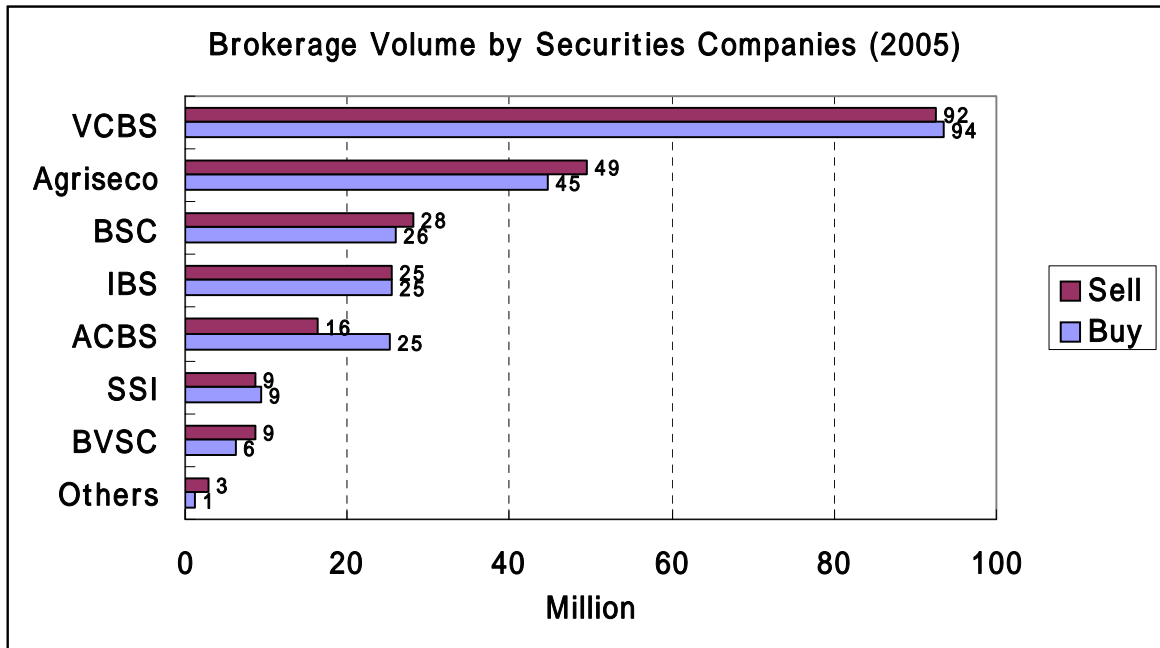
Source: HCMC STC

<sup>4</sup> Securities companies that have brokerage and/or self-trading license granted by SSC and have fulfilled member registration procedure at STC are eligible to be members of HCMC STC, according to Decree No.144/2003/ND-CP. They have the distinguished right to trade via trading system of STC.

Securities companies usually execute trades after bilateral negotiations between the transacting parties (clients of securities companies) have been made, and thus this type of intermediation can be described as “brokerage,” rather than dealing.

In terms of brokerage volume, top 2 securities companies share 60% (top 5, more than 90%) in year 2005.

Table & Chart 1-16: Brokerage Volume by Securities Companies (2005)



Note: Data includes bonds (treasury, centrally run-works and investment bonds, almost all) listed at HCMC STC.

Unit: Volume (not market value)

Data source: HCMC STC

## 1.4. Custody, Clearing and Settlement

There are four different routes for government bond issuance as follows.

- 1) Underwriting at State Treasury of MOF and listing at Ho Chi Minh City Securities Trading Center (HOSTC) for Treasury bonds, Centrally-run works bonds and Investment bonds.
- 2) Auction and listing at HOSTC for Treasury bond, Centrally-run works bond and Investment bonds.
- 3) Auction at SBV for Treasury bills.
- 4) Retail at State Treasury's head quarter and its branch offices for Treasury bonds, Centrally-run works bonds and National Construction bonds.

A general plan of the total annual volume of underwriting of government bond issuance is approved at the last session of the annual National Assembly meeting. Based on the approved amount, MOF make up a quarterly and monthly issuance schedules. Treasury department of MOF advise SBV and SSC (STC) of the volume of auction and underwriting on quarterly base within first 10 days at the beginning of quarter. Following are the outlines of administrative operational flows of each issuance process.

### 1.4.1. Underwriting at State Treasury

Settlement operation of underwriting at State Treasury is as follows.

- 1) State Treasury publishes a notice for each government bond issuance upon the authorization by MOF.
- 2) The notice is published from one month to one week at latest before the issuance.
- 3) State Treasury sends the notice to underwriting members who start studying the potential appetite from investors after the receipts of notice.
- 4) Underwriting members submit an application after studying investors' appetites.
- 5) State Treasury holds a meeting for each issuance to discuss on the volume, maturity and so forth with the underwriting members.
- 6) Only the members who are seeking to buy can participate in the meeting.
- 7) State Treasury and the underwriting members enter into a signed agreement.
- 8) The payment for the settlement is usually conducted one or two days after the agreement. The maximum number of days allowed until the payment is five according to the circular.
- 9) The payment is made by remittance to the State Treasury's account opened at the Operating Center at SBV.
- 10) State Treasury sends an official letter by fax followed by mail of the original one to HOSTC for listing, depositing and clearing of the bonds. All the underwritten bonds are listed on HOSTC in a book-entry form.
- 11) Investors are entitled to withdraw the physical certificate of the bond on their request.
- 12) HOSTC deposits the underwritten bonds two or three days after the payment. During the period from the payment to deposit, investors can not deal the

said bonds, because bonds are yet to be posted on their securities account and not available for trading.

- 13) The issuance date is equal to the payment date of the proceeds.
- 14) HOSTC advises State Treasury of the coupon payment date and redemption date, on which State Treasury transfer money accordingly.

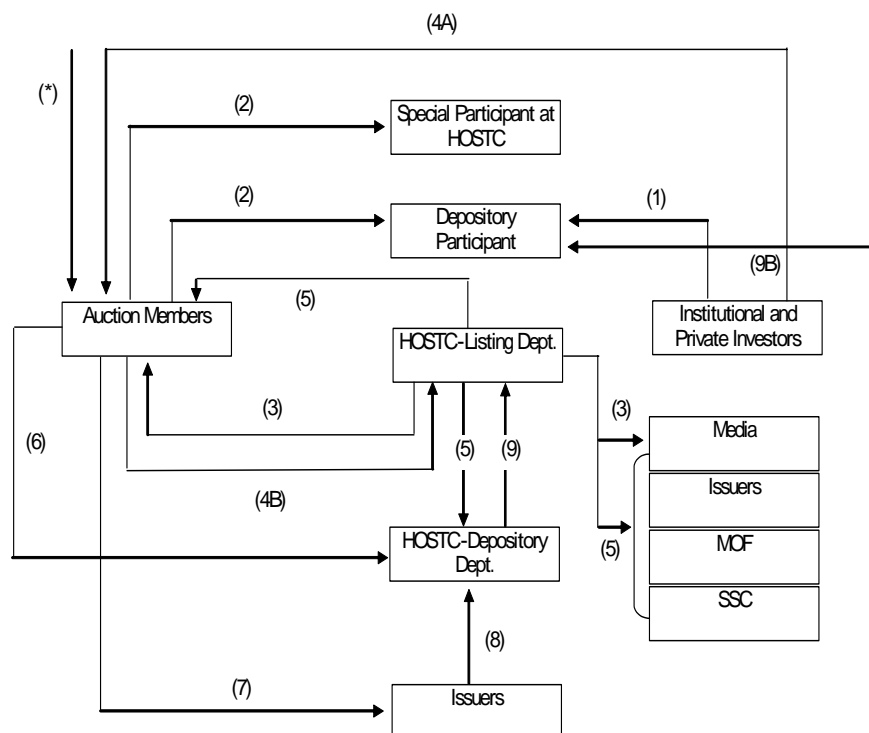
#### **1.4.2. Auction at HCMC STC**

Registration to be an auction member is required periodically once a year at the end of each year. Members apply to HOSTC for the said registration no later than 15th November, while HOSTC informs the member of its approval no later than 15th December. HOSTC confirms within five business days after receiving adequate documents on a requested basis. The 1.4.flow chart shows a chain of operational procedures of auction at STC.

- 1) Institutional and Private Investors who want to take part in one auction have to open a depository account at a depository participant of HOSTC;
- 2) In order to participate in an auction, auction members have to open a depository account directly at HOSTC (in case of special participant) or at a depository member of HOSTC.
- 3) On the fourth business day prior to the auction day, HOSTC informs the auction members of the auction (by fax or by physical delivery of the related document) and the media
- 4) 4A) Institutional and private Investors can place an order through an auction member  
4B) Auction members have to provide Registration Form for auction with the sealed documents and put directly into a box placed on the auction day at HOSTC from 8:00 to 13:00
  - The minimum auction volume is 100.000.000 VND;
  - Each Registration Form accommodate five different auction rates at most;
  - To competitive auction, an auction rate must be described in percentage per annum with the maximum of two decimals:
  - Where no ceiling rate is applied, successful auction volume is determined by those from the lowest rate to the rate, at which accumulated successful bids reach a point of the required issue amount.
  - On the other hand where ceiling rate is applied, successful auction volume is determined from the lowest rate bid to the highest as far as the highest bid rate is within the ceiling rate.
  - In the above two cases, the highest successful bid rate is applied as the issuance rate to all auction members.
  - In case competitive and uncompetitive auction are accommodated at the same time: the uncompetitive auction volume must be equal or lower 30% the total auction volume. The uncompetitive auction members are allowed to buy treasury bonds at the same rate as the competitive auction members do.
  - There are three ways to determine the price and maturity amount: Discount Price, Par Price and Premium Price

- 5) The HOSTC-Listing Department informs the issuer, MOF, SSC and the media of the result of the auction. In addition The Listing Department of STC conveys the result to Depository Department to post into relevant Depository Participants.
- 6) To the auction members who buy bonds for and on behalf of institutional and private Investors, they have to inform the auction details of these parties to The HOSTC-Depository Department no later than 1 day after auction day.
- 7) Within two days after the auction day, auction members transfer the money to the account of the issuer. Issuance day is the second day after the auction day.
- 8) The issuers send the Money transfer List of those who win the auction to The HoSTC-Depository Department. Based on this statement, the Depository Dept. will carry out the depository registration for this bond and post the securities to relevant accounts.
- 9) The HOSTC-Depository Department sends one copy of The Certificate of Depository Registration to The Listing Department. Based on this document together with the Listing Request, The Listing Department carries out the listing procedure for this bond.

Table & Chart 1-17: Workflow of auction at HCMC STC



Source: Author's schematization from HCMC STC interviews

### **1.4.3. Auction at SBV**

Unfortunately NRI team could not have an opportunity to discuss the issues directly with the professionals at SBV who is responsible for the said operation. However, it might fair to mention that the operation at SBV is deemed to be more or less similar to what is done at STC in terms of settlement procedure, namely notice, auction, payment and posting of the securities account. One thing that should be pointed out here is that treasury bills cannot be transferred to depositary members of STC, as there is no securities account in the name of STC opened at SBV. Therefore treasury bills are traded only among banks who are members of SBV.

### **1.4.4. Retail at State Treasury**

Settlement operation of retails at State Treasury is as follow.

- 1) State Treasury breaks down the issuance amount of each issuance channel.
- 2) State Treasury and MOF discuss to make official decisions on interest rate, maturity to be applied to retail sales, but they do not fix expected volume of issuance in advance.
- 3) Individual investors come to State Treasury to pay cash and receive physical securities over the counter of State Treasury's branch offices.
- 4) The payment of proceeds can be made by remittance but most of the investors choose to pay the proceeds by cash mainly because they have to come to State Treasury in person anyway to fill in some documents required to purchase bonds.
- 5) The issuance date is fixed on the date of payment of which money is credited to the account of State Treasury at SBV.
- 6) State Treasury use the system called BMS (Bond Management System) to manage the issuance of the bonds by storing the relevant information. The system started is operation from February 2003 and is used at 600 transaction offices of State Treasury. It works fine so far but needs further enhancement and functional improvement. The currently input data is:
  - Name of a buyer
  - ID card number
  - Buyer's address
  - Issue date and maturity
  - Branch office name at which the bonds are sold.
  - Coupon rate
  - Face value
  - Series number of Certificate
  - Price (but not applicable right now because currently all bonds are issued on par value basis)

Problem that State Treasury is aware of are;

- It cannot manage foreign currency denominated bonds.
- It cannot accept data from STC and SBV.
- It has no linkage to the accounting system of State Treasury.

In order to solve the problem the State Treasury and their designated IT vendor are

entering into an agreement to upgrade functions of the system to complete by the end of year of 2006.