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# LEGAL ALERT

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**SOME NOTABLE  
NOVELTIES OF THE LAW  
ON CREDIT  
INSTITUTIONS 2024 AND  
MAJOR IMPACTS ON  
BUSINESS ACTIVITIES OF  
COMMERCIAL BANKS**



On 18/1/2024, at the 5th Extraordinary Session, the National Assembly passed the Law on Credit Institutions 2024 (“**Law on CIs 2024**”) with 15 Chapters and 210 Articles, **which will take effect from 1/7/2024, except for Articles 200.3 and 210.15 of this Law taking effect from 1/1/2025**. The following is a summary of some highlights that have a direct impact on enterprises, especially the operations of commercial banks.

### **1. Reducing the share ownership ratio of a shareholder as an organisation, a shareholder and a related person thereof**

Article 55 of the current Law on Credit Institutions 2010 (amended and supplemented in 2017) (“**Law on CIs 2010**”) stipulates the maximum share ownership ratio of **15% for an institutional shareholder, 20% for shareholders and related persons thereof of the charter capital of a credit institution (CI)**. However, Article 63 of the Law on CIs 2024 has reduced the share ownership ratio for **an institutional shareholder (including indirect ownership) down to a maximum 10% of the charter capital of a credit institution and that for shareholders and related persons thereof down to a maximum 15% of the charter capital of a CI**. The above regulations do not apply to some exceptional cases such as ownership of State shares in equitised CIs, ownership of shares by foreign investors. It can be seen that reducing the share ownership ratio will help increase the number of shareholders, thereby increasing the public participation as well as diversifying the shareholder structure of CIs, contributing to limitation of cross-ownership and minimising risks that may impact the operations of CIs, especially commercial banks.

However, reducing the share ownership ratio will also have a great impact on existing shareholders, especially

strategic shareholders in the internal governance of CIs. Therefore, to avoid unnecessary disturbances as well as negative impacts on CIs, Article 210.11 of the Law on CIs 2024 provides a transitional regulation that *“from the date this Law takes effect (i.e from 1/7/2024), shareholders, shareholders and related persons who own shares in excess of the share ownership ratio specified in Article 63 of this Law before its effective date 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 case of receiving dividends in shares”*.

### **2. Reducing credit limit**

Article 128.1 of the Law on CIs 2010 stipulates that the total credit debt level **for a customer must not exceed 15% of the total equity capital of the CI. For a customer and related person, this ratio must not exceed 25% of the total equity capital** of the CIs mentioned above.

However, Article 136.1 of the Law on CIs 2024 has reduced the credit limit as follows: *the total outstanding credit balance for a customer must not exceed 10% of equity capital of the CI and 15% for a customer and related person*. It can be seen that adjusting this ratio is aimed at limiting the concentration of credit capital for one or a group of customers, increasing the opportunity for different customers to access capital, thereby dispersing risks. However, reducing this credit level will cause CIs with loan ratio to the relevant

customer group to exceed the ratio and will face pressure to restructure their loans, and at the same time, their outstanding credit balance may decrease because this group of customers must find other sources of capital to pay off their existing loans.

In order to ensure transparency as well as minimise unexpected impacts on the operations of CIs, Article 136.1 of the Law on CIs 2024 provides **a roadmap for gradually reducing credit limits over 5 years**. Accordingly, **the annual reduction is 1% for one customer and 2% for one customer and related person, starting from 1/7/2024 to before 1/1/2026, the reduction is 14% of equity capital for one customer and 23% of equity capital for one customer and related person and by 1/1/2029, it is required to meet the regulation of 10% of equity capital for one customer and 15 % of equity capital for a customer and related persons thereof**.

### **3. CIs under bank run will be subject to early intervention or special control**

Compared to the Law on CIs 2010, the Law on CIs 2024 adds that cases of bank run will be subject to early intervention or special control. Accordingly, *CIs that are under bank run and have to submit reports to the State Bank (SBV) will be included in the category of early intervention* (Article 156.1), *in case of bank runs and at risk of causing insecurity in the system of CIs, they are subject to special control* (Article 162.1(d)).

To handle cases of bank run, Article 191 of the Law on CIs 2024 requires *CIs under bank run to report to the SBV and immediately implement measures* such

as: not paying dividends in cash; suspend or limit credit granting activities and other activities using CIs' funds; other solutions to meet customer deposit payment requirements; implement measures in the remedial plan, update and adjust the plan in case of necessity.

In case a CI receiving early intervention due to a bank run, it must report to the SBV of the bank run situation and review and reassess the current situation to develop and adjust a recovery plan and implement the recovery plan that have been built and adjusted.

In addition, CIs may also apply support measures upon occurrence of bank runs to pay deposits to depositors such as: selling valuable papers to the SBV on open market operations with 0% interest rate; carrying out foreign currency transactions with the SBV to ensure liquidity; getting special loans from the SBV, deposit insurance organisations or other CIs.

The addition of this regulation is a measure to reassure depositors against concerns about systemic risks that may occur in the future.

### **4. CIs have the right to transfer security assets that are real estate projects to recover debt**

Articles 139.3, 200.3 of the Law on CIs 2024 allow CIs to have the right to *transfer all or part of a real estate project as collateral to recover debt without having to apply regulations on conditions for real estate business entities to the transferor of a real estate project as prescribed by the Law on Real Estate Business*. At the same time, the time for handling real estate collateral is

5 years (instead of 3 years as prescribed in Article 132.3 of the Law on CIs 2010). Extending the real estate holding period to handle debt will help CIs have more time to resolve challenges related to bad debt handling.

However, if a CI *transfers all or part of the real estate project it received as collateral before the effective date of this Law (1/1/2025) to recover debt*, the transferred real estate project **must meet the following conditions**: (i) the investment policy has been approved by a competent State agency; (ii) there is no dispute over land use rights, no distraint to ensure judgment enforcement or transaction ban; (iii) the project is still under implementation; (iv) for transferring part of a project, it must be ensured that the transferred part is independent of other parts; and (v) there must be a decision on land allocation or land lease from a competent State agency (Article 210.15(a) of the Law on CIs 2024).

In addition, CIs with collateral for bad debts are real estate projects that have been seised or are conducting transfer procedures according to Resolution No. 42/2017/QH14 dated 21/6//2017 of the

National Assembly on the pilot handling of bad debts of CIs before 1/7/2024, will otherwise continue to apply Article 10 of Resolution No. 42/2017/QH14 **from 1/1/2024 until such handling is completed** (Article 210.6 of the Law on CIs 2024).

This regulation is expected to make banks accessible to more options to handle large projects with a small part of them having legal problems, thereby helping real estate enterprises resolve cash flow and reduce bad debts for banks, especially listed banks with high real estate lending rates.

## 5. Other notable changes

In addition to the above points, the Law on CIs 2024 also has other notable novelties such as: CIs must disclose information of shareholders owning from 1% of charter capital; consolidate the Establishment and Operation License of the CI and also the Business Registration Certificate; tighten the sale of insurance through banks; provide banking services via electronic means.



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