



กระทรวงการคลังแห่งประเทศไทย

สำนักงานคณะกรรมการกำกับและส่งเสริมการประกอบธุรกิจการเงิน ธนาคารแห่งประเทศไทย โทร. ๒๕๒๖๖๖๖

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Guidelines for Equity Holding in Financial Institutions

The Ministry of Finance and the Bank of Thailand have recently announced the measure to restore confidence in the financial sector by requiring commercial banks and finance companies currently in operation to increase their capital as a cushion against any potential loss from asset deterioration. All financial institutions are encouraged to take early action so as to prevent any problem in the future. .

To facilitate and expedite financial institutions' capital increase, the Bank of Thailand, with the approval of the Minister of Finance, has set the following guidelines for the financial institution's capital increase:

1.Guideline for foreign equity participation in Thai financial institutions

1.1 Foreign investors that have sound financial status and high potential to help increase the efficiency in the management of the financial institution shall be allowed to hold more than 49% of the share in the 15 commercial banks, 33 finance companies, and 12 credit foncier companies for a period of 10 years. After 10 years, foreign investors will not be forced to sell their shares but may not purchase any additional shares, unless the amount of foreign shareholdings is less than 49% of total shares. Additional shares may be acquired to bring foreign shareholdings to 49% of total shares.

For the holding of shares of the 58 suspended finance companies, the Financial Sector Restructuring Agency (FRA) shall follow the guideline of the Committee to Supervise the Merger and Acquisition of Financial Institutions announced on 13 October 1997. The guideline allows unlimited amount of shareholding by foreign shareholders up to a period of 10 years. After 10 years, foreign investors may not purchase any more shares unless the amount held is less than 49% of total shares in which case additional shares maybe acquired until the 49% mark is reached.

1.2 The guideline shall be the same for foreign investors that are banks. *The foreign bank that already has a full branch or a Bangkok International Banking Facility will be allowed to continue their existing operation.* However, the authorities reserve the right not to allow a foreign

bank that has more than 49% stake in a Thai bank to have *an additional* full branch in Thailand.

2. Thai financial institutions' holdings of shares in other financial institutions

The authorities have the intention to apply the same guideline for Thai commercial banks and finance companies with sound financial status that wish to hold shares in other banks and finance companies. Nonetheless, there are legal limitations which prohibit a domestically incorporated commercial bank from holding other bank's shares unless approved by the Finance Minister on a case by case basis, and with a specified timeframe. Finance companies are also subject to the same legal constraints.

Therefore, the guideline regarding the shareholding in other financial institutions by domestically incorporated banks and finance companies will be as follows:

The authorities will allow domestically incorporated banks and finance companies with sound financial status to have more than 49% stake in other financial institutions for a period of 10 years. After 10 years if the banks or finance companies request to maintain their ownership, the extension will be approved on the ten-year basis. During the extension period, banks and finance companies will not be forced to sell their shares. Additional shares maybe acquired to bring their shareholdings to 49% of total shares.

3. Common directors

Thai commercial banks and finance companies that are allowed to hold shares in other financial institutions according to 2 above may have the same directors as the financial institutions in which they hold shares for no more than 3 years. Further extension may be allowed if necessary.

The Bank of Thailand believes that the above guidelines will assist in the capital increase of financial institutions and will provide equal treatment between Thai and foreign investors.

The Bank of Thailand
11 November 1997