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STATE BANK OF VIETNAM AMENDS REGULATION ON CORPORATE BOND

According to the latest update, the State Bank of Vietnam is collecting opinions on amending and supplementing a number of articles and suspending the implementation of Clause 11, Article 4, Circular No. 16/2021/TT-NHNN dated November 10, 2021 on corporate bonds trading of credit institutions.

Specifically, the amendments of the draft:

Propose	Details
Amendment point d clause 6	Enterprises must have a feasible plan and bond issuers have financial capacity to ensure full payment of bond principal and interest on time. Criteria for determining the feasible plan and criteria for determining the bond issuer has financial capacity to ensure full payment of bond principal and interest on time according to internal regulations at Point b, Clause 3, Article 6 of this Circular.
Amendment point e clause 6	The ratio of liabilities (including the value of bonds expected to be issued) of the issuer does not exceed 05 times the equity according to the latest audited quarterly financial statement at the time of issuance.
Amendment point b clause 8	Corporate bonds are issued for the purpose of contributing capital, buying shares or buying capital contributions in other enterprises.
Add Clause d Clause 8	Corporate bonds are issued for the purpose of business cooperation or investment cooperation with other enterprises.
Add Clause 14	Credit institutions may only buy bonds issued by the issuing enterprise for the purpose of supplementing working capital when they can manage the revenue from business activities of the issuing enterprise and collect sufficient documents to prove the use of working capital corresponding to the bond value according to the working capital turnover during the holding period of corporate bonds.
Add Clause 15	When a credit institution purchases bonds issued by enterprises for the purpose of securing obligations, the credit institutions must block the purchase amount of bonds until the guarantee obligations are terminated.
Add Clause 16	Credit institutions must use non-cash payment services to pay for the purchase of corporate bonds to the issuer and the bond seller.
Amending and supplementing Clause 3, Article 6	Supplementing specific criteria to determine the feasible option and specific criteria for determining the bond issuer has financial capacity to ensure full payment of bond principal and interest on time as prescribed at Point d Clause 6 Article 4 of this Circular; (ii) Specific regulations on appraisal, examination and supervision of the use of proceeds from bond issuance to ensure the appraisal and decision to purchase corporate bonds, strictly inspection and supervision of proceeds from the issuance of bonds, complying with the provisions of law, monitoring the use of proceeds from bond issuance by the issuer and the secured party.



Amending Clause 2 Article 7	Credit institutions have the right and obligation to inspect and supervise the use of proceeds from bond issuance by the issuing enterprise to ensure that the proceeds from bond issuance are used for the right purposes in the plan and commitment to the credit institution and according to the internal regulations specified at Point c, Clause 3, Article 6 of this Circular; in case it is discovered that the issuing enterprise or the security-receiving party is using the proceeds from the bond issuance for improper purposes in the plan or commitment with the credit institution, the credit institution shall request the issuing enterprise to buy back the bonds before maturity.
Suspension	The provisions of Clause 11 Article 4 of Circular No. 16/2021/TT-NHNN shall be suspended to contribute to supporting the corporate bond market until December 31, 2023. Clause 11 in detail: Within 12 months from the date on which a credit institution sells corporate bonds that are unlisted on securities market or unregistered on Upcom trading system (hereinafter collectively referred to as “unlisted corporate bonds”), the credit institution is not allowed to purchase sold unlisted corporate bonds and/or purchase unlisted corporate bonds issued in the same batch/period as the sold unlisted corporate bonds. After 12 months from the date on which a credit institution sells unlisted corporate bond, the credit institution is only allowed to purchase sold unlisted corporate bonds and/or unlisted corporate bonds issued in the same batch/period as the sold unlisted corporate bonds.

New important points of the draft compared to the previous regulations:

- (i) Tightening conditions for issuers: **liabilities ratio does not exceed 5 times equity.**
- (ii) Tightening the purpose of capital use: the mobilized capital cannot be used to purchase share capital, cooperate in business. Credit institutions may only purchase corporate bonds for the purpose of supplementing working capital when the issuer can prove the use of the corresponding amount to supplement working capital as above.
- (iii) Increase the level of transparency in supervision, management and control of the usable cash flow through the supplementation of Clause 14-15-16 and amendment of Clause 3, Article 6 and Clause 2, Article 7.
- (iv) **Suspension of the implementation of Clause 11 Article 4 of Circular No. 16/2021/TT-NHNN to contribute to supporting the corporate bond market until the end of December 31, 2023.**

Proposing amendments creates a corridor for credit institutions to be able to trade corporate bonds again, thereby supporting businesses that face difficulties in mobilizing via the bond channel, especially in the context of distrust from individual investors in the recent months while the credit institutions channel is temporarily "locked" due to the provisions of Clause 11, Article 4 of Circular 16/2021/TT-NHNN.

On the other hand, the new regulation also introduces a number of conditions for issuers as well as payment/monitoring methods to mitigate risks while this only supports organizations/enterprises having a stable business operation and meets the above criteria. Thus, it is clear that the above regulation is intended to be relaxed, however, the effective scale only really affects a small number of businesses at the moment.

**Top 30 listed real estate companies with the largest liabilities/equity ratio at the end of 2022
(excluding the value of corporate bonds expected to be issued)**



#	Ticker	Exchange	Liabilities/ equity 2022	Marcap VND bn	Equity (VND bn)	Liabilities (VND bn)
1	HTN	HOSE	5.07	980	1,490	7,563
2	NVL	HOSE	4.73	24,766	44,930	212,436
3	CKG	HOSE	3.35	2,086	1,141	3,820
4	VIC	HOSE	3.24	203,283	135,613	439,194
5	SZC	HOSE	3.13	2,890	1,534	4,801
6	AGG	HOSE	3.07	3,535	2,726	8,373
7	DTA	HOSE	2.7	90	203	547
8	NBB	HOSE	2.5	1,277	1,831	4,570
9	SZL	HOSE	2.31	910	594	1,374
10	TDH	HOSE	2.14	360	455	976
11	TDC	HOSE	2.13	945	1,227	2,611
12	LEC	HOSE	2.07	133	425	879
13	VC3	HNX	2.01	2,926	1,206	2,428
14	VPI	HOSE	1.92	13,431	3,758	7,216
15	BCM	HOSE	1.72	85,077	17,837	30,682
16	SJS	HOSE	1.63	4,898	2,575	4,204
17	V21	HNX	1.6	38	122	195
18	API	HNX	1.57	706	986	1,551
19	IDC	HNX	1.57	13,002	6,508	10,225
20	HPX	HOSE	1.54	1,253	3,653	5,640
21	IDJ	HNX	1.53	1,440	1,940	2,965
22	PDR	HOSE	1.46	8,463	9,270	13,576
23	LGL	HOSE	1.45	174	669	969
24	VHM	HOSE	1.44	210,751	148,522	213,291
25	LDG	HOSE	1.42	1,107	3,272	4,658
26	IDV	HNX	1.39	839	667	926
27	DRH	HOSE	1.38	626	1,615	2,224
28	HDC	HOSE	1.37	3,378	1,864	2,558
29	QCG	HOSE	1.29	1,101	4,341	5,608
30	HDG	HOSE	1.28	7,314	6,739	8,636

Sources: Fiinpro, GTJASVN

Which real estate businesses benefit?

From the above table, it can be easily seen that the 2 enterprises with the highest liabilities/equity ratio in the listed real estate group have now/almost crossed the “barrier” (5 times) compared to the revised draft regulations, so they cannot enjoy the benefits from the above amendment. On the other hand, the remaining enterprises, even if they do not violate / are far from the ceiling (5 times), can hardly meet the remaining criteria of the Circular and other implicit regulations from credit institutions.

However, in general, the revised draft also shows the efforts of the management agency in creating a legal corridor and supporting businesses in general, as well as real estate businesses in particular, to access capital through the corporate bond channel.



COMPANY RATING DEFINITION

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% OrThe Fundamental outlook of the sector is unfavorable

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