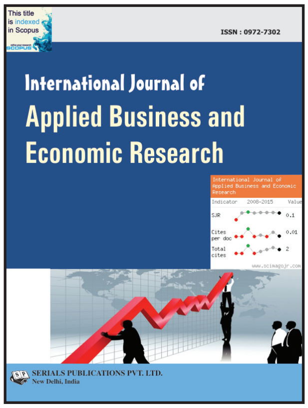

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Performance of Vietnam Securities Companies – An Application of Camel Rating System

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ABSTRACT

The objective of this paper is to analyze the performance of Securities Companies in Vietnam securities sector. Applying criteria CAMEL system to assess performance of 96 in105 operating securities firms in Vietnam's stock market shows more than 40% of companies having a safe condition and good financial health; 20% Securities should be supervised by the SSC for healthy financial situation is quite weak, especially earnings and risk management capabilities. Compared to financial safety results according to Circular 226, it can be seen that even to group of companies with the largest capitalization, there are some companies accumulating losses and operating inefficiently. This shows that the CAMEL system and capital adequacy need to be corporate to perform classification, monitoring, and restructure Securities radically, fiercely to ensure safety of the intermediaries and strengthen stock market, ensure financial security to provide services to customers in accordance with the law.

Brief Biography: Masters in Finance from Monash University of Australia; PHD in risk management of Financial Institutions from Banking Academy of Vietnam; Completing several studies of corporate finance and risk management of financial institutions; currently studying shadow banking activities.

Keywords: Securities companies, CAMEL, financial safety, Capital adequacy, Asset quality.

1. INTRODUCTION

Securities companies play a significant role in security market in particular and financial market in general. These companies regulate sources of financing directly by linking the funds to organizations demanding them in stock market. Along with the birth and development of Vietnam security market, securities companies have been increasing their scale for the last 16 years. In the first 5 years of Vietnam securities, the number of securities companies in the market was quite modest. By the end of 2005, there had been only 14 companies operating in this field. Though, in the period of 2006 to 2008, thanks to the boom of the stock market, the number of securities companies increased dramatically. In 2006, the number of licensed was 41, it continued increasing over the years bringing the total number of securities companies in Vietnam to 105 by the end of 2008, increased by 7.5 times compared to 2005.

However, the Global Financial Crisis of 2007 – 2008 and the issues of public debt and non-performing loans impacted substantially to our economy and stock market. Along with these problems, the limitations and shortcomings of securities companies in operating were gradually exposed. Non-performing loans, poor risk management, lack of stable capital sources as well as high level of risks led these companies into troubles. The reports of State Securities Commission of Vietnam (SSC) showed that the total number of securities companies falling into the "Specially Controlled" group rose from 11 companies in 2012 to 13 companies in 2013, securities companies falling into the state of being strictly controlled also nearly doubled to 5 companies in late 2013; The number of normally operating join-stock companies fell by 50%, somes even had their licenses revoked.

To address this, on 06.12.2012, the Prime Minister issued the decision 1826/QD-TTg on approval "Scheme restructuring the stock market and the insurance business." Accordingly, one of the four most important content is to restructure the system of securities organizations to meet demands, characteristics and scale of market development; consolidate operations, improve financial capability, corporate governance and risk – management in these organizations according to international practices. Base on that, the SSC graded securities through two main instruments: 1/The ratio of capital adequacy (Circular 226 on financial safety of Securities Companies) and 2/CAMEL System (Decision 617). Circular 226 is considered an internal monitoring tool of the securities business, while Decision 617 is considered a support tool for SSC to track, monitor and evaluate the performance of the Securities Companies; classification for early warning and timely treatment for companies operating weakly and riskily, thereby protecting the integrity of the securities market.

With legal framework mentioned above, the operation of the securities is tracked and monitored more closely. However, so far, there has been no independent research evaluating activities in accordance with the Securities CAMELS system in Vietnam. On the other hand, there has been also no studies assessing the compatibility between the regulations on capital adequacy and CAMELS rating level. Therefore, an independent study on these issues is needed to assess the operation of the system of Vietnam Securities Company comprehensively and completely.

In this paper, CAMEL rating system and its components is used as proxy for the overall and companential status of the securities companies. As a result, 20% Securities companies should be supervised by the SSC for healthy financial situation is quite weak, especially earnings and risk management capabilities. However, there was a gap between CAMEL rating and financial safety results according to Circular 226 to some extent. Thus, the CAMEL system and capital adequacy need to be corporate to perform classification, monitoring, and restructure Securities radically, fiercely to ensure safety of the intermediaries and strengthen stock market, ensure financial security to provide services to customers in accordance with the law. The paper is constructed as follows: section II will provide review of literature on this field; section III briefly introduces the development of Vietnam securities companies; section IV is for research methodology; section V demonstrates the results and Section VI concludes.

2. LITERATURE REVIEW

The Uniform Financial Institution Rating System commonly known as CAMEL was first introduced in 1979. CAMEL are abbreviations of only 5 indicators composing a rating system for a financial institution including Capital adequacy, Asset quality, Management, Profit and Liquidity. Since 1996, another factor was added, S - Sensitivity to market risk and become the CAMELS system, add an elevator and rating system from 1 (Optimal) to 5 (poor) to evaluate risk management (Broz, 1997).

CAMELS is considered as an internal monitoring tool used by the supervisory authorities such as the Commission of Inspection of Financial Institutions (US), State Bank and the State Securities Commission to assess the financial soundness of financial institutions and identify weak institutions needing special supervision (Suzuki & Sastrosuwito, 2011). Based on that, the monitoring organizations are capable of making timely management measures to maintain stability and build public trust in the National Financial System (Wirnkar, 2010).

CAMELS is also used as a tool for risk early warning in the operations of financial institutions, thus helping institutions identify potential risks, build proactively protection measures as well as make investment decisions, financial decisions and decisions for allocating resources efficiently (Barr, Seiford & Siems 1994). In some countries, CAMELS is also used in the Money Laundering Acts to assess the compliance of the banks in the money transfers as well as in the liability and assets managmnet (Ninalathasan, 2008; Haseeb, 2011).

Although at first, CAMELS system was constructed in accordance with the particularities of the banking system which were well developed in the US, but later its evaluation framework including six main aspects were expended on a global scale made by the US federal reserve's proposal. Especially, after the world economic crisis in 1997, this index has been recommended by the World Bank and the International Monetary Fund to many countries especially which are impacted by crises as an effective measure to sustain and rebuild the financial system. The IMF has also concretized CAMELS to become a healthy financial indicators - FSIS (Financial soundness Indicators) safety assessment of financial banking system under the circumstance of incresasingly complex risk level (Ninalathasan, 2008).

The CAMELS research results so far focused on three main research directions as following:

First, the CAMELS system is used to evaluate the activities of financial institutions, in order to draw conclusions about the strengths and weaknesses in the operation of each institution or give warnings about the operational risk, liquidity risk and financial risk based on six basic elements of CAMELS. This is also the derecions of most of researches done in recent years by the supervisory authorities of governments, financial institutions as well as researchers.

To assess specifically operational situation of institutions, studies often divide researched objects into groups to analyze and evaluate the cause of the different results in the ranking. Typically, study of Kumar (2012) about the level of safety and soundness of the banking system of trade in India has ranked the two groups of state-owned banks and private banks. CAMELS's results showed that state-owned banks of India always had the best CAMELS ratings. In other words, safety and healthy levels were at the highest. Meanwhile, private banks such as Union Bank and SBI had the worst CAMELS ratings as well as the lowest level of financial soundness during 11 years of the India Money Market. The study results also coincided with Venkatesh (2012) on Bahrain's banking system. National Bank of Bahrain - the largest state-owned bank also had the best level of financial safety equivalent to the worst CAMELS ranking.

Nabilah (2013) studied the activities of the Malaysia banks by working on the activities of traditional bank group and Islamic bank group in the period 2008 - 2011. The results showed that the CAMELS ratings of two groups were essentially the same, but there were significant differences in each element of the CAMELS rating between the two bank groups. Traditional bank group had the best quality of governance of the first 5 CAMELS criteria; while the Islamic bank group were more profitable and liquidity. This was explained by business culture and business environment of the two banking groups differed markedly. Therefore, the recommendation was that the supervisory authorities should monitor more closely the liquidity risk of the traditional bank group in Malaysia.

Secondly, the result of CAMELS ratings system is verified with result from other evaluation criteria to assess the reliability of the CAMELS system with the role of monitoring operations and alerting risk in financial institutions. Some key conclusions are:

According to the research by Mazzillo (1993), the CAMELS ratings of Nigerian banks are quite similar to the results of inspection results of Negeria Central Bank. Therefore, it is an useful metric in determining banks needing tighter supervision from the Central Bank. However, the use of CAMELS also has some certain limitations. First, this system does not give specific and precise severity of banks at risk of bankruptcy. Second, the information used of the ranking is mainly based on internal operations of banks. Therefore, economic outlook and the operating environment is not reflected in the CAMELS rating. In other words, this system does not cover the external factors that may affect the banks' operations. Third, CAMELS rating point result is just temporal, it only assess the bank at the time of evaluation. The system does not track or monitor risk activities causing losses for banks in the future, so it does not warn supervisors about potential risks.

Haseeb (2011) tested the relationship between the CAMELS ratings for banks Pakistan and results of PACRA credit ratings. CAMELS system is considered as an internal credit rating, while the system PACRA credit ratings of external factors. Theoretically, the system of evaluation PACRA and CAMELS have a lot in common when they evaluate banking activities. However, CAMELS is an internal monitoring indicator system, therefore, it is not public in the market, while the result of PACRA is monthly published for all participants in the market. In fact, the study results showed that there is no similarity between the two rating system. Therefore, Haseeb concluded that Pakistan should not rely solely on the CAMELS system to supervise the activities of banks, it is necessary to consider the criteria currently used in the CAMELS system of Pakistan and in many cases, it should be combined with other evaluation criteria such as PACRA, PATROL, ORAP, RATE, RUST and BAKIS.

In contrast with the findings above, Christopolos, Mylonakis & Diktapanidis (2011) gave more evidence to support the CAMELS system. With research questions: Could the case of bankruptcy of Lehman Brothers be warned in advance based on the CAMELS system? Based on the financial reporting systems of 5 years before the bankruptcy banks, the authors showed CAMELS rating of more authentic:

– According to the assessment by the credit rating companies like Moody's and Fitch, Lehman Brothers had the absolutly high ratings and was considered a completely healthy institution. In contrast, according to the CAMELS system, the credit of this investment bank was at an alarming level while administrators were not ready as well as able to change the situation. In addition, the board did not comply with the regulations of the supervisory authority when the risk management methods were considered disproportionate to the size of the company.

– According to CAMELS, Lehman Brothers had the signs of being vulnerable when it faced financial risks or uncertainties conditions, however, the Federal Reserve and other authorities did not recognize the signs because they used another monitoring-risk system. So Christopolos, Mylonakis & Diktapanidis said that the authorities should reconsider the method of their operations to become more efficient and more cautious in forecasting and considering the sudden fluctuations of the market to avoid similar event may occur in the future and the CAMELS rating system should be fully utilized.

Thus, the reliability of the CAMELS system in monitoring and warning operational risk to financial institutions, especially commercial banks remains a controversial issue. However, at a certain level, it is still considered a comprehensive and effective tool in internal monitoring.

Thirdly, the other main direction of the researches are to study the importance of the elements constituting CAMELS system, thereby, building the optimal set of indicators to assess the overall operations of financial institutions. Wirnkar (2010) is considered to be the pioneer for this approach. The results showed that there was not a single element in the CAMELS system can afford to assess comprehensively a bank. So I need to combine many different elements to achieve the desired results. This raises the issue of how to combine the elements together. In other words, building a structure for optimal proportion of each element in the CAMELS system is necessary.

However, the limitations of previous studies are still there. The majority of researches on CAMELS so far only set on the banks, there are not many studies in other the group of financial institutions such as investment banks, investment funds, brokers, public insurers. In addition, most of studies were conducted in a group of banks in a country, there are neither systematic research nor researches applied CAMELS for banks different countries as well as different areas to compare and assess in more detail on the operations status of banks, then give recommendations and highly practical warning.

Moreover, nearly all of the studies have not evaluated the last element (S) in the CAMELS system which is the sensitivity of banks to market fluctuations (interest rates, exchange rates, inflation ...). It is considered the most difficult to quantify element in the group of 6 basic elements. Besides, the evaluation of CAMELS system's reliability only compares with another indicator. In fact, there are pretty many systems of indicators to assess financial institutions, especially, the credit ratings systems by the big three organizations: Moody's, Fitch and Standard & Poor's have not been used extensively in studies. Therefore, the conclusions do not have high accuracy and also are conflictive. Importantly, the researches on the role of each indicator in the CAMELS system are not intensive and the scale is not satisfied.

The objective of this research is to study the CAMELS rating system and its component indicators in details, based on that, applying assessments to all securities companies operating in Vietnam stock market today as well as compare to the level of the SSC ratings for Vietnam Securitie companies by Capital Adequacy Ratio - to assess the degree of uniformity in the operation monitoring tools Vietnam Securities Companies on the Stock Market. In other words, the Objective of this research is to assess the reliability of the CAMEL system to the Securities Companies in Vietnam. With these aims, the research focuses on two main research questions:

– How efficient and healthy are Vietnam securities firms under the CAMEL system like?

– Are evaluation results of Vietnam Securities Companies according CAMEL consistent with the classification results ranked by capital adequacy ratios (Circular 226) or not?

3. VIETNAM SECURITIES FIRMS DEVELOPMENT

Along with the advent and development of Vietnam's stock market, the number of licensed brokers established has also been increasing in the last 13 years. In the first 5 years of the new market, the number of securities companies is still modest, by the end of 2005 the whole market had only 14 companies. But in the period 2006-2008, due to the boom of the stock market and the introduction of the Vietnam Securities Law, the number of securities companies in the market did double. In only 2006 there were 41 licensed companies operating, this number continued to increase over the years bringing the total number of securities companies in the market in late 2009 to 105, increased of 7.5 times compared to 2005.

The introduction of the securities companies contributed significantly to promote the formation and development of the system of financial intermediaries in the stock market. However, if compare with some other stock markets in the area, the number of securities companies in Vietnam is considered excessive to the size and needs of the stock market. Specifically, by the end of 2010, China's stock market had more than 100 million trading accounts, equivalent to about 8% of its population and a but the number of securities companies in China is the same as in Vietnam, while the total number of accounts in Vietnam's stock market made up only 0.7% of the population. Thailand market was about 100 billion US dollars, the average transaction value/session was $ 400 million, 13 times as the stock market in Vietnam, but there was only about 40 brokers. Similarly, Singapore's stock market had only 26 securities companies, Malaysia had 33 securities ... This contained potential risks of the effectiveness of the business operations of securities companies, the security of each company espeacially small-scale ones newly operating as well as the whole system.

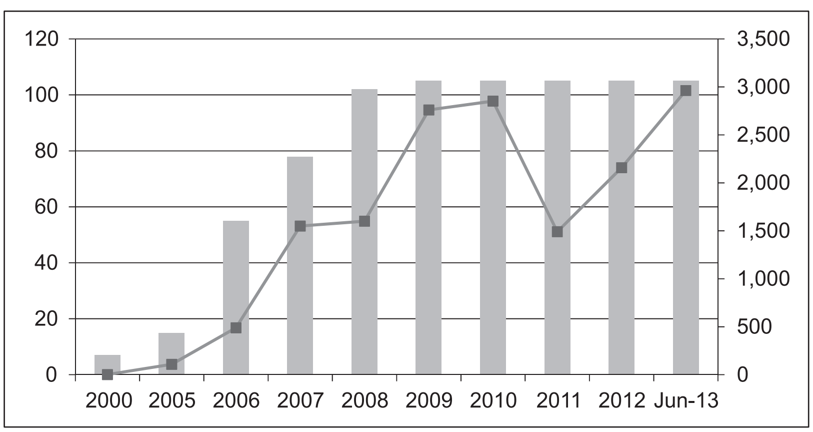

Figure 48.1: The number of Securities Companies and their average transaction value in the stock market
***Source:* State Securities Commission of Vietnam (2014)**

About the ownership types, currently 44% are Foreign Invested companies, 13 companies of which have foreign capital ratios at maximum (49%), three companies have above 40%, 8 companies have foreign capital from 5-30%, and 22% of them have less than 5% foreign capital. Total capital contributed by foreign investors by the end of 2013 was 4510.13 billion, accounting for 19.7% of the total in charter capital of foreign invested companies and equal 12.88% of the charter capital of all currently active brokers on the stock market.

The scale of a Securities Company is considered as one of the prerequisites for being allowed to carry out business activities and provide securities services to the market. Legal capital under current regulations in Vietnam is regulated by the Securities Law in 2006 for companies doing business in the market is 300 billion, rose by 6 times compared to the previous regulations.

The charter capital of securities companies tend to increase over the years, especially after the securities laws taking effect in 2006. Figure 48.2 shows that the sum of actual contributed charter capital of stock companies shaprly rose by 57% compared to 31/12/2000. But only a year after the law officially took effect, actual capital of companies hit VND 13,405 billion, increased over 300% compared to 31/12/2006. As of 6/2013, actual capital of securities companies in the market increased by11 times compared to 31/12/2006 and reached 36,547 billion.

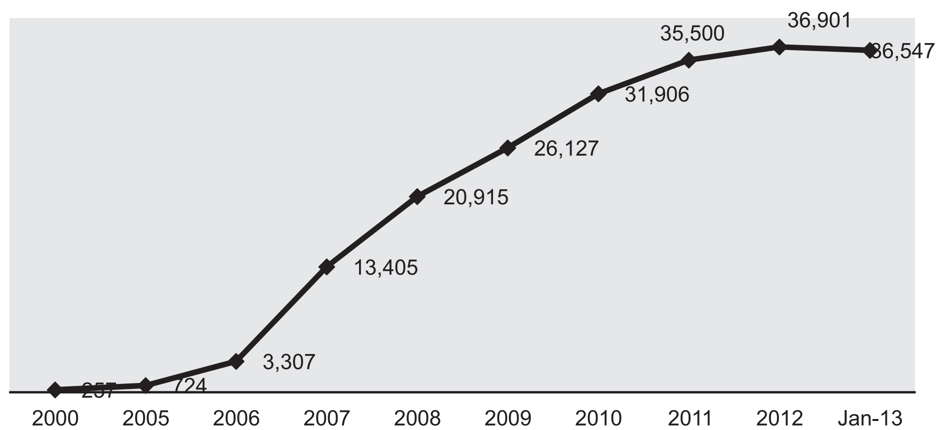

Figure 48.2: Charter Capital of Vietnam Securities Companies (Billion VND)
Source: **Financial statements of Securities Companies (2000-2013)**

Although the scale of the Securities companies is constantly increasing in recent years, but in terms of financial strength, the development of which is still at low level compared to other financial institutions in Vietnam stock market as well as the other markets in the region. Comparing the size of assets of listed securities and unlisted securities companies shows that most large-scaled companies with the value of total assets more than 2000 billion VND are listed on the stock market in Vietnam. By the end of 2012, total assets of 28 listed securities reached 35,621 billion, accounting for nearly 50% of the total assets of all companies in the market. However, comparing with the commercial banks, insurance companies, financial companies currently listed in the market, the asset size of the listed securities companies are much lower. Table 48.1 shows that, by the end of 2013 the average total assets of commercial banks was about 271 700 a billion, an average insurance company had 5,150 billion, while a securities companies only had 1,428 billion dong, less than 30% of the insurance companies' total asset.

It can be seen from the above analysis that the charter capital of the stock company in the market tends to increase to meet the needs of expanding securities services, financial services to the market. However, the scale and financial strength of the company is quite low compared to other financial institutions, moreover, there are too many brokers in the market, which shows that the development of these companies is quite fragmented, and contain lots of potential risks in business operations. The following section will clarify this situation.

Table 48.1
Average total asset of Vietnam financial institution

Financial Institution (Billion Dong)	*2010*	*2011*	*2012*	*2013*
Insurance Company	3.806	3.825	3.878	5.150
Stock Company	2.287	1.563	1.405	1.428
Commercial Bank	190.094	230.161	246.112	271.700

Source: Hochiminh Stock Exchange, Hanoi stock Exchange (2010-2013)

4. RESEARCH METHODOLOGY

Base on Decision No. 617/QD-SSC promulgating the Securities classified on CAMEL, the applied factors to review include: (1) Capital adequacy (C), (2) Asset (A), (3) Management (M), (4) Eaarning (E), (5) Liquidity (L).

Since there is no official data source on Vietnam stock market, the data in this paper is hand collected. All the financial data is from audited annually financial reports of the securities firms which came from Ho Chi Minh Stock Exchange (HOSE) from 2012 to 2013. The period is choose because from 2012, the Circular 165/2012/TT-BTC of Ministry of Finance required the securities firms to report the audited financial safety ratio which is one of the important components in CAMEL rating system. This kind of reports can also be found and available for download from HOSE website. However, after the process of collecting data and statistics, the number of securities companies included in the index calculation process was only 96 securities companies because there were 9 securities companies which stopped operating or merged into other securities companies including Au Viet securities company, Cho Lon securities company, Truong Son securities company, Sao Viet securities company, Trang An securities company Ltd, a TC securities investment and consulting company, Nam Viet securities company, Cao Su securities Company, Hanoi securities company.

Similar to the version of the CAMELS system used in other countries, CAMEL system is used internally by SSC to monitor the Securities companies. The results of calculation, evaluation and ranking brokers are not published to the public to preserve confidentiality of internal information and avoid affecting the reputation of the stock company, maintaining the stability to Vietnam stock market.

Generally, SSC applies elements Capital adequacy (C); Asset quality (A); Quality of Management (M); Earnings (E) and liquidity (L) of CAMEL on securities companies. Each of 5 factors above includes a system of many different criteria and criteria for ranking those factors. Points are scored on a scale from 0 to 100. Each indicators usually have 5 point levels, in some cases, the score for each indicator may be less than 5. Depending on the level of importance, each criteria of each element of the CAMEL has a different weight.

SSC also classified 5 factors into 2 main groups: financial factor group consists of 4 elements: Capital adequacy (C), Asset (A), Earnings (E) and Liquidity (L); Factor (M) – Management is classified into a separate group. Group of financial factors can be evaluate according to data from the reviewed or audited financial statements, periodic reports and other financial data. Management is factors seperated from others because this factor is too difficult to quantify and mostly quantify based on qualitative criteria to assess. There are internal indicators that brokers need to provide to the SSC.

4.1. Capital Adequacy

Among the financial factors, capital adequacy factor (C) is usually most concerned because capital is the foundation for the financial institutions implement the provision of financial services, investment and hedging muzzle. Applying CAMEL system on securities companies in Vietnam, Capital Adequacy consists of 3 elements notable indicators.

- C1 – The ratio of equity to total assets, including the value of the total assets excluding deposit transactions of the investors, which ensures that investors' deposits are separated from the assets of the company to avoid conflicts of interest. This index shows the level of equity in total assets that brokers really allowed use.
- C2 – The proportion of equity to the legal capital. Statutory capital is the capital that is prescribed by the State which brokers must ensure if they want to carry out one or some certain business mentioned in the legal framework.
- C3 – The ratio of available capital. This is also known as the financial adequacy ratio, an indicator by built by the Finance Ministry and issued under Circular 226/2010/TT-BTC on December 31st 2010 and then amended in Circular 165/2012/TT-BTC on October 9th 2012 as mentioned above.

Table 48.2
Capital Adequacy according to CAMEL

STT	*Criteria*	*Value*	*Score*	*Weight*
1	C1 – The ratio of equity to total assets	From 0% to under 51%	20	10,00%
		From 51% to under 75%	80	
		From 75%	100	
2	C2 – The proportion of equity to the legal capital	Under 60%	0	10,00%
		From 60% to 100%	30	
		From 100% to 150%	60	
		From 150% to 200%	80	
		From 200%	100	
3	C3 – The ratio of available capital	Under 120%	0	10,00%
		From 120% to 150%	20	
		From 150% to 180%	40	
		From 180% to 300%	80	
		Over 300%	100	

Source: The Regulation on the classification of securities guidelines, SSC (2013)

4.2. Asset quality

Asset quality factor (A) was evaluated based on three basic criteria are as follows: A1 is a rate of the risk of adjusted asset value to total assets (excluding fixed assets); A2 is an indicator Ratio of reserves/(short-term investments + long-term investments + receivables) and A3 is an indicator of receivables to total assets. Accordingly, this will be the first time the securities companies will be rated on the receivables. Companies that the proportion of receivables/total assets under 25% get, from 25% to 50% get 80 points, from 50% – 75% get 50 points, from 75% – 90% get 20 points and from 90% get 0 points.

Table 48.3
Asset quality factor according to CAMEL

	Criteria	*Value*	*Value*	*Score*	*Weight*
4	A_1 – risk of adjusted asset value to total assets		Under 50%	0	5%
		From 50%	To under 65%	20	
		From 65%	To under 80%	50	
		From 80%	To under 90%	80	
		From 90%		100	
5	A_2 – indicator Ratio of reserves/(short-term investments + long-term investments + receivables)	More than 10%		0	10%
		From 8%	To under 10%	20	
		From 5%	To under 8%	50	
		From more than 0%	To under 5%	80	
		Equal 0		100	
6	A_3 – receivables/total assets	From 90%		0	10%
		From 75%	To 90%	20	
		From 50%	To 75%	50	
		From 25%	To 50%	80	
			Under 25%	100	

Soucre: The Regulation on the classification of securities guidelines, SSC(2013).

4.3. Earnings

Earnings (E) includes 2 criteria: ROA and ROE as following:

Table 48.4
Earnings factors according to CAMEL

	Criteria	*Value*	*Value*	*Score*	*Weight*
7	E_1 – net profit/total revenue		Less than –10%	0	10%
		From –10%	To under 0%	20	
		From 0%	To under 5%	50	
		From 5%	To under 20%	70	
		From 20		100	
8	E_2 – net profit/average equity		Less than –5%	0	10%
		From –5%	To under 0%	20	
		From 0%	To under 5%	50	
		From 5%	To under 25%	70	
		From 25%		100	

Source: The Regulation on the classification of securities guidelines, SSC(2013)

4.4. Liquidity

Liquidity (L) includes 2 criteria which are L_1 – the ratio of Short-term assets (excluding deposit transaction of investors)/short-term debt and L_2 – ratio of cash and cash equivalents (excluding transaction deposits of investors)/short-term debt.

Table 48.5
Liquidity

	Criteria	*Value*	*Value*	*Score*	*Weight*
9	L_1 – the ratio of Short-term assets/ short-term debt		Under 100%	0	15%
		From100%	To under 120%	40	
		From 120%	To under 150%	80	
		From 150%		100	
10	L_2 – ratio of cash and cash equivalents/ short-term debt		Under 10%	0	10%
		From 10%	To under 15%	20	
		From 15%	To under 20%	60	
		From 20%	To under 30%	80	
		From 30%		100	

Source: The Regulation on the classification of securities guidelines, SSC (2013)

4.5. Management

There are 19 criteria to evaluate Management quality. Most of them are qualitative and require to collect information from many sources besides financial report, including internal sources. For example, criterion 3 and 4: the number of experience years in financial field of the president of the board or director, criterion 6: the adequacy of the business process, criterion 13: Modernity of information technology systems, criterion 15: plans to increase the company's capital and so on .... These criteria are difficult to quantify, and requires relatively large internal information sources. Some other indicators require information of all brokers in the industry as criterion 12: the proportion of sales transactions conducted by the company to total sales on the whole market or criterion 14: the scale of the company's equity compared with the average level of other stock companies on the market.

4.6. Scoring and Ranking

Overall ranking point is calculated by the total points of financial factor groups and the total points of management factor. The total point of financial factor groups is calculated by totaling the points of very norms of factors such as Capital adequacy (C), Asset (A), Earnings (E) and Liquidity (L) then multiply by the respective weight of each indicator respectively. Total point of Managing factor (M) equals to the sum of the points of norms in this factor multiplied by the weight of each norm respectively. The total point value of group financial factors and overall management factors point is assigned a weight showing the importance of this factor in the overall points a Securities company. Specifically, the financial elements are weighted 70% and management factors are weighted at 30%. Therefore,

$$\text{Securities ranking points} = (\text{Total points of financial factors group} \times 70\%) \\ + (\text{Total points management factors} \times 30\%).$$

Each factor is synthesized from the points of norms. Because there are various norms in a factor to calculate, CAMEL Vietnam is very different. The points of norms in financial factor group are calculated:

$$\text{points of norms in C} = \frac{\sum_{i=1}^{3} \text{point of norm } \mathrm{C}_i \times \text{respective weight}_i}{\text{total weight of norms in C}}$$

$$\text{points of norms in A} = \frac{\sum_{i=1}^{3} \text{point of norm } \mathrm{A}_i \times \text{respective weight}_i}{\text{total weight of norms in A}}$$

$$\text{points of norms in E} = \frac{\sum_{i=1}^{3} \text{point of norm } \mathrm{E}_i \times \text{respective weight}_i}{\text{total weight of norms in E}}$$

$$\text{points of norms in L} = \frac{\sum_{i=1}^{3} \text{point of norm } \mathrm{L}_i \times \text{respective weight}_i}{\text{total weight of norms in L}}$$

The points of management factor is the sum of management norms mentioned above:

$$\text{points of management factor M} = \sum_{i=1}^{19} \text{point of norms in Management } \mathrm{M}_i \times \text{respective weight}_i$$

After calculating the overall point of a security company, SSC will compare it with an initial table to classify them into groups. The initial table is stated as following:

Table 48.6
Ranking points in CAMEL

Initial ranking	*Securities company's ranking point*	
A	From 80 points	To 100 points
B	From 65 points	To under 80 points
C	From 50 points	To under 65 points
D	From 35 points	To under 50 points
E	From 0	To under 35 points

Source: Classification on Securities Companies guided by the decision 617/QD-SSC

Different from CAMELS systems in other countries which score from 1 to 5, the band SSC applies on Securites company in Vietnam is from A to E. In particular, A is the best ranked while E is the worst. The regulation did not specify the method of rating factors, I found that it is able to rate the factors according to the initial classfication.

According to the initial classification, SSC will adjust base on the points of factors calculated by the above formulas:

– A company will be ranked A if its initial classification overall points is A and no factor under 65 points. (no factor under band B)
– A company will be ranked B if its initial classification overall points is B and no factor under 50 points. (no factor under band C) or its initial classification overall points is A and one factors under 65 points.

- A company will be ranked C if its initial classification overall points is C and no factor under 35 points. (no factor under band D), its initial classification overall points is B and one factor under 50 points or its initial classification overall points is A and two factor under 65 points
- A company will be ranked D if its initial classification overall points is C and no factor under 35 points. (no factor under band D) or its initial classification overall points is C and one factor under 35 points or its initial classification overall points is B and two factor under 50 points
- A company will be ranked E if it is able to be scored but the point is included in non of the cases mentioned above or scoring process cannot be performed since the company does not complete its reporting obligation under SSC regulations and requirements.

Based on the results of the assessment and classification of securities companies under the provisions of this Regulation, State Securities Commission will take measures to consider and handle stock company under the law.

4.7. CAMEL System and Regulations on Capital Adequacy Circular 226

So far, CAMEL and Circular 226 were amended by Circular 165 which is the two key tools SSC uses to support assessing, classifying and monitoring the activities of the Vietnam Securities. Circular 226 is issued by the Ministry of Finance to regulate capital adequacy ratio of the Securities Companies and widely published to the public once every 6 months. Activities of every securities company are evaluated on the basis of the level to meet the requirements of available capital and risk assets.

CAMEL was issued by the SSC as an internal monitoring tool to assess and classify securities with the purpose of warning operational risks system of securities companies in Vietnam stock market. Therefore, this information is not public widely. Moreover, as discussed above, besides assessing capital adequacy, CAMEL evaluates company's operations on many different aspects such as Asset quality, Earnings and Liquidity. However, the sensitivity factor of the securities compared with market volatility has not been included in the Vietnam regulations. However, at a certain level, CAMEL and Circular 226 have close ties with each other. Specifically,

- The total value of risk in available capital ratio in the under 226 circular is also a calculation content of asset quality indicator in the CAMEL (A1).
- The criteria for evaluating the available capital ratio of CAMEL standards basically are identical to the assessment criteria of Circular 226, but also a little different. Available capital ratio of 300% or more scores 100 represents a healthy broker. From 180% to 300% under 80 points indicates normal operation Securities company (while under Circular 226, it is a healthy level of activity). From 150% to 180%, only scoring 40 points represent a not – enough – healthy Securities (in Circular 226, it is operating normally). From 120% to 150% giving a score of 20, securities companies cannot meet safety requirements. Such securities will be subjected to the control, intervention and corrective measures of SCC. And if the available capital ratio below 120%, the Securities will be considered very unsafe and gaining 0, when circular 226 states that the securities company is subjected to special control.

Table 7: Regulations on capital adequacy ratio under the CAMEL and Circular 226

Capital adequacy	*Extremely Healthy*	*Healthy*	*Normal*	*Unhealthy (Control)*	*Special control*
Circular 226	>180%		150% – 180%	120% – 150%	<120%
CAMEL	>300%	180% – 300%	150% – 180%	120% – 150%	<120%

Soucre: CAMEL regulation, amended Circular 165 and Circular 226

With two evaluation system mentioned above, the operations of securities compasnies are monitored relatively closely and relatively. Additionally, they help the system of intermediary financial institutions are becoming more healthy activities. Meanwhile, they build public trust on the activities of the main quality of this institution, on that basis, they accelerate the process of restructuring securities companies in particular and restructuring the stock market to achieve the propsed objectives in general.

5. RESULTS AND DISCUSSION

5.1. Evaluation of Securities According to each Element in the CAMEL

The classification results of each element in CAMEL rating system (based on the level of the ranking of the whole company in the Decision 617/QD-SSC October 9, 2013, Decision of Promulgating Regulation guiding ranking securities companies) counted on table 8 show that the liquidity, quality of management and capital adequacy are the factors in which the securities companies reach the most satisfactory levels. The number of companies which have A and B in those factors exceeds the remained companies having C,

Table 48.8
Ranking Securities Companies by factors in CAMEL system

			CAMEL SYSTEM				
			Capital Adequacy	*Asset*	*Management*	*Earning*	*Liquidity*
Ranking	A	Quantity*	49	27	25	21	63
		% **	51,04%	28,13%	26,04%	21,88%	65,63%
	B	Quantity	15	14	48	10	8
		%	15,63%	14,58%	50,00%	10,42%	8,33%
	C	Quantity	12	19	13	27	9
		%	12,50%	19,79%	13,54%	28,13%	9,38%
	D	Quantity	9	21	0	2	2
		%	9,38%	21,88%	0,00%	2,08%	2,08%
	E	Quantity	1	5	0	26	4
		%	1,04%	5,21%	0,00%	27,08%	4,17%
	No ranking***	Quantity	10	10	10	10	10
		%	10,42%	10,42%	10,42%	10,42%	10,42%

Note:
* Quantity of securities companies
** Ratio% = Quantity of securities companies*/96 researched companies
*** Companies normally operating without financial report (audited financial report in 2013 and Report on the financial adequacy ratio in 2013),

D and E band. Specifically, for each factor rating of CAMEL, liquidity factor is best done in many current Securities (65.63% of the companies). 51.04% of the companies were classified A in Capital adequacy; about 26-28% of the companies classified A in asset quality and the management. Earnings is the weakest element in the operation of securities companies, only less than 22% of companies achieved ranking A. To give a more accurate figure, I removed the remaining securities which are still active but do not submit financial statements (audited financial report in 2013 and Report on the financial adequacy ratio in 2013), the results in Table 48.9 show that the above figures are much more positive, particularly more than 73% of the companies with the best quality of liquidity. Specifically, ranking of each indicator is presented in the following table:

Table 48.9
Ranking Securities Companies base on ranking each factors

			CAMEL SYSTEM				
			Capital	*Assets*	*Management*	*Earnings*	*Liquidity*
Ranking each factors	A	Quantity of securities companies	49	27	25	21	63
		%	56,98%	31,40%	29,07%	24,42%	73,26%
	B	Quantity of securities companies	15	14	48	10	8
		%	17,44%	16,28%	55,81%	11,63%	9,30%
	C	Quantity of securities companies	12	19	13	27	9
		%	13,95%	22,09%	15,12%	31,40%	10,47%
	D	Quantity of securities companies	9	21	0	2	2
		%	10,47%	24,42%	0,00%	2,33%	2,33%
	E	Quantity of securities companies	1	5	0	26	4
		%	2,33%	5,81%	0,00%	30,23%	4,65%

Note: *The ratios are calculated on 86 ranked companies, excluding 10 un-ranked companies

5.1.1. Quality liquidity

With 73.26% (Table 48.9), there are 63 of the 86 securities companies that have reported scores of class A for liquidity factor. It shows that *the majority of active securities firms in the market have the level and the resource of liquidity as good and strong as expectation a*ccording to two indicators to assess the liquidity: L1 – Ratio short-term assets/short-term liabilities and L2 – Ratio cash and cash equivalents/short-term debt (short-term assets in the formula does not include deposit transaction deposits of investors). Among them, there are 18 companies with indicators L1 at 1,000% and 9 companies have L2 over 1000%. In term of L1 criteria, typically Securities Company Limited Commercial (TCBS) reached 22897.14%, Vietnam Securities (VSEC) reached 18397.92%, JSC Morgan Stanley Securities Direction Vietnam (MSG) with 11387.76%.

This result was due mainly to the contribution of great bank deposits, most of which are 3-month short-term accounts and less than 1 year, in recent years of securities companies. This is understandable when the stock market in particular and the entire economy of Vietnam in general recovered sluggishly from the crisis, stock markets in the first half of 2013 witnessed a sharp decline in price and the decline in the quality of listed enterprises, the number of companies delisted increased sharply compared to 2012 when there were 11 companies cancled being listed in Ho Chi Minh City stock market and 26 businesses in Hanoi, ... these things contributed the apprehension of brokers to trading activities, instead increasing

Table 48.10
Top 10 best liquidity Securities companies base on L1 criteria

	Name	*L1*
1	Ky Thuong Securities Company Ltd. (TCBS)	22897,14%
2	Vietnam Securities Joint stock Company (VSEC)	18397,92%
3	Morgan Stanley Huong Viet Securities Joint stock Company (MSG)	11378,76%
4	Nam An Securities Joint stock Company (NASC)	5918,43%
5	Kenanga Vietnam Securities Joint stock Company (KVS)	5852,67%
6	Wall Street Securities Joint stock Company (WSS)	5553,93%
7	Saigon Tourist Securities Joint stock Company (STSC)	5138,60%
8	Hoa Binh Securities Joint stock Company (HBS)	4721,96%
9	Viet Tin Securities Joint stock Company (VTSS)	4577,13%
10	Xuan Thanh Securities Joint stock Company (VIX)	4091,65%

bank deposit in short-term, a new profitable investment channels for securities companies both ready to meet liquidity needs at present and the future of the company.

However, the above results only stopped at assessing the current situation and the availability of the assets that can be converted into cash to meet liquidity needs without affecting or damaging to the Securities. In terms of long-term, maintaining the ratio of L1 and L2 at a high level as present will reduce the effectiveness of using capital.

5.1.2. Management

Quality Management is the second element which is done quite well in the Vietnam Securities. 84.88% equivalant to 73 of the 86 companies graded A and B (in which B score appeared in many securities companies than A did, 47 companies versus 26 companies) (Table 9). This meant that effective management and risk management activities of the Management Board are relatively good. Serious and potential risks then was identified fast, measured, monitored and controled effectively and appropriately by the Management Board. Moreover, the companies control deposit transaction of investors strictly and it did not violate the law of securities sector and market stock in the last 6 months.

Table 48.11
Top 10 best management Securities company

	Name	*Point*	*Grade*
1	Ho Chi Minh City Securities Joint stock Company (HCM)	93,3	A
2	Saigon Securities Company Ltd. (SSI)	92,2	A
3	Vietcombank Securities Company Ltd. (VCBS)	92,1	A
4	ACB Securities Joint stock Company (ACBS)	92,0	A
5	MB Securities Joint stock Company (MBS)	87,3	A
6	FPT Securities Joint stock Company (FPTS)	86,0	A
7	Morgan Stanley Huong Viet Securities Joint stock Company (MSG)	85,6	A
8	SAIGONBANK BERJAYA Securities Joint stock Company (SBBS)	85,3	A
9	Ky Thuong Securities Company Ltd. (TCBS)	85,2	A
10	Maritime Bank Securities Joint stock Company (MSBS)	85,2	A

The important thing is the quality of governance elements, no other company was graded at D, E are two levels of classification showing weak management, inconsistent with the characteristics of the companies, serious risks were not identified, measured and controlled which could cause risks and threat the operational safety as well as the viability of the stock company

Most companies that have a Class-A companies with a perfect score of 100 and 80 in some evaluation criteria (out of 19 indicators to assess factors M) as: (1) Number of years being a leader (or being in the Board/General Director) in the field of finance/securities of the Chairman of the Board; (2) The number of leaders (or being in the Board/General Director) in the field of finance/securities of Director/CEO; (3) The number of years of experience in the field of finance/securities of the Chairman of the Board; (4) Number of years of experience in the field of securities by Director/CEO; (6) The full range of business processes under the law ...; (9) Evaluation control quality of deposits investors...; (10) The level of transparency of financial information; (11) The number of years of operation; (13) The modernity of information technology systems; (18) The observation laws and regulations; (19) The number of licensed professional.

However, except for 10 companies with the best quality of management (according to elements), among the remaining securities companies of class A, the midpoint - companies have relatively large differences from the top 10 companies above in some important indicators, such as indicators (7) risk management policy for all activities; (12) The proportion of sales transactions of shares made by the company/Total market sales transactions; (15) The stability and potential growth (or downfall) in equity in the next two years ...; (16) The stability and sustainability of growth, reflected in the rate of growth in average revenue of the 3 latest 6 - month report. These indicators are also indicators that both companies are classified B and C have similar scores level and lower. Therefore, it is difficult to accurately and reasonably assess the situation and management of each company because the high points of the qualitative criteria (1), (2), (3), (4), (6), (10), (13), (18) make the overall index very high but conceal the weakness of the remaining indicators.

5.1.3. Capital Adequacy

There are 64 securities companies reached grading factors A and B while 49 companies ranked Class A (accounting for 59.98% of the 86 companies, equivalent to 51.04% of 96 companies being studied), 10 companies have graded D and E, of which only one company out of 96 companies is classified E (Table 48.12).

Table 48.12
Top 10 lowest capital adequacy

	Name	*Point*	*Grade*
1	Orient Securities (ORS).	20,00	E
2	Artex Joint stock companies (FLCS).	36,67	D
3	Phu Hung Secutiries (PHS).	40,00	D
4	BETA SecutiriesInc (BSI) .	40,00	D
5	Sacombank Secutiries (SBS)	43,33	D
6	Mehong Housing Bank Secutiries (MHBS)	43,33	D
7	Vietnam DragonSecutiries (VDS)	43,33	D
8	South-East AsiaSecutiries (SeASecurties)	43,33	D
9	Golden Lotus Secutiries (GLS)	46,67	D
10	VINA Joint stock companies (VNSC)	46,67	D

Both Capital Adequacy evaluation criteria: C1 Equity/total assets * and C2 Equity/legal capital, reflect the ability of total assets financed from equitity of securities companies, the securities classified as E and D have very low scores, mainly just hit a score of 20 points (C1) - the lowest scale and the common points with the norm of C2 is 30 points, shows that ability of self-financing the stock company is very low.

For securities rated Class A team, this is the group with the capital adequacy ratio higher than 180%, so it is considered a normally operating and healthy companies in the stock market today. However, in terms of individual indicators in the financial adequacy ratio of this company group, prominient issues are in need of addressing.

First, Decree 58/2012/ND-CP guiding the implementation of some articles of the Law on Securities and the amending and supplementing Law, some articles states that a Securities company needs to ensure sufficient capital to 300 billion VND to perform all business operations. However, only 35 companies of the classified securities companies are as healthy met the requirement to perform all operations in 2012, this number decreased slightly in 2013 to 34 companies. Notably, only one securities company capitalized at over 5,000 billion in the last 5 years and about 6 to 7 companies capitalized from 1,000 and 5,000 billion, which represents less than 10% of securities companies were healthy and operated normally. Thus, even in the group of securities rated safest in the market, most of them had relatively low capital size.

Second, in terms of asset value risk, operational risk is the primary risk of the securities. The total value of the operational risk securities as reported by the SSC in 2012 accounted for 45% of the total value at risk, with more than 1,798 billion. This can partly from self-employment activities of the Securities accounted for a considerable share in the revenue structure. Continuously since 2005-2013, self-employment income accounts for 30-45% of total sales of Securities Companies classified as A and B. In addition to bringing significant revenues, the securities companies were too focused on self-activity while business capital size was limited and unfavorable stock market led to a sharp decrease in the total turnover of many companies and they were forced to increase provision for impairment of securities investment.

Third, many securities companies operating poorly had capital adequacy ratio at high to very high levels. For example, Navibank and Vision securities companies, by 2012 had been losing respectively for 5 years and 6 years, but having high rate of liquidity capital (Navibank Securities company had 704% in 2012 and 1467.92% in 6/2013, while Vision Securities Company had respectively 302% and 290% - all at safe level). Or National stock company in the first two reporting periods in June and December 2012, financial adequacy ratio ranged at 180% but in June 2013, this ratio soared 1883.58% (the highest level of the Company). This raises the questions about the quality of the company report of the SSC.

5.1.4. Asset Quality

According to Table 9, there are 27 securities companies (31.4%) in the 86 studied securities companies (excluding the 10 securities companies did not report) had asset quality class A; 16.28% of companies ranked B; the number of companies rated Class C and Class D accounted for 22.09% and 24.42% respectively; only approximately 6% of companies graded E. This result shows that less than 50% of securities companies operating in Vietnam stock market had asset quality to meet the requirements of CAMEL. The cause was that the majority of companies did not meet their targets A2-provision rate/(short-term investments +

long-term investments + receivables). In other words a majority of companies did not have provision for risk assets items properly as prescribed by law.

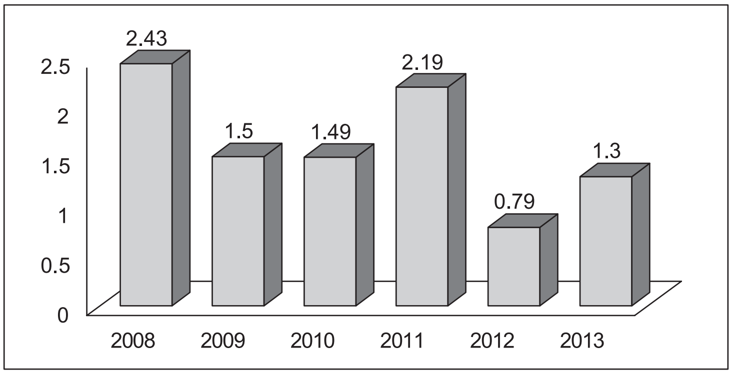

Figure 48.3: Accounts receivable turnover of Securities Companies during 2008-2013
***Source:* Financial Statements of Secutiries Companies (2008-2013)**

In addition, in terms of ratio of receivables to total assets, the results of analysis 35 securities companies with capital at 300 billion or more in 2013 showed that two companies have over 75% of these systems; 4 companies from 50% – 75%; 9 companies from 25% to 50%; 13 companies from 10% to 25% and below 10% 7 companies. Theoretically Receivables plays an important role in the solvency of the business. However, the most important factor is the speed of receive debt. With brokers, this becomes very peculiar because it depends primarily on market volatility. Figure 48.3 shows the average actual rotation of the accounts receivable on securities 35 low. The companies are focusing a lot of resources in the short-term activity in the market, which causes potential instability to the companies that is always shifting with market trends to adjust business operations, lack of strategic vision in establishing the business plan, the possibility of customers constituting capital is real and growing which leads to using capital efficiency likely declines even brokers can lose capital, severely affects to the normal business. In addition, analysis of the 35 securities companies report also shows that more than 50% of these companies were the doubtful receivables and provisions even some companies did not make the provision of uncollectible accounts. Therefore, the statistics show that the proportion of bad debts in the sector was about 6.96%, but this percentage was even higher in reality, since not every Securities companies made full provisioning. If such developments continue deteriorating stock market, bad loans may burst anytime.

5.1.5. Earning

According to result of CAMEL on Earnings of the Vietnam Securities, only 21 companies achieved Class A and 10 companies reached Class B, while most of the remaining companies were graded at a low C, D, E, especially the graded E accounted for 26 companies (mostly large companies suffered losses in 2013), even more, there were 20 of these 26 companies had a score of 0 points, meaning that both indicators to assess the profitability factor is E1-tax profit/Total revenue and E2-profit after tax/equity were at their lowest, respectively, below –10 % and less than 5%. These threated the existence of the securities themselves as accumulated losses over the years gradually eroding the equity of these companies (Table 48.13).

This reality stems from many causes. If we look at the revenue structure, the profitability of brokers in recent years, there are many signs of instability. The majority of brokers in the market trend to pursue

Table 48.13
Top 10 lowest Earnings Securities companies

Name	*Revenue**	*Profit**	*E1*	*E2*	*Point*
Orient Securities	9.245.914.697	–117.007.801.565	–1265,51%	–84,09%	0 (E)
FLC Securities	41.959.490.563	–55.795.240.585	–132,97%	–50,94%	0 (E)
CIMB-Vinashin Securities	10.791.724.017	–47.043.461.352	–435,92%	–15,99%	0 (E)
BETA Securities	139.894.426.189	–26.292.042.497	–18,79%	–6,56%	0 (E)
Phu Hung Securities	51.092.689.088	–21.956.547.138	–42,97%	–11,55%	0 (E)
Maybank KimEng Securities	115.825.099.136	–19.460.636.319	–16,80%	–5,84%	0 (E)
Mirae Asset Securities	29.396.005.583	–14.390.494.288	–48,95%	–5,38%	0 (E)
Viet Tin Secutiries	2.176.703.244	–13.886.779.658	–637,97%	–10,77%	0 (E)
VINA Securities	12.874.561.245	–11.928.529.264	–92,65%	–46,17%	0 (E)
Kenanga Vietnam Securities	5.579.047.113	–10.957.057.975	–196,40%	–9,89%	0 (E)

Note: * VND

many activities carried out with the desire that these activities can support each other in the fluctuations of the market. Specifically, by the end of 2013, 2% of the company performed exclusively securities investment consultancy while about 60% of the securities currently operates 2 to 3 business, 38% of Securities carries fully 4 basic operations. However, it is noteworthy that, in the revenue structure of securities companies, self-employed are always at very high proportion, from 30 to 45%. Besides bringing significant revenues, the brokers focused too much on dealing activities with the limited capacity and unfavorable stock market which led to a sharp fall in the total turnover of many companies. Specifically, in 2008, 70% (61/88) Securities revenue decline was mainly due to trading activities, this figure fell to 26.59% in 2010 (25/94), but in 2011 has increased by 50% of the company.

Besides, the share of other revenues accounted for a very high percentage, especially in the period 2008- 2011, almost the highest in total revenue, approximately 50%. But according to the financial statement disclosures of securities, other income was primarily from interest on deposits and interest on the securities repo contracts. Therefore, other revenues accounted for a large proportion showed that Securities supported is strongly investors through a variety of different services. However, many of these services were not provided for by adequate legal framework, thereby leading to the difficulty in inspection and supervision of the activities of brokers and agencies manage, market organization. At the same time, to focus more on activities outside the legal trading business, securities were placed in such a situation which they may face many operational risks, risks from the volatility of the market, destabilizing for general business operations of the company.

5.2. Graded, Rated Securities under the Overall Points System Elements CAMEL

Ranking detail each element in the CAMEL system for securities companies operating in the market has shown positive results in a number of factors, however, to assess the overall effectiveness of stock companies, we need to consider the overall classification on the basis of percentage points for all five elements C, A, M, E, L of each securities company. As follows:

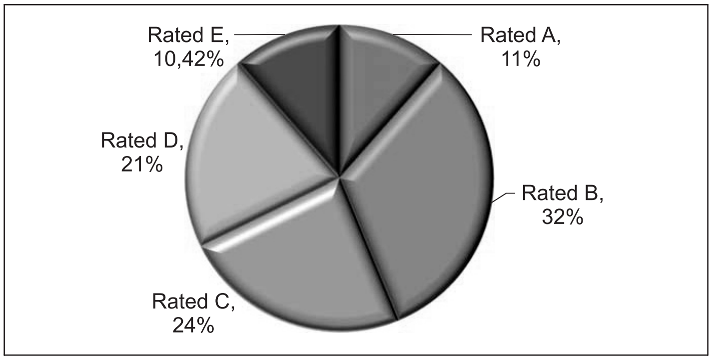

Figure 48.4: Overall ranking results

Ignoring the number of securities companies without report (the Securities have either report on the financial adequacy ratio or audited financial statements or neither), on average, the stock companies in the market were divided into two distinct segments, a half of them (43.75%) had overall ratings at a good level (a) and relatively good (B), the remaining securities companies (44.79%) were at a weaker classified as class C level - securities companies had significant problems, safety of operations was affected effects, preventions were needed to be improved, and the graded D - brokers had serious problems, secure reliable operation affected, threatening the viability of the companies and the companies should have closer preventions and management.

Table 48.14
Top 10 best overall point Securities companies

	Name	*Overall point*	*Grade*					
			Overall	*C*	*A*	*E*	*L*	*M*
1	Ho Chi Minh city Securities	94,49	A	A	A	A	A	A
2	FPT Securities	92,30	A	A	A	A	A	A
3	Vietinbank Securities	89,44	A	A	A	A	A	A
4	Golden Dragon Capital	89,29	A	A	A	A	A	B
5	Morgan Stanley Huong Viet Securities	89,03	A	A	A	B	A	A
6	Ky Thuong Ltd Securities	88,91	A	A	A	A	A	A
7	Saigon Securities	87,86	A	A	B	A	A	A
8	Haiphong Securities	85,13	A	A	B	A	A	B
9	National Saving Securities	84,98	A	A	A	A	A	B
10	Thanh Cong Securities	83,00	A	A	B	B	A	A
Frequency appearance of A, B, C, D, E in each factor			A	10	7	8	10	7
			B	0	3	2	0	3
			C	0	0	0	0	0
			D	0	0	0	0	0
			E	0	0	0	0	0

However, not only in the overall assessment, each element in the system of the elements C, A, M, E, L also needs to be assessed in detail to see problems in every operating segment of companies to offer solutions to improve the situation or the appropriate interventions for securities companies. They are:

Table 48.15
Rated Securities Company and Lowest overall Ranking

No.	*Name of Securities*	*Scores*	*Rank*					
			Overall	*C*	*A*	*E*	*L*	*M*
1	CIMB-Vinashin Company Ltd	41,09	D	C	E	E	C	C
2	Phu Hung Securities	48,12	D	D	E	E	B	B
3	Mekong Securities	48,41	D	D	E	C	E	B
4	BETA Securities	49,43	D	D	C	E	D	B
5	Orient Secutiries	50,11	D	E	C	E	C	A
6	Artex Securities	51,53	D	D	D	E	A	C
7	Viet Dragon Securities	52,21	D	D	D	C	E	A
8	A Au securities	52,90	D	C	D	E	C	C
9	SJC Securities	54,45	D	B	E	E	B	A
10	Alpha Securities	56,48	D	A	C	E	C	B
11	Asian Securities	58,69	D	C	C	E	A	C
12	Viet Tin Securities	60,81	D	B	C	E	A	C
13	Maybank KimEng Securities	60,85	D	A	A	E	C	B
14	Golden Lotus Securities	61,53	D	D	B	E	A	B
15	An Thanh Securities	62,68	D	A	D	D	B	B
16	Kenanga Viêt Nam Securities	62,71	D	A	D	E	A	C
17	VINA Securities	64,67	D	D	A	E	A	B
Frequency of apperance of A, B, C, D, E in each sector			A	4	2	0	6	3
			B	2	1	0	3	8
			C	3	5	2	5	6
			D	7	5	1	1	0
			E	1	4	14	2	0

Note: Ranked companies are excluded

First, approximately 11.46% equivalent to 11 securities in total 96 companies had overall graded A (Table 2.8), which means the stock companies in this group were safe and fair in every aspect and regularly had classified all 5 elements C, A, M, E, L at A and B, all of these companies had good capital adequacy and liquidity and high earnings, which helped companies withstand fluctuations in the market, the weak points were few and insignificant scale (only at B elements A, E, M in 2, 3 securities companies) showed risk management was good and healthy, the authorities did not need to intervene.

Second, 32.29% (31 Securities) of the Securities were classified type B. Basically, these securities companies were safe, there were factors graded below C, in which capital adequacy and liquidity were the factors that most companies achieved grade A (respectively 17 and 25 companies), in management, the B dominated with 19 companies. Earnings factor most worried when half the number of companies with the overall results achieved B only got C in this element. Thus, the companies in this overall classification were able to react with volatile business environment, there were some weaknesses and inadequate management and board of directors had the ability to control and overcome, risk management is basically in line with the level of complexity and risk status of securities companies. In addition this group of companies almost complied law. The authority can intervene at the limited and insignificant level.

Thirdly, 23.96% (23CTCK) reached overall rating C. Specifically, the securities company of class C ranked Capital adequacy factor (C) mostly in the A and B (10 companies and 10 companies), management (M) were mainly at B (16 companies), liquidity (L) prevalently A (20 companies), the weakest classification was Earnings (E) most companies ranked at E (9 companies) (E1 and E2 target at the lowest level and all indicators point were 0 - reflecting the acute shortage profit, major losses were occurring) and the C (10 companies) (reflects current profits were not enough to support the company's operations, potential income should be improved). Overall, we can consider that these companies had the ability to withstand and respond to fluctuating business environment less than group A and B, the weaknesses of these companies were at moderate to severe, risk management was not really suited to the scale and complexity of the company's operations, the company needed the intervention of the authorities at above average levels.

Fourth, 20 out of 96 securities, 20.83% equivalent, with overall results graded D. At the group level, the factors evaluated CAMEL system of securities firms have undergone ratings all A to E, mostly in the C, D, E group.

It is easy to see that the companies ranked the overall grade D were really weak in the Earnings factor (E) in the absence of any company achieve this E grading factors at A and B, only 2 companies graded C, one company graded D. Meanwhile, the worth 14 companies graded E in this factors, we can say that, these companies were subject to the large losses that could threaten the solvency and viability of the company, these large losses will cause erosion of capital and then quickly deplete this equity.

However, it is encouraging that factors such as asset quality, capital adequacy, and especially liquidity factor rating less worrying than that, there are 12 of 17 the companies achieved a grade of A, B, and no company ranked in the D and E in management factor.

Thus, on the whole, to companies classified D, all of the above factors were more severe than companies classified as C, which violated the law, even the Managing Board may not recognize risks and major existing problems, so this situation can greatly threaten the safe operation and viability of the company. Intervention and supervision from the authorities were required above average and closer, especially from the State Securities Commission and the support of the resources (ie funding) from the inside out.

5.3. Comparative Results of CAMEL with Circular 226 – Capital Safety Requirements

The reports by the SSC on the capital adequacy of securities companies in Vietnam by the end of 2012 and 2013 showed that the total number of securities fall into special control group increased from 11 in 2012 to 13 companies in 2013; the number of Securities companies fell into a state of control and nearly doubled to 5 companies at the end of 2013 while this number of normal operation of securities companies decreased by 50% and the healthy functioning securities increased slightly by 3% in 2013.

In general, the results of capital adequacy was relative to the rated CAMEL making panorama of Vietnam Securities activities in recent years. The problem of limited financial capacity, low earnings were shown through two assessment systems. However, as mentioned in the theoretical part, the Circular 226 mainly focused on assessing the capital adequacy of the company, while CAMEL had a better overview of the company operating under different aspects. Therefore, the results of the detailed evaluation showed some problems:

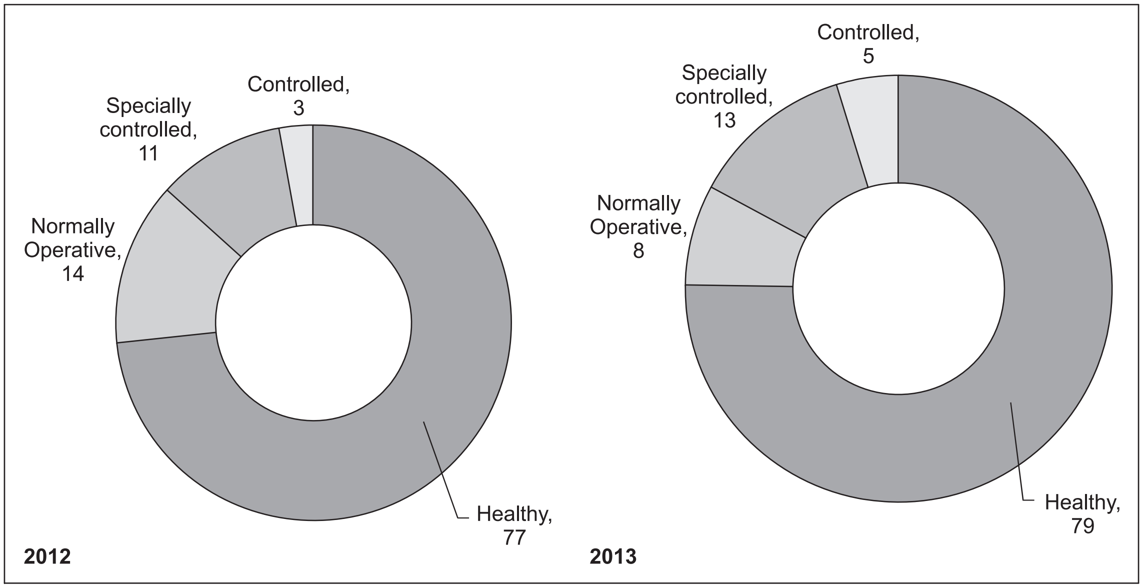

Figure 48.5: Report on Capital Adequacy of Securities Companies in 2012-2013
***Source:* State Securities Committee**

First, brokers achieving the best capital adequacy ratio were not necessarily the Securities having the best CAMEL results. Figure 6 shows the top 12 securities companies with the highest liquidity level at the end of 2013, of which only 4 Securities (FPT, HSC, VSC, KLS) in the top 10 companies with the best CAMEL points. Thus, if only the surveillance activities of brokers based on capital adequacy ratio will not give accurate results, because many companies can achieve high levels of capital adequacy but earnings and liquidity were very low, even with a number of companies accumulated losses rooted in equity and liquidity almost disappeared.

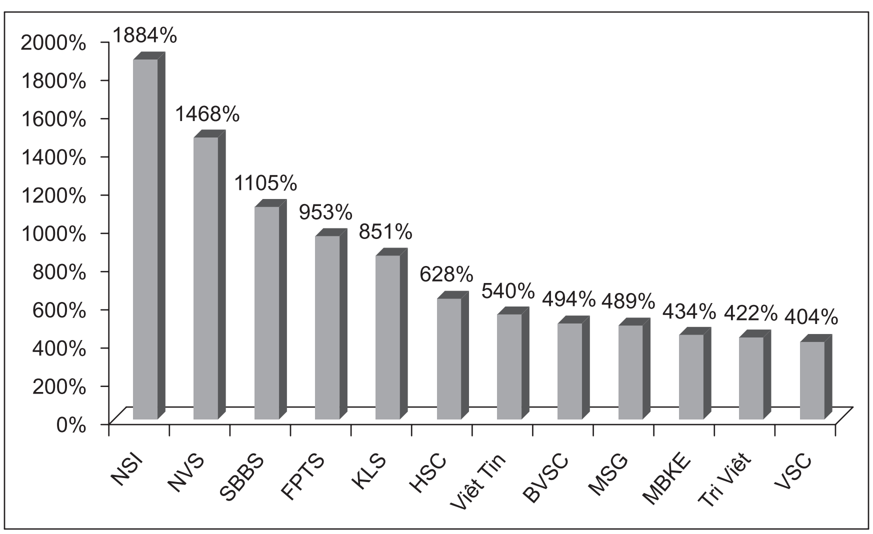

Figure 48.6: The top capital adequacy companies
***Source:* State Securities Committee**

Second, according to the calculations on the available capital adequacy ratio in 2013, in total of 104 active brokers, there were only 90 securities companies reported financial adequacy ratio to the public under the reports was collected. Among them, there were 80 securities companies having ratios above 180% of available capital (shown healthy financial situation), 7 Securities with financial adequacy ratio from 150% to 180% (which represents the average financial situation often). There was one Securities with capital adequacy ratio ranges from 120% to 150% (CIMB-Vinashin Securities will be subject to the control) and 2 Securities achieving financial adequacy ratio below 120% (Orient Securities securities and FLC will take special control). Thus, I classified these securities under Circular 226 standards, there would be only 3 Securities subject matter and should be intervened by the authorities. If including 14 brokers without report to total of 104 securities companies, there were 17/104 (16.34%) having problems. While according to CAMEL, the proportion of securities having problems (scoring total category C, D and E) accounted for the lion's share. Thus it is clear that if I comprehensively assessed under the CAMEL, the number of securities companies should monitor and supervise would increase quite a lot.

Third, one of the top content of the restructuring process of the securities is classified and streamlining the number of active brokers in the market to suit the size of Vietnam's stock market. The result, by the end of 2013, based on reports available capital of securities companies, SSC requested to shut down 3 Securities, suspend 2 companies; withdraw operating license of 15 brokerage companies. However, there were still other securities companies with high liquidity level, but liquidity and risk management ability were poor. Therefore, if only based on Circular 226, the classification and the current streamlining of the Securities were not really effective when I did not totally eliminate companies with poor performance. Therefore, the results should be included in CAMEL to evaluate and classify the activities of the Vietnam Securities.

6. CONCLUSION

Applying criteria CAMEL system to assess performance of 96 in105 operating securities firms in Vietnam's stock market shows more than 40% of companies having a safe condition and good financial health; 20% Securities should be supervised by the SSC for healthy financial situation is quite weak, especially earnings and risk management capabilities.

Compared to financial safety results according to Circular 226, it can be seen that even to group of companies with the largest capital the market at present, there are some companies accumulating losses and operating inefficiently. This shows that the CAMEL system and capital adequacy need to be corporate to perform classification, monitoring, and restructure Securities radically, fiercely to ensure safety of the intermediaries and strengthen stock market, ensure financial security to provide services to customers in accordance with the law.

The research in the field of indicators CAMELS system is not new in recent years, but the application of these criteria to evaluate the activities of financial institutions such as non-bank securities firms are not many especially in Vietnam, almost none. Thus, the subject placed first step in this area in order to assess a comprehensive and operational system of securities companies, on that basis, given the panorama on the status of financial security main business performance as well as other operational aspects of the system of financial intermediaries.

With the above findings, subject contributed a critical voice to policy-makers, namely the State Securities Commission as well as securities companies and entities other market participants in recognizing, evaluating overall operation of securities companies.

CAMELS applied of macro management and securities market:

First, with the implementation of the scheme of restructuring activities of the stock market in general and in particular securities company in the period 2015 - 2020 of the Prime Minister, the results of this research can be used to classify the operations of securities companies at present, on that basis, giving management solutions and effective supervision method to SSC. As mentioned above, compared to circular 226, the results of CAMELS Securities are more comprehensive and a lot more objective.

Second, the findings of the research can be a tool to help brokers implement performance monitoring and risk warning system for better Securities. Currently, the SSC is enhancing operational risk management of securities companies through a circular 165 of Regulation Risk Management in Securities. However, this circular guidance focuses only on guiding brokers building and implementing risk management procedures in order to limit and reduce the risk greatly affect the company's operations. CAMELS assessment results can be seen as an early warning tool to help SSC more proactive in ensuring the safe operation of each securities as well as the safety net of the financial institutions system and financial market.

Third, Vietnam's economy in general and the stock market in particular is in the process of global integration, assessing the operation of the securities under the CAMELS system form the basis of the premise to be able to compare operational capacity of the Vietnam Securities with the Securities in the region and the world. Since this criteria system is accepted and used worldwide as a benchmark in evaluating the operations of financial institutions.

Fourth, on the basis of research results of the research, policy makers can refer to add and edit CAMEL system to assess the activities of the Securities in the next more accurate and efficiently Camels versions.

Fifth, to investors, the research results CAMELS launched a comprehensive and objective review about the operational capacity of the system of financial institutions as securities intermediaries in Vietnam. Since then, investors will have a deeper understanding of the financial institutions on the basis of an independent study and widely publicized as the results of this research study. The trust of investors depends on the operation of financial institutions, so this research contributed in creating a voice in building investor's trust in the market.

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