

**COMMENTS OF VBF BANKING WORKING GROUP ON DRAFT CIRCULAR
REPLACING DECISION 457/2005/QĐ-NHNN (“THE DRAFT”)**

*Presented by
VBF Banking Working Group*

I. GENERAL COMMENTS

1. Reporting requirements

We would seek the SBV’s consideration to provide specific terms and requirements on reporting for banks to study and establish management and reporting program on prudential ratios of banks, except the circular on statistic reporting which will be issued at the same time with this Circular.

2. Incorporating the maximum ratio of short-term capital to be used for medium and long term loans into this Circular

In order to facilitate the compliance with the regulations of the SBV, including the regulation on the maximum ratio of short-term capital to be used for medium and long term loans, we would like to suggest this ratio to be incorporated into this Circular. Moreover, Circular 15 will no longer be effective after Circular 457 is replaced by this Circular.

3. Extending the effective date of this Circular

We would seek the SBV’s consideration to extend the effective date of this Circular to 01 year after its issuance for banks to have enough time to analyze, establish and implement the management and reporting system in accordance with this Circular as well as to update our internal procedures.

II. COMMENTS ON SPECIFIC PROVISIONS

The opinions of the Banking Working Group on some provisions of this Circular are presented in details as below:

No.	Article	Draft	Comments
1.	Article 2	<p>4. <i>Related customers include two or more customers that have direct or indirect credit relation with credit institutions, belonged to one of following subjects: (...)</i></p>	<p>Please consider providing a clearer definition of “Group related customer”; otherwise, it is suggested to use the definition on related person under the Law on Enterprises.</p>
		<p>5. <i>Children companies of credit institutions are companies or credit institutions being legal entities, with independent accounting system through their owned capital contributed by credit institutions or shares purchased by credit institutions as regulated by the State bank and: a)Owning more than 50% Charter capital or equity capital with voting rights in that companies; or (....)</i></p> <p>8. <i>Association companies of credit institutions are companies, including other credit institutions, satisfying all requirements as follows: a) Credit institutions having rights to take part in making decisions on financial policies and activities of companies but not control those policies; b) Credit institutions owning from 20% to less than 50% Charter capital or equity capital with voting rights in the companies; c) Are not children companies or joint-venture companies of credit institutions.</i></p>	<p>Children companies of a credit institution are companies in which such credit institution owns more than 50% of the charter capital or equity capital with voting rights; association companies of a credit institution are companies in which such credit institution owns from 20% to less than 50% of the charter capital or equity capital with voting rights. So what will a company be classified if a credit institution owns 50% of its charter capital or equity capital with voting rights?</p>

2.	Article 5	<p><i>Separate capital adequacy ratio of credit institutions</i></p>	<ul style="list-style-type: none"> - We note that the proposed mechanism is largely similar in structure to the Internal Ratings Based (IRB) approach under Basel II, but may differ somewhat in terms of weightings, calculations, and asset classifications. As the IRB approach is internationally adopted as the global standard for capital adequacy, we would recommend that the circular provides the ability for credit institutions to adopt the IRB approach in lieu of the approach outlined in the circular, or for the calculation in the circular to be aligned with the Basel II approach. Additionally, given that rating agencies will be utilizing Basel II standards for capital adequacy, it will be advantageous for the Vietnamese financial sector if these are indeed aligned. - There are some changes on RIWAC usage for each risky asset which impacts the CAR calculation. We see that more restriction is put on lending for investment in Securities/stock/real estate sector. In the Decision 457, RIWAC for the above mentioned activities are at 50% while under the draft, the lending to Securities/Stock attract RIWAC at 150% and real estate at 250%. We would want to clarify whether real estate lending includes retail mortgage lending. We would like to suggest that lending for real estate investment should be separated from retail mortgage lending, with different RIWAC; for example, the RIWAC for retail mortgage lending may be set at 100%.
		<p><i>2. Primary capital includes all capital as regulated in Clause 2.1 deducting deductible capital as regulated in Clause 2.2. Primary capital is used to identify buy limit and investment in fixed asset of credit institutions.</i></p>	<p>Please clarify the standard to determine primary capital, in order to avoid the conflicts in the checking, inspecting between inspectors and credit institutions. For example, will the retained profit, shares surplus, business losses be calculated based on audited report or records of credit institutions? We are of the view that such data shall be calculated based on audited reports as this work cannot be done daily.</p>
		<p><i>2.1. Primary capital includes: (...) d) Retained profit;</i></p>	<p>As the business loss, comprising of accumulated losses (understood as loss of the current year + loss of the previous years) is one of the deductible amounts from the primary capital, we would like to suggest this provision on retained profit shall include profit of the current year + profit of the previous years.</p> <p>These statistics shall be obtained from accounting statistics instead of obtaining from audited financial agreement of the previous year because of the following:</p> <ul style="list-style-type: none"> - The system will automatically generate such data from accounting records

			<p>(restraining data update)</p> <ul style="list-style-type: none"> - Audit companies can only provide audited reports by mid-February at the earliest and by end of April at the latest; therefore, we should base on accounting data for the period between these times.
		<p>3. <i>Secondary capital includes all capital as regulated in Clause 3.1 of limit as regulated in Clause 3.2 of this Article.</i></p>	<p>In the determination of secondary capital, it is added with the “Financial provisional funds” which is previously included in the primary capital. However, “general provision” is excluded from the secondary capital.</p> <p>Credit institutions usually maintain general provisions by 0.75 at the maximum after each credit classification period and the provision source is normally stable or increases according to the credit scale. If the general provision is excluded from secondary capital, the capital adequacy ratio will significantly decrease.</p>
3.	Article 7	<p><i>Formation of one customer and related customer criteria</i></p> <p><i>1. Credit institutions in this Circular should set up their internal regulations on credit quality management and credit policies for customers to set up their internal regulations on one customer and related customer criteria, credit limit applied for one customer and related customer, in which the following contents are must:</i></p> <p><i>(...)</i></p> <p><i>c) Credit diversification plan, supervision and management measures for credit from 5% equity of credit institutions or more. Loan and total loans exceeding 10% equity of credit institutions should be approved by Board of Directors or Chairman of Board of Directors or persons authorized by Board of Directors or Chairman of Board of Directors through empowerment and authorization as regulated in</i></p>	<p>What is the definition of owned capital of foreign bank branches?</p> <p>We understand that owned capital of foreign bank (parent bank) is also applied to foreign bank branches as stipulated under Article 8.5.</p>

		<i>credit policies for customers.</i>	
4.	Article 8	<i>Credit and guarantee limit</i>	<ol style="list-style-type: none"> 1. Please consider to calculate this limit based on the net risk (balance of debts after deducting value of secured assets) instead of calculating based on total balance of loans/balance of guarantees by credit institutions in order to: <ul style="list-style-type: none"> - Encouraging banks to have measures to mitigate risks by way of increasing secured loans or bank guaranteed loans; - Ensuring the supply of enough capital for large corporations to develop their business and production; - Encouraging enterprises to operate effectively because they have to use their assets as mortgage to borrow funds from banks or ensure their prestige for bank to grant guarantees. 2. Points 2-3-4-5 of this article have ruled the credit and guarantee limit that credit institutions (including local banks and foreign banks' branches) are allowed to hold. However the terminologies used in this article are not consistent and somehow confusing. For example, the term "Credit Limit" and "Outstanding Loan", "Guarantee Limit" and "Guarantee Balance" sometimes interchangeable. Hence, please consider to clarify the terms.
		<i>1. Loans of credit institutions include loans under credit contract, balance of payable raised from guarantee responsibilities on behalf of customers; negotiation balance as for valuable paper of customers; balance of bond investment issued by customers due to issuance guarantee responsibilities. Total loans of credit institutions for a customer cannot exceed 15% equity of credit institutions.</i>	<ol style="list-style-type: none"> 1. The draft mentioned that Corporate bond will be subjected under Single Lending Limit (SLL) but SBV only specify on the underwriting bond so this mean that if the bank is not the underwriter then it is not subject to SLL? 2. It appears there is substantial loosening of the single-borrower limit rules as, although total loans for a customer cannot exceed 15% of a credit institution's equity (unchanged), proposal is now also for total loans and guarantees not to exceed 25% of equity; total loans to related customers not to exceed 50%; and total loans and guarantees not to exceed 60%. Agreeing on up to 60% of the exposure to be concentrated on a single customer group seems overly aggressive. We would recommend keeping the present rules that total loans for a customer cannot exceed

			<p>15% of a credit institution's equity only.</p> <p>3. This will cap our ability to extend credit / loans to many companies, especially multinational companies and large Public Sector names. We should seek an exemption at least for multinational companies when the credit facilities are backed by guarantees from other branches overseas. This exemption should be applicable to both foreign bank branches and subsidiaries. Under Article 10, we should seek this exemption that any extension of credit that includes loans, derivatives and contingent facilities secured by guarantees, such as standby LC from overseas branches of foreign banks should be exempted. The guarantees should meet minimum standards say, it is payable on demand and is irrevocable.</p> <p>4. The Draft does not mention about the legal capital of branches.</p> <p>5. According to the draft Decree promulgating the legal capital of credit institutions, commercial banks shall increase their legal capital to 5,000 billion VND within the next two years and to 10,000 billion VND by 2015. We consider this timeframe for capital increasing is too aggressive.</p>
		<p>8. <i>Total loans and negotiation of valuable paper for securities investment and trading purposes cannot exceed 20% Charter capital of credit institutions.</i></p>	<ul style="list-style-type: none"> - Please consider to apply the definition of “securities” as stipulated in the Law on Securities. - There should be the separate lending and guarantee limit for bonds investment from shares investment as if loans and negotiation of valuable paper for bonds investment is capped at 20% of charter capital, it will restrict the development of repo market. - The definition of total outstanding loan under para 1 of this Article already includes negotiation of valuable papers. - Please consider if there is any circumstance where 20% of charter capital exceeds 15% of owned capital of credit institutions? And if it is the case, how will it be handled? - Please provide clearer definition in case of partially cash secured transaction. For example, for 30% cash secured facility, will full amount of the facility being

			measured against Single lending limit or only a portion which has not been covered by cash (70%) of the facility being measured vs. Single lending limit?
5.	Item 3	Current ratio	For calculation of current ratio, we should be allowed to treat inter-co placements overseas with foreign branches / subsidiaries as part of liquid current assets.
6.	Article 11	<p><i>Current ratio management</i></p> <p>2. Credit institutions must set up and issue internal regulations on current ratio in Vietnam Dong, foreign currencies converted to USD, gold, in which the following contents are must:</p> <p>2.5. Set up stress-test model. Stress-test model should include scenarios for scenario analysis on current ratio and liquidity, in which the following should be included:</p> <p>a) Scenario analysis combines of at least two cases as follows:</p> <ul style="list-style-type: none"> - Cash flows from business activities of credit institutions in the most common cases; - Cash flows from business activities of credit institutions in cases of stress (shortage of payment and inefficient current ratio). (...) <p>3. Internal regulations on stress management approved by Board of Directors and amended and supplemented every 6 months as minimum. As for branches of foreign banks, internal regulations on payment capacity and current ratio should be approved by foreign banks.</p>	<p>The circular mentions briefly that banks need to build their own policy and mechanism for liquidity management, cash flow projections (scenario analysis), stress testing and liquidity contingency plan with minimum requirements.</p> <p>We believe we can therefore apply to use our Group methodology as it currently covers the requirements from SBV. We should mention that foreign banks should be allowed to adopt their Group policies on balance sheet management if they cover the minimum requirements from the SBV.</p> <ul style="list-style-type: none"> - How will the “difficulties in payment and liquidity ability” be defined in case of “Cash flows from business activities of credit institutions in cases of stress”? - Please add the following phrase to Article 11.3 “.... Approved by authorized person of foreign banks” for implementation, or otherwise please clarify this Article.
7.	Article 12	<p>1.1. “Asset” that can be paid immediately on the following day includes:(...)</p> <p>c) Balance of cash deposited in State bank (except compulsory provisional deposit), current deposit in other credit institutions by</p>	<p>1. The draft requires credit institutions to determine and have measures to ensure the payment ability for the next day for VND and USD (including other foreign currencies converted into USD). Thus, the Draft has made adjustment to the current regulation and this is appropriate as the liquidity ability of other foreign currencies is also high in the international market. However, it is unclear on the prevailing rate to</p>

	<p><i>the end of the previous day.</i></p> <p><i>d) Time deposit other credit institutions matures following day.</i></p> <p><i>(...)</i></p> <p><i>e) 90% value of securities issued or guaranteed by credit institutions acting in Vietnam or banks of OECD countries by the end of the previous day.</i></p> <p><i>g) 85% values of listed securities by the end of the previous day.</i></p> <p><i>1.2. Liabilities to be paid within 30 days from the following day including: (...)</i></p> <p><i>c) 15% of average balance of current accounts of organizations (except current accounts of other credit institutions), individuals within 30 previous days from the previous day. Credit institutions must clarify this average balance as accounting base. (...)</i></p> <p><i>g) Value of non-recourse loan commitment of customers matures within 30 days since the following day.</i></p> <p><i>h) Value of loan guarantee of customers matures within 30 days since the following day.</i></p> <p><i>i) Value of payment guarantee, except cash guarantee, matures within 30 days since the following day.</i></p> <p><i>2. Minimum rate is 1 between total “Asset” matures within 7 following days since the following day and total “Liability” ” matures within 7 following days since the following day.</i></p> <p><i>2.1. “Assets” matures within 7 following days since the following day include:: (...)</i></p> <p><i>c) Balance of cash deposited in State bank (except compulsory provisional deposit),</i></p>	<p>be used for converting other foreign currencies into USD. Will credit institutions be allowed to determine the exchange rate themselves?</p> <p>Specific comments</p> <p>(i) Terms In this Article, the terms “the previous day”, “the following day” are used repeatedly and may cause misunderstanding or confusion. In fact, it can be understood as the previous and following day of today, or the previous day of the following day. For example, today is 12 March 2010, the previous day is 11 March 2010, the following day is 13 March 2010; but it can also be understood as the previous day is 12 March 2010 and the following day is 13 March 2010. Therefore, in order to avoid misunderstanding, the Draft should provide clearer guidance, maybe via specific examples.</p> <p>(ii) Holidays</p> <ul style="list-style-type: none"> - The circular has not mentioned the treatment of holidays, especially long holiday as Tet Holiday. In fact there is no cash flow in these days or if there is the balance is trivial. Unless holiday treatments are implemented the interpretation of the ratio will be misleading. - Some foreign currencies have their holidays in their home country, which are not holidays in Vietnam; for example, if the following day is US’s holiday, we cannot maintain this current ratio. Specifically, USD has 25 Dec is US’s public holiday, not Vietnam’s, do banks have to calculate the current ratio for 25 December? <p>(iii) Compulsory reserve (Article 12 – 2.1.c & 2.1.c): Does the compulsory reserve excluded from the “Assets” mean the average compulsory reserve? (based on the average balance of deposits in accordance with Decision 518/QĐ-NHNN)?</p> <p>(iv) Assets can be paid immediately on the following day:</p> <ul style="list-style-type: none"> - Para 1.1.c of this Article regulates that the balance of deposits at the SBV will be included in the value of the Assets can be paid immediately on the following day after deducting compulsory reserves. How will bank deal with the case
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	<p><i>current deposit in other credit institutions by the end of the previous day.</i></p> <p><i>d) Time deposit at other credit institutions matures within 7 following days since the following day.</i></p> <p><i>(...)</i></p> <p><i>e) 90% value of securities issued or guaranteed by credit institutions acting in Vietnam or banks of OECD countries by the end of the previous day.</i></p> <p><i>g) 85% values of listed securities by the end of the previous day.</i></p> <p><i>h) 80% of balance of commitment borrowed from foreign banks (mother banks) and branches of foreign banks in which branches of foreign bank in Vietnam must keep their books and pay charges, valid until the following day.</i></p> <p><i>i) 75% of balance of non-secured loans, except bad-debt, matures within 7 following days since the following day. (...)</i></p> <p><i>2.2. "Liability" matures within 7 following days since the following day include: (...)</i></p> <p><i>c) 15% of average balance of current accounts of organizations (except current accounts of other credit institutions), individuals within 30 previous days from the previous day. Credit institutions must clarify this average balance as accounting base.</i></p> <p><i>g) Value of non-recourse loan commitment of customers matures within 7 days since the following day.</i></p> <p><i>h) Value of loan guarantee of customers matures within 7 days since the following day.</i></p> <p><i>i) Value of payment guarantee, except cash</i></p>	<p>when the result from such calculation is a negative figure? Moreover, it is unfair for credit institutions to exclude the compulsory reserves from the Assets as in fact, credit institutions are required to make compulsory reserve monthly, not daily. Therefore, credit institutions are still able to use all their deposits at the SBV to settle the temporary insufficiency without paying excessively high cost. It is especially inappropriate when the SBV has maintained sufficient compulsory reserve for that month.</p> <ul style="list-style-type: none"> - It is not mentioned in Para 1.1.h about the balance of commitment from a local bank. Will commitments from local banks be considered as a part of Assets can be paid immediately on the following day? - In fact, beside what have been mentioned in para 1.1., credit institutions have many other receivables to ensure their payment ability. Therefore, it would be irrational if these receivables are excluded from the Assets that can be paid immediately on the following day. Therefore, we would like to suggest to add the following items to the Assets that can be immediately paid on the following day: <ul style="list-style-type: none"> + Loans provided to customers become due (as the probability that customers are unable to repay debts is very low), financial lease become due; + Loans from the inter-bank market which are effective on the following day; + Balance of commitments from local banks; + Balance of deposits at branches or parent bank; + Receivable matured interests and fees; + Other matured receivables. <p>(v) Definition of value of securities (Article 12 – 1.1.d,e,g & 2.1.d,e,g):</p> <ul style="list-style-type: none"> - Is the securities value under this Article the booking value or market value? Please provide more specific guidance on the method to determine the securities value used for current ratio calculation. - Under paragraph 1.1.g, 85% of other listed securities value is also included in the "Asset". Can we understand that this Article is applied to every kind of securities (even capital securities)? <p>(vi) Secured and non-secured loans (Article 12 – 2.1.h & 2.1.e):</p>
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		<p><i>guarantee, matures within 7 days since the following day.</i> (...)</p>	<p>Why only “Assets” matures within 7 following days since the following day include:</p> <p><i>2.1.h) 80% of balance of commitment borrowed from foreign banks (mother banks) and branches of foreign banks in which branches of foreign bank in Vietnam must keep their books and pay charges, valid until the following day.</i></p> <p><i>2.1.i) 75% of balance of non-secured loans, except bad-debt, matures within 7 following days since the following day.</i></p> <p>We would suggest adding these indicators into the current ratio within one month.</p> <p>(vii) Off-balance sheet commitments (non-recourse loan commitments, loan guarantees, payment guarantees) (Article 12 – 1.2.g,h,i & 2.2.g,h,i)</p> <p>These off-balance sheet should not be included in the current ratio for the following reasons:</p> <ul style="list-style-type: none"> - Off-balance sheet commitments are banks’ commitments for which banks shall only pay within a reasonable time, which is usually 3 days from receiving the payment request from the beneficiary; - The current ratio is daily maintained. When banks accept payment, the value of off-balance commitments will decrease accordingly as these amounts will be recorded into amounts payable on behalf of customers in the total assets sheet, which has been calculated in the current ratio; - The probability for banks to perform these commitments is considerably low as guarantees are issued based on the credit limit granted for each customer; - Normally, banks will arrange to receive funds from the party requesting for guarantee or cross-guarantor before making payment to the beneficiary party of the guarantee. Therefore, the payment ability of banks will not be affected by performing guarantor’s obligations; - Increase the cost to maintain the current ratio for amounts for which banks will not have to pay or the probability of payment is considerably low. <p>(vii) To add the following indicators to the current ratio</p> <ul style="list-style-type: none"> - Other payable amounts (including without limiting to internal payable amounts, amounts payable to the state budget,...); - Repo, Reverse Repo, BSB, SBB, IRS, CCS
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			<p>Will banks be allowed to apply the 15% ratio to payable with the nature of deposits account such as the case the foreign currency amount retained on call deposit account of State owned Corporations or Groups custodian accounts in accordance with Circular 26/2009/TT-NHNN dated 30 December 2009.</p> <p>(viii) Calculation of average balance of call deposits of organizations and individuals</p> <p>Both Article 12 – 1.2.c and 2.2.c require 15% of the average balance of call deposits of organizations and individuals (excluding deposits of other credit institutions) within previous 30 days of the previous day. In fact, using the average balance instead of the actual balance of call deposit of the previous day will not only be complicated but also not reflect the accurate the money amount of the customer on the following day.</p> <p>Therefore, please provide more detailed guidance on calculation of the average balance, or allow banks to apply one of the following options:</p> <p>The balance of the previous day (t) + balance of (t-1) + balance of (t-2) + balance of (t-3) + ...+ balance of (t-30)</p> <hr/> <p style="text-align: center;">30</p> <p>The balance of the previous day (t) + balance of (t-30)</p> <hr/> <p style="text-align: center;">2</p> <p>The total average balance of the previous month of the reporting month (total balance/days in the month), similar to the calculation of compulsory reserve. For example: The current month is March 2010, the current ratio of the days in March will be calculated based on the average balance of deposits of February 2010. We would recommend item (c) as banks only have to calculate the ratio once in every month instead of calculating daily as in item (a) and (b). Besides, if method (a) is applied, banks will have to prepare data archives, which will incur more cost to banks.</p>
8.	Article 13	<p><i>Sheet to control and supervise current ratio</i></p> <p><i>1. Based on regulations in Article 12 of this Circular, Credit institution shall prepare a sheet to control, supervise payment term of assets and liabilities in the next 30 days to</i></p>	<ul style="list-style-type: none"> - Will there be any template for this requirements or it is up to banks as to how they want to build the templates. Do banks need to submit this return to the SBV monthly? - As Article 13 - 2.2 regulates that “ <i>Assets and liabilities due of each specific day are difined based on due date in credit agreement, loan, deposit contracts, commitments</i>

		<p>assist controlling current ratio .</p> <p>2. The sheet to control, supervise payment term as specified in Clause 1 of this Article must meet following requirements:</p> <p>2.1. To ensure daily supervision of all assets due in the next 30 days since the next day and liabilities due of each day in the next 30 days since the next day.</p> <p>2.2. Assets and liabilities due of each specific day are defined based on due date in credit agreement, loan, deposit contracts, commitments and guarantee agreement.</p>	<p>and guarantee agreement “, we understand that the daily current ratio also includes amounts to be received or paid from selling or purchasing foreign currencies, securities, borrowing or lending which are determined based on the effective date of contracts or securities trading confirmation of notice of funds incoming to bank account but such bank has not settled until receiving the credit advice.</p>
9.	Article 14	<p><i>Implementation of current ratio:</i></p> <p>1. Based on results of the sheet and calculation of current ratio , in case when the target is not reached as specified in Article 12 of this Circular at the end of the day, credit institution must set up processing procedures, including borrowing from other credit institution to support current ratio , ensuring current ratio for the next day as regulated; and at the same time report to The State Bank of Vietnam (Banking inspector and supervisor) .</p>	<p>The calculation of current ratio is only accurate when full accounting data is fully obtained, which can only be done after all transactions have been fully settled by the end of the day, banks will not be able to report current ratio within the transaction date. Therefore, recovered measures can only be determined and reported to the SBV on the next day.</p> <p>Is it a violation if banks provide reasonable explanation, recovered measures and ensure the current ratio of the following days being in accordance with the regulations?</p>
		<p>3. Credit institution can only commit lending to support current ratio, liquidity to other credit institutions once it has met requirements of current ratio as specified in Clause 1 and Clause 2 Article 12 of this Circular .</p> <p>4. Credit institution which is temporarily short of current ratio as specified in Article 12 of this Circular is not allowed to lend other credit institutions in interbank market.</p>	<p>These regulations are not necessary as credit institutions shall ensure its current ratios at any time during our regulations. Therefore, it is really difficult to identify whether the lending purpose is only to support the payment or liquidity ability. On the other hand, when a bank is only temporarily short of one liquidity indicator such as the minimum ratio of 1 between total Assets matured within the 7 following days from the following day and the total Liabilities matured within the 7 following days from the following day, it will not be appropriate if the overnight lending which completely has no affect on such ratio is also restricted.</p>

10.	Article 16	<p><i>3. In case of exceeding the rate specified in Clause 1 and Clause 2 of this Article, a prior written notice must be approved by The State Bank of Vietnam and must fully meet all following conditions as follows:</i></p> <p><i>a) In case of exceeding the rate specified in Clause 1 and Clause 2 of this Article, a prior written notice must be approved by The State Bank of Vietnam and must fully meet all following conditions as follows:</i></p> <p><i>Credit institution must fully comply with other capital adequacy ratios in banking activities, bad debt rate (NPL) must be lower than 3% and profit from operating activities is gained consecutively in the last three (03) years.</i></p>	<p>The clear definition and calculation methodology must be provided. Under the current practice, banks only calculate on the interest portion as party of NPL while international standard includes the principal after the consecutive x times of the payment.</p>
11.	Article 18	<p><i>Ratio between credit granted and mobilized capital</i></p> <p><i>1. Credit institution can only use mobilized capital to grant credit if current ratio is guaranteed as specified in Article 12 of this Circular and must not exceed following rate:</i></p> <p><i>1.1. For the bank : 80% (...)</i></p> <p><i>2. Granting credit as specified in Clause 1 of this Article includes lending, financial lease, factoring, guarantee, discount of valuable papers and transferable instruments.</i></p> <p><i>3. Mobilized capital specified in Clause 1 of this Article includes:</i></p> <p><i>3.1. Individual deposit such as demand deposit, fixed deposit;</i></p> <p><i>3.2. Deposit (excluding deposit for payment) of organization (excluding State treasury, other credit institution), households such as demand deposit, fixed deposit;</i></p>	<ol style="list-style-type: none"> 1. Please consider to remove this ratio as there are too many prudential ratios to control; the ratios currently applied may be used instead. Moreover, by checking with other countries in the region, none of their Central bank put the A/D ratio into the regulation. Internally, the bank has built a core-non core methodology base on historical to quantify customers' behavior, we suggest that SBV just only provide limit of A/D ratio. 2. From our understanding, this ratio regulates the total outstanding loans from a bank to its customers being individuals and organizations shall not exceed 80% of the total mobilized capital of such bank (including inter-bank mobilization). Therefore, we would like to suggest that the phrase "credit granting" shall be replaced by "total actual outstanding loans to customers being organizations and individuals, including amounts payable on behalf of customers" for the following reasons: <ul style="list-style-type: none"> - Customers do not always use all of their credit limit as the credit limit is granted and approved annually (normally unchanged throughout the year if the operation and debt repayment of customers are in good condition; thus, customers should be allowed to borrow up to the maximum limit of their demand within the risks limit that a bank may accept). It will increase the cost for banks when we will have a part of our capital not effectively be used as we cannot collect interest from the part of

	<p>3.3. Borrowings from domestic and foreign organizations, including borrowing from other domestic and foreign credit institutions, excluding State treasury;</p> <p>3.4. Capital is mobilized from organizations, individuals, households by issuance of valuable papers.</p>	<p>the credit limit which is not disbursed or guarantee commitments; and we still have to pay the inter-bank interests;</p> <ul style="list-style-type: none"> - Customers will encounter more difficulties in borrowing capital from banks resulting from the credit granting limitation; - This will cause pressure on the inter-bank market as banks have to increase our mobilized capital whenever we decide to grant a credit limit. <p>Besides, if this ratio is calculated based on the credit limit and if the time to determine the compliance of this ratio being the credit limit approval date, it will be hard to manage this ratio because:</p> <ul style="list-style-type: none"> - The decision of credit granting, the credit contract is signed and disbursement do not fall on the same day; - As mobilized funds maybe changed but cannot be adjusted timely during the period before the disbursement, this ratio may fall under the regulated ratio even if banks have not provided loans. - We propose to monitor the AD ratio on a total currencies basis. <p>3. Article 1: This Article requires credit institutions to use mobilized capital for credit granting only if the current ratio is ensured. However, it is not necessary to provide this requirement as credit institutions must ensure its current ratio at any time during its operation. In case this provision is deemed to be necessary, it should also include other prudential ratios promulgated in this Circular both before and after credit granting.</p> <p>4. Article 2:</p> <ul style="list-style-type: none"> - Please clarify the definition on “granting credit”, whether it only means lending to customers, or lending to customers plus inter-bank deposits. Does it include inter-bank and inter-branch lending; debt securities and T-bills (both Trading and AFS)? - What does "guarantee" include? Does this refer to on or off balance sheet exposure or both? <p>5. Article 3:</p> <ul style="list-style-type: none"> - The requirement to exclude the deposits of other deposits from mobilizing capital is not quite reasonable as deposits of other credit institutions originate from deposits of organizations and individuals. Moreover, loans and deposits from other credit
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12.	Article 19	<p><i>Reporting</i> <i>Credit institution must make report on implementation of capital adequacy ratio in accordance with regulations issued by The State Bank of Vietnam on statistics report applied to credit institutions.</i></p>	<p>For CAR report, due to the new changes with complicate components, we would like to request SBV to provide more instruction format enclosed with draft circular ASAP so that CIs have sufficient time/resource for prepare. For example, the format of daily report L0101 (under Decision 457 and Decision 1747/2005/QD-NHNN), month-end current ratio report (monthly report) (under Official Letter No. 13684/NHNN/CSTT dated 16/02/2007) will be changed.</p>