



ROLE OF COMMERCIAL BANKS IN THE STOCK MARKET

by MEcon. BÙI KIM YẾN

Commercial banks take a key role in the process of establishing and developing stock markets in countries. The stock market typically develops only if the system of financial intermediaries have matured, including commercial banks. They are one of traditional financial institutions in most of developing countries. They serve many individual investors and enterprises which demand capital. They mobilize deposits among which savings ones make up a large share and use these sources for investing in various kinds of stocks, giving loans and providing payment services in the stock market.

1. Stock investment

As a major intermediary institution in money trading, commercial banks are investors financing stock investments.

Commercial banks may use deposits to buy various stocks and bonds in the stock market.

When buying stocks, commercial banks may become controlling shareholders of joint stock companies. With their skill and experience in money trading, commercial banks take more advantages than other

investors in collecting information, and analyzing stocks and the stock market so as to purchase and sell profitable securities on time. In addition, they may manage investment portfolios and set up investment funds in order to attain best results and face lowest risks.

When buying bonds, commercial banks are giving loans. Bonds usually face rather lower risks so that bond investments are ordinary operations of commercial banks. Moreover, with the high liquidity of bonds, they may sell bonds whenever they wish to recover their capital.

Financing stock investment:

With many forms of financing investors in buying stocks and bonds, commercial banks offer loans to investments in the stock market. For example, they may lend money to their staff to buy government bonds or corporate shares, then deduct gradually interest and principal from their wages. Thereby they help accelerate the equitization of state-owned enterprises.

2. Capital mobilization in the stock market

Commercial banks are business entities. They also need money for their activities. Their capital is derived from many sources. An

important capital source of commercial banks in the market economy is attracted from the stock market.

Issuing stocks:

To joint stock commercial banks, this is a particularly significant source of capital.

The bank issues stocks to the public with the aim to attract money in the early stage of its establishment and operations, then if it wants to increase its capital stock, it may make additional stock issues. In case of new issue of stocks, the bank must comply with the stock market's regulations. In Vietnam, the Government Decree 48/CP rules:

The organization issuing new stocks to the public shall meet following conditions:

-Having a minimum chartered capital of VND 10 billion at least.

-Making profits in the last two years.

-The executives have eligible experience in business management.

-Devising feasible plans on using proceeds from stock issuance.

-At least 20% of the issuer's shares value shall be sold to 100 investors outside the issuing organization; in case where the

value of issued shares reach VND100 billion and above, this required fraction will be 15%.

The founding shareholders shall hold at least 20% of the issuing entity's shares in a minimum three-year period since the end of issuance.

If the total stocks has a combined face value of above VND10 billion, an underwriter shall get involved.

If an organization wishes to make additional issues to increase its capital,

-the next issue shall be one year later than the previous one;

-the value of additional stocks shall not exceed the total value of current stocks.

Issuing bonds:

When demanding a large quantity of money, commercial banks may issue long-and medium-term bonds. To attract investors and satisfy their clients' taste, they have provided various bonds such as: transferable bonds, discount bonds, float interest rate bonds, and fixed interest rate bonds. To commercial banks, the issue of bonds to the public with the aim to mobilize capital is an effective solution.

When issuing bonds, the bank also faces the same conditions as in case of stock issue, in addition, it shall meet additional requirements as follows:

-A minimum 20% of total bonds value shall be sold to above 100 investors; in case where the combined value of bonds to be issued reaches VND100 billion and above, the minimum fraction will be 15%.

-There shall be an underwriting agent, unless the issuer is a credit institution.

3. Intermediary activities in the stock market

The commercial bank itself is a financial intermediary which is popular and bustling in the financial market. As a result, it makes decisive contributions to intermediary activities in the stock market.

Intermediary activities include those when the commercial bank operates as a stock company.

The stock company shall be joint stock or limited liability company. Credit institutions, insurance firms and corporations wishing to deal in stocks shall set up independent stock companies.

The State Security Commission (SSC) grants licenses to stock companies.

The stock company is permitted to engage in one or some forms of businesses as follows based on its prescribed capital:

-Brokerage: VND3 billion

-Trading in securities: VND12 billion

-Managing investment portfolio: VND3 billion

-Underwriting: VND22 billion

-Advising stock investment: VND3 billion

If the stock company applies for many forms of businesses, its prescribed capital shall be the total prescribed capital of all forms of businesses to be permitted.

Stock brokerage:

This is one of developed financial services in the world. The bank's stock companies will undertake the service and make profits to the bank from brokerage charges or commissions. The stock companies under the bank have more advantages than other stock companies in brokerage because:

-The bank has intensive relations with enterprises via credit payments, so it gains necessary information for stock brokerage and wins clients' confidence.

-The bank has enough facilities, and a network of branches which are ready for satisfying the investor's requests.

-The bank has a skilled army of experts in money trading as well as in stock dealing.

Consultancy:

As mentioned above, the commercial bank has more advantages in collecting information about enterprises via credit and payment relations. The information is

really an important basis for market analysis, business assessment, and stock evaluation, therefore it may offer good and fast advice to the clients.

Stock distributing, and underwriting:

The bank is the most suitable organization to distribute stocks to the public.

It may distribute stocks for the issuer and earn commissions, when doing this, the company does not pledge to purchase the stocks to be distributed, to sell them at fixed prices, sell off total stocks or purchase the stocks which are not bought by the public.

The stock company may underwrite the stock issue when it has financial potentials. It is commonly a financial group including commercial banks to secure the success in stock issuing by:

-purchasing directly total or part of issued stocks;

-guaranteeing to sell stocks at fixed prices;

-purchasing the stocks which are not bought by the public.

Stock registering, clearing and depository:

The services of stock registering, clearing and depository include:

-registering stocks

-clearing stock transactions

-preserving stock certificates

-opening stock deposit accounts for clients

-making stock transfers and payments

-other services as authorized by clients depositing stocks.

Conditions for stock deposit services:

The organization providing stock deposit services shall be banks or stock companies meeting conditions on capital, facilities and skills as regulated by the SSC. They shall be granted licenses for stock deposit by the SSC.

The organization providing stock deposit services is entitled for engaging in services of registering and clearing stocks at the stock transaction centers and the Security Exchange.

As noted earlier, the commercial bank has positive effects on the birth and evolution of the stock market. However, to fulfil its part, the system of commercial banks should be restructured and upgraded for healthy and effectual operations.

