Recent Changes in ASEAN Limits on Foreign Ownership of Banks

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I. Introduction

A key question amid moves toward achieving regional financial integration within ASEAN[1] by 2015 is whether there will be a final decision on the criteria for certification as "Qualified ASEAN Banks" (QABs) and on how such banks are to be operated. A task force put together to design an integrated framework for banking in ASEAN is now in the process of drafting a master plan for QABs, and its publication is pending.

Meanwhile, foreign investment in domestic banks within ASEAN has traditionally been tightly controlled, and this has made acquiring an ASEAN bank difficult, both for the Japanese financial institutions actively considering moving into Asian markets recently and for banks based in other ASEAN countries. In this paper, I summarize the current status of and recent developments in restrictions in the key ASEAN countries on foreign ownership of domestic banks, a critical determinant of progress in ASEAN regional financial integration.

II. Progress made by foreign financial institutions in establishing a presence in the ASEAN region

A snapshot of the progress made by the top three banks (based on total assets as of end-2012) in each of the "ASEAN five" countries (Singapore, Malaysia, Indonesia, Thailand, and the Philippines) shows that more than a few of these major banks have already established a presence in several other countries (Figure 1). Particular progress has been made recently in establishing operations in the less-developed ASEAN member states, the "BCLMV" (Brunei, Cambodia, Laos, Myanmar, and Vietnam). Looking first at Thailand's banks, Siam Commercial Bank established a representative office in Myanmar in November 2012, while Krung Thai Bank did so in December 2012 and also opened a new branch in Vietnam in 2013. Banks based in

1 For more on regional financial integration within ASEAN, see Hiromi Hayashi, "*Asean no Ikinai Kin'yuutougou ni mukete--Kouhyou sareta Buruupurinto :Asean Kin'yuutougou e no Michisuji* (The road to ASEAN financial integration – the published blueprint for regional financial integration within ASEAN," Summer 2013, Capital Market Quarterly (in Japanese).

Indonesia and the Philippines banks have yet to actively seek a presence in other countries within the region, however.

All three of Japan's megabanks already have a presence in eight of the 10 ASEAN countries (all but Brunei and Laos), and they have been working on the BCLMV markets since 2012.

Figure 1: The ASEAN 5 and major Japanese financial institutions' presence in ASEAN (as of January 2014)

Country	Financial institution name	Malaysia	Singapore	Indonesia	Thailand	Philippines	Brunei	Vietnam	Cambodia	Laos	Myanmar
Singapore	DBS	✔	✔	✔	✔	✔		✔			✔
	OCBC	✔	✔	✔	✔	✔	✔	✔			
	UOB	✔	✔	✔	✔	✔	✔	✔			✔
Malaysia	Maybank	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
	CIMB	✔	✔	✔	✔		✔	✔	✔		✔
	Public Bank	✔						✔	✔	✔	
Indonesia	Bank Mandiri	✔	✔	✔							
	Bank Rakyat Indonesia (BRI)			✔							
	Bank Central Asia (BCA)		✔	✔							
Thailand	Bangkok Bank	✔	✔	✔	✔	✔		✔		✔	✔
	Siam Commercial Bank		✔		✔			✔	✔	✔	✔
	Krung Thai Bank		✔		✔			✔	✔		✔
Philippines	BDO Unibank		✔			✔					
	Metrobank		✔			✔					
	Bank of the Philippines Islands (BPI)					✔					
Japan	Mitsubishi UFJ FG	✔	✔	✔	✔	✔		✔	✔		✔
	Mizuho FG	✔	✔	✔	✔	✔		✔	✔		✔
	Sumitomo Mitsui FG	✔	✔	✔	✔	✔		✔	✔		✔

Source: Nomura Institute of Capital Markets Research, based on various materials

III. Foreign ownership restrictions in ASEAN's key countries and recent relevant developments

1. Indonesia

1) Foreign financial institutions have a major presence in Indonesia

A single shareholder, whether a domestic investor or a nonresident investor, had been able to hold a maximum of 99% of the outstanding shares of a commercial bank in Indonesia, making that country one of Southeast Asia's most liberal in regards to foreign ownership. The Indonesian Bank Restructuring Agency (IBRA) had bought the nonperforming loans and outstanding shares of a large number of banks that had gotten into trouble as a result of the Asian financial crisis in 1997, and it successfully privatized those assets by broadening its pool of potential buyers to include foreign-capitalized financial institutions. The 99% restriction on foreign ownership of a domestic bank was instituted with passage of Government Regulation No. 28 of 1999, dated 7 May 1999, concerning Bank Mergers, Consolidations and Acquisitions.

As a result of this broad acceptance of foreign ownership, as of end-2012 roughly 1/3 of Indonesia's 120 domestic commercial banks had foreign investment in some form, and the largest shareholder in 11 of the top 20 banks based on total assets was a nonresident entity (Figure 2).

Figure 2: Equity ownership of Indonesia's top banks

	Bank	Total assets (USDbns)	Largest shareholder	Country	Ownership stake	Notes
1	Bank Mandiri	65.73	Government-affiliated (Indonesian government)	Indonesia	59.60%	
2	Bank Rakyat Indonesia (BRI)	57.02	Government-affiliated (Indonesian government)	Indonesia	57.32%	
3	Bank Central Asia (BCA)	45.81	Farindo Investments	Indonesia	47.63%	The only private-sector bank among Indonesia's top four
4	Bank Negara Indonesia (BNI)	34.47	Government-affiliated (Indonesian government)	Indonesia	60.61%	
5	Bank CIMB Niaga	20.42	CIMB Group	Malaysia	97.90%	
6	Bank Danamon Indonesia	16.11	Asia Financial (Temasek)	Singapore	68.05%	Singapore's SWF, Temasek owns a majority
7	Panin Bank	15.39	Panin Financial	Indonesia	46%	Second largest shareholder is ANZ Banking Group (Australia) (39%)
8	Bank Permata	13.63	Standard Chartered Bank	Hong Kong	45.01%	Second-largest shareholder is Astra International (44.0%)
9	BII	11.97	Maybank	Malaysia	88.29%	Ownership stake as of 30 September 2013
10	Bank Tabungan Negara (BTN)	11.56	Government-affiliated (Indonesian government)	Indonesia	71.56%	Second-largest shareholder is GIC Private Limited (5.64%)
11	Bank OCBC NISP	8.18	OCBC	Singapore	85.94%	Second-largest shareholder is Aberdeen Asset Management (Asia) (6.91%)
12	Bank BJB	7.33	Government of West Java	Indonesia	37.64%	
13	Bank Bukopin	6.79	Koperasi Pegawai Bulog Seluruh Indonesia	Indonesia	31.05%	Second-largest shareholder is the Indonesian government (13.17%)
14	Bank Mega	6.74	PT Mega Corpora	Indonesia	57.40%	Largest shareholder is Para Group's subsidiary
15	HSBC Bank Indonesia	6.70	HSBC	UK	100%	
16	Citibank Indonesia	6.43	Citibank	US	–	Formed as a branch of Citigroup
17	Bank of Tokyo-Mitsubishi Indonesia	6.43	Bank of Tokyo-Mitsubishi	Japan	–	Formed as a branch of Bank of Tokyo-Mitsubishi
18	Bank UOB Indonesia	6.14	UOB	Singapore	About 99%	
19	Bank BTPN	6.11	TPG Nusantara S.a.r.a.l.	US	58.46%	Largest shareholder is TPG Capital's subsidiary
20	DBS Bank Indonesia	4.31	DBS	Singapore	99%	

Note: Total assets are as of end-December 2012.
Source: Nomura Institute of Capital Markets Research, based on Thomson One (as of 21 April 2014), The Banker (July 2013 issue), and annual reports.

On 13 July 2012, however, Indonesia's banking regulator and central bank, Bank Indonesia (BI), changed its previously welcoming stance on foreign investment by issuing Bank Indonesia Regulation No. 14/8/PBI/2012, which in principle limits single shareholders to no more than a 40% stake.

BI's change in policy was in reaction to Singapore's DBS submitting a bid on 2 April 2012 to acquire 99% of the outstanding shares of Bank Danamon, Indonesia's sixth largest commercial bank.[2] BI initially gave approval to DBS in May 2013 to acquire a 40% stake in Bank Danamon, stating that it would consider allowing DBS to increase its stake later provided that it satisfied the mutually beneficial conditions in the bilateral agreement on banking sector participation between the two countries. BI's decision to make approval of the DBS proposal into a two-stage process enabled it to retroactively apply the new regulations, which were enacted after the proposed acquisition was announced. DBS completely withdrew its proposal to acquire Bank Danamon on 31 July 2013.

2 For more on Bank Indonesia's decision to restrict the ownership stakes of single shareholders, see Daisaku Kadomae, *Indoneshia ni okeru Tanitsu Kabunushi Shusshi kisei to Ginkou Gyoukai e no Eikyou* (Indonesia's limits on ownership by single shareholders and impact on the banking sector), Nomura Institute of Capital Markets Research, Summer 2012 edition of Capital Market Quarterly (in Japanese).

2) Single shareholder ownership limits enacted in July 2012

(1) Ownership limits based on type of entity

The new limits on ownership by a single shareholder, like the previous regulations introduced in May 1999, establish limits on ownership share based on the potential shareholder's entity type, irrespective of whether that entity is a domestic or nonresident investor. Specifically, (1) financial institutions (banks, insurance companies, pension funds, and finance companies) can have up to a 40% stake, (2) nonfinancial institutions up to a 30% stake, and (3) families or individuals up to a 20% stake in a regular commercial bank and a 25% stake in an Islamic Bank.

Foreign investors must satisfy three additional conditions in order to become shareholders of an Indonesian bank. They must (1) have an investor-grade rating that demonstrates a strong financial base, (2) provide continuous support for Indonesia's economic development, and (3) obtain a letter of recommendation for the investment from their home-country financial regulator. The required rating noted in (1) is one notch above the lowest investment-grade rating if the shareholder is a bank, two notches above if a non-bank financial institution, and three notches above if not a financial institution.

(2) Authorized exceptions for investments by banks

DBS: As was seen in the Bank Danamon case, the new single shareholder ownership limits vary depending on the potential shareholder's entity type, and when the investor is a bank there is a possibility that investment over the 40% maximum will be approved. The criteria and process for being approved for greater than a 40% stake were published in a circular from BI (No. 15/4/DPNP) on 6 March 2013 (Figure 3).

Figure 3: Exceptions to single shareholder limits

Necessary conditions when a listed bank becomes shareholder

- A sound financial base (a financial rating from BI of 1 or 2 if a domestic bank, and a financial rating equivalent to a 1 or 2 from BI if a foreign bank)
- Meet the BIS minimum capital requirements
- A Tier 1 capital ratio of at least 6%
- (If a foreign bank) A letter supporting the investment from regulators in the listed bank's home country
- Commitment to purchase liabilities that are convertible into the stock of said Indonesian bank
- Continued ownership in said Indonesian bank for the period specified by BI
- Continued support of the development of the Indonesian economy through said Indonesian bank
- If BI approves the acquisition, the Indonesian bank must list its outstanding shares within five years of the acquisition, 20% of which must be held by the public
- The acquired bank must obtain approval from BI for any issuance of bonds convertible into stock

This does not apply if the government becomes shareholder

- This does not apply to the central government, regional governments, or the IBRA

Source: Nomura Institute of Capital Markets Research, based on No. 15/4/DPNP.

That circular declares that when a bank wants to raise its ownership stake in an Indonesian bank above 40%, it must first raise its stake to the 40% maximum, and after that, if the Indonesian bank meets the financial standards required under Indonesia's laws and is able to maintain a desired level of corporate governance, BI can approve a second round of additional investment over the 40% maximum. To get to that second round requires strict adherence to the requirements for at least three consecutive 6-month fiscal periods during the 5-year review period. It is notable that BI has broad discretion in deciding whether to allow banks to invest above the 40% limit. Accordingly, BI may not approve investments above the limit even if the investor meets all of the stated conditions.

The condition placed on the above-noted proposal by DBS to acquire Bank Danamon was that approval for DBS taking more than a 40% stake in Bank Danamon would not be granted unless the Monetary Authority of Singapore (MAS) agreed to give Indonesian banks operating in Singapore the same treatment that Singaporean banks operating in Indonesia receive.

If the financial position of the bank being acquired weakens below the standards, the amount invested over the maximum must be reduced.

(3) Treatment of shareholders already over the ownership limit

When Indonesia introduced its new single shareholder limits, it let those shareholders who were already over the limit keep their ownership stake. Nevertheless, if the acquired Indonesian bank cannot maintain financial soundness criteria and adhere to desirable corporate governance standards for a period of three consecutive years from end-December 2013, it must reduce its ownership to the maximum within a period not exceeding five years from the date of the last annual review.

2. Thailand

1) Foreign financial institutions have increased their presence in Thailand recently

Thailand is currently implementing Phase II of its Financial Sector Master Plan, which runs from 2010 to 2014. The plan promotes competition in the financial sector, aims to make the financial system more efficient and more amenable to participation by foreign financial institutions. On 18 December 2013, The Bank of Tokyo-Mitsubishi UFJ (BTMU) paid 170.6 billion Thai baht to acquire 72% of the outstanding shares in Bank of Ayudhya, Thailand's largest bank based on total assets (as of end-2012), in what was a textbook example of an acquisition made into a subsidiary. As a result of BTMU making Bank of Ayudhya a subsidiary, the amount of Thai commercial banks' total assets owned by foreign banks increased from 18% to 26%.

A foreign entity is the largest shareholder and has at least 25% of the outstanding shares in six of Thailand's 17 largest commercial banks based on total assets (Figure 4). All foreign entities that rank as the largest shareholder in a Thai bank are financial institutions based in Asia with one exception, that being Standard Chartered Bank's local subsidiary. This attests to the importance that Asian financial institutions place on having a presence in Thailand.

Figure 4: Equity ownership of Thailand's top banks

	Bank	Total assets (USDbns)	Largest shareholder	Country	Ownership stake	Notes
1	Bangkok Bank	78.96	Bangkok insurance	Thailand	1.8%	Second-largest shareholder is Singapore's SWF (1.48%)
2	Siam Commercial Bank	74.11	Crown Property Bureau	Thailand	21.3%	Government institution affiliated with royalty
3	Krung Thai Bank	73.58	Government-affiliated (Bank of Thailand)	Thailand	55.1%	
4	Kasikornbank	67.82	APG Asset Management	Netherlands	1.5%	Pension fund established in March 2008, second-largest shareholder is Singapore's SWF, GIC (1.33%), as of 13 September 2013
5	Thailand Government Savings Bank	64.09	Government-affiliated	Thailand	100%	
6	Bank of Ayudhya	35.00	GE Capital International (to The Bank of Tokyo-Mitsubishi UFJ)	US (to Japan)	25.3%	Second-largest shareholder is Thai NVDR (13.70%)Ownership stake of 10 October 2013. On 18 December 2013, The Bank of Tokyo-Mitsubishi UFJ purchased 72.01% of the stock and made it a subsidiary.
7	Thanachart Bank	33.17	Thanachart Capital	Thailand	51.0%	Originally was a finance company called Ekachart Finance. After a period of limited banking licenses, obtained a full banking license in March 2004. The Netherlands' Scotia Netherlands Holdings owned 48.99% as of 3 May 2013.
8	TMB Bank	23.25	Thai Ministry of Finance	Thailand	26.1%	Second-largest shareholder is ING Bank (25.16%)
9	The Bank of Tokyo-Mitsubishi UFJ, Bangkok branch	16.22	Mitsubishi UFJ FG	Japan	–	
10	UOB Thailand	11.62	UOB	Singapore	99.7%	Acquired 99.66% of outstanding shares in Bank of Asia, and later changed its name to the current one.
11	Tisco Bank	9.48	Tisco Financial Group	Thailand	99.66%	Ownership stake is as of 3 April 2014.
12	Standard Chartered Bank Thailand	8.49	Standard Chartered Bank	UK	99.99%	Acquired 99.87% of outstanding shares in Nakornthon Bank,and later changed its name to the current one.
13	Kiatnakin Bank	7.61	Skagen AS	Norway	4.4%	Unlisted fund management company (ownership stakes are as of 28 February 2014).
14	CIMB Thailand	6.58	CIMB	Malaysia	93.7%	CIMB acquired about 93% of the Thai bank shares, and in February 2010 changed its name to the current one.
15	Industrial & Commercial Bank of China (Thai)	4.22	Industrial & Commercial Bank of China (ICBC)	China	97.7%	Acquired 97.24% of the outstanding shares in ACL Bank, and later changed its name to the current one. Ownership stake is as of 9 April 2013.
16	Land and Houses Bank	3.99	LH Financial Group	Thailand	99.99%	Ownership stake is as of end-December 2009
17	Export-Import Bank of Thailand	2.43	Government-affiliated	Thailand	100%	

Note: Total assets are as of end-December 2012.
Source: Nomura Institute of Capital Markets Research, based on Thomson One (as of 21 April 2014), The Banker (July 2013 issue), and annual reports.

2) Developments in foreign ownership restrictions and the Financial Sector Master Plan

Thailand's restrictions on foreign ownership of domestic banks are spelled out in the Financial Institutions Business Act 2008, enacted on 3 August 2008. Foreign banks do not need approval from the Bank of Thailand to take up to 25% ownership in a Thai domestic bank, but do need that approval for taking a 25–49% stake, which the Bank of Thailand gives on a case-by-case basis. If a foreign bank wants more than a 49% stake in a Thai domestic bank, it must get approval from Thailand's Ministry of Finance.

A foreign bank can choose from among three business formats in Thailand, a subsidiary, a branch, or a representative office, and the first two of those require a license from the Ministry of Finance. Approval of a representative office is granted by the Bank of Thailand.

With these regulations as a base, on 13 June 2013 the Ministry of Finance and Bank of Thailand, deeming that approving subsidiaries for foreign banks who meet certain conditions would help promote international trade and inbound FDI, submitted guidelines, based on the Financial Sector Master Plan Phase II, for approving operations in Thailand for up to five additional foreign banks.[3] Under these guidelines, foreign banks with approval to establish a subsidiary can set up a maximum of 20 retail outlets and up to 20 ATMs located outside of those outlets, enabling them to significantly expand their sales network compared with operating a branch.

3. The Philippines

1) Foreign ownership restrictions based on the 1995 Foreign Bank Liberalization Act

The rules determining the operation of foreign banks in the Philippines were clarified and liberalized with the enactment of the rules and regulations (BSP Circular No. 51) associated with passage of An Act Liberalizing the Entry and Scope of Operation of Foreign Banks in the Philippines and for Other Purposes (R.A. 7721; hereinafter the 1994 Foreign Bank Liberalization Act) in May 1994.

Under the 1994 Foreign Bank Liberalization Act, foreign banks can do business in the Philippines either by (1) acquiring a maximum of 60% of the voting shares in an existing domestic bank, (2) acquiring a maximum of 60% of the voting shares in a bank subsidiary (local subsidiary) newly established under Philippine law, or (3) establishing a branch with full banking functions.

The foreign bank must meet certain conditions in order to set up a local subsidiary or branch. Namely, (1) the foreign bank must be broadly held by numerous shareholders[4] and listed on a stock exchange[5] (an exchange approved by its home country's

[3] See Bank of Thailand, "Notification of the Bank of Thailand No.SorNorSor.6/2556 Re: Guidelines and Conditions for Establishing a Branch and Undertaking the Business of a Branch of Foreign Commercial Bank's Subsidiary," 13 June 2013, and Ministry of Finance, "Notification of Ministry of Finance Re: Rules, Procedures, and Conditions for the Establishment of New Foreign Commercial Bank's Subsidiary," 7 June 2013. It accepted applications for licenses based on these guidelines from 2 July until 30 December 2013. After that, the Bank of Thailand reviews the foreign bank's application for establishing a subsidiary and gives its recommendation to the Ministry of Finance to approve a maximum of five banking licenses. This process is expected to be complete around mid-2014.

[4] Widely held means no single shareholder owns more than 15% of its shares and there are at least 50 shareholders.

[5] If the bank is owned by a holding company, these conditions apply to the holding company.

government), except when the bank's home government owns more than 50% of its outstanding shares, and (2) at the time of application, the foreign bank must be among the top 150 banks in the world or among the top five banks in its home country.[6]

In addition to the four foreign banks that had already established branches when the 1994 Foreign Bank Liberalization Act was passed, another 10 foreign banks established branches and five established foreign bank subsidiaries, bringing the total to 19 foreign banks (as of end-2012).

The General Banking Law of 2000 (R.A. 337), which was passed in May 2000 to succeed the General Banking Law of 1948, included an article allowing foreign banks to own up to 100% of the outstanding shares of one domestically capitalized bank, either a universal bank, commercial bank, or savings bank, for only the first seven years, until 13 June 2007. This article actually allowed Maybank Group, Malaysia's largest financial institution, which had acquired a 60% stake in Philippines National Bank (PNB) in 1997 and changed the bank's name to Maybank Philippines (MPI), to acquire the remaining outstanding shares in August 2000, thereby raising its stake to 99.6%. This made it the first international bank to own virtually 100% of the outstanding shares of a domestic bank under the Philippines' General Banking Law of 2000.

In addition to these foreign ownership restrictions, the Philippines also limits the share of total assets in the Philippine banking system that can be held by foreign banks to a maximum of 30% (Article 3 of the 1994 Foreign Bank Liberalization Act). That ownership share stood at only 11.8% at end-December 2012, and at this point the 30% maximum does not look very likely to be reached.

Figure 5: Equity ownership of the Philippines' top banks

	Bank	Total assets (USDbns)	Largest shareholder	Country	Ownership stake	Notes
1	BDO Unibank	30.21	SM Investments	Philippines	40.9%	SM Investments is the holding company for SM Group.
2	Metropolitan Bank and Trust	25.3	Grand Titan Capital Holdings	Philippines	26.2%	
3	Bank of the Philippines Islands (BPI)	23.9	Ayala (major conglomerate)	Philippines	21.8%	Second-largest shareholder is DBS Holdings (21.31%)
4	Rizal Commercial Banking Corp (RCBC)	8.8	Pan Malayan Management & Investment	Philippines	41.5%	
5	Philippines National Bank (PNB)	8.0	Key Landmark Investments	UK	8.7%	Largest shareholder is investment holding company
6	China Bank	7.9	SM Investments	Philippines	17.2%	
7	Union Bank of the Philippines	6.8	Aboitiz Equity Ventures	Philippines	43.3%	
8	Security Bank	6.3	Frederick Y. Dy	Philippines	14.4%	The largest shareholder is the company's chairman of the board, Frederick Y. Dy.
9	EastWest Bank	2.9	Filinvest Development	Philippines	40.0%	The second-largest shareholder is Filinvest Development Corporation Forex (35%)
10	Philtrust bank	2.7	Philtrust Realty	Philippines	26.9%	Second-largest shareholder is U.S. Automotive (20.89%)

Note: Total assets are as of end-December 2012.
Source: Nomura Institute of Capital Markets Research, based on Thomson One (as of 21 April 2014), The Banker (July 2013 issue), and annual reports from each bank.

6 The determination of whether a bank is among the top five in its home country is based on information provided by the home country's banking regulator. Although the ranking is in principle based on net assets, the Monetary Board can also use total assets as the criteria.

2) Prohibition on investing in rural banks lifted in 2013

Meanwhile, the investment of foreign capital in rural banks had long been prohibited under the Rural Bank Act of 1992, and such investment was excluded from the temporary measures provided for in the aforementioned article in the new General Banking Law of 2000. Then on 24 May 2013, President Aquino signed legislation (R.A. 10574) revising the Rural Bank Act of 1992, thereby allowing foreign corporations and individual investors to acquire up to 60% of the voting shares in a rural bank.

4. Vietnam

1) Vietnam aims to eliminate its NPL problem and rebuild its banking system

A critical issue for Vietnam's banking sector is resolving its problem with nonperforming loans (NPL). The official figure for Vietnam's NPL ratio published by the State Bank of Vietnam (SBV) is 4.62% (as of September 2013), but a number of sources say the real number is more like 15–20%.[7] Because Vietnam's accounting standards have always diverged from international accounting standards, many loans that would be treated as nonperforming under normal accounting standards are treated as performing in Vietnam,[8] and SBV issued temporary measures in 2012 allowing banks to treat as performing those loans that have been delinquent for at least three months and thus previously treated as NPLs.

It was under these conditions that SBV released in March 2012 a timetable for restructuring Vietnam's banking sector. This timetable sought to slow the rapid growth in credit that had occurred in 2008–10, restructure weakened banks, and develop one or two major state-owned banks into banks that can compete on an ASEAN-wide level. As a first move, SBV established the Vietnam Asset Management Corporation (VAMC) as a subsidiary in July 2013, and VAMC began purchasing NPLs from the banks in October that year. If a bank's NPL ratio rises to 3% or higher, it is obligated to sell to the VAMC, but sales by banks with a ratio below 3% are at their own discretion.

The percentage of Vietnam's banking sector that can be foreign owned is currently capped at 20%, but there have been some recent high-profile examples of foreign capital being invested in Vietnamese banks in response to their progress disposing of NPLs and restructuring (Figure 6). In 2011, then Mizuho Corporate Bank acquired a 15% stake in Vietcombank, and in 2012 BTMU acquired a 19.73% stake in Vietinbank. Both rank among Vietnam's four largest state-owned banks. In November 2013, it was reported that three Japanese financial institutions were in negotiations to

7 "Vietnam's reluctant reach for bank capital", *Asiamoney*, 13 January 2014

8 SBV introduced Circular 2 revising the classification of loans from January 2013 and attempted to change accounting standards to fit global standards, but implementation was delayed a year, and is now expected in June 2014.

acquire as much as a 30% stake in Ho Chi Minh City Housing Development Joint Stock Commercial Bank (HD Bank).[9]

In anticipation of foreign capital playing a role in helping to recapitalize and rebuild its banking sector, Vietnam relaxed restrictions on foreign ownership on 20 February 2014.

Figure 6: Equity ownership of Vietnam's top banks

	Bank	Total assets (USDbns)	Largest shareholder	Country	Ownership stake	Notes
1	Vietinbank	24.19	Vietnam Joint Stock Commercial Bank for Industry and Trade	Vietnam	64.46%	Second-largest shareholder is The Bank of Tokyo-Mitsubishi UFJ (19.73%, since 2012)
2	Bank for Investment and Development of Vietnam (BIDV)	22.81	Vietnamese government	Vietnam	95.76%	
3	Bank for Foreign Trade of Vietnam (Vietcombank)	19.91	State Capital Investment Corp. (SWF)	Vietnam	77.11%	Second-largest shareholder is Mizuho Corporate Bank (50%, since 2011)
4	Techcombank	8.64	HSBC	UK	20%	
5	Asia Commercial Bank (ACB)	8.47	Standard Chartered Bank	UK	14.98%	
6	Military Commercial Joint Stock Bank (MB)	8.44	Viettel Group (telecom company run by Vietnam's military)	Vietnam	15.07%	Second-largest shareholder is Vietcombank (9.67%)
7	Vietnam Export Import Bank	8.18	Sumitomo Mitsui FG	Japan	15.00%	Joint venture with Sacombank is possible
8	Sacombank	7.31	Vietnam Export Import Bank (Eximbank)	Vietnam	9.73%	Joint venture with Eximbank is possible
9	Saigon-Hanoi Commercial Joint Stock Bank (SHB)	5.60	T&T Group	Vietnam	6.85%	
10	Vietnam Maritime Commercial Joint Stock Bank	5.28	Vietnam Post and Communications Group	Vietnam	8.95%	
11	Vietnam International Commercial Joint Stock Bank (VIB)	3.12	Commonwealth Bank of Australia	Australia	20%	

Note: Total assets are as of end-December 2012.
Source: Nomura Institute of Capital Markets Research, based on Thomson One (as of 21 April 2014), The Banker (July 2013 issue), and annual reports.

2) Restrictions on foreign ownership relaxed from 20 February 2014

On 3 January, SBV announced Decree No. 01/2014/ND-CP, new rules on foreign ownership that superseded Vietnam's previous rules under Decree No. 69/2007/ND-CP. Previously, except in the case of strategic investors, investment in a domestic bank by a lending institution was limited to a 10% stake, and investment by others to a 5% stake, but under the new Decree, the limit on ownership was raised to 15% for institutions not deemed strategic investors, irrespective of whether it is a lending institution (Figure 7). The investment limit for strategic investors was raised to 20%.

To be considered a strategic investor, an overseas financial institution must meet these conditions: (1) have at least five years of experience operating a bank or other financial business overseas; (2) have total assets of at least US$20 billion in the year prior to applying for investment; (3) have signed a pledge promising to provide Vietnamese lending institutions with long-term benefits and assistance in developing modern technologies and banking products/services and in improving their services and financial base; and (4) not have taken a 10% or higher stake in any other Vietnamese lending institution (Article 10 of Decree No. 1).

The new decree went into effect on 20 February 2014.

9 "HD Bank in Sale Talks With Three Japan Financial Companies", *Bloomberg*, 18 November 2013.

Figure 7: Vietnam's limits on foreign ownership (comparison of old and new laws)

	Decree No. 69 (No. 69/2007/ND-CP)	New Decree No. 1 (No. 1/2014/ND-CP)
5%	Non-lending institutions	Individual investors
10%	Lending institutions that are not strategic investors	–
15%	Strategic investors	Institutions that are not strategic investors
20%	Strategic investors (require Prime Minister's approval)	Strategic investors
30%	Ownership limit on aggregate foreign investment	Ownership limit on aggregate foreign investment (in principle)
Over 30%	N/A	Investments in troubled Vietnamese banks will be approved on a case-by-case basis

Source: Nomura Institute of Capital Markets Research

IV. Conclusion

We have shown that restrictions on foreign ownership of domestic banks vary in both content and their direction of change across the major countries of ASEAN. We've also seen that some Japanese financial institutions are going beyond just meeting the financial needs of their existing Japanese corporate clients and either entering or expanding their presence in local markets in Asia.

Within this context, the government is starting to do its part to support Japanese financial institutions doing business in Asia. The recommendation submitted on 13 December 2013 by the Panel for Vitalizing Financial and Capital Markets, which was put together as a part of Japan's growth strategy, noted that "In order to pave the way for the Japanese economy and financial and capital markets to grow along with the Asian economies, it is also important to support Asian countries in developing their financial infrastructure, as well as to develop the business environment needed for Japanese companies and financial institutions to operate in Asian countries."

While ASEAN is striving for financial integration, there are differences among member nations in their financial infrastructures, financial regulations, and the competitiveness of their banking sectors, and thus the foreign ownership of banks can be a particularly sensitive topic.

We think Japan's financial sector must go beyond just waiting for the easing of foreign ownership restrictions or actively seeking such easing and address the questions of what role the public and private sector can play, and which of Japan's experiences can be mobilized, toward improving and developing ASEAN members' financial infrastructure and services.