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## NEW LAW ON CREDIT INSTITUTIONS – REMARKABLE CHANGES

The National Assembly of Vietnam, on 18 January 2024, adopted Law on Credit Institutions No. 32/2024/QH15 (“**New Law**”) which will take effect from 1 July 2024 (save for certain provisions applicable to transfer of real estate projects which are security assets) and replace the current Law on Credit Institutions No. 47/2010/QH12 (“**Current Law**”).

The New Law introduces significant changes which are supposed to come in response to the challenges and difficulties suffering by banking system after SCB’s bank run recently. Notably are those dealing with mass cash withdrawal and shareholding limits. The New Law is expected to maintain and enhance stability, transparency and public confidence in the Vietnamese financial system.

### Dealing with mass cash withdrawal

When depositors try to withdraw all of their funds simultaneously, the bank may run out of cash, causing it to become insolvent. Bank runs can bring down banks and potentially cause a systemic financial crisis.

Various steps have therefore been introduced under the New Law in response to the recent mass cash withdrawal in Vietnam as well as to diminish the risk of future bank runs. Those requirements mandate credit institutions to report to the State Bank of Vietnam and apply measures such as:

- Refraining from disbursing cash dividends;
- Ceasing or curtailing the lending activities and other transactions that utilize the available cash;
- Applying suitable measures to fulfil customers’ payment requests.

The State Bank of Vietnam may also extend support to credit institutions such as acquiring valuable papers at the interest rate of 0%, performing foreign currency transactions to ensure the liquidity, or extending special loans as the case may be.

### Shareholding threshold limits in joint stock credit institutions

#### *Shareholding threshold limits*

## Legal Updates

Under the New Law, individuals or organizations are allowed to own shares in a credit institution but subject to certain threshold limits. In brief:

- An individual shareholder shall not hold more than 5% of the charter capital of a credit institution, directly or indirectly (which remains unchanged).
- An organizational shareholder shall not hold more than 10% of the charter capital of a credit institution, directly or indirectly (lower from 15% under the Current Law).
- A shareholder and its related persons shall not hold more than 15% of the charter capital of a credit institution (lower from 20% under the Current Law).
- A major shareholder of a credit institution and its related person shall not hold 5% or more of the charter capital of another credit institution. (A major shareholder is a shareholder holding at least 5% of the voting shares, directly or indirectly).

### ***Exceptions***

Exceptions may be considered such as in case where holding shares in a subsidiary or associated company being a credit institution, or holding State's shares in an equitized credit institutions, or holding shares by foreign investors.

### ***Transitional regulation***

Shareholders (and their related persons), whose shareholding ratios exceed the threshold limits under the New Law from its effective date, may preserve their shareholding percentages in the credit institutions but not be allowed to increase such shareholding percentage until compliance with the New Law, unless receiving share dividend distribution.

### **Disclosure by shareholders**

It is required under the New Law that shareholders, who own at least 1% of the charter capital of a credit institution, shall make available to the credit institution their information such as name, identification/corporate documents, related persons and shareholding ratios.

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