

## **Chapter 4: Conclusion**

In the current situation in Vietnam, trading, settlement and depository of listed securities are conducted at both of the HASTC and the HOSTC, but independently. In July 2005, the Prime Minister signed the Decision to establish a single depository in Vietnam, i.e. the Vietnam Securities Depository. In the Securities Law that is currently being drafted, the functions and the roles of the VSD are clearly stipulated. The Securities Law is to be submitted to the National Assembly in May 2006, passed in November 2006, and promulgated in January 2007. The VSD is planned to begin its operation in May 2006, initially as a lower organization of the SSC from 2006 to 2009, then to become either a joint stock company or a limited company and to be operated as an independent securities depository in 2009.

Three stages are envisioned in the development of the settlement system for the VSD. The first stage is a period in which the systems at the HASTC and the HOSTC are to be used separately as they are currently. The second stage is the one in which the two existing systems are to be integrated and used temporarily. The third stage is the one in which a completely new settlement system is to be adopted with the timing of VSD's becoming an independent securities depository.

As mentioned in chapter 2, the FY2005 TA was involved in the designing of the integration plan of the systems for the second stage, and in the IT system development plan for the third stage.

### **1. Summary of this year's TA**

Concerning the integration plan of the systems at the HASTC and the HOSTC, the Vietnamese authorities requested that the change from the current structure, such as personnel and systems, should be as little as possible. The TA team took that into consideration and suggested connecting the two systems of the trading centers with a network of electronic circuits and to have data mirroring to establish a back-up system for each other. The SCC is expected to begin concrete examination of network building with local IT vendors, and further assistance is not expected on this issue.

Regarding the development plan of a new system which is to be adopted in 2009, the TA team proposed the establishment of a PMC, where the public and the private sectors can work together towards the reform in securities settlement system by prioritizing the functions to be installed under a realistic schedule. With the PMC taking the lead in reforming the securities settlement system, it is prerequisite for Vietnam to make a mid- and long-term development plan as a practical roadmap to achieve the securities market Vietnam pursues, in advance of drawing the IT system development

plan. Regarding the formation and running of the PMC, the transfer of know-how from Japan would be helpful for Vietnam.

The choice of securities account layered system is also an important issue that conditions the development plan of the new system which is expected to be adopted after 2009. The TA team provided the general analysis of pros and cons on the choice of a mono and a multi-layered system and necessary information for Vietnam in selecting the system. Considering Vietnam's securities market development in the future and how the system should be in line with the international standards, the TA team advised strongly that multi-layered system is more preferable. The TA team also conducted market survey on the layered system issue and fed back the results at the workshop. There was also a presentation by the WG on the current layered system and the Malaysian model which is under investigation as an option for the model of Vietnam. We believe that the basic information and knowledge on layered system issue could be shared among the SSC and the VSD staffs by the presentation from the TA team and WG.

It is preferable that information and knowledge on what the layered system is and which is suitable for Vietnam are shared not only among government staffs but also other market participants.

The points like whether the layered system which Vietnam adopts in VSD is suitable, and whether it is highly efficient, comparing with the investment cost, are expected to be discussed further in Vietnam from the perspective of cost-benefit performance.

## **2. The importance of making a blueprint**

The existence of a blueprint for Vietnam's bond market development in mid- and long- term is crucial for conducting TA.

The Vietnam government's vision for the size and the content of the government bond market and its schedule of the introductions of primary dealer, the OTC market and new transactions as repo market are needed to be clarified with priority in that blueprint. The action plan to achieve the goals is also needed to be specified.

The blueprint is needed to be evaluated comprehensively in the view point of that whether each action plan indicated in the blueprint is in appropriate sequence, and planned as realistic schedule and so forth.

TA team, closely together with JMOF repeated at every occasion how important it is for the VMOF to write a blueprint for the government bond market on its own initiative. The team understands that the VMOF is addressing the issue of blueprint.

### **3. The requests from Vietnam with regard to future TAs**

(1) The VMOF and the SSC requested that next year's TA to be started as soon as possible and in this regard, the following requests for next year's TA have been presented by the SSC at the conclusion of this year's TA activities.

#### **1 . Objectives:**

Developing the registration, depository, clearing and settlement for the following bonds and debt instruments in order to accomplish the bond transaction market by building the efficient linkage between the securities market and the currency market from the IPO to the secondary transaction:

- Government bonds; (first priority)
- Corporate bonds;
- Other debt instruments;

#### **2 . Details:**

VSD will be in charge of the functions of registration, depository, clearing and settlement for the bond transactions on the central market and the OTC market.

#### **3 . Requirements:**

- Advising of the detailed functions of the VSD in the performances of the bond issuance on the primary market and bond transactions on the central as well as OTC secondary markets (including the linkages with the currency market in operating the open market):
  - o managing registration for new issued bond's ownership;
  - o bonds depository;
  - o transaction clearing and settlement;
  - o performing owner's rights;
- Designing the VSD's system to serve the above mentioned functions.

(2) We have been focusing on IT system development for the securities in general traded at the STCs as a part of the establishment of the infrastructure for Vietnam securities market. According to the requests from Vietnam, the scope of the service by VSD is expanded to the OTC market from the STCs, while the TA's scope of securities is focused on bonds, as written "Government bonds; (first priority)"

This recalls that the article which stipulated the limitation of deposited securities in the 4<sup>th</sup> draft of the Securities Law has been eliminated in the 7<sup>th</sup> draft, taking the establishment of the OTC

market in the future into account. Additionally, this seems to have a relation with a discussion which is likely to be started for the unification of bond management from registration to settlement at the VSD including the bonds issued through the SBV and the State Treasury, to improve the current inefficient management.

(3) Those requests from Vietnam are required to be in line with the blueprint mentioned in 2. The requests are needed to be well evaluated from the view point of how the requests are included in the blueprint and whether the projects given in the requests should be conducted at this timing.

In this regard, the requests given by the Vietnam side this time could be said as an extension of what have been done in the past TAs, and could be evaluated favourably for its importance and necessity.

However, it is necessary to consider it together with the blueprint to make a final decision on whether it should be conducted in FY2006 TA, especially whether it is the TA which Japanese government should conduct by priority.