The Way to the Listing of Stocks by Joint Stock Commercial Banks

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According to the Decree 144/2003/NĐ-CP on Stocks and Stock Exchange issued on Nov. 28, 2003 by the Government, the listing of stock means putting them in trade on the stock exchange.

Companies and investors can benefit a lot of advantages from the listing of stocks:

- Companies can increase their legal capital thereby enhancing their competitiveness.

- Their liquidity, safety and comparative advantages are improved. The presence of their stocks in the stock exchange helps them win trust from both investors and savers.

- Listed companies can enjoy some preferential treatment or incentives from the State and better publicity.

- The legal infrastructure, although it is not as perfect as expected, can provide investors with a stable and safe environment.

- After the listing, investors will analyze and predict changes in prices of stocks of the companies based on information about the stock exchange, companies' performance and effects caused by other stocks, which can help eliminate false effects on the price and bring it to its real value and force the companies to become more transparent in their operations.

Up to June 30, 2006, 38 concerns, including mutual funds, have had their stock listed on the HCMC Stock Trading Center but none of them is banking institution.

Commercial banks are also companies but they are usually appreciated by investors because they think banking activities are supervised by the central bank, stability and growth of the banking sector have been high in recent years, and banks hardly go bankrupt.

In comparison with other listed companies, except for some major ones such as Vinamilk and REE, the legal capital of banks is much larger (the legal capital of some joint stock commercial banks by July 2006 were as follows: HDB VND300 billion; Eximbank 814.3 billion; Habubank 835 billion; ACB 1,100 billion and Sacombank 1,899 billion).

Under current banking regulations on the listing and public issues by joint stock commercial banks, they should meet requirements about the legal capital, years of operation, proportion of bad debts to total lending in the latest two years, limit on ownership of stocks, etc. before having their stocks listed in the stock exchange. This means that the central banks has allowed and encouraged commercial banks to engage in the stock market.

Commercial banks, however, have a long way to go to meet these requirements. The most difficult task for them is to increase their legal capital in order to meet the requirement on capital safety because it is a basis for expanding their operations and market share. In their efforts to improve themselves, they should deal with the following problems:

- Tasks of classifying debts, dealing with doubtful debts and forming contingency funds as required by the Decision 493/2005/ QĐ-NHNN made by the SBV Governor on April 22, 2005: These tasks have been fulfilled rather well by Sacombank and Eximbank while many state-owned commercial banks failed to find suitable solutions. Some of them couldn't ensure the proportion of 8% of owners' capital to the total assets. The bad debts have been reduced but funds for dealing with them are not large enough. State-owned commercial banks had better solved basically this problem before thinking of their privatization and listing on the stock exchange.

- Modernization of banking services: State-owned commercial banks have started modernizing their operations, offering more services and processing necessary information. Such joint stock banks as Sacombank, Eximbank and ACB have also invested intensively in computerization with the result that many new services and products have been introduced to the market, such as credit cards, ATM card, home banking, phone banking and Internet banking. More and more individuals become familiar to banking services now.

Generally, joint stock commercial banks have tried their best to reform their machinery and management ways; perfect their supervision and internal auditing mechanisms; and get advices and expertise from strategic investors. With right policies to attract and train skilled employees, they have secured armies of young and competent officials, along with experienced and skilled managers. At present, commercial banks have beefed up remarkably their financial strength and human resource in preparation for foreign competition and global integration. Unlike state-owned banks and companies that always wait for decisions from their governing bodies, joint stock commercial banks try hard to engage in the stock market when their financial strength is healthy enough.

These efforts have been made successfully by many joint stock commercial banks. In 2003-04, Sacombank, along with ACB, made plan to list their stocks listed on the stock market, but for various reasons and shortcomings, it could only get permit from the SBV on June 2, 2006. This is a great result for the bank after years of efforts and expectation (it has increased its legal capital 20 times). From different angles and aspects, investors and commercial banks have to keep close watch on changes in the market in order to make right decisions and accumulate experience needed for the issue of share to the public and the listing of their stocks.

To engage in the stock market is a difficult task for commercial banks, but it is more difficult for them to maintain and increase their growth rate, and stabilize prices of their stocks after listing. Many factors, such as interest rate, supply of credit, exchange rate and liquidity, can affect unfavorably the prices of listed stocks. Of these factors, the most worrying one is the change in prices of stocks because they are affected not only by the supply of and demand for stocks but also by legal, social and economic factors. To deal with the risk caused by changes in the stock prices, commercial banks have to take various measures and form contingency funds. The most useful measure is to re-buy stocks when necessary to stabilize the price and cut fevers caused by speculators.

In their efforts to engage in the stock exchange, commercial banks also meet with many difficulties because they have to observe regulations set forth by the central bank and securities commission. This makes it difficult for them to develop new products or services. For example, when trading stocks through stock trading firms run by the Bank for Agriculture and Rural Development, commercial banks have to open accounts at this firm to pay or receive money. But banking regulations don't allow commercial banks to deposit money with economic concerns, so they have no item in their books to enter these sums of money. As a result, they enter it into any account they consider as suitable. Some people are of the opinion that it could be entered into the account "deposit in other banking institutions," because the stock firm is a subsidiary of the BARD, while others put it in "Other receivables." The latter seems more reasonable.

Another difficulty for joint stock commercial banks is the fact that the difference between the face value and the selling price of the stocks will be added to the legal capital of the bank, as stipulated by Decision 797/2002/QĐ-NHNN. This Decision, however, didn't mention the concept of funding bonds. To trade in the funding bonds, commercial banks have to observe Circular 19/2003/TT-BTC issued by the Ministry of Finance on March 20, 2003. In fact, all banks are reluctant to trade in this commodity because the said Circular forces them to observe relevant regulations!

On July 10, 2006, the SBV issued Decision 29/2006/QĐ-NHNN (Decision 29 for short) on adjustments to some accounts in the system of accounts for banking institutions set by Decisions 479/2004/QĐ-NHNN dated April 29,2004 and 807/2005/QĐ-NHNN dated June 1, 2005. This Decision says that the difference between the selling price of the stocks and their face value is entered into the account 603 "Surplus of equity capital."

When re-buying their stocks, commercial banks can use the account 604 "funding bonds" but the Decision 29 demands that banking institutions can only use this account when they have mechanism for this operation and keep books as instructed by the central bank. Tus, the SBV only make some preparations on the system of accounts and hasn't established regulations on the trading of funding bonds while this operation is considered by most commercial banks as a useful tool for regulating and stabilizing the price of their stocks, especially after their listing.

We hope that the above-mentioned problems will be dealt with properly in order to facilitate the listing of commercial banks ■