



Technical Assistance Report

Project Number: 48213-001
Capacity Development Technical Assistance (CDTA)
December 2014

Socialist Republic of Viet Nam: Strengthening Financial Markets

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 12 November 2014)

Currency unit	–	dong (D)
D1.00	=	\$ 0.0000470
\$1.00	=	D21,275

ABBREVIATIONS

ADB	–	Asian Development Bank
CCP	–	central clearing counterparty
IFRS	–	International Financial Reporting Standards
MOF	–	Ministry of Finance
SBV	–	State Bank of Viet Nam
TA	–	technical assistance
VAMC	–	Viet Nam Asset Management Company
VAS	–	Viet Nam Accounting Standards

GLOSSARY

Global master repurchase agreement	–	The principal master agreement for cross-border repurchase globally, as well as for many domestic repurchase markets. It is published by the International Capital Market Association, which is the body representing the European bond and repurchase markets.
Viet Nam interbank offered rate	–	The average interest rate at which term deposits are offered between prime banks in the Vietnamese wholesale money market or interbank market.

NOTE

In this report, "\$" refers to US dollars.

Vice-President	S. Groff, Operations 2
Director General	J. Nugent, Southeast Asia Department (SERD)
Director	K. Bird, Public Management, Financial Sector, and Trade Division, SERD
Team leader	S. R. Schuster, Senior Financial Sector Specialist, SERD
Team members	S. Ismail, Financial Sector Specialist, SERD B. Konysbayev, Senior Counsel, Office of the General Counsel M. V. Mina, Associate Project Analyst, SERD C. H. Minh, Senior Financial Sector Officer, Viet Nam Resident Mission, SERD M. Parra, Operations Assistant, SERD
Peer reviewer	S. M. Lee, Financial Sector Specialist, East Asia Department

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE	
I. INTRODUCTION	1
II. ISSUES	1
III. THE CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE	3
A. Impact and Outcome	3
B. Methodology and Key Activities	3
C. Cost and Financing	4
D. Implementation Arrangements	4
E. Governance	5
IV. THE PRESIDENT'S DECISION	5
APPENDIXES	
1. Design and Monitoring Framework	6
2. Cost Estimates and Financing Plan	9
3. Outline Terms of Reference for Consultants	10

CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 48213-001	
Project Name	Strengthening Financial Markets	Department /Division	SERD/SEPF
Country Borrower	Viet Nam, Socialist Republic of Government of Viet Nam	Executing Agency	State Bank of Vietnam
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Finance	Finance sector development		0.20
	Insurance and contractual savings		0.10
	Money and capital markets		0.30
	Total		0.60
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 3: Extreme deprivation prevented and effects of shocks reduced (Social Protection)	Climate Change impact on the Project	Low
Environmentally sustainable growth (ESG)	Disaster risk management		
Regional integration (RCI)	Pillar 3: Money and finance		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Public financial governance	No gender elements (NGE)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Partnerships (PAR)	Implementation International finance institutions (IFI)		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. TA Category:	B		
7. Safeguard Categorization	Not Applicable		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.60	
Sovereign Capacity development technical assistance: Technical Assistance Special Fund		0.60	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		0.60	
9. Effective Development Cooperation			
Use of country procurement systems	No		
Use of country public financial management systems	No		

I. INTRODUCTION

1. Viet Nam has achieved rapid economic growth over the past two decades but momentum is slowing, requiring that reform efforts deepen and accelerate. Within this context, government objectives include strengthening finance sector supervision and developing a deeper and more diversified domestic finance system capable of mobilizing funds for investment, including for critical infrastructure. The government's Socioeconomic Development Strategy, 2011–2020 identifies economic restructuring of the finance sector as a key to the country's long-term development. The country partnership strategy, 2012–2015 of Asian Development Bank (ADB) for Viet Nam supports the development strategy and prioritizes deepening of the finance sector to mobilize the private capital needed to improve infrastructure and to ensure the delivery of utilities and social services.¹ This TA, which has been requested by the government, will support this shared reform agenda for financial sector development and continue reforms initiated under the Financial Sector Deepening Program, including policy actions for subprogram 2.² The TA is included in the country operations business plan, 2014–2016.³ The TA has been discussed with the government.⁴ The design and monitoring framework is in Appendix 1.⁵

II. ISSUES

2. ADB has been supporting finance sector development in Viet Nam since 1993. An initial TA project to develop rural finance was followed by three successive sector program loans.⁶ These policy-based loans, which utilized a programmatic approach, supported finance sector development through a wide range of reforms including preparation of a basic legal framework, increased competition, enhanced information dissemination, improved trading infrastructure, stronger supervision, and new solvency ratios for credit institutions. The Public Debt Management Office and the Anti-Money Laundering Information Center were established. Most recently, the Financial Sector Deepening Program is providing an enabling environment to support the development of a short-term money market, strengthen the legal and operating framework for public debt, and enhance investor protection. The State Bank of Viet Nam (SBV) and the Ministry of Finance (MOF) completed human resource development plans, and accounting and auditing standards were strengthened to establish the groundwork for the eventual adoption of the International Financial Reporting Standards (IFRS).

3. This collaboration has contributed to the establishment of a nascent but fast growing finance sector. A basic money market has taken root and several short-term interest rate benchmarks have been identified. The local bond market, while small, is currently growing at the fastest rate in emerging East Asia on both a quarter-on-quarter (fourth quarter of 2013 and first

¹ ADB. 2012. *Country Partnership Strategy: Viet Nam, 2012–2015*. Manila.

² ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Financial Sector Deepening Program, Subprogram 1*. Manila.

³ ADB. 2013. *Country Operations Business Plan: Viet Nam, 2014–2016*. Manila.

⁴ Draft TA papers were circulated within the government and discussed during the July 2014 fact finding mission and September 2014 reconnaissance mission.

⁵ The TA first appeared in the business opportunities section of ADB's website on 8 December 2014.

⁶ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Third Financial Sector Program*. Manila; ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Second Financial Sector Program (Subprogram 3)*. Manila; ADB. 1996. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Financial Sector Program Loan*. Manila; ADB. 2002. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Second Financial Sector Program*. Manila; ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Second Financial Sector Program (Subprogram 2)*. Manila.

quarter of 2014), and year-on-year basis (first quarter of 2014). This performance reflects continuing government efforts to build a deeper, more efficient government bond market by establishing a primary dealer system, identifying benchmark securities, and developing a yield curve. The number of outstanding issues of government debt has declined and auctions now regularly include 10- and 15-year tenors. Combined stock market capitalization increased to 23% of gross domestic product by the end of 2012, from zero in 2002; and insurance penetration rates at 1.4% of gross domestic product are comparable to those of Indonesia and the Philippines. These initiatives, along with political and economic reforms initiated in 1986, helped the country achieve a lower middle-income status and reach a per capita income of \$1,755 in 2013. As a result, the population living in absolute poverty, defined as less than \$1.25 a day, fell sharply to 17% in 2008 from 64% in 1993.

4. However, to achieve higher middle-income status, and to meet the goals of the socioeconomic development strategy, more needs to be done to further develop the finance sector and increase its intermediation. While large relative to gross domestic product, the banking system's intermediation is constrained by its weak balance sheet. Nonperforming loans have proliferated due to rapid lending growth through the 2008 global financial crisis followed by a stagnating economy, a downturn in the property market, and poor performance of some highly leveraged state-owned enterprises. Concerns regarding counter-party credit risk are pervasive. The recently published Financial Sector Assessment Program report suggests a nonperforming loan ratio of 12%, well in excess of the 6.0% estimated by SBV in February 2013.⁷

5. Progress in developing a money market has been slowed by the government's need to restrain the inappropriate use of short-term lending. Sector wide corrective action, rather than bank specific, has reduced interbank lending volumes. Tenors have shortened to less than 3 months, and the number of active participants has segmented and declined. Along with excess liquidity, the market identifies primary constraints as (i) restrictive regulations arising out of the adoption of Circular 21, (ii) lack of confidence, and (iii) heightened credit risk concerns. Standardized agreements, such as for repurchase transactions, have not been developed and real-time granular statistics of money market activity are not publicly available. The Viet Nam interbank-offered rate, which serves as a short-term benchmark, is seen as indicative; market participants do not accept the measure as reflective of actual market conditions.

6. Despite recent growth, the local currency government bond market remains small and is underdeveloped and illiquid. Viet Nam exhibits the widest bid-ask spreads in emerging East Asia along with low transaction sizes and counts. The market lacks the risk management tools and skills necessary to improve the primary issuance process and encourage secondary trading. The settlement of government securities transactions carries elevated and unique risks as the cash leg of the transaction is routed through the state-owned Bank for Investment and Development. Likewise, the centralized Viet Nam Securities Depository functions largely as a central clearing counterparty (CCP), but without the necessary capital base and risk management systems. Viet Nam has not yet adopted IFRS. Vietnamese Accounting Standards, which are anchored in historical cost, hamper price discovery and provide no incentive to improve risk management.

7. To enable the further development of the financial markets, the government must provide absolute priority to addressing the large backlog of nonperforming debt that acts as a drag on the entire finance sector. ADB is providing active support to restructure state-owned enterprises to increase efficiency and achieve profitability. In the banking system, SBV's

⁷ World Bank and International Monetary Fund. 2014. *Financial Sector Assessment–Vietnam*. Washington, DC.

creation of the Viet Nam Asset Management Company (VAMC) represents a positive step. However, weaknesses within VAMC and the regulatory framework impair the organization's ability to aggressively resolve problem borrowers. Pending completion of an ongoing legal review, concurrent initiatives must be launched to ensure VAMC has the technical capacity to administer problematic borrowers.⁸ At the same time, transparency must be strengthened through the progressive adoption of IFRS, including the concept of market value. Accurate valuation of collateral is essential to encourage widespread participation in the government's efforts to address the large overhang of problem assets.

8. While recognizing the government's concerns, increased transaction volume in the money market must still be encouraged. Reliable short-term benchmark interest rates must be established to support price discovery and enhanced risk management.⁹ The legal framework must be revised and real-time, granular information must then be collected, collated, and published. Heightened counterparty credit risk must be mitigated through the introduction of standardized agreements for repurchase transactions, and related disincentives such as risk provisioning for interbank lending must be rationalized. In addition, the government's continuing efforts to develop the government bond market must now be supported by concurrent efforts to modernize the payment system and reduce risk in the government securities settlement process. Upgrades to the payment system, including an assurance of close-out netting and the eventual development of a CCP, will do much to strengthen investor confidence and increase participation in financial markets. Finally, a sequenced introduction of basic derivatives along with the planned incorporation of market value in VAS will establish the groundwork for more robust risk management techniques and strategies.

III. THE CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE

9. The TA will begin to address the large overhang of problem assets by initiating an improvement in VAMC's ability to execute problem debt resolution strategies. The TA will increase transparency, improve the reliability of financial reporting, and encourage the adoption of risk management. Technical advice will be provided to support development of the money market and a reliable short-term benchmark interest rate. Finally, the TA will increase investor confidence by reducing systemic risk in the clearing and settlement process, and by setting the stage for the introduction of hedging instruments.

A. Impact and Outcome

10. The impact will be strengthened financial market infrastructure. The outcome will be the identification and initiation of priority upgrades to finance market infrastructure.

B. Methodology and Key Activities

11. **Output 1: Supervision and resolution framework improved.** The TA will support a diagnostic to assess VAMC's structure, organization, operating processes, and staffing relative to international standards and norms. Recommendations to enhance resolution strategies will mirror effective strategies adopted within the region. The TA will support MOF's ongoing efforts

⁸ The Japan International Cooperation Agency is performing a diagnostic on the bankruptcy and secured lending framework.

⁹ Well-functioning money markets represent a fundamental building block of financial market development and enable (i) financial institutions to match short-term assets and liabilities, (ii) securities dealers to finance their inventories and make two-way markets, (iii) corporations to smooth out working capital needs, (iv) central banks to conduct predictable and effective monetary policy, and (v) the market to price financial instruments.

to introduce IFRS by providing technical advice and establishing an engagement with the International Accounting Standards Board. The component is conceived as a catalyst to encourage the eventual commercial translation of IFRS into Vietnamese by increasing demand for the service. It will fund subscriptions to commercial English translations of IFRS to facilitate drafting of enabling legislation, regulations, and local accounting standards; and a licensing agreement so that subsequent publications of the Viet Nam Accounting Standards can be closely modeled on IFRS.

12. Output 2: Money market development encouraged. The TA will support recent collaborative efforts between SBV and MOF to prioritize development of a short-term money market. It will provide an enabling environment to encourage higher volumes of interbank lending, and technical advice to establish a more reliable short-term benchmark interest rate. Technical advice covering the legal framework, standards and documentation, market practices, and data collection and dissemination will be provided. Fixed sums will be dedicated to continuing the development of a repurchase market and to supporting stakeholder education through a partnership between ADB and the International Capital Markets Association. The TA will incorporate a provision for project administration by a national capital markets expert.

13. Output 3: Transaction risks reduced. The TA will provide preliminary diagnostics and technical advice to modernize the payment system and reduce settlement risk. It will (i) support initiatives to transfer the cash settlement leg of government securities transactions to SBV; (ii) provide support to the development of an automated clearinghouse; (iii) strengthen the retail payments system and encourage cashless transactions; and (iv) provide initial diagnostics and technical advice to the Viet Nam Securities Depository to support the development of a limited CCP function. In addition, the TA will provide a framework for the eventual introduction of exchange-traded derivatives by providing technical advice covering a variety of key inputs including the legal framework, the role of exchanges, required risk management, and related capacity development.¹⁰

C. Cost and Financing

14. The TA is estimated to cost \$720,000 of which \$600,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V). The government will provide counterpart support in the form of counterpart staff, office accommodations, basic office supplies, and other in-kind contributions. The cost estimates and financing plan is in Appendix 2.

D. Implementation Arrangements

15. The packaging of the consulting services may involve one or several packages and a combination of firms and individuals.¹¹ For specifically identified engagements, market testing and discussions with the executing agency will confirm the appropriate packaging prior to soliciting expressions of interest. ADB will hire consulting firms, including the international legal expert, through quality- and cost-based selection (80:20), according to its Guidelines on the Use of Consultants (2013, as amended from time to time).¹² Individual consultants will be recruited either directly or through an organization using the individual consultant's selection procedure.

¹⁰ Government efforts will initially focus on equity derivatives given the relatively higher volumes and transparency associated with equity trading.

¹¹ Packaging of consultant assignments may be combined under a firm: (i) international interbank market and lending specialist, and international derivatives specialist; and (ii) international payment system specialist and international CCP expert.

¹² Single-source selection may be employed depending on the results of the ongoing legal survey.

ADB will manage the TA. Procurement, if necessary, will be conducted in accordance with ADB's Procurement Guidelines (2013, as amended from time to time).

16. The TA will provide an aggregate total of 24 person-months of consulting: 3 person-months of national consulting (accounting expert) and 3 person-months of international consulting (debt resolution) will be dedicated to output 1; 6 person-months of national consulting (project administrator) and 3 person-months of international consulting (money market expert) to output 2; and 9 person-months to output 3. The balance will be split evenly between three international consultants (payment system, equity derivatives, and CCP experts). An output-based contract of \$30,000 for an international legal firm will support consensus building and the development of a draft master repurchase agreement. ADB will partner with the International Capital Markets Association to provide stakeholder education utilizing an allocation of \$5,000 for repurchase workshops. A second fixed sum of \$20,000 will be allocated to purchase a license and subscriptions to support the anticipated adoption of IFRS.¹³ Outline terms of reference are presented in Appendix 3. Disbursements under the TA will conform to ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). The TA will be implemented from 1 February 2015 to 31 January 2017. SBV will be the executing agency. The primary implementing agencies will include SBV and MOF, along with their agencies and supervised entities (e.g., VAMC, Viet Nam Securities Depository, and Hanoi Stock Exchange).

E. Governance

17. Since 2008, ADB has supported efforts to strengthen governance by improving planning processes, strengthening public financial management and public administration, and improving legal transparency and accessibility.¹⁴ Public financial management reforms are at an early stage, but steady progress is being made, such as the adoption of the Anti-Corruption Law. Under the National External Debt and Public Debt Strategy, 2011–2020, aggregate public debt information was published for the first time.¹⁵ In spite of good tax collection ratios, the determination of actual budget deficits is compromised by the application of standards different from the Global Financial Statistics in the government's official accounts. Improved efficiency of budget allocations and service delivery requires better linkages between medium-term planning and budgeting, and between capital and recurrent expenditures. The government is reviewing the 2002 Budget Law to deepen implementation of the medium-term expenditure framework and performance-based budgeting, and to improve budget execution, monitoring, and implementation. The treasury and budget management information system is strengthening government budget reporting and accounting. Tax management and customs modernization reforms are under way, increasing the transparency of administrative procedures and reducing compliance costs for taxpayers. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government.

IV. THE PRESIDENT'S DECISION

18. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$600,000 on a grant basis to the Government of Viet Nam for Strengthening Financial Markets, and hereby reports this action to the Board.

¹³ This sum represents the published price of the noted products and services.

¹⁴ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan for the Socialist Republic of Viet Nam for the Implementation of Poverty Reduction Program Cluster V*. Manila.

¹⁵ Government of Viet Nam. 2012. *National External Debt and Public Debt Strategy, 2011–2020*. Ha Noi.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Strengthened financial market infrastructure	<p>By 2019: Interbank transactions published daily with volume and rates (2014 baseline: delayed publication of daily averages)</p> <p>PLCs begin measured adoption of IAS and IFRS in published reports (2014 baseline: VAS and historical cost)</p> <p>Transfer of cash leg of government securities settlement to SBV completed (2014 baseline: cash settlement provided by BIDV)</p>	<p>SBV website VBMA website News reports</p> <p>MOF website HNX website News reports</p> <p>MOF website SBV website Consultant reports</p>	<p>Assumption Global economic conditions remain favorable for development of a capital market in Viet Nam.</p> <p>Risk Political will for finance sector reforms declines over time.</p>
Outcome Identification and initiation of priority upgrades to financial market infrastructure	<p>By 2017: VAMC utilizes strengthened regulatory framework to conduct at least one asset disposition via public auction (2014 baseline: private negotiated settlements)</p> <p>Revised regulatory framework governing conduct and reporting of money market activity adopted (2014 baseline: Circulars 21 and 01)</p> <p>Framework for a limited CCP function completed (2104 baseline: no framework established)</p>	<p>VAMC website Consultant reports News reports Evaluations by global credit-rating agencies SBV website</p> <p>VBMA website News reports</p> <p>SSC website News reports Consultant reports</p>	<p>Assumption Complex and inter-related policy reforms produce the expected enabling environment.</p> <p>Risk Limited capacity of stakeholders compromises the government's ability to effectively implement the reforms.</p>
Outputs 1. Supervision and resolution framework improved	<p>By 2017: VAMC's asset management and disposition guidelines strengthened reflecting international norms (2014 baseline: asset disposition or management requires concurrence of selling bank and borrower)</p>	<p>VAMC website Consultant reports Public external evaluations by global credit-rating agencies</p>	<p>Assumption Changes to laws, regulations, and implementing guidelines are consistent with sound international practices.</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	Accounting law to support adoption of the IFRS revised and regulatory guidelines issued and approved by the government (2014 baseline: legal framework mandates historical cost-based accounting)	Consultant reports MOF website News reports	Risks Vested interests slow the pace of nonperforming loan administration and resolution. Coordination between SBV and MOF is not adequate, resulting in conflicting application of policy and disruptions in the bond and money markets. Capacity develops unevenly across agencies or between departments of the same agency. The government lacks the financial capacity to significantly upgrade trading infrastructure. The legal framework contains significant impediments that delay or prevent reforms.
2. Money market development encouraged	By 2017: Revised standards and guidelines for new VNIBOR adopted (2014 benchmark: no VNIBOR standards of best practice) Domestic repurchase agreement completed (2014 benchmark: no standardized domestic repurchase agreement)	SBV website VBMA website News reports SBV website VBMA website News reports	
3. Transaction risks reduced	By 2017: Comprehensive road map to move cash leg of government securities settlement to SBV completed (2014 baseline: no action plan) Framework for basic derivatives completed (2014 baseline: no derivatives regulation) Basic CCP framework for equity derivatives completed (2014 baseline: no CCP established)	MOF website SBV website Consultant reports MOF and HNX website MOF website Consultant reports	
Activities with Milestones 1. Supervision and resolution framework improved 1.1 Complete consultations with VAMC (May 2015) 1.2 Establish formal coordination mechanism with IASB (June 2015) 1.3 Review and evaluate legal framework for accounting and auditing (September 2015) 1.4 Approve draft accounting law (December 2015) 1.5 Complete proposals to strengthen VAMC (December 2015) 1.6 Begin incorporation of IFRS in PLC financial statements (December 2016) 1.7 Complete revisions to VAMC governing regulations (December 2017)		Inputs ADB: \$600,000 Note: The government will provide counterpart support in the form of counterpart staff, office accommodations, basic office supplies, secretarial assistance, and other in-kind contributions.	

<p>Activities with Milestones</p> <p>2. Money market development encouraged</p> <p>2.1 Complete VNIBOR diagnostic and survey (June 2015)</p> <p>2.2 Complete interbank market diagnostic (June 2015)</p> <p>2.3 Consult with VNIBOR stakeholders (September 2015)</p> <p>2.4 Complete interbank regional best practice survey (December 2015)</p> <p>2.5 Draft VNIBOR proposal (March 2016)</p> <p>2.6 Finalize VNIBOR framework (July 2016)</p> <p>2.7 Complete interbank market standards and guidelines (December 2016)</p> <p>3. Transaction risks reduced</p> <p>3.1 Complete diagnostic of payments system (September 2015)</p> <p>3.2 Complete consultations with payment system stakeholders (December 2015)</p> <p>3.3 Complete derivatives comparative survey (December 2015)</p> <p>3.4 Complete road map for transfer of cash leg (June 2016)</p> <p>3.5 Complete framework for a limited CCP function (June 2016)</p> <p>3.6 Draft derivatives guidelines (June 2016)</p> <p>3.7 Complete limited CCP function education program (December 2016)</p> <p>3.8 Initiate movement of cash settlement leg of government securities transactions to SBV (December 2016)</p>	
---	--

ADB = Asian Development Bank, BIDV = Bank for Investment and Development of Viet Nam, CCP = central clearing counterparty, GDP = gross domestic product, HNX = Hanoi Stock Exchange, IAS = International Accounting Standards, IASB = International Accounting Standards Board, IFRS = International Financial Reporting Standards, MOF = Ministry of Finance, PLC = publicly listed company, SBV = State Bank of Viet Nam, SSC = State Securities Commission, VAMC = Viet Nam Asset Management Company, VAS = Viet Nam Accounting Standards, VBMA = Viet Nam Bond Market Association, VNIBOR = Viet Nam interbank offered rate.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN

(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	424.0
ii. National consultants	53.0
b. International and local travel	40.0
c. Reports and communications	1.0
2. Licenses and subscriptions	20.0
3. Training, seminars, and conferences	
a. Workshops and stakeholder consultations	10.0
b. Foreign training programs	9.0
4. Miscellaneous administration and support costs	1.0
5. Contingencies	42.0
Total	600.0

Note: The technical assistance (TA) is estimated to cost \$720,000, of which contributions from the Asian Development Bank are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office, accommodations, basic office supplies, secretarial assistance and other in-kind contributions. The value of government contribution is estimated to account for 16% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-V).

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Output 1: Supervision and Resolution Framework Improved

1. National Accounting Expert (individual or an individual through a firm, 3 person-months, intermittent)

1. **Objective.** The technical assistance (TA) is to establish a legal and regulatory framework to support adoption of the International Financial Reporting Standards (IFRS) through the revision of the Viet Nam Accounting Standards (VAS), and to provide a catalyst for the production of a Vietnamese translation of the IFRS by the International Accounting Standards Board.

2. **Scope of work.** In coordination with the Ministry of Finance's Accounting and Auditing Department, the expert will review the existing legal framework and gap analysis between VAS and International Accounting Standards (IAS) and IFRS. The expert will assist the government in developing an appropriate legal framework and regulatory regime, through which measured adoption of IFRS can proceed. The Asian Development Bank (ADB) will purchase English language translations of IFRS and supporting implementation guidelines. ADB will also purchase licenses sufficient to pattern VAS on IFRS. Capacity development will be provided to support the adoption of market or fair value.

3. **Qualifications.** The expert will have at least 15 years of experience working as an accountant or auditor with a global designation in a regulatory setting, in a public accounting company, or as a senior financial officer in a firm; and have at least 5 years of relevant consulting experience, largely in Southeast Asia.

2. International Debt Resolution Expert (individual, 3 person-months, continuous)

4. **Objective.** The government has a plan to reduce the level of nonperforming loans in the banking system through an asset management company. The expert will identify appropriate structural improvements and upgrade asset disposition strategies that have proven effective in regional peers and can be implemented under existing Vietnamese law.

5. **Scope of work.** The expert will review the operating structure, mandate, staffing, procedures, and asset disposition methodologies of the Viet Nam Asset Management Company (VAMC), including support systems. The expert will propose recommendations to improve overall VAMC operations. Utilizing Vietnamese law pertaining to contracts and bankruptcy, the expert will propose modifications to asset disposition methodologies to improve their effectiveness. The expert will provide training covering effective asset disposition practices utilized within the region, identifying strategies that could be employed effectively in Viet Nam.

6. **Qualifications.** The expert will have at least 15 years of experience as an asset resolution expert, and at least 5 years of relevant consulting experience, largely in Southeast Asia.

B. Output 2: Money Market Development Encouraged

1. National Financial Sector Expert (individual, 6 person-months, intermittent)

7. **Objective.** The expert will provide supporting assistance to improve the operation of the money market and to introduce a reliable short-term benchmark interest rate. The expert will also provide logistical support to ADB to facilitate the overall delivery of TA and the processing of the proposed subprogram 2 of the Financial Sector Deepening Program.

8. **Scope of work.** The expert will perform research, develop position papers, and facilitate consensus building to support development of the money market and a reliable short-term interest rate benchmark. The expert will continue the ongoing diagnostic of Viet Nam's money market; and through the analysis, identify key constraints that prevent the market from achieving critical mass, supporting the formation of reliable short-term benchmark interest rates, and developing more sophisticated products such as derivatives. The expert will coordinate the conduct of continuing surveys to improve the statistical database of the State Bank of Viet Nam (SBV) covering the money market. The expert will assist and support the development of an enhanced outreach program, under local ownership, to identify and address existing and emerging issues (e.g., credit freeze, money market development, foreign exchange market, and regulatory issues). Finally, the expert will coordinate with ADB's resident mission, project officers, and staff to support implementation of TA projects and the completion of loan processing, including translation. The expert will coordinate, as requested, with the International Monetary Fund in targeted studies and training engagements to enhance SBV's technical capacity.

9. **Qualifications.** The expert will have at least 7 years of experience with international financial markets; familiarity with Viet Nam's finance sector; sufficient understanding of national legal and operating issues associated with the development of a money market; and experience in conducting research, analyzing data, and developing position papers. Fluency in English and Vietnamese is mandatory.

2. International Interbank Market and Lending Specialist (individual, individual through a firm, or a firm, 3 person-months, continuous)

10. **Objective.** The TA is to improve the function of Viet Nam's interbank market by enhancing standards and operations to follow international practice. Given the government's emphasis on developing financial markets, including the eventual introduction of derivatives, the focus of the assignment will include identifying measures to encourage and increase interbank activity within acceptable prudential norms. The expert will identify development constraints and propose solutions including enhancements to data reporting and transparency.

11. **Scope of work.** The expert will work with the national finance sector expert to complement existing diagnostics with ad hoc, as-needed diagnostics along with regional and international benchmarking exercises. The expert will utilize these diagnostics and benchmarking exercises to provide market education through which stakeholder consensus will be built. With the intent of increasing the volume of interbank transactions, the expert will identify and recommend standards of best practice (e.g., market standards), effective legal and regulatory frameworks, appropriate documentation standards, and monitoring systems. The expert is expected to identify and develop an acceptable solution to the government's request to improve data collection and transparency in the interbank market. After refining the recommendations with stakeholder inputs, the expert is expected to provide specific inputs

sufficient to support further ADB engagement, which may include, if necessary, funding to upgrade SBV's information technology systems to achieve and maintain sufficient transparency in the interbank money market.

12. **Qualifications.** The consultant will have at least 15 years of experience in money market operations as either a practitioner or regulator, although a combination of this experience would be preferred; and at least 5 years of relevant consulting experience, mostly in Southeast Asia.

3. International Legal Expert, Repurchase Agreements (firm, output-based contract)

13. **Objective.** SBV has initiated a project to introduce a repurchase market in Viet Nam. The TA objective is to build on the initial work performed in an earlier TA project to introduce a domestic repurchase agreement that conforms to international conventions and standards.

14. **Scope of work.** The firm will provide support to SBV and the Viet Nam Bond Market Association to introduce the Global Master Repurchase Agreement, or a suitable alternative, to the domestic market. The expert will build on earlier work that produced a legal survey designed to identify constraints within the national legal system that prevent or reduce the effectiveness of repurchase agreements. The consultancy will be an output-based contract with the deliverables to be identified after dissemination of the results of the legal survey and further consultations with stakeholders.¹

15. **Qualifications.** The firm will have at least 15 years of legal experience working in the securities industry with a specialty in repurchase agreements.

C. Output 3: Transaction Risks Reduced

1. International Payment System Specialist (individual, individual through a firm, or a firm; 3 person-months; continuous)

16. **Objective.** The government has requested ADB support to modernize and strengthen the payment system in terms of the legal framework, noncash payments, and monitoring systems. While broad-based advice was requested, the government's current priority is moving the cash leg of the government securities settlement process from a state-owned commercial bank to SBV, and developing an automated clearinghouse. The government has expressed interest in establishing a payment card system to increase transparency and accountability in the public sector.

17. **Scope of work.** The expert will provide the government with support for the development of a comprehensive legal framework to support the payment system and will devise an actionable plan to support the immediate to near-term transfer of the cash settlement leg of government securities transactions to SBV. The expert will provide advice to accelerate development of noncash payment methodologies (e.g., mobile banking, Internet banking, e-wallet). The expert will draft a road map to establish an automated clearinghouse and to

¹ The assignment will be completed in conjunction with a 2-day global master repurchase agreement workshop co-sponsored by ADB and the International Capital Markets Association, which will provide the instructors and training materials. A sum of \$5,000 has been reserved to cover travel and logistics.

develop a retail payment system in Viet Nam. The expert will also establish a monitoring system, based on the experiences of other central banks, which includes transnational money transfer and payment activities. To ensure supervision of the payment system is robust, the expert will design a training program for SBV to establish professional and qualified staff.

18. **Qualifications.** The expert will have at least 15 years of experience in a central bank or finance sector regulator holding a senior position as a payments system expert; and at least 5 years of relevant consulting experience, mostly in Southeast Asia.

2. International Equity Derivatives Expert (individual, individual through a firm, or a firm; 3 person-months; continuous)

19. **Objective.** The TA objective is to establish a framework for the launch of a market for basic equity derivatives. Basic derivatives will be necessary to improve the functioning of markets and will begin to drive an overall strengthening of, and focus on, risk management.

20. **Scope of work.** The expert will assist the State Securities Commission and the Hanoi Stock Exchange, and support the development of a framework (legal and regulatory) to support the eventual introduction of a basic equity derivatives market. The expert will develop legal documents governing the derivatives market (e.g., decree, circular, and other guidelines) and will consult with the Hanoi Stock Exchange and the Viet Nam Securities Depository on issues related to trading and trade reporting, including technical details, pricing methods, daily and final settlement, defining of investor's position, and determining the derivatives price band. The expert will advise the exchanges on risk management (e.g., procedures, policy, monitoring, and reporting); and provide capacity building for the regulators, exchanges, and market participants.

21. **Qualifications.** The consultant will have at least 15 years of experience in the derivatives markets as either a practitioner or regulator, although a combination of this experience would be preferred; and at least 5 years of relevant consulting experience largely in Southeast Asia.

3. International Central Clearing Counterparty Expert (individual, individual through a firm, or a firm; 3 person-months; continuous)

22. **Objective.** The government has established a medium-term goal of establishing a central clearing counterparty (CCP) to reduce systemic risk in the settlement process. The TA is to initiate this process by supporting the establishment of a clearing and guarantee function (limited CCP) through which the nascent equity derivatives market will function.

23. **Scope of work.** The expert will provide assistance and technical support to the State Securities Commission and the Viet Nam Securities Depository to develop a clearing and guarantee fund to support the pending introduction of an equity derivatives market. The expert will provide the framework through which the initial capitalization and funding will be identified and established, and will deliver technical advice to build the function's organization structure, staffing, and operating parameters.

24. **Qualifications.** The expert will have at least 15 years of experience in a senior position at a CCP, and at least 5 years of relevant consulting experience largely in Southeast Asia.