International Journal of Multidisciplinary Research and Growth Evaluation.

Vietnam law on stock ownership limits in commercial bank

Dr. Le Thi Minh
Thu Dau Mot University, Vietnam

* Corresponding Author: **Dr. Le Thi Minh**

Article Info

ISSN (online): 2582-7138
Impact Factor: 5.307 (SJIF)
Volume: 05
Issue: 02
March-April 2024
Received: 20-01-2024;
Accepted: 21-02-2024
Page No: 202-206

Abstract

One of the new points of the Law on Credit Institutions 2024 is adjusting the limit on share ownership in commercial banks. The Law on Credit Institutions 2024 has stricter regulations on share ownership ratios. Accordingly, an individual shareholder is not allowed to own shares exceeding 05% of the charter capital of a credit institution; An institutional shareholder may not own shares exceeding 10% of the charter capital of a credit institution. Thus, the share ownership ratio compared to Article 55 of the Law on Credit Institutions in 2010 has had many changes: the ownership ratio of institutional shareholders decreased from 15% to 10%; shareholders and related persons reduced from 20% to 15%. Maintain the 5% ratio for individual shareholders. As for foreign investors, the above provisions will not apply but will follow the government's regulations. Using analytical methods, the article determines the meaning of changes in the share ownership ratio in commercial banks and provides some comments and recommendations.

DOI: https://doi.org/10.54660/.IJMRGE.2024.5.2.202-206

Keywords: Law on credit institutions amended, cross-ownership, limit on share ownership ratio

1. Introduction

On January 18, 2024, at the 5th Extraordinary Session of the 15th National Assembly, the National Assembly discussed the project Law on Credit Institutions 2024 in the hall. After discussion and voting, the vast majority of participating delegates approved (accounting for 91.28%) [1]. The National Assembly has officially passed the Law on Credit Institutions 2024. The Law takes effect from July 1, 2024, except for some provisions that will take effect from January 1, 2025. With 15 chapters and 210 articles, the Law on Credit Institutions 2024 is expected to contribute to perfecting legal regulations on the organization and operation of credit institutions, handling problems and inadequacies of the Law on Institutions. Current credit [2].

Previously, the National Assembly discussed the revised Law on Credit Institutions project at the Assembly Hall. Based on the opinions of National Assembly deputies, the National Assembly Standing Committee (UBTVQH) has directed the Verification Agency, the Drafting Agency, and relevant agencies to research and absorb, revise the draft Law to ensure caution, thoroughness, and adherence to the requirements of restructuring and improving the capacity and efficiency of the credit institution system by the Party's policies and resolutions of the National Assembly. On January 16, 2024, the government issued Report No. 18/BC-

[1]State Bank of Vietnam: The Law on Credit Institutions was officially passed (amended). 2024. https://www.sbv.gov.vn/webcenter/portal/vi/menu/trangchu/ttsk/ttsk_chitiet?leftWidth=20%25&showFooter=false&showHeader=false&dDocName=SBV587247&rightWidth=0%25&centerWidth=80%25&_afrLoop=456958033 42856466#%40%3F_afrLoop%3D45695803342856466%26centerWidth%3D80%2525%26dDocName%3DSBV587247%26leftWidth%3D20%2525%26rightWidth%3D0%2525%26showFooter%3Dfalse%26showHeader%3Df alse%26_adf.ctrl-state%3D170ke05egn_9, accessed January 19 /2024.

[2]Electronic information portal of the National Assembly of the Socialist Republic of Vietnam: Outstanding new features of the Law on Credit Institutions. 2024. https://quochoi.vn/hoatdongcuaquochoi/cackyhopquochoi/quochoikhoaXIII/Pages/danh-sach-ky-hop.aspx?ItemID=84738&CategoryId=0, accessed February 23, 2024.

CP on opinions on the reception, explanation, and revision of the draft Law.

One of the new points of the Law on Credit Institutions 2024 that many people are interested in is the share ownership ratio in credit institutions. Many experts consider the situation of cross-ownership, domination, and manipulation in banking activities to be a pain in Vietnam and cause many negative consequences. Therefore, the Law on Credit Institutions 2024 has stricter regulations on share ownership ratios to limit cross-ownership.

2. Regulations of the Law on Credit Institutions 2024 on share ownership ratio in banks

2.1. Regulations on ownership ratio limits

Article 63, Law on Credit Institutions 2024, stipulates as follows:

1. An individual shareholder may not own shares exceeding 05% of the charter capital of a credit institution.
2. An organizational shareholder may not own shares exceeding 10% of the charter capital of a credit institution.
3. Shareholders and related persons of that shareholder may not own shares exceeding 15% of the charter capital of a credit institution. Significant shareholders of a credit institution and related persons of that shareholder are not allowed to own shares of 05% or more of the charter capital of another credit institution.

The share ownership ratio in items (i) and (ii) above includes the number of shares owned indirectly. The share ownership ratio specified in section (iii) above includes shares entrusted by shareholders to other organizations or individuals to buy shares and does not include ownership of shares by related persons who are public company subsidiaries of that shareholder according to the provisions of Point a, Clause 9, Article 4 of the Law on Credit Institutions 2024.

The Law adds several related groups of people, including: "Subsidiaries of credit institutions; paternal grandparents, maternal grandparents, grandchildren, great-grandchildren, aunts, uncles, great-uncles, great-nephews, great-aunts, great-uncles and vice versa, clearly defines the individual authorized to represent an organization or individual as the individual authorized to represent the capital contribution of an organization or individual.

Within 05 years from the date the credit institution is granted a License, founding shareholders must hold a minimum number of shares equal to 50% of the credit institution's charter capital; Founding shareholders who are legal entities must hold a minimum number of shares equal to 50% of the total shares held by founding shareholders.

Thus, the share ownership ratio compared to Article 55 of the Law on Credit Institutions 2010 has had many changes: the ownership ratio of institutional shareholders decreased from 15% to 10%; shareholders and related persons reduced from 20% to 15%. Maintain the 5% ratio for individual shareholders.

The above ownership limits do not apply to the following cases

Firstly, it does not apply to ownership of shares in subsidiaries and affiliated companies that are credit institutions specified in Clauses 2 and 3, Article 111 of the Law on Credit Institutions 2024;

Second, it does not apply to state ownership of shares in equitized credit institutions;

Third, it does not apply to share ownership by foreign investors specified in Clause 7, Article 63 of the Law on Credit Institutions 2024. Foreign investors are allowed to buy shares of Vietnamese credit institutions. The government regulates the maximum total share ownership of foreign investors, the maximum share ownership ratio of a foreign institutional investor, and the maximum share ownership ratio of a single foreign investment and related persons of that investor at a Vietnamese credit institution, conditions and procedures for foreign investors to buy shares of Vietnamese credit institutions, conditions for Vietnamese credit institutions to sell shares to foreign investors.

2.2. Regulations on disclosure of information on holding rates

Under Clause 2, Article 49 of the Law on Credit Institutions 2024, regulations on information disclosure of shareholders holding from 01% are as follows:

First, shareholders owning 01% or more of the charter capital of a credit institution must provide the credit institution with the following information:

1. First and last name; personal identification number; Nationality, passport number, date of issue, place of issue of foreign shareholders; Number of Business Registration Certificate or equivalent legal documents of the shareholder being an organization; Date of issue and place of issue of this document;
2. Information about related persons as prescribed in Points C and D, Clause 1, Article 49 of the Law on Credit Institutions 2024 ;
3. Number and percentage of ownership of shares at that credit institution;
4. Number and percentage of shares owned by his/her related person at that credit institution.

Second, credit institutions must publicize related interests according to Article 39 regarding members of the Board of Directors, members of the Board of Members, members of the Supervisory Board, the General Director (Director), and the Deputy General Director (Deputy Director), equivalent positions, and related persons.

Third, shareholders owning 01% or more of charter capital must send the credit institution in writing to provide information for the first time and when there are changes to this information within 07 working days from the date of information changes. Regarding ownership ratio, shareholders owning more than 1% of charter capital must only disclose information when there is a change in their share ownership ratio, the share ownership ratio of themselves and their related persons from 01% of charter capital or more compared to the previous offering.

Fourth, credit institutions must publicly disclose information about the full names of individuals and organizations that are shareholders owning 01% or more of the credit institution's charter capital and the number and ownership ratio shares of that individual and related persons on the credit institution's electronic information page within 07 working days from the date the credit institution receives the information provided.

2.3. The transition period for implementing new regulations

From July 1, 2024 (when the amended Law on Credit Institutions takes effect), shareholders, shareholders, and

related persons who exceed the prescribed share ownership ratio may continue to maintain their shares but may not increase shares until compliance with the regulations on share ownership ratio as prescribed by this Law, except in the case of receiving dividends in shares.
From January 1, 2025, shareholders and related persons who exceed the prescribed share ownership ratio may continue to maintain their shares. However, they may only increase their shares once they comply with the regulations on ownership ratio shares according to the provisions of this Law, except in the case of receiving dividends in the form of shares.

3. Comments and recommendations

The Law on Credit Institutions (amended), in general limiting ownership ratio in particular, shows that the amendments and supplements to the Law on Credit Institutions are fundamental, comprehensive, and synchronous. Credit will contribute to promptly institutionalizing the Party's policies and guidelines, perfecting institutions in the banking sector by socialist-oriented market principles, and meeting the requirements of restructuring the commercial banking system and credit institutions, ensuring the safety, health, stability, and sustainability of the system; Enhance openness and transparency, by common international standards and practices. [3]. With the amended contents, the Law will contribute to ensuring the safety of the credit institution system, enhancing risk prevention, and building tools to manage credit institutions [4].
The provisions on ownership restrictions in the Law on Credit Institutions have the following meaning:
Firstly, improve the capacity of governance, management, and transparency of credit institutions' operations and limit manipulation and domination of activities of significant shareholders at credit institutions. Law on Credit Institutions (amended), supplementing regulations on share ownership ratio to reduce the limit on share ownership ratio of institutional shareholders and groups of shareholders and related persons. [5]
Second, these regulations help increase credit institutions' popularity, information transparency, and public supervision. These regulations help increase credit institutions' popularity, information transparency, and public scrutiny. [6]
Third, regulations on additional responsibilities to disclose and disclose information of shareholders owning 01% or more of the charter capital of a credit institution, managers, and executives supplement and ensure the rights of minority shareholders. [7]
Fourth, the public's ability to supervise is strengthened by reducing the share ownership ratio of shareholders and simultaneously separating management activities from operating activities, promptly meeting management principles—transparency in business organizations recommended by international financial institutions. [8]
Fifth, additional regulations on related persons when calculating ownership ratios are needed to ensure safety in credit institution operations, transparency of share ownership of shareholders and related persons of shareholders, and limiting manipulation of credit institutions' operations.
Sixth, the more precise identification of individuals authorized to represent organizations and individuals as individuals authorized to represent capital contributions to organizations and individuals has ensured clarity in determining relevant persons. [9]
However, there are still concerns about tightening the share ownership ratio in commercial banks, specifically:
Firstly, the measures to reduce the share ownership ratio and reduce credit limits have yet to solve the problems of cross-ownership, manipulation, and domination. This point of view emphasizes that the problem is not in reducing the ownership ratio, but the critical issue lies in the monitoring and

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[3]State Bank of Vietnam: OfficialTheCredit Institutions (amended was officially passed). 2024. https://www.sbv.gov.vn/webcenter/portal/vi/menu/trangchu/ttsk/ttsk_chitiet?leftWidth=20%25&showFooter=false&showHeader=false&dDocName=SBV587247&rightWidth=0%25&centerWidth=80%25&_afrLoop=456958033 42856466#%40%3F_afrLoop%3D45695803342856466%26centerWidth%3D80%2525%26dDocName%3DSBV587247%26leftWidth%3D20%2525%26rightWidth%3D0%2525%26showFooter%3Dfalse%26showHeader%3Dfalse%26_adf.ctrl-state%3D170ke05egn_9, accessed January 19 /2024.

[4]State Bank of Vietnam: Developing the Law on Credit Institutions (amended) is important in ensuring the safety of the credit institution system. 2023. https://www.sbv.gov.vn/webcenter/portal/m/menu/sm/luatctctd/luatctctd_chitiet?leftWidth=0%25&showFooter=false&showHeader=false&dDocName=SBV581622&rightWidth=0%25&centerWidth=100%25&_afrLoop=45697 820453738466#%40%3F_afrLoop%3D45697820453738466%26centerWidth%3D100%2525%26dDocName%3DSBV581622%26leftWidth%3D0%2525%26rightWidth%3D0%2525%26showFooter%3Dfalse%26showHeader%3Dfalse%26_adf.ctrl-state%3D170ke05egn_69, accessed January 23 /2024.

[5]A Giang Online Newspaper: What are the new features of the Law on Credit Institutions (amended)? 2024. https://baoangiang.com.vn/luat-cac-to-chuc-tin-dung-sua-doi-co-nhung-diem-gi-moi-a386448.html, accessed January 23, 2024.

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[9]State Bank of Vietnam: Amending the Law on Credit Institutions: Adding many new regulations on related person regulations. 2023. https://www.sbv.gov.vn/webcenter/portal/m/menu/sm/luatctctd/luatctctd_chitiet?leftWidth=0%25&showFooter=false&showHeader=false&dDocName=SBV581621&rightWidth=0%25&centerWidth=100%25&_afrLoop=45697 623987768466#%40%3F_afrLoop%3D45697623987768466%26centerWidth%3D100%2525%26dDocName%3DSBV581621%26leftWidth%3D0%2525%26rightWidth%3D0%2525%26showFooter%3Dfalse%26showHeader%3Dfalse%26_adf.ctrl-state%3D170ke05egn_51,

enforcement stage. [10]

Second, according to VCCI, the high ownership ratio of a few shareholders is not a direct problem causing system insecurity [11]. Meanwhile, the maximum ownership ratio needs to be higher and be better for bank management. When the capital ratio is too low, shareholders will not be attached to the bank's business activities. Large shareholders often invest money and bring technology and management processes into banks, helping banks operate more efficiently. As one expert asked not to be named, a capital ownership ratio that is too low will lead to a situation where there is no actual owner of the bank, thereby causing operations to be affected by shareholders. "no one accepts anyone, no one listens when they talk." This situation has been going on for nearly ten years at one bank, making it impossible for banking operations to make a breakthrough while other banks of the same scale are moving forward. [12]

Third, it creates a minor crisis for foreign investors. If bank ownership rates continue to be tightened, the attractiveness of the Vietnamese banking sector in the eyes of foreign investors will more or less decline. Tightening bank ownership ratios can "make it difficult" for foreign investors who want to pour capital into domestic banks. In the opposite direction, domestic banks' efforts to improve their capital base, enhance their financial capacity, and develop healthily in the long term also become more complex when they cannot offer a proportion of shares attractive enough for foreign investors [13].

Although there are still many concerns, in general, changes in the Law on credit institutions will help promote sustainable growth in the medium and long term of the banking industry. The Law on Credit Institutions (amended) is significant in managing and operating the banking system to operate stably, transparently, and in line with international regulations [14].

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