

The Ministry of Finance

No. 46 /2006/QĐ-BTC

Hanoi, September 6, 2006

DECISION

On

Promulgating the Regulation on issuing large lot government bonds

THE MINISTER OF FINANCE

- Based on Decree 141/2003/NĐ-CP dated November 20,2003 of the Government on issuing government bonds, bonds that guaranteed by the government, and municipal bonds;
- Based on the Decree 77/2003/NĐ-CP dated July 1, 2003 of the government’s regulation on the functions, responsibilities, authority, and the organizational structure of the Ministry of Finance;
- According to the proposal of the Head of the Finance and Banking Department;

DECIDES

1. Promulgating with this Decision the “Regulation on issuing large lot government bonds”
2. This decision is effective 15 days after the its public announcement.
3. The General Director of the issuing agents and the heads of related parties are in charge of implementing this decision.

On behalf of the Minister of Finance

Deputy Minister of Finance

Tran Xuan Ha

REGULATION

On issuing of large lot of government bonds

(Promulgated with Decision 46/2006/QĐ-BTC dated September 6th, 2006 by the Minister of Finance)

I. GENERAL ARTICLES

Article 1. Purpose of issuing large lot government bonds

- To strengthen the government's ability in mobilizing funds for its budget and investments for development.
- To significantly increase the liquidity of government bonds on the secondary market
- To form benchmark interest rates for debt instruments

Article 2. Scope

This document regulates the issue of large lot government bonds by the State Treasury, in compliance with Decree 141/2003/NĐ-CP, dated November 20, 2003. Other State Financial Institutions, the Financial and Credit Institutions whom the Prime Minister appoints to mobilize funds to invest in the projects of the government policy can employ this regulation in issuing bonds.

Article 3. Definitions

1. Issuing a large lot of government bonds is issuing several times of government bonds that have the same tenor, nominal interest rate, and maturity date
2. Issue one is the first issue of the lot
3. Additional issues are the sequent issues that have the same term, nominal interest rate, and maturity date as issue one.
4. The issuing period is the one from the date of the first issue to the date of the last issue.

5. The term of a bond is the period of time from the date of its first issue to the maturity date of the bond.
6. The remaining term of a bond is the period of time from the date of selling an additional issue to the maturity date of the bond.
7. Nominal interest rate is a percentage rate on face value that the issuer has to pay to the bond holders during the life of the bond.

Article 4. Issuing large lot government bonds has to comply with Decree 141/2003/NĐ-CP dated November 20, 2003, and other documents that guides implementing Decree 141/2003/NĐ and the regulations in this document.

II. PARTICULAR ARTICLES

Article 5. Issue period

Issuing period cannot exceed 365 days

Article 6. Amount of issue

Minimum amount of any issue should be 1000 billion dong.

Article 7. Method of issuing

Large lot G-bonds are issued under the following methods:

1. Tendering
2. Underwriting

Article 8. Term of bonds

Terms of large lot bonds must be from 5 years and longer.

Article 9. Nominal interest rate

- Large lot bonds have fixed nominal interest rates which are paid semi-annually or annually.
- The Minister of Finance decides or authorizes the general Director of the State Treasury to decide the nominal interest rates of the bonds.

Article 10. Bidding interest rate, underwritten interest rate

Bidding interest rate or underwriting interest rate (from now on bidding interest rate) is a percentage rate and has at most three decimal numbers.

Article 10. Ceiling rate

1. The ceiling rate of the first issue of a large lot bond is the ceiling rate of the G-bonds that are regulated in Decree 141/2003/NĐ-CP and the documents that guide implementing Decree 141/2003/NĐ-CP.
2. The ceiling rate of the additional issue is equal to the ceiling rate of the G-bond that has the nearest term to the remaining term of that additional issue.
3. In the case of issuing a large lot bond that has no ceiling rate, the issuer has to build a plan and submit it to the Minister of Finance for his approval before implementing. The plan has to include the following contents:
 1. The minimum number of participants who attend the auction or underwrite.
 2. The minimum volume that a participant registers in comparison to the targeted one.
 3. The minimum volume that all participants register.
 4. The plan to be used in the case of there is a big gap between the result interest rate and the interest of G-bond that has the same term at the time of issuing.

Article 12. Determining the result of the auction or underwriting bidding, bond price, and interest payment

1. Basis for determination:
 - a. The volume of auction biddings or underwriting biddings of participants

- b. Interest rates that participants bid in the auction or in their underwritings
 - c. Targeted volume of the issue
 - d. Ceiling rate of the large lot bond (if any)
2. The method of determining winning rate

The issuer can choose one of the following methods:

- 1. The highest interest applied to all winning participants (Dutch style)
- 2. The interest of each winning applicant (American style)
- 3. The principle of determining result
 - a. The winning participants in the auction or the ones that win the right to underwrite (from now on: the winning participants) are to be selected on bidding interests from low to high. The winning participants must satisfy two conditions:
 - Bidding interest rates must be lower or equal to the ceiling interest rate (if any)
 - The bidding volume must be less than or equal to the volume of the issue
 - b. If at the result interest level the total bidding volume exceeds the targeted volume of the issue, the volume that will be sold to each winning participant is determined as follows: (Total volume accumulated to the result interest rate – total volume of the lower interest rates)* the weight of each participants at the result interest rate level.
- 4. Bond price
 - a. The price of issue one:
 - In the case that the nominal interest rate is determined by auctioning or underwriting bidding, the bond price is its face value (deleted).
 - The bond price of issue one is determined as follows:

$$G = MG \times \left(\frac{R_c}{(1 + R_t)} + \frac{R_c}{(1 + R_t)^2} + \dots + \frac{R_c}{(1 + R_t)^t} + \frac{1}{(1 + R_t)^t} \right)$$

Where

G	bond price
MG	face value
L_t	result interest rate of the large lot bond (% p.a.)
L_c	nominal interest rate of the large lot bond (% p.a.)
k	number of interest payments in a year
t	total number of the interest payments of the bond
R_t	L_t / k
R_c	L_c / k

Please see appendix 1 for the example.

b. Price of additional issues

The price of additional issues is determined as follows:

$$G = \left[\sum_{x=1}^t \frac{MG \times R_c}{(1 + R_t)^{\left(x-1+\frac{D_n}{E}\right)}} \right] + \left[\frac{MG}{(1 + R_t)^{\left(t-1+\frac{D_n}{E}\right)}} \right]$$

where:

G	bond price
MG	face value
L_t	result interest rate of the large lot bond (% p.a.)
L_c	nominal interest rate of the large lot bond (% p.a.)
R_t	L_t / k
R_c	L_c / k
k	number of interest payments in a year (k = 1 annual, k = 2 semiannual)

D_n number of days from the day of issuing one to the day of the nearest interest payment
E number of days between two consecutive payments (the actual number of days/365)
t number of the remaining interest payments

Please see appendix 2 for the example.

5. Interest at the day of interest payment is determined as follows:

$$L = MG \times \frac{L_c}{k}$$

where

L the payment
MG the face value of the bond
 L_c the nominal rate of the large lot bond (% p.a.)
k number of interest payments in a year (k = 1 annual, k = 2 semiannual)

6. On the maturity date, the bondholders will receive the principal that is equal to the face value of the bond and the last interest payment.

III. IMPLEMENTATION

Article 13. The financial institutions of the government, the financial institutions, and credit institution (that are appointed by the Prime Minister to issue government bonds in the Decree 141/2003/NĐCP dated November 20, 2003) have to build the plan to issue bonds (if they have the need to issue) to propose to and get approval from the Ministry of Finance before implementing.

Article 14. Regarding to the bonds that are issued beforehand and do not meet the criteria of large lot bonds, the State Treasury can tap them to restructure its market portfolio in compliance with this Regulation. The State Treasury composes the plan, submit, and get approval from the Ministry of Finance before implementing.

Article 15. In the process of implementation, if encounter obstacles, the related parties report to the Ministry of Finance for consideration and direction.

MINISTRY OF FINANCE

Deputy Minister of Finance

Tran Xuan Ha

Appendix 1

Example of determining the price of large lot bond of the first issue

Example 1:

Suppose that a bond has a term of 5 years, the issue date of issue one is August 15, 2006; the maturity date is August 15, 2011; nominal interest rate is 8.5% paid at the end of each payment period, the result interest rate through auction is 8%.

If the face value of the bonds is VND500,000,000, the price is determined as follows:

$$G = MG \times \left(\frac{R_c}{(1 + R_t)} + \frac{R_c}{(1 + R_t)^2} + \dots + \frac{R_c}{(1 + R_t)^t} + \frac{1}{(1 + R_t)^t} \right)$$

G bond price

MG face value = VND500,000,000

R_t result interest rate of the large lot bond = 8%/1 = 8%

R_c nominal interest rate of the large lot bond = 8.5%/1 = 8.5%

t number of interest payments = 5 payments

$$G = 500,000,000 \times \left(\frac{0.085}{(1 + 0.08)} + \frac{0.085}{(1 + 0.08)^2} + \dots + \frac{0.085}{(1 + 0.08)^5} + \frac{1}{(1 + 0.08)^5} \right) = 509,981,775(VND)$$

Example 2:

Other things are the same but the result interest rate is 9%, the price is:

$$G = 500,000,000 \times \left(\frac{0.085}{(1 + 0.09)} + \frac{0.085}{(1 + 0.09)^2} + \dots + \frac{0.085}{(1 + 0.09)^5} + \frac{1}{(1 + 0.09)^5} \right) = 490,275,872(VND)$$

Example 3:

Other things are the same as in Example 1, but the coupons are paid semi-annually at February 15 and August 15 of each year.

$$G = MG \times \left(\frac{R_c}{(1 + R_t)} + \frac{R_c}{(1 + R_t)^2} + \dots + \frac{R_c}{(1 + R_t)^t} + \frac{1}{(1 + R_t)^t} \right)$$

G bond price

MG face value = VND500,000,000

R_t result interest rate of the large lot bond = 8%/2 = 4%

R_c nominal interest rate of the large lot bond = 8.5%/2 = 4.25%

t number of interest payments = 10 payments

$$G = 500,000,000 \times \left(\frac{0.0425}{(1 + 0.04)} + \frac{0.0425}{(1 + 0.04)^2} + \dots + \frac{0.0425}{(1 + 0.04)^{10}} + \frac{1}{(1 + 0.04)^{10}} \right) = 510,138,620(VND)$$

Appendix 2

Example of determining the bond price of additional issues

Example 1

Suppose that a bond has a term of 5 years, the issue date of issue one is August 15, 2006; the maturity date is August 15, 2011; the issue date of the additional issue is September 30, 2006; the nominal interest rate is 8.5% paid at the end of each payment period, the result interest rate through auction is 8%.

If the face value of the bonds is VND500,000,000, the price is determined as follows:

$$G = \left[\sum_{x=1}^t \frac{MG \times R_c}{(1 + R_t)^{\left(x - 1 + \frac{D_n}{E}\right)}} \right] + \left[\frac{MG}{(1 + R_t)^{\left(t - 1 + \frac{D_n}{E}\right)}} \right]$$

where:

G bond price

MG face value = VND500,000,000

R_t result interest rate of the large lot bond = 8%/1 = 8%

R_c nominal interest rate of the large lot bond = 8.5%/1 = 8.5%

D_n number of days from the issuing date to the nearest interest payment = 319 days

E number of days between two consecutive interest payments (365 days)

t number of the remaining interest payments = 5 payments

$$G = \left[\sum_{x=1}^5 \frac{500,000,000 \times 0.085}{(1 + 0.08)^{\left(x - 1 + \frac{319}{365}\right)}} \right] + \left[\frac{500,000,000}{(1 + 0.08)^{\left(5 - 1 + \frac{319}{365}\right)}} \right] = 514,952,256(VND)$$

Example 2:

Other things are the same but the result interest rate is 9%, the price is:

$$G = \left[\sum_{x=1}^t \frac{500,000,000 \times 0.085}{(1 + 0.09)^{\left(t-1 + \frac{319}{365}\right)}} \right] + \left[\frac{500,000,000}{(1 + 0.09)^{\left(5-1 + \frac{319}{365}\right)}} \right] = 495,629,656(VND)$$

Example 3:

Other things are the same as in Example 1, but the coupons are paid semi-annually at February 15 and August 15 of each year.

$$G = \left[\sum_{x=1}^t \frac{MG \times R_c}{(1 + R_t)^{\left(x-1 + \frac{D_n}{E}\right)}} \right] + \left[\frac{MG}{(1 + R_t)^{\left(t-1 + \frac{D_n}{E}\right)}} \right]$$

where:

G bond price

MG face value = VND500,000,000

R_t result interest rate of the large lot bond = 8%/2 = 4%

L_c nominal interest rate of the large lot bond = 8.5%/2 = 4.25%

D_n number of days from the issuing date to the date of the nearest interest payment (February 15, 2007) = 138 days

E number of days between two consecutive interest payments (184 days)

t number of the remaining interest payments = 10 payments

$$G = \left[\sum_{x=1}^{10} \frac{500,000,000 \times 0.0425}{(1 + 0.04)^{\left(x-1 + \frac{138}{184}\right)}} \right] + \left[\frac{500,000,000}{(1 + 0.04)^{\left(10-1 + \frac{138}{184}\right)}} \right] = 515,165,223(VND)$$