

## **Chapter 1: Establishment of the Vietnamese Securities Depository**

### **1. Results of Last Year's Technical Assistance**

Commissioned by the Japanese Ministry of Finance, "Technical Assistance (TA) to Vietnam to Establish the Infrastructure of the Government Bond Market Settlement System" was provided in FY2004. The TA was based on the TA in FY2003, where the problems related to the Vietnamese primary and secondary government bond markets and the settlement system as well as several possible solutions for those problems were highlighted. For example, with regard to the primary market, the issue that issuances were carried out through various channels according to the various needs of the securities trading center, the central bank and the State Treasury, were pointed out. The related information was not centralized, and issuances and a management were not conducted in an efficient way. With regard to the secondary market, the current Decree on Securities and Securities Market, in effect, prohibits the establishment of an OTC market and the TA team pointed out that prohibition inhibits the stable growth of the secondary market. Regarding the settlement market, the TA team also pointed out that although the current transaction volume was relatively small, there is the possibility of market growth in the future and in view of that prospect, it was necessary to fundamentally review the system and the operational flow. The recommendations to improve the situation were made.

Reflecting the wishes of the Vietnamese government, the Japanese experience to help lay down the legal framework for the Vietnam Securities Depository (VSD) was explained and the draft of the related law was reviewed for the FY2005 TA.

### **2. Policies for this Year's TA**

#### (1) Issues

The FY2005 TA was planned to focus on the following areas, which were strongly requested by Vietnam in at the end of the FY2004 TA.

A. to carry out a research and to make recommendations on the unresolved issues and problems related to the establishment of an operational flow and the introduction of the system for VSD, which is planned to be launched in 2007<sup>1</sup>

B. to follow up the draft of the Securities Law which concerns the VSD

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<sup>1</sup> TA team found in this year's TA that the VSD is going to start its operation in May 2006 and become independent in 2009. The organization of VSD has been already established and the staffs have been appointed by the SSC.

The basis of these activities is as follows:

- a. Banking is not the only area of financial infrastructure that is required for economic development. Capital markets are also critical, and needless to say, the bond market is one of the key areas. Developing the bond market also coincides with the ABMI objective of “nurturing highly efficient and liquid bond markets in Asia in order to utilize savings in Asia for investment in Asia”.
- b. The capital markets have yet to be developed. This is, however, an opportune moment in view of future developments to nurture various types of securities and to lay the foundation for a securities settlement system that will comprehensively deal with transaction, matching, clearing and settlement processes.
- c. The Japanese experience in which the integration of multiple settlement organizations operated in parallel occurred, and a huge volume of bond transactions is carried out daily, can be utilized in the development process of the Vietnamese bond markets.
- d. In order for the VSD to be operated efficiently, stably and safely, it has to be operated by the personnel who understand not only the legal aspects of the settlement and operational systems but also the underlying principles and spirit.

## (2) The Scope of the Research

Based on the issues above, the TA team planned to conduct the following activities by utilizing the experience of Japan in the development of bond markets.

- A. Last year, the Vietnam Ministry of Finance (VMOF) was the TA team’s counterpart, and the team worked directly with State Securities Commission (SSC) which is under the organization of the VMOF. This year, in order to further ensure that the TA should be more practical, the TA team first considered how to involve the Ministry of Planning and Investment (MPI), which is involved in various policy planning processes. In addition, the TA team planned to create a network of government ministries which play key roles in government policy-making including the MPI, in parallel to the progress of the project.
- B. Last year, the TA team made studies and recommendations on the articles related to the VSD in the draft of the Securities Law. That work will be followed-up in FY 2005 towards the enactment of the proposal. The TA team will monitor whether and how the issues that were pointed out in FY2004 are reflected in the proposal.

- C. There are two possible stages of process in the creation of the operational flow and system for the VSD, which is planned to be established in 2007 and to have comprehensive functions. (a) The first stage is to connect and integrate the IT systems at the Ho Chi Minh City Securities Trading Center (HOSTC) and the Hanoi Securities Trading Center (HASTC) (a preliminary measure). (b) The second stage is to introduce a new IT system based on (a), then to connect it to the head office in Hanoi, the Ho Chi Minh branch and to the back-up system. (to be completed by 2007) The Vietnamese authorities must form a WG to work towards creating a comprehensive IT system that will cover transaction, matching, clearing and settlement, and establishing the series of operational flows. The process of establishing such a system and operational flow should be conducted mainly by the WG, and the TA team will review the problems and make recommendations.
- D. Educational activities, such as seminars held locally, should be conducted to develop the human resources that will support the establishment and the development of the VSD as well as deepening the understanding of market development and organizing among those who will be involved in the policy making processes.
- E. The Vietnamese participants are beginning to have an incentive to write a blueprint for the bond market infrastructure planning. The team will be careful to encourage the move towards self-reliance as part of the TA activities so that the Vietnamese participants may spontaneously write the plans to lay down the overall bond market infrastructure with clear priorities.

### (3) The Initial Schedule of the TA activities

The initial schedule the TA team planned is as follows.

#### July and August

- Establishing a mutual understanding of the activities included in the Scope of Research is necessary for the establishment of the VSD in 2007 and that such activities as described above will be carried out with the Vietnamese participants in the lead with the advice provided by the Japanese side
- Establishing a WG to implement the TA activities
- Making a schedule leading to the adoption of a new system by 2007 specifying the requirements for the IT system to avoid misunderstanding on the initial conditions for creating the system

--Confirming the progress on the work of writing the blueprint for the bond market infrastructure

August to February

- Prioritizing the activities and making concrete schedule
- Adopting a “plan-do-see” review process to ensure that the established schedule will be adjusted flexibly if there are any changes in the circumstances and to meet the objectives in the end.

March

- Holding a seminar to summarize the activities of the TA
- Writing a final TA report

### **3. The Record of Activities from August 2005 and March 2006**

(1) Activities from August to September

With the basic policy as stated above in mind, the TA team informed the SSC of a plan to conduct the FY2005 TA on the following two areas in the beginning of August; a) to design a new system for the bond settlement segment of VSD, and b) to follow-up on the process leading to the finalization of the Securities Law which is likely to be enacted after 2006.

The SSC replied that they would like the TA to be on a) the integration of the settlement systems of the HASTC and the HOSTC before adoption of a new system at the VSD, and b) adoption of a new system for the VSD. They also requested the TA team to include not only bonds settlement but also stock settlement, as well as not to limit to settlements but to include transaction, matching, clearing and registration functions as well.

After visiting the VMOF and the SSC in mid-August with the NTT Data, and after some intensive discussions with the SSC, the TA team and the SSC agreed that this year’s TA will be on a) the integration of the current systems of the HASTC and the HOSTC, and b) comprehensive analysis on the effect of choosing a mono-layered system for the new system at the VSD.

The TA team gained the understanding of the SSC that the TA team will limit its advice to what the objectives of the integration of the two systems should be, based on our observations of their current functions, and the framework under which integration should be directed. The TA team then visited the HASTC and obtained a manual for securities operations from transactions to settlements. The TA team also handed a questionnaire to the SSC so as to clarify the objectives and the policies of system integration.

On the second issue of the effect of choosing a mono-layered system, it was agreed that the TA

team will provide a comprehensive analysis of various layered systems including the possible operational flow when choosing a mono-layered system, and the merits and demerits of a mono-layered system compared to a multi-layered. This approach was chosen since Vietnam seemed to have already decided to adopt a mono-layered system. However, the TA team planned to hold a forum in October for the officials of the VSD and the relevant ministries to discuss whether Vietnam will actually adopt a mono-layered system as planned or maintain a double-layered system, which is the current situation and one type of the multi-layered system. Provided that there is adequate time between this forum and March 2006, which is the end of the TA, the TA team agreed to provide support in planning and designing bond settlement system and support in writing a long-term action plan to design new bond settlement at VSD for further improvement. The TA team began by listing the pros and cons of general layered systems before considering the operational flow under a mono-layered system.

While we were in Vietnam in mid-August, the SSC made a preliminary inquiry about the plans for a nine-people delegation, consisting mainly of the SSC officials, to study the Japanese securities market and whether the IIMA can host the group.

## (2) Activities in October

The TA team visited a local consultant in Vietnam in October to explore where Vietnam was going in the choice of layered system. The FY2004 TA revealed that there will be a chapter on the securities settlement system in the new Securities Law and that the layered system will be defined in that chapter. The drafting of the law had not been completed by the time we made the visit and it was still unclear as to which layered system would be chosen.

The following day, the TA team visited the SSC and confirmed that it was still undecided whether a mono or a multi-layered system would be chosen. The SSC then requested the TA team to make a recommendation on the layered system that Vietnam should adopt, as part of the FY2005 TA. After discussions, the TA team and the SSC agreed that the TA team will a) make proposals on the integration of the settlement systems of the HASTC and the HOSTC, b) conduct a study on the layered system that the VSD should adopt, and c) support the VSD to draw the medium to long-term IT development plan at the VSD.

The TA team obtained an operational manual on securities operations from transaction to settlement used in the HOSTC for the analysis on the current system. The team also received the answers to the questionnaire regarding the objectives and policies of the system integration that was handed to SSC in August. As the first step in the TA concerning system integration, the TA team began by creating flow charts based on the operational manuals that were obtained from the two securities trading centers.

At the end of October, the JMOF visited the International Cooperation Department of the VMOF

and emphasized that in order for this TA to be beneficial to Vietnam, it was critical for Vietnam to take initiative in writing the blueprint for bond market development. Then, with the presence of SSC, the TA team explained the content of the TA to the Director of the VMOF.

The next day, the Ta team visited the SSC to further discuss the three areas of TAs which were agreed on during the meeting in the middle of the month. During this visit, both of the SSC and the TA team agreed that the TA on system integration will be conducted between November and the end of December, the TA to support the medium to long-term development plan of the IT system for the VSD will be conducted from mid December, and the TA to study the layered system that should be adopted by VSD will be conducted from January onwards. To hold a workshop after the end of each TA to share the results with the SSC and the VSD staffs from various departments is also agreed.

### (3) Activities from November to December

The TA team began to draw a system integration proposal based on the operational manuals which were obtained from the HASTC and the HOSTC, and the flow charts which were drawn up based on those manuals.

The study delegation that the IIMA were consulted about during the visit to Vietnam in August visited Japan at the beginning of November to study the Japanese securities markets. The expenses for that trip to Japan were born by Vietnam side. With the support of the JMOF and accompanied by the IIMA, the delegation visited the JMOF, the Bank of Japan, the Financial Services Agency, the Securities and Exchange Surveillance Commission, Japan Securities Depository Center, Tokyo Stock Exchange and some of the major Japanese financial institutions and received lectures on the Japanese securities market. The IIMA believes that these lectures were invaluable for the members of the mission who will be instructing the Vietnamese securities market. The cooperation extended by the Japanese institutes on this occasion contributed to the smooth execution of the TA activities.

After the visit of the delegation, the TA team visited Hanoi and Ho Chi Minh City between mid November and mid December. First the TA team visited the SSC and was informed that the contents and the schedule of the TA were approved by the SSC chairman. After the approval, the TA team requested the SSC to form a WG with 10 to 15 staffs from various relevant ministries with practical knowledge to implement the three areas of the TAs. The SSC assigned 4 from the VSD, 3 from the SSC, 2 from the HASTC and 2 from the HOSTC, total 11 staffs, as the WG members. Mrs. Phuong Hoang Lan Huong, Deputy director of the VSD, was assigned as the WG leader and Mrs. Nguyen Thi Hoang Lan, Deputy director of the SSC, was assigned as the vice-leader. The other members are from those who are in charge of planning, operation, and IT system for each organization. Mrs. Ha Nguyen Huong, International Cooperation Dept. of the SSC was assigned as the contact person with the TA team.

Then the TA team visited the HASTC and the HOSTC and discussed with the WG whether the current systems and the operational flow of the two securities trading centers matched the TA team's understanding, using the flow charts created from the operational manuals. A system integration proposal was drawn up in parallel with the analysis on the current systems at the two STCs, and a preliminary proposal was presented to the WG at the beginning of December. In the discussion with the WG members and NTT Data, except WG leader, a counter proposal based on Vietnamese ideas was presented to the TA team from the WG. Based on the counter proposal, a revised system integration proposal was written at the WG's operational staff level. The next day, the leader of the WG joined the discussion and clarified that it was preferable to carry out the integration with the current system as much in place as possible, and also preferable to discuss the issues related to the transfer to the new system in the IT development plan TA. More discussions were conducted among the WG members and a final system integration proposal was drawn up. The workshop on system integration was decided to be held in the second week of January.

As regards the TA for the medium to long-term IT development plan for the VSD, the TA team presented a questionnaire as part of its investigation to ascertain the general development plan that was envisaged by the SSC at that point. Along with the questionnaire, the TA team sent a list of issues that Vietnam should take into account as they drew up the IT development plan. The list was made based on the recommendations made by international organizations. The TA team and the WG agreed to start discussions on the IT development plan in January and hold a workshop on the theme in the second week of the month

#### (4) Activities in January

The TA team again visited the SSC with the NTT Data in the beginning of January and went over the system integration proposal that were agreed at the previous meeting in December, then the TA team and the WG began discussions on the IT development plan. The team received the answers to the questionnaire on the IT development plan that Vietnam was considering, and explained the core ideas on IT development that the Japanese side had. The TA team also informed the WG of the transformation that Japanese securities settlement system has brought about over the years. In order to realize the plans that Vietnam had in mind, the TA team pointed out that it was necessary to establish a project management committee (PMC) by the end of 2006 and to start discussing the important aspects of IT system in detail among those working in the area. Based on the proposal, the TA team discussed the plan with the WG and finalized the proposal for the IT development plan.

The original plan of workshop was to invite about 20 people from the SSC and the VSD, but upon the request of the SSC, the TA team and the WG invited participants from securities companies, banks and IT vendors. This brought the gathering to about 50 people. The workshops on system integration and on the IT development plan were held on January 12 and 13 respectively, and the

results of the TAs were reported at the workshops.

While the TA team were in Hanoi, the SSC requested the TA team to comment on the seventh draft of the Securities Law. The TA team decided to focus on Chapter 5, Securities Registration, Depository, Clearing and Settlement, and began comparing it to the fourth draft which the TA team studied with the Vietnamese WG members in the FY2004 TA.

#### (5) Activities in February to March

In mid February, the TA team visited Ho Chi Minh City and Hanoi for a week to conduct a market research concerning the layered system. The TA team visited a total of nine financial institutions in both cities including a securities trading center and carried out research on what problems there were in the current system, and which system the market participants wanted to choose, a mono-layered or a multi-layered. After this market research, the TA team reported the results to the WG then held a workshop on March 2 at the SSC with about 30 participants from the SSC and the VSD. The TA team explained the theoretical understanding of the layered systems in general and presented a comprehensive analysis and the results of market research. The WG explained the current double-layered system and introduced the model used by Malaysia which the VSD is researching on as one of the options for selecting a layered system.

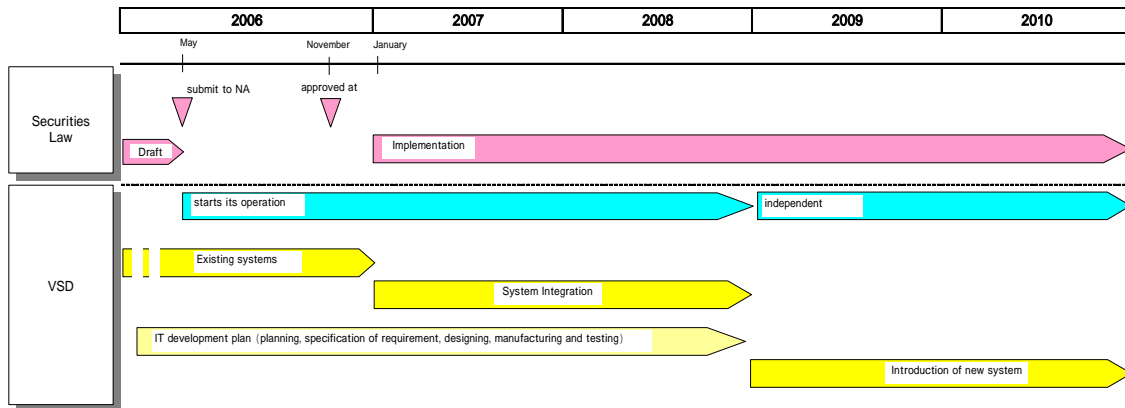
The TA team met a staff from Legal Department of the SSC to comment on the seventh draft of the Securities Law and asked for their counter comments. The TA team also received the information on what process there will be before the Securities Law is enacted and the schedule set for that process.

After the workshop on March 2, the TA team met the Vice Chairman of the SSC and reported that the three workshops on the FY2005 TAs, on system integration, the system development plan and layered system had all been carried out.

These are the records of the TA activities from August 2005 to March 2006. Please refer to the appendix 1 for more detail. The schedule of the infrastructure for Vietnam securities market which was envisaged at the end of the TA is shown below as Figure 1.



Figure 1



#### 4. Summary

In a normal flow of an IT development plan, there are five stages; planning, specification of requirement, designing, manufacturing and testing. Initially the TA team intended to conduct the FY2005 TA on the planning of bond settlement function of the VSD’s new system, which is planned to be adopted after 2009. However, since it was an urgent issue for Vietnam to create a temporary system for the VSD that would (be planned to) begin in January 2006, by integrating the current systems of the HASTC and the HOST, the TA team decided to include the proposal on system integration as a part of the TAs.

The layered system for settlement is a basic condition that must be decided for planning a new system. It is also an important aspect of the securities settlement that is regulated by the Securities Law. The analysis on layered system and making recommendations on the system that Vietnam should adopt is a part of a follow-up towards the promulgation of the Securities Law. It is in line with our initial policy. For this reason, the TA team decided to include this as a part of the TAs.

The TA team initially agreed to conduct a comprehensive analysis for choosing a mono-layered framework in the new system at the VSD, but the scope of research was extended to comparative analysis of a mono and a multi-layered system and recommendation on the system that Vietnam should adopt. Because of the time and budget restrictions, the TA team did not implement a planning exercise for the bond settlement functions of the new system but in stead, supported in drawing up an IT development plan as something of a roadmap for the whole of the new system.

The TA team believes that it was invaluable to form a WG for the three TAs, and to transfer the know-how while creating a framework whereby the Vietnamese participants took the lead in the project while the TA team answered their questions and gave suggestions. As seen in the use of the

word “cooperation” by the VMOF in the second half of the FY2004 TA, it is necessary for the two sides to work together. It was also the strong wishes of the Vietnamese participants to follow that spirit. By holding a workshop with the Vietnamese participants immediately after the individual TA, the knowledge and experience were not limited to the WG members but helped to educate other relevant people in the field. This method seems to turn out to be very efficient in conducting the TA.