FLASH NEWS

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The National Assembly passed the amended Law on Credit Institutions

The amended Law on Credit Institutions was just approved by the National Assembly on January 18, 2024, including 15 chapters, 210 articles and takes effect from July 1, 2024. Accordingly, the changes have a material impact on the operations of the banking industry as follows:

Topics	Content changed	Impacts
Credit institution ownership ratio	Reducing the ownership ratio at a credit institution: - From max 15% to max 10% of charter capital for an institutional shareholder. - From max 20% to max 15% of charter capital for a group of related shareholders, while expanding related subject definitions. - The maximum ownership ratio of an individual is maintained at 5%. Domestic shareholders whose ownership ratio exceeds the regulations may continue to maintain their shares but may not increase their shares until they comply with the regulations on ownership ratio. Shareholders owning 1% or more of the charter capital of a credit institution must provide information and the credit institution must publicly announce the information of these shareholders.	The tightening aims to reduce the influence of one/a group of shareholders at a credit institution. Requiring the disclosure of information about shareholders owning 1% or more will partly increase transparency and facilitate regulators in monitoring. Domestic shareholders whose ownership ratio exceeds the regulations are not under pressure to sell shares. However, domestic strategic shareholders and major shareholders with purely financial investment purposes will have their new ownership ratios limited. This will negatively impact banks' ability to mobilize Tier 1 capital (if any) in the future.
Credit limit	Reduce credit limit from maximum 15% to 10% of bank's equity for one customer according to the roadmap: - From Jul 1, 2024 - Dec 31, 2025: max 14%, - From Jan 1, 2026 - Dec 31, 2026: max 13%, - From Jan 1, 2027 - Dec 31, 2027: max 12%, - From Jan 1, 2028 - Dec 31, 2028: max 11%, - From Jan 1, 2029 onwards: max 10%. Reduce credit limit from maximum 25% to 15% of the bank's equity capital for one customer and related group according to the roadmap: - From Jul 1, 2024 - Dec 31, 2025: max 23%, - From Jan 1, 2026 - Dec 31, 2026: max 21%, - From Jan 1, 2027 - Dec 31, 2027: max 19%, - From Jan 1, 2028 - Dec 31, 2028: max 17%, - From Jan 1, 2029 onwards: max 15%.	We assess that the new regulations have a negligible impact on large banks thanks to the trend of increasing the proportion of retail loans and increasing the size of equity over the past years. Banks with small equity and/or a high proportion of corporate loans will be affected. Having a roadmap to reduce the credit limit until 2028 instead of applying it immediately helps banks have more time to comply.
Handling bad debt	The regulations in Resolution 42/2017/QH14 on the handling of bad debts and collateral assets are included in this amended Law on Credit Institutions. Specifically, legislate the sale and purchase of bad debts and collateral assets, along with the right to seize and liquidate collateral assets of credit institutions.	Create long-term mechanisms and legal corridors in handling bad debts and collateral for banks. It is expected to help the process of handling bad debts of credit institutions more smoothly.

Overall assessment:

The amended Law on Credit Institutions was passed with almost no other changes compared to previous market's expectations and compared to the draft that has been released for comments since October 2023. In general, issues related to ownership ratios and credit limits have been adjusted in a tightening direction without causing major disruption to the operations of the banking industry and the economy.

We believe that the next Circulars and Decrees issued to implement the contents of the amended Law on Credit Institutions will be a topic that needs to be monitored, along with watching the coordination and supervision of regulators in implementing the spirit of the amended Law on Credit Institutions.

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