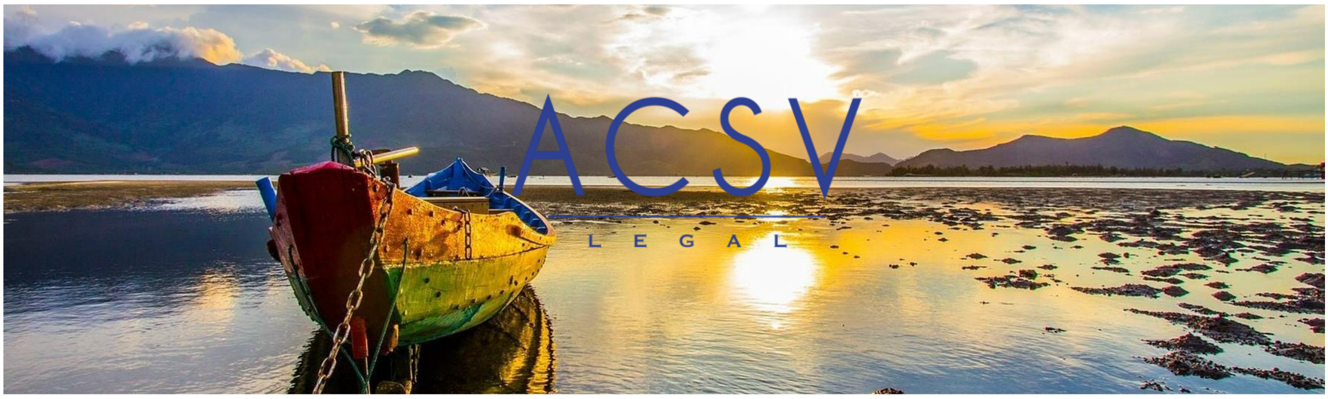

LEGAL UPDATE

KEY CHANGES IN LETTER OF CREDIT OPERATIONS

On 28 June 2024, the State Bank of Vietnam issued Circular No. 21/2024/TT-NHNN ("**Circular 21**"), which regulates letter of credit ("**L/C**") operations and related business activities by credit institutions and foreign bank branches ("**FBBs**"). Effective from 1 July 2024, Circular 21 applies to both residents and non-residents, covering a wide range of entities, including commercial banks, cooperative banks, and FBBs authorized to conduct L/C operations.

1. Restriction on Domestic Refinancing of UPAS LCs

L/C operation refers to credit extension through the issuance, confirmation, negotiation, or reimbursement of an L/C to facilitate trade in goods and services.

According to Article 25.3.a of Circular 21, effective from 1 July 2024, domestic banks in Vietnam will no longer be permitted to issue Usance Payable at Sight Letters of Credit ("**UPAS LCs**") that designate a domestic reimbursing bank for refinancing import contracts. If the beneficiary is a non-resident, the issuing bank must appoint a non-resident reimbursing bank for payment processing.

As outlined in Article 25.3.b, once the reimbursing bank pays the beneficiary:

- The issuing bank assumes a debt obligation to the reimbursing bank.
- The applicant (importer) owes a debt to the issuing bank.
- On the LC's due date, the applicant repays the issuing bank, which then settles the debt with the reimbursing bank.

This structure effectively provides deferred payment financing to the applicant, functioning similarly to a foreign currency loan. Previously, applicants could use UPAS LCs to access foreign currency financing without meeting the stricter requirements imposed by Circular No. 24/2015/TT-NHNN (which, since 31 March 2019, prohibits foreign currency loans for importing goods and services).

While the new regulation aims to protect the Vietnamese dong by limiting foreign currency lending for imports, it may unintentionally reduce the competitiveness of foreign-invested banks, which typically have easier access to foreign currency funding and previously held an advantage in offering UPAS LC refinancing.

2. Electronic Letter of Credit (e-L/C) Operations

Under Article 18 of Circular 21, banks and customers can choose to perform L/C operations electronically in compliance with relevant laws, including those on anti-money laundering, electronic transactions, data protection, and online security.

Banks must verify customer identity electronically for new customers, with specific procedures for residents and non-residents. The banks decide on the methods, technologies, and risk management for e-L/C transactions, ensuring that they meet the security, confidentiality, and integrity standards set by the State Bank of Vietnam ("**SBV**").

Additionally, banks must store and protect customer data securely, implement backup measures, and ensure compliance with electronic transaction laws. They are also required to regularly evaluate and upgrade security measures to maintain the safety of electronic operations. The e-L/C system must adhere to Level 3 information system security standards, as defined in Article 5.4 of Circular 09/2020/TT-NHNN ("**Circular 09**"), which cover confidential state information, internal banking operations, 24/7 client services, third-party payment systems, and shared banking infrastructure.

3. Currency for Issuance, Reimbursement, and Payment of Letters of Credit

Under Article 11 of Circular 21, the currency used in letter of credit operations is determined based on agreements between banks and customers:

- With respect to the issuance currency, the issuing bank and the customer may agree to issue the L/C in either

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Vietnamese dong (**VND**) or a foreign currency, depending on the currency specified in the underlying sales contract.

- Similarly, the reimbursement and confirmation currency can be conducted in VND or a foreign currency, matching the payment terms set for the beneficiary in the L/C.
- On the L/C's due date, the issuing, confirming, or reimbursing bank must make payment to the beneficiary in the currency specified in the L/C agreement.

4. Interest Rates for Credit Extensions in L/C Operations

Under Article 12 of Circular 21, the following rules apply to interest rates for credit extensions related to L/C operations:

- Banks and customers mutually agree on the applicable interest rates for reimbursement and payment negotiation under L/C operations.
- If the principal becomes overdue, the interest rate applied cannot exceed 150% of the agreed-upon rate at the time the debt becomes overdue.
- For payments made by banks on behalf of clients in L/C issuance, confirmation, or reimbursement, the rate must not exceed the highest overdue loan interest rate currently applied by the same bank.
- The interest rate for late payments must be agreed upon but cannot exceed 10% per year, calculated on the overdue interest amount for the corresponding late payment period.
- If the L/C is conducted in a foreign currency, the interest can be charged in that currency or converted into VND or another agreed-upon currency at a mutually agreed exchange rate.

Contact Information

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