



Technical Assistance Report

Project Number: 41365
June 2008

Socialist Republic of Viet Nam: Support for Developing Capital Markets and Building Capacity in the Financial Sector

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 27 March 2008)

Currency Unit	–	dong (D)
D1.00	=	\$0.00006238
\$1.00	=	D16031.8

ABBREVIATIONS

ADB	–	Asian Development Bank
DIV	–	Deposit Insurance of Vietnam
EA	–	executing agency
FSPL I	–	First Financial Sector Program
FSPL II	–	Second Financial Sector Program
FSPL III	–	Third Financial Sector Program
IT	–	information technology
MOF	–	Ministry of Finance
SBV	–	State Bank of Vietnam
SRO	–	self-regulatory organization
SSC	–	State Securities Commission
HSTC	–	Hanoi Securities Trading Center
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Finance
Subsector	–	Finance sector development
Themes	–	Sustainable economic growth, governance, capacity development
Subthemes	–	Promoting macroeconomic stability, financial and economic governance, institutional development

NOTE

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

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I. INTRODUCTION

1. The Government of Viet Nam has requested technical assistance (TA) from the Asian Development Bank (ADB) to help support reforms initiated under the Third Financial Sector Program Loan (FSPL III).¹ A fact-finding mission was fielded in Hanoi during 21–24 January 2008 to build on the policy dialogue initiated during the processing of FSPL III to finalize the scope and content of the assistance and to obtain the Government's concurrence with the TA impact, outcome, outputs, implementation arrangements, cost, financing arrangements, and terms of reference.² The design and monitoring framework is in Appendix 1.

II. ISSUES

2. Continued development of the financial sector is central to sustaining Viet Nam's growth momentum. Financial sector reform and development is a complex process, requiring time and continuity to enable the accumulation of incremental changes into substantial outcomes. Both the FSPL III and the present TA are part of a continuing, long-term engagement of ADB with financial sector development in Viet Nam through TA projects and two program loans (Financial Sector Program Loan [FSPL I] and Second Financial Sector Program Loan [FSPL II]).³ The financial sector in Viet Nam until the early 1990s comprised a rudimentary mono-bank system with virtually no capital markets, weak or absent intermediaries, poor infrastructure, and an inadequate or missing legal and regulatory framework. ADB has supported the Government over the past decade to develop the sector by addressing critical bottlenecks in infrastructure, legal and regulatory structure, and institutional capacities.⁴ The proposed TA, along with FSPL III, is another milestone in ADB's sustained support to the financial sector and will build on earlier work to help address the need for more effective risk allocation in the economy through capital market development.⁵ Key issues in further developing the capital markets are assessed below.

A. Markets Development

3. **Ineffective Framework for Securities Issuance.** Development of deep and liquid debt markets in Viet Nam is constrained by lack of a systematic framework for debt issuance. The primary market for government securities is highly segmented because of multiple channels and methods of issue, and there are too many issues relative to the total volume of debt. An excessive number of issuances is also accompanied by lack of adequate predictability about the schedule of debt issuance, constraining planning by market participants. The Government seeks to control the quantity and price of debt issued simultaneously by imposing interest ceilings on each issuance. A system of primary dealers with market making responsibilities is yet to be established, which limits secondary market liquidity.

¹ ADB. 2007. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Cluster and Loan to the Socialist Republic of Viet Nam for the Third Financial Sector Program Loan (Subprogram 1)*. Manila (approved on 6 December).

² The TA first appeared in the business opportunities section of ADB's website on 25 February 2008.

³ ADB. 1996. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Financial Sector Program*. Manila; and ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Loan Cluster to the Socialist Republic of Viet Nam for the Second Financial Sector Program*. Manila.

⁴ FSPL I facilitated laying down the legal and regulatory foundations of a commercialized banking sector; and development of diverse institutions, instruments, and markets. FSPL II promoted development of the nonbank financial sector by strengthening the regulatory and supervisory framework for the insurance industry; developing a legal framework for the leasing industry; introducing an anti-money laundering regime; and strengthening financial infrastructure such as depository, payment, and settlement systems, accounting, and auditing.

⁵ ADB support to the financial sector in Viet Nam envisions over the medium term an independent regulator, in terms of both operational and financial autonomy, with appropriate capacities; financial firms with strong risk-management systems and corporate governance; and substantive development of financial sector infrastructure.

4. Weak Fiscal and Monetary Policy Coordination and Public Debt Management.

Coordination between fiscal and monetary policies is central to improving public debt management and strengthening the primary market for government debt. Greater predictability in the issuance of public debt requires increased coordination between fiscal and monetary authorities, including more effective exchange of information on liquidity forecasting, government cash flows and borrowing needs, and monetary management. Public debt management functions are currently scattered across various government entities in the Ministry of Finance (MOF) and State Bank of Vietnam (SBV). Developing an appropriate legal framework for public debt management and centralizing these functions over time into a single entity will help create a deeper and more liquid government debt market.

5. Lack of Standardized Contracts has Limited Development of the Money Market.

An active money market is central to capital market development—providing an anchor to the economy’s yield curve by pricing returns on the shortest maturities of debt. Development of a meaningful benchmark yield curve will require regular issues of benchmark securities as well as strengthening of the interbank money market, which is currently fragmented between state-owned and other banks, and characterized by weak infrastructure (particularly the lack of standardized contracts for repurchase agreements among participants).⁶

B. Investor and Consumer Protection

6. Strengthening of the Securities Regulator is Key to Promoting Investor Protection.

A fundamental constraint to the growth in size as well as heterogeneity of the pool of investors in the capital markets is a weak framework for investor protection. Strengthening investor protection will help attract more domestic investors to the regulated markets as well as greater foreign portfolio investment. This will require regulatory and institutional changes that provide for higher levels of transparency and information disclosure, and establishment of a framework for investor protection consistent with international standards. Towards this end, a comprehensive new Securities Law 2006 has been adopted, but its effective implementation will need a strong market regulator with capabilities for high quality inspection and surveillance, and a comprehensive compliance program. The State Securities Commission (SSC), the securities markets’ regulator, has established a new department for undertaking market surveillance and monitoring, whose capacity needs strengthening. This needs to be complemented by expanding and clarifying the role of self-regulatory organizations (SROs) such as stock exchanges in surveillance and monitoring, and by developing operating procedures specifying the roles and responsibilities of the SROs and of SSC. Strengthening SSC’s capacity to carry out its mandate effectively will necessitate greater use of information technology (IT), including development of a web-based system to facilitate lodgment, monitoring, and resolution of investor complaints.

7. Consumer Protection Will Benefit from Improvement in the Regulatory and Supervisory Framework for Insurance.

The insurance sector is expanding rapidly not only in size but also in the range and complexity of products offered (e.g., investment-linked insurance plans). Sustaining this growth will require updated regulations (e.g., introduction of risk-based capital adequacy requirements) and strengthened capacity in the Insurance Department of MOF to allow for effective oversight.

8. Anti-Money Laundering, Deposit Insurance, and Leasing Subsector Remain Underdeveloped.

Key foundational elements necessary for an effective anti-money laundering regime were targeted under FSPL II (e.g., initiation of a regulatory framework and financial

⁶ Improved monitoring of interbank transactions in the money markets will be facilitated by a new information system likely to be financed under a proposed World Bank loan.

intelligence unit). These need to be built on to strengthen the regime (e.g., through use of IT; provision of additional resources and staff; and development of guidelines for financial institutions on transaction reporting, know-your-customer requirements, and development of internal anti-money laundering procedures). The significance of Deposit Insurance of Vietnam (DIV) will increase with continuing equitization of state-owned commercial banks and financial liberalization in the banking sector, requiring efforts to strengthen the legal framework for deposit insurance. There is also a need to facilitate awareness about resolution of bankruptcy in leasing contracts to support growth of the nascent leasing industry.

C. Financial Sector Infrastructure

9. Improved Accounting and Auditing Needed to Continue Enhancing Transparency.

Accounting and auditing standards have improved over time, supported in part by ADB assistance. Increased transparency of financial data entails continued improvement through introduction of new standards as well as updating and strengthening existing standards. Implementation of the auditing standards by small and medium-sized auditing firms is central to enhanced transparency of capital markets.

10. Finding Appropriate Regulatory Architecture is an Emerging Concern. With continuing growth in the size and sophistication of the financial sector, Viet Nam needs to develop a long-term perspective on the evolution of appropriate architecture for financial sector regulation and supervision—taking into consideration a range of potential models from a single unified supervisory authority to multiple but coordinating regulators.

11. The proposed assistance will encompass the broad range of these issues, and help strengthen nonbank financial intermediation by (i) addressing the need to enhance the regulatory and wider financial market infrastructure, (ii) fostering a framework for capital market development, and (iii) promoting investor protection.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

12. The main impact of the TA is expected to be a greater role of capital markets in domestic financing. The outcome of the TA will be the strengthening of alternative channels of market-based financial intermediation through enhanced investor and consumer protection, improved framework for securities issuance, and better infrastructure in the capital markets.

B. Methodology and Key Activities

13. Debt Issuance in Government Bond Market. The TA will support measures to improve the institutional framework for issuance of securities and promote the government bond market by assisting MOF in undertaking studies to (i) identify procedures to prevent collusion among bidders in auctions of government bonds, and (ii) develop a plan for establishing a system of primary dealers in government securities if deemed desirable for the current stage of financial development. Government efforts to consolidate existing bond issues (by revising Decree 141 to enable buyback) will be supported by a study of market participants to identify and devise appropriate buyback mechanisms.

14. Improving Fiscal-Monetary Policy Coordination and Public Debt Management. Coordination between fiscal and monetary policy for bond market development will be promoted by supporting MOF and SBV in establishing a joint interdepartmental working group to improve information exchange and coordination for the bond market, as well as for enhancing two-way exchange of information with market participants. A seminar will be held to provide international

perspective and best practices for fiscal and monetary policy coordination for bond market development. This will be complemented by workshops and training for working group participants and diverse credit institutions on aspects such as integrating treasury management with debt management, and improving cash flow and liquidity forecasting. The Government is considering establishing a public debt management office, for which the working group is a prototype. The TA will support MOF in drafting a new law on public debt management for submission to the National Assembly.

15. **Standardized Repurchase Agreements in Money Markets.** To strengthen the interbank money market, the TA will support SBV in promoting use of a standardized (master) agreement in interbank repurchase agreements. Targeted training will be provided to relevant SBV staff, commercial banks, other credit institutions, and other market participants. The TA will also assist SBV, in consultation with money market participants, to finalize a master agreement for use in interbank transactions between SBV and other banks.

16. **Stronger Capital Market Surveillance and Monitoring.** Investor protection will be promoted by enhancing the monitoring and supervisory capacity of SSC, particularly the newly established Department of Market Surveillance and Compliance. The TA will support SSC in the development of a legal framework and related capacity for monitoring and supervision of exchanges and market participants. This will include regulations and procedures for market surveillance and compliance that will define the subjects and objects of surveillance, and clarify responsibilities and roles for cooperation between component entities (including the Ho Chi Minh City Stock Exchange and HSTC). Design and implementation plans will be developed for three IT systems supporting online surveillance, information disclosure, and reporting and compliance by regulated entities. The systems will (i) enable electronic filing by regulated parties, (ii) allow for prompt and effective public disclosure of relevant market information, and (iii) strengthen supervision and enforcement concerning market participants. The TA will also support training and knowledge transfer, including development of a training manual, related to the regulations and procedures for monitoring and surveillance along with the new IT systems.

17. **Improved Supervision in Insurance.** The Insurance Department in MOF will be assisted in developing procedures and related capacity for effective supervision of recently introduced risk-based capital adequacy rules for insurance companies and for regulations covering new products. Training will be provided to insurance department staff on (i) the use of quantitative and qualitative statistical methods to verify the risk-based capital of insurance companies based on financial statements and managerial reports, (ii) production of analytical reports on fact findings, (iii) assessing the impact of risk-based capital regulations on industry robustness and competitiveness, and (iv) reviewing the completeness and appropriateness of the risk-based capital framework formed by the regulations. Active dialogue with the industry will be critical to the success of implementing risk-based capital supervision. The TA will provide for seminars and workshops to enable exchange of information between the regulator and industry on the expectations of the regulator in the new framework and on industry readiness, perceived challenges, and constraints to implementation of the risk-based capital regulations.

18. **Enhancing Accounting and Auditing.** The TA will support strengthening of financial infrastructure through enhanced accounting and auditing standards and practice. Support will be provided to MOF in drafting a new law on independent audit, and improving the auditing practices and standards of smaller and medium-sized auditing firms. The TA will also support MOF in introducing new accounting standards in the Viet Nam accounting system, and updating and strengthening existing auditing standards.

19. **Finance Sector Regulatory Architecture.** The TA will assist the Government in undertaking a study of the regulatory architecture to develop a more systematic and

institutionalized approach to interagency cooperation and coordination among financial regulators, including MOF, SBV and DIV. The study will review and recommend measures to increase the effectiveness of information exchange and of coordination between the financial supervision agencies in accordance with each agency's functions.

20. **Anti-Money Laundering, Deposit Insurance, and Leasing.** Capacity will be strengthened in DIV by providing training to facilitate effective implementation of the new law on credit institutions. Lack of awareness about leasing contracts will be mitigated by information dissemination workshops targeting elements of the judiciary (economic court judges) and law enforcement. Strengthening the anti-money laundering regime will be promoted by facilitating the establishment of a transaction monitoring system. The TA will also support development of a legal framework for securitized transactions by (i) including provisions on securitized transactions in the draft of the law on credit institutions, and (ii) preparing best-practice reference materials to assist in passing and disseminating rules on securitized transactions.

C. Cost and Financing

21. The total cost of the proposed TA is estimated at \$1,250,000 of which a total of \$1,000,000 will be financed on a grant basis by ADB's TA funding program. The Government will provide facilities, counterpart staff, and other miscellaneous services valued at \$250,000 equivalent. Cost estimates and the financing plan are in Appendix 2.

D. Implementation Arrangements

22. SBV will be the Executing Agency (EA) for the TA and the International Cooperation Department will serve as the main focal point. Implementing agencies will include MOF (including SSC), DIV, and SBV. The EA will establish and chair an interagency review committee that will include representatives from relevant government agencies and ADB. The committee will meet as needed to review progress and facilitate effective implementation of the TA. The TA will be implemented over 14 months and is expected to commence in June 2008 and be completed by August 2009.

23. The TA will require an estimated 44 person-months of consulting services, consisting of 23 person-months of international and 21 person-months of national consulting services. Consultants will be engaged on an individual basis in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time) because of the wide diversity of expertise needed. A project coordinator will also be recruited. Outline terms of reference for consultants are in Appendix 3. All consultants will submit an inception report detailing the draft work plan and schedule within 1 week of fielding; and provide concise, regular updates to the relevant implementing agency, EA, and ADB outlining progress and identifying implementation issues. A final report will be required to be submitted according to a schedule agreed with the relevant implementing agency and ADB in consultation with the EA. All services, equipment, and material to support TA implementation will be procured by direct purchase in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time); equipment will be utilized by implementing agency or returned to ADB at the end of the TA. Facilitation of advance disbursements for workshops and publications will require use of the Advance Payment Facility.

IV. THE PRESIDENT'S DECISION

24. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$1,000,000 on a grant basis to the Government of Viet Nam for Support for Developing Capital Markets and Building Capacity in the Financial Sector, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Capital markets play a greater role in domestic financing</p>	<p>Increase in number of listed companies from 190 in 2007 to 225 in 2011</p> <p>Value of new corporate bond issuances increases by 10% in 2011 compared with 2007</p>	<p>MOF, SSC, and HSTC publications, websites, and data</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Political stability • Sound macroeconomic policies <p>Risks</p> <ul style="list-style-type: none"> • Regional financial shocks may impact Viet Nam's capital markets and affect investor confidence • Equity market may be characterized by unsustainable asset price bubble
<p>Outcome Alternative channels of market-based financial intermediation are strengthened</p>	<p>Turnover ratio of government securities at HSTC increases 5% in 2009 compared to 2007</p> <p>Bid-ask spreads for government bonds decline by at least 5 basis points by 2009 from 22 basis points in 2007</p> <p>Number of retail investors increases 5% by 2009 over 2007</p>	<p>MOF, SSC, and HSTC publications, websites, and data</p>	<p>Risks</p> <ul style="list-style-type: none"> • Poor governance and corruption may weaken effective program implementation • Vested interests and political opposition may slow program implementation • Political backlash against rapid reforms may weaken government commitment to reform
<p>Outputs 1. Coordinated institutional framework and related capacity for government debt issuance established</p>	<p>Interagency working group established to facilitate coordination between fiscal and monetary policy and exchange of relevant information with a view to strengthening public debt management and supporting bond market development</p> <p>Capacity for liquidity forecasting strengthened</p>		

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>2. Money markets are strengthened</p> <p>3. Monitoring and enforcement by regulator in securities markets is enhanced</p>	<p>Procedures identified to prevent collusion among bidders in auctions of government bonds</p> <p>MOF assesses implementation plan for establishment of a primary dealer system for government securities</p> <p>Mechanism developed to allow for buyback of government securities</p> <p>New law on public debt management is drafted</p> <p>Relevant SBV staff and market participants trained in use of (revised) master repurchase agreement</p> <p>SBV adopts and introduces revised master repurchase agreement</p> <p>SBV develops design and adopts implementation for a system that allows for effective monitoring of interbank transactions in the money market</p> <p>SSC develops design and adopts implementation plan for system that allows for electronic filing, reporting, and disclosure of market-related information</p> <p>SSC establishes regulatory framework and related capacity for effective monitoring and supervision of exchanges and market participants</p>		

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
4. Enhanced protection for consumers in insurance industry	<p>MOF Insurance Department adopts procedures for supervision of risk-based capital adequacy rules for insurance companies and implements related capacity building</p> <p>MOF develops draft regulations covering new products to be sold by insurance companies that are consistent with treatment of similar products sold by other industries</p>		
5. Improved accounting and auditing standards	<p>Law on independent audit drafted that is in line with international best practice</p> <p>Auditing and accounting standards updated in line with international best practice</p> <p>Capacity in MOF and SROs strengthened with respect to conduct of compliance reviews of auditing firms</p>		
6. Legal framework for leasing, bankruptcy, deposit insurance, and securitized transactions strengthened	<p>New laws drafted, or implementing regulations developed for leasing, bankruptcy, deposit insurance, and securitized transactions that are in line with international best practice</p>		

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
7. Institutional framework for regulatory coordination in capital markets strengthened	Study of the regulatory architecture undertaken to develop more systematic and institutionalized approach to interagency coordination and cooperation		
8. Anti-money laundering regime strengthened	IT system established to support information collection, recording, and analysis		
Activities with Milestones			Inputs
<p>1.1 Seminar conducted for relevant staff on concept, function, and composition of interagency working group on public debt management (Q3 2008)</p> <p>1.2 Working group established (Q3 2008)</p> <p>1.3 Training needs identified with respect to supporting functions of working group (Q3 2008)</p> <p>1.4 Training designed and conducted (Q4 2008–Q2 2009)</p> <p>1.5 Stocktaking of current procedures, practices, and outcomes in auctions of government bonds (Q3 2008)</p> <p>1.6 Design of auction procedure to prevent collusion among bidders (Q3 2008–Q2 2009)</p> <p>1.7 Feasibility study and implementation plan for Primary Dealer system developed (Q3 2008–Q2 2009)</p> <p>1.8 Drafting support provided for law on public debt management (Q3–Q4 2008)</p> <p>2.1 Training needs assessment conducted for relevant SBV staff and market participants with regard to master repurchase agreement (Q3–Q4 2008)</p> <p>2.2 Design and conduct of targeted training program (Q3 2008–Q2 2009)</p> <p>2.3 Development of design and implementation plan for SBV money market monitoring system (under proposed World Bank loan for financial sector IT infrastructure) (2009)</p> <p>3.1 Design and implementation plan for electronic filing, reporting, and disclosure system for market related information (Q3 2008–Q2 2009)</p> <p>3.2 Drafting support for regulations on market surveillance and conduct of related workshops and training (Q3 2008–Q2 2009)</p> <p>4.1 Development of procedures for supervision of risk-based capital adequacy requirements for insurance firms (Q3 2008–Q2 2009)</p> <p>4.2 Training on new procedures for relevant staff (Q3 2008–Q2 2009)</p> <p>4.3 Drafting support for regulations that provide for consistent treatment of new products offered by insurance companies with similar products offered by other types of financial institutions (Q3 2008–Q2 2009)</p> <p>4.4 Workshops undertaken for promoting dialogue with industry on implementing risk-based capital framework (Q3 2008–Q2 2009)</p> <p>5.1 Drafting and review support for law on independent audit (Q3–Q4 2008)</p>			<p>ADB – \$1,000,000</p> <ul style="list-style-type: none"> • Consulting services 44 person-months (23 person-months international and 21 person-months national) – \$795,000 • Equipment – \$10,000 • Training, seminars and conferences – \$90,000 • Miscellaneous Administration Support Costs – \$15,000 • Contingencies – \$90,000 <p>Government – \$250,000</p> <ul style="list-style-type: none"> • Remuneration and per diem of counterpart staff – \$100,000 • Office accommodation and transport – \$125,000 • Others – \$25,000

Activities with Milestones	
5.2 Support for updating of existing auditing standards in accordance with international practice (Q3 2008–Q2 2009)	
5.3 Training on conduct of compliance assessment of audit firms (Q3 2008–Q2 2009)	
6.1 Drafting support for implementing regulations for bankruptcy decree and conduct of related public awareness campaign (Q3–Q4 2008)	
6.2 Drafting support for articles in Credit Institutions law to allow for securitized transactions and provision of background materials and conduct awareness seminars (Q3–Q4 2008)	
6.3 Drafting regulations guiding implementation of a number of articles of the Credit Institutions law relating to secured transactions (Q3 2008–Q2 2009)	
7.1 Study on financial system architecture—including options on how to strengthen and institutionalize coordination and cooperation arrangement among financial sector supervisory authorities, and identification of appropriate role for DIV (Q3 2008–Q2 2009)	
7.2 Support for new law on deposit insurance, including training workshop in the new law for relevant DIV personnel (Q1 2009)	
8.1. Plan to set up IT system for Anti-Money Laundering Information Center designed and developed; guidance provided to institutions in preparing reports and transmitting files to Anti-Money Laundering Information Centre (Q1–Q2 2009)	

ADB = Asian Development Bank, DIV = Deposit Insurance of Vietnam, IT = information technology, MOF = Ministry of Finance, Q = quarter, SBV = State Bank of Vietnam, SRO = self-regulatory organization, SSC = State Securities Commission, HSTC = Hanoi Securities Trading Center.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank (ADB) Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	560.0
ii. National Consultants	90.0
b. International and Local Travel	70.0
c. Reports and Communications	5.0
2. Equipment ^b	10.0
3. Training, Seminars, and Conferences	
a. Facilitators	5.0
b. Training Program	85.0
4. Miscellaneous Administration and Support Costs	15.0
5. Contingencies ^c	160.0
Subtotal (A)	1,000.0
B. Government Financing	
1. Office Accommodation and Transport	125.0
2. Remuneration and Per Diem of Counterpart Staff	100.0
3. Others	25.0
Subtotal (B)	250.0
Total	1,250.0

^a Financed by ADB's technical assistance funding program.

^b Equipment will comprise office hardware such as computers, printers, and fax machines to be utilized by the implementing agency concerned or returned to ADB at the end of the technical assistance.

^c Representing \$90,000 for general contingencies and \$70,000 for the recruitment of international consultants for the bond market component to be decided based on progress of TA implementation.

Source: ADB estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Money Market Expert (international, 2 person-months)

1. The money market expert will have significant experience related to the drafting and conduct of standardized repurchase agreements (repos). In collaboration with relevant State Bank of Vietnam (SBV) staff, the expert will do the following:

- (i) Conduct stakeholder workshops on (a) the concept and roles of the master repo in money market development, and (b) the international experience with adapting global or other master repos in developing markets. The workshops will focus on how to put a master repo into practice in Viet Nam.
- (ii) Recommend revisions to the master repo based on the workshop findings; and provide support, as necessary, for drafting of revised agreement.
- (iii) Conduct short training courses on implementation of (revised) master repo for stakeholders.

B. Bond Market Expert (international, 6 person-months)

2. The bond market expert will have strong experience in bond market development in emerging markets; and proven knowledge of improving fiscal and monetary policy coordination, public debt management, and primary dealer systems for strengthening government bond markets. In collaboration with relevant SBV and Ministry of Finance (MOF) staff, the expert will lead the technical assistance (TA) activities to promote bond markets. The bond market expert may identify and utilize other resource persons as needed (in consultation with relevant government agency and with concurrence of the Asian Development Bank [ADB]), to undertake the following:

- (i) Conduct stakeholder workshops (drawing on international best practice) aimed at identifying functions and responsibilities, composition, institutional arrangements, work plan, and performance indicators for the proposed interagency working group on monetary and fiscal coordination.
- (ii) Provide advice as necessary to support the establishment and operationalization of the working group.
- (iii) Identify key technical areas relevant to the goals of the working group (e.g., liquidity forecasting, interlinks between treasury operations and public debt management); conduct training needs assessment with respect to these areas; and develop and facilitate implementation of capacity building plan.
- (iv) Identify and recruit additional resource persons (in consultation with SBV and MOF and with ADB concurrence) as needed, for implementation of capacity building to address identified training needs.
- (v) Review and provide comments on draft law on public debt management.
- (vi) Provide advice on institutional arrangements necessary to establish a system capable of producing regular and credible liquidity forecasts.
- (vii) Conduct workshops as needed aimed at building capacity within SBV and MOF to conduct regular and credible liquidity forecasts.
- (viii) Assess existing regulations and procedures governing the issuance and auction of government securities, related government concerns, market structure, and practice.
- (ix) Based on assessment findings and international good practice, identify auction mechanisms and measures to allow for removal of interest rate caps while addressing government concerns (e.g., preventing collusion among bidders).

- (x) Conduct a stakeholder workshop on measures used by authorities in other jurisdictions to support buyback of government securities.
- (xi) Conduct market survey to determine suitability of government bonds' buyback measures for Viet Nam.
- (xii) Provide recommendations for introduction and implementation of a buyback mechanism for various government securities.
- (xiii) Assess the feasibility of introducing a primary dealer system in Viet Nam and identify key issues that need to be addressed; recommend necessary measures and a realistic time line for implementation.
- (xiv) Conduct stakeholder workshop introducing the concept and relevant international experience of a system of primary dealers with market-making responsibilities.
- (xv) Arrange study visit for key stakeholders to an appropriate jurisdiction in the region with a well-functioning primary dealer system to strengthen understanding of operational aspects.

C. Securities Market Supervision Expert (international, 4 person-months)

3. In collaboration with relevant State Securities Commission (SSC) staff, the expert will do the following:

- (i) Provide support, as necessary, for developing rules and procedures with respect to securities market surveillance and compliance. The scope of rules and procedures is expected to include, but is not necessarily limited to:
 - (a) defining the responsibilities and functions of relevant SSC departments and regulated entities, and their interrelationships (including demarcation of responsibilities between SSC and self-regulating organizations [SROs]);
 - (b) establishing arrangements for cooperation and information exchange among relevant SSC departments as well as between SSC and securities market SROs (including Ho Chi Minh City Stock Exchange and Hanoi HSTC);
 - (c) defining criteria for market surveillance and compliance examination; and
 - (d) establishing procedures for market surveillance and compliance.
- (i) Support strengthening surveillance and compliance capacity in SSC and relevant SROs (including Ho Chi Minh City Stock Exchange and HSTC). This is expected to include:
 - (a) conduct of training needs assessments and related training workshops,
 - (b) development of a surveillance and compliance training manual, and
 - (c) arrangements for relevant secondments/study visits.
- (i) Provide advice with respect to the establishment of information technology (IT) systems required for market surveillance and compliance in collaboration with the IT expert.

D. IT Expert (international, 2 person-months)

4. In collaboration with relevant SSC staff and the securities market supervision expert, the IT systems architect will do the following:

- (i) Determine SSC functional requirements with respect to IT systems for (a) online information disclosure, (b) online reporting by regulated entities, and (c) market surveillance.
- (ii) Assess SSC's existing IT systems and related capacity.
- (iii) Recommend design, specifications, cost estimates, and implementation plan for the establishment of systems that meet SSC needs as determined under item (1).

E. Auditing Expert (international, 2 person-months)

5. In collaboration with relevant MOF staff, the expert will do the following:
- (i) Provide support, as necessary, for drafting and review of law on independent audit.
 - (ii) Provide support, as necessary, for updating of existing auditing standards in line with international practice.
 - (iii) Support strengthening of capacity with respect to conduct of compliance examinations of audit firm through development of assessment guidelines and related training.

F. Accounting Expert (international, 1 person-month)

6. In collaboration with relevant MOF staff, the expert will provide support, as necessary, for the introduction of new accounting standards. This is expected to include, but is not necessarily limited to, development of:
- (i) guidelines for mark-to-market international accounting standards (IAS 32) appropriate to Viet Nam, and
 - (ii) accounting procedures for credit institutions to support move from cash-based to accrual-based system.

G. Insurance Expert (international, 2 person-months)

7. In collaboration with relevant MOF staff, the expert will do the following:
- (i) Provide support, as necessary, for development of procedures and related capacity for effective supervision of recently introduced risk-based capital adequacy rules for insurance companies.
 - (ii) Provide support, as necessary, for development of regulations covering new products (e.g., mutual funds) sold by insurance companies that are consistent with treatment of similar products sold by other types of financial institutions.

H. Leasing Expert (international, 0.5 person-month)

8. In collaboration with relevant staff of the SBV, the expert will conduct stakeholder workshops aimed at raising awareness about bankruptcy related procedures with respect to leasing contracts.

I. Deposit Insurance Expert (international, 0.5 person-month)

9. In collaboration with relevant Deposit Insurance of Vietnam (DIV) staff, the expert will do the following:
- (i) Review the existing legal framework for deposit insurance, including the new law on credit institutions.
 - (ii) Develop recommendations and provide relevant training on how to strengthen the effectiveness of DIV in the new framework.

J. Anti-Money Laundering Expert (international, 1 person-month)

10. In collaboration with relevant SBV staff, the expert will provide guidance to support the

establishment of a basic system capable of receiving, storing, and analyzing transaction reports from institutions covered under anti-money laundering regime. This will include advice on system specifications and costing, staffing requirements, as well as development of guidelines for covered institutions on the preparation and submission of reports.

K. Financial Sector Supervision Expert (international, 2 person-months)

11. In collaboration with relevant staff from MOF, SBV, and other financial sector supervisory authorities, the expert will undertake a study of the financial regulatory architecture that will do the following:

- (i) Assess existing arrangements and practice of coordination and cooperation among financial sector supervisory authorities in terms of adequacy in supporting effective supervision.
- (ii) Develop recommendations on appropriate institutional arrangements to strengthen interagency coordination and cooperation over the short, medium, and longer term. This will include an assessment of the relevance of different supervisory models to Viet Nam's institutional context and evolving needs.

L. Project Coordinator (national, 14 person-months)

12. In close coordination with relevant ADB as well as the Executing Agency (EA) and implementing agency staff, the project coordinator will provide logistical and administrative support for timely and effective implementation of the TA. This will include the following:

- (i) Monitoring and coordinating the schedules and output of TA experts.
- (ii) Preparing periodic, consolidated TA reports to be submitted to the EA and ADB. The reports will provide concise updates on project progress implementation issues, and work plans and schedules; they will be based on individual expert reports and consultations, as necessary.
- (iii) Organizing workshops/seminars and stakeholder consultations.
- (iv) Translate documents between English and Vietnamese as needed, and act as interpreter when required.
- (v) Other support, as necessary, relevant to effective implementation of the TA.

M. Project Administration Assistant (national, 7 person-months)

13. In close coordination with relevant ADB and EA and implementing agency staff, the project administration assistant will assist the project coordinator in provision of logistical, administrative and translation support for implementation of the TA.