COMMERCIAL BANKING ACTIVITIES IN THE FUTURE STOCK MARKET IN VIETNAM

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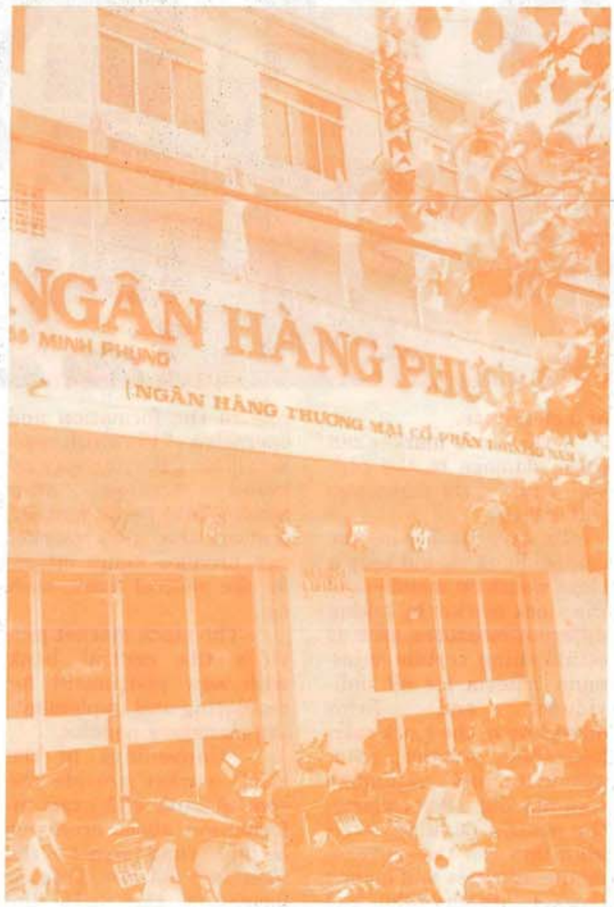
Up to now, financial intermediaries usually offer a wide range of services and carry out various activities in international finance markets. Merger and acquisitions become increasingly common with the result that banking giants become more and more powerful. This situation, on the one hand, made the competition between financial intermediaries fiercer; and allowed customers to enjoy more convenient and cheaper services on the other hand.

On Aug. 20, 1999, the Dai-Ichi Kanyo, Fuji and IBJ decided to merge together. This merger produces the world's biggest bank with total assets of US$1,300 billion and this bank is planned to come into operation as from Oct.1, 2000. According to the *Financial Times*, this bank employs some 41,000 workers to operate 772 branches and engages in three fields: banking services, cooperation and investment. The tendency to diversify banking activities has become common among financial intermediaries since the 1980s. Since the 1930s, after being affected badly by the Great Depression, many governments have set forth strict regulations in order to distinguish between financial intermediaries, and particularly define the scope of activities of commercial banks, investment banks and brokerage firms. In the U.S., the Congress passed the Glass - Steagall Banking Act of 1933 which required the separation of commercial and investment banking, that is, prevented commercial banks from underwriting shares and bonds issued by companies. This requirement worked to their rivals' advantage. Regardless of restrictions placed by the federal government, such banking giants as Bankers Trust, Chemical Bank of New York and Security Pacific Corporation of Los Angeles (which was merged with the Bank of America of San Francisco later) engaged actively in underwriting corporate securities and bonds in money markets. It's in the 1990s that the Federal Reserve System allowed investment banking activities among the biggest American banks.



General banking activities include commercial banking ones (mobilizing deposits and supplying loans for example) and investment banking ones (underwriting new issues of shares and acting as an issuing house for issuers, etc.). These activities allow financial intermediaries to expand their scope of operation, make the best use of existing resources, reduce overheads, and more importantly, meet customers' demand of various kinds. Customers could spend less time and money on their more demanding banking needs. This situation offers many competitive advantages to financial multinationals and allows them to expand their power.

In Vietnam, the Credit Organizations Law (effective from Oct.1, 1998 as a replacement for the Ordinance on Banks, Credit Unions and Finance Companies) allows commercial banks to carry out such activities as: mobilizing deposits, supplying credits, performing safe custody and settlement for customers, and other activities (buying corporate securities, taking part in money markets, dealing in foreign money and gold, acting as executor and trustee, etc.) These activities aren't different from what are carried out by commercial banks in developed countries.

On Aug.19,1999, the PM issued Decision 172/1999-QĐ-TTg on brokerage firms formed by credit organizations and listing of securities. The Decision reads: "Credit organizations are allowed to form brokerage firms that are considered as legal entities and financially independent from the credit organization. Chairperson of the Board of Directors of the credit organization decides on the formation of the brokerage firm after getting approval from the State Bank of Vietnam." This Decision details Clause 2, Article 32 of the Credit Organizations Law that allows credit organizations to "form affiliated companies by their own capital to supply banking, insurance and financial services according to current regulations set by the Government."

Clause 1, Article 29 of Decree 48/1998/NĐ-CP on Stock and stock market reads: "Brokerage firm should be a joint-stock or limited company that meets all requirements stated in Article 30 of this Decree. Credit organizations, insurance companies or corporations that want to deal in securities should form brokerage firms of their own." The brokerage firm, based on its legal capital, could act as a broker (buying and selling for his principal), dealer (trading for his own account), portfolio manager, underwriter or investment counsel. The legal capital will be VND43 billion if the firm wants to engage itself in all of these activities. Thus, the law allows commercial banks to carry out general banking activities, that is, to operate in the stock market although they have to trade in securities through brokerage firms, their affiliated companies. Generally, this regulation is appropriate to common practice among the world's financial intermediaries.

An official stock market hasn't come into being in Vietnam yet, but activities in primary market have developed incessantly after the T-bills were issued through two channels: directly through branches of the General Treasury for short-term bonds since 1990, and indirectly through issues by tender since 1995. The value of bonds issued is on the increase: VND243 billion in 1995 to 976 billion in 1996, 2,913.9 billion in 1997 and 3,920.5 billion in 1998. From May 19 to July 15, 1999, the Ministry of Finance issued the government bonds directly to the public and collected VND4,103.3 billion, equaling 102% of the planned target.

This was an issue of medium-term bonds (due in a 5-year period) on a large scale. These bonds could be traded on the future capital market. The issue of these bonds provided the Government with medium-term capital needed for rural infrastructure projects.

In addition, the volume of corporate securities has also increased over years, especially when Decree 44/CP issued on June 29, 1998 allowed state-owned companies to change into joint- stock companies. In the first half of 1999, some 70 state-owned companies were prepared for equitization.

Besides developments of the primary market, the State Securities Commission is trying to establish a Stock Exchange in HCMC (an official secondary market). On July 20,1999, the Bảo Việt Brokerage Firm held a general meeting of shareholders to declare its formation. Thus, the first brokerage firm in Vietnam was formed. In the building 47 –49 Bến Chương Dương street, District 1, HCMC, where the HCMC Stock Exchange will be situated, facilities have been installed, recruitment of staff done and training courses given. Applications for quotation have been made and examined. In short, necessary preparations have been made for the formation of a stock market in Vietnam.

This situation promises many business opportunities for commercial banks in the future stock market. First of all, commercial banks can issue bonds to raise fund. On April 20, 1998, the Bank for Investment and Development, as approved by the SBV, issued medium- and long-term bonds (due in a year and a 5-year period) and collected VND1,100 billion. Commercial banks could also issued securities in order to increase their legal capital. These securities could be listed on the future stock market after close examination by the SSC. Brokerage firms, moreover, could be potential customers of commercial banks in the future. Therefore commercial banks should work out policies to supply loan to these customers who will give shares and bonds as security for loans. The investing public can also borrow from brokerage firms (who will eventually borrow money from banks) or commercial banks. Besides supplying credit, banks tend to make financial investment in order to make the best use of bank deposit and earn some interest. In the recent issue of government bonds in 1999 for example, commercial banks and insurance companies bought VND2,594 billion worth of bonds, equaling 62.22% of the total value of issued bonds.

At present, when the plan to form a stock market is under way, commercial banks can develop their clearing system with a view to allowing exchange of checks, drafts and securities as well. This will save the future HCMC Stock Exchange from expenditures on necessary facilities and allow it to make use of the far-flung network of commercial banks when it couldn't build its own network right after its formation. What is important is the fact that commercial banks can supply a new service to a potential and promising market.

In addition, taking part in the SWIFT system and making forward deals, commercial banks could accelerate the formation and development of the Vietnamese stock market especially in foreign countries where financial intermediaries make futures and options dealings. At this stage the borderline between financial intermediaries will be removed■