



# Cross-ownership and Cross-investment: Identification and International Practice

NSFC/UNDP Workshop  
Hanoi, July 31, 2013

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# Roadmap

- International experience
- Cross-ownership and investment
- Policy issues

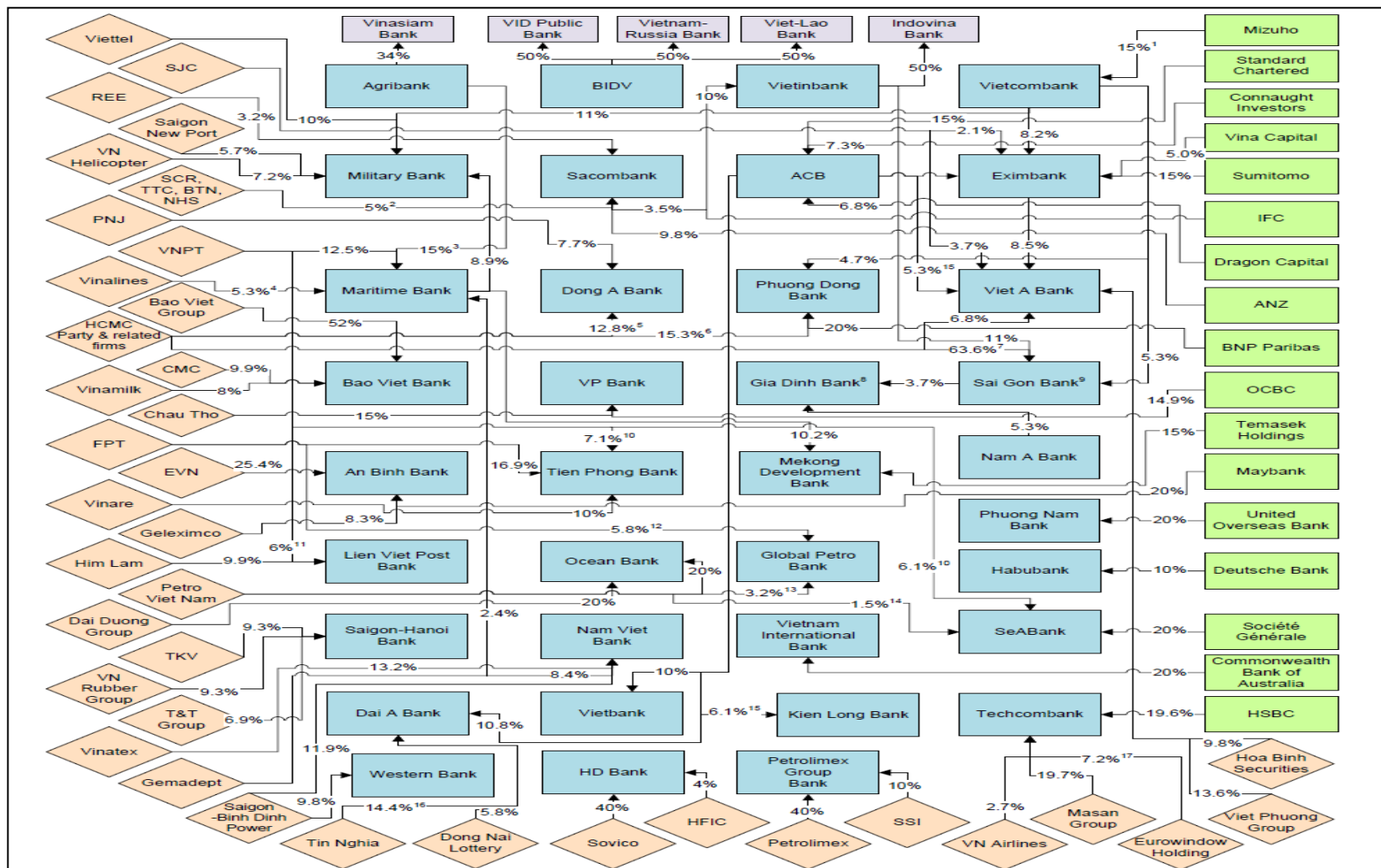


# International experience

- Bank-based financial systems
  - Examples: Italy, Japan
- Non-bank based financial systems
  - US, UK
- Cross-border banking
  - Europe



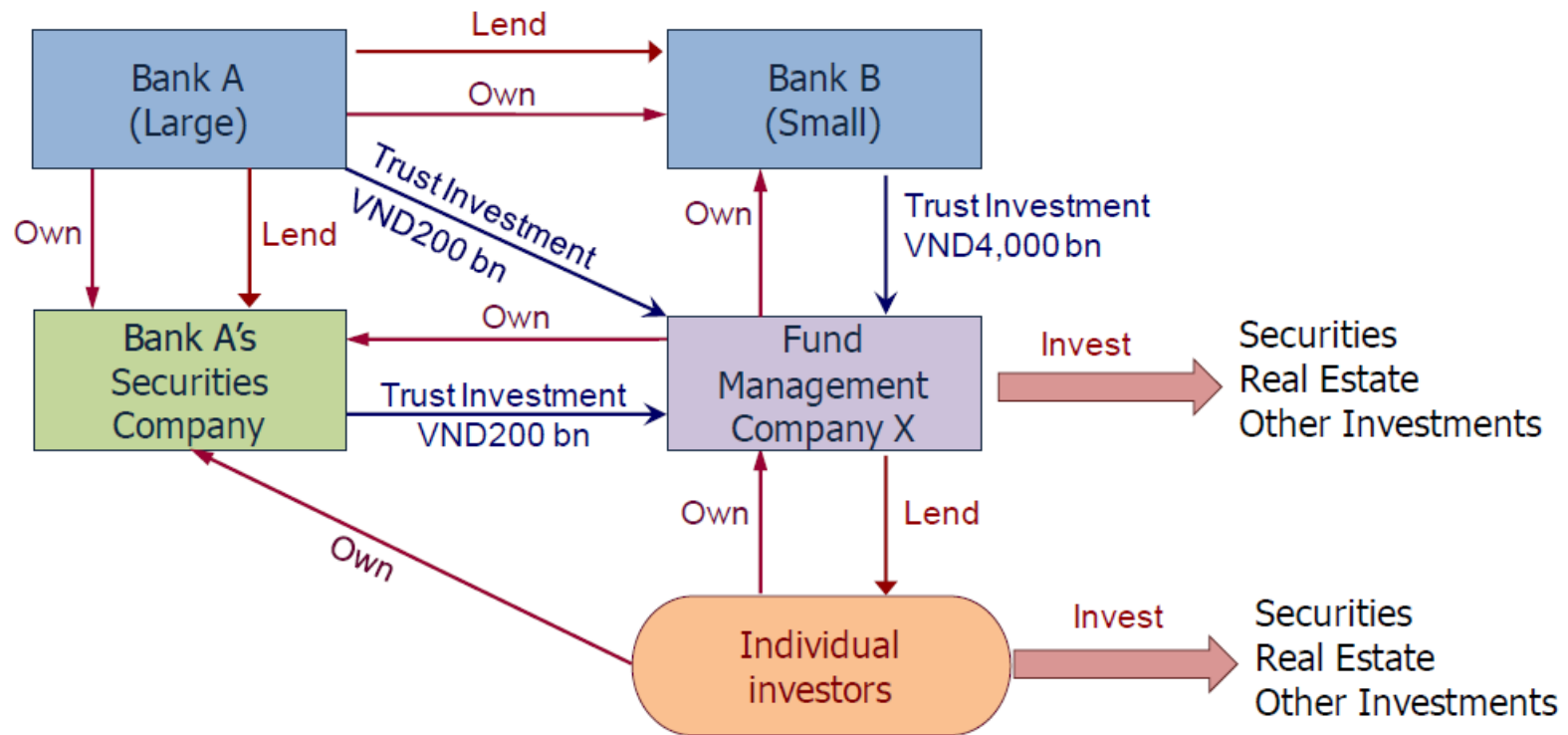
# Vietnam—Cross-ownership and investment



Note: Shareholding information is as of 30 June 2011. Shareholdings by individuals are not depicted in the diagram. Shareholdings by institutions of less than 5 percent are not depicted except for those having representation in boards of directors or strategic partner status. Mekong Housing Bank and five joint-stock banks are not included in the diagram.

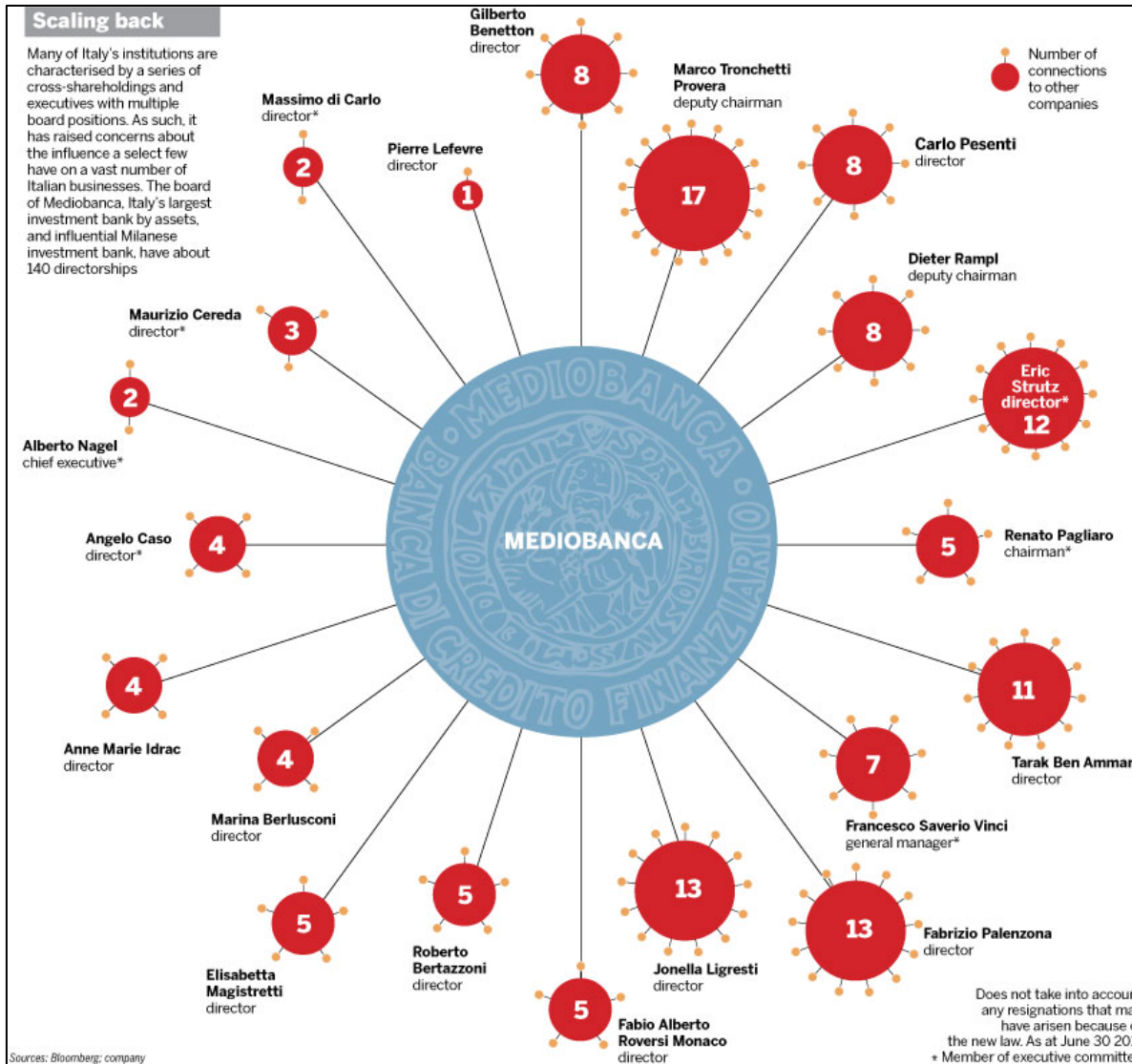
Source: Compiled by Fulbright Economics Teaching Program (FETP) from banks' financial reports.

# Vietnam—Cross-ownership and investment



Source: Fulbright Economics Teaching Program.

# Italy—Cross-ownership and investment



# Italy—Cross-ownership and investment

- Financial Times, April 26, 2012

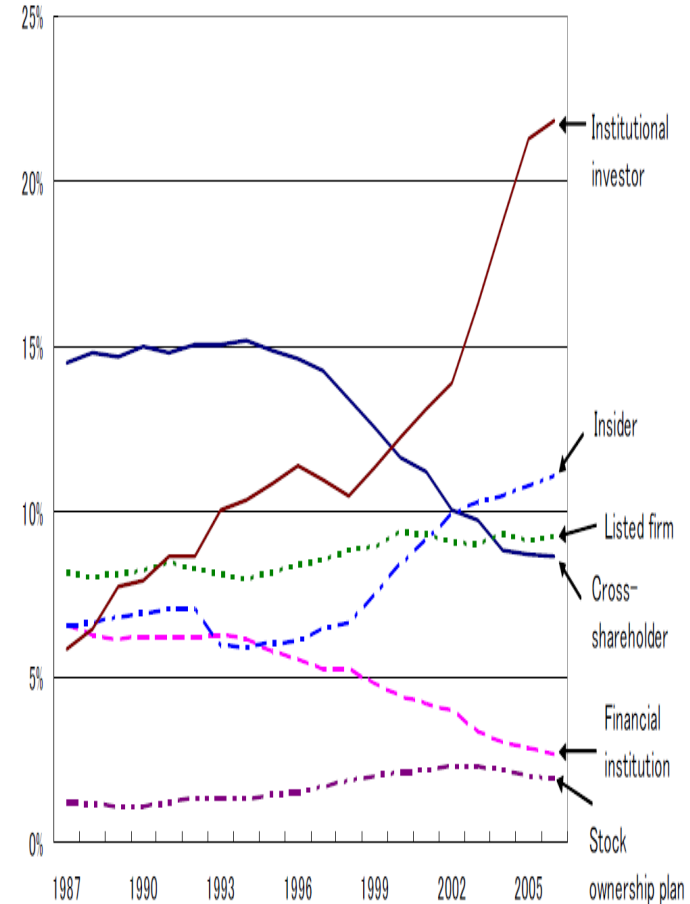
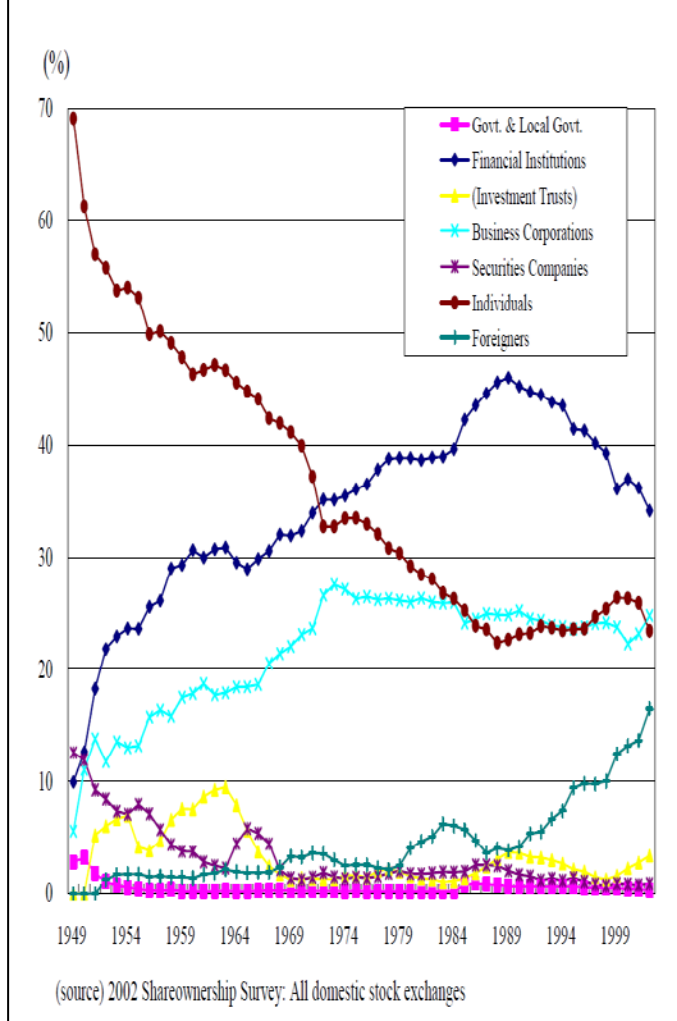
As the EU crisis has roiled Italian bonds, share prices and bank balance sheets, Italy's most senior leaders, from Mario Draghi, head of the European Central Bank, to Mario Monti, the prime minister, have come to question the relevance of an outdated power structure that by its very nature is all tied up in Italy.

This week a ban, imposed by Mr Monti and upheld by the Bank of Italy, comes into force that makes it illegal for the same person to hold more than one board seat in a financial institution operating in the same sector or market.



# Japan—Cross-ownership and investment

Figure 1: Long-term trends in ownership structure of Japanese listed firms



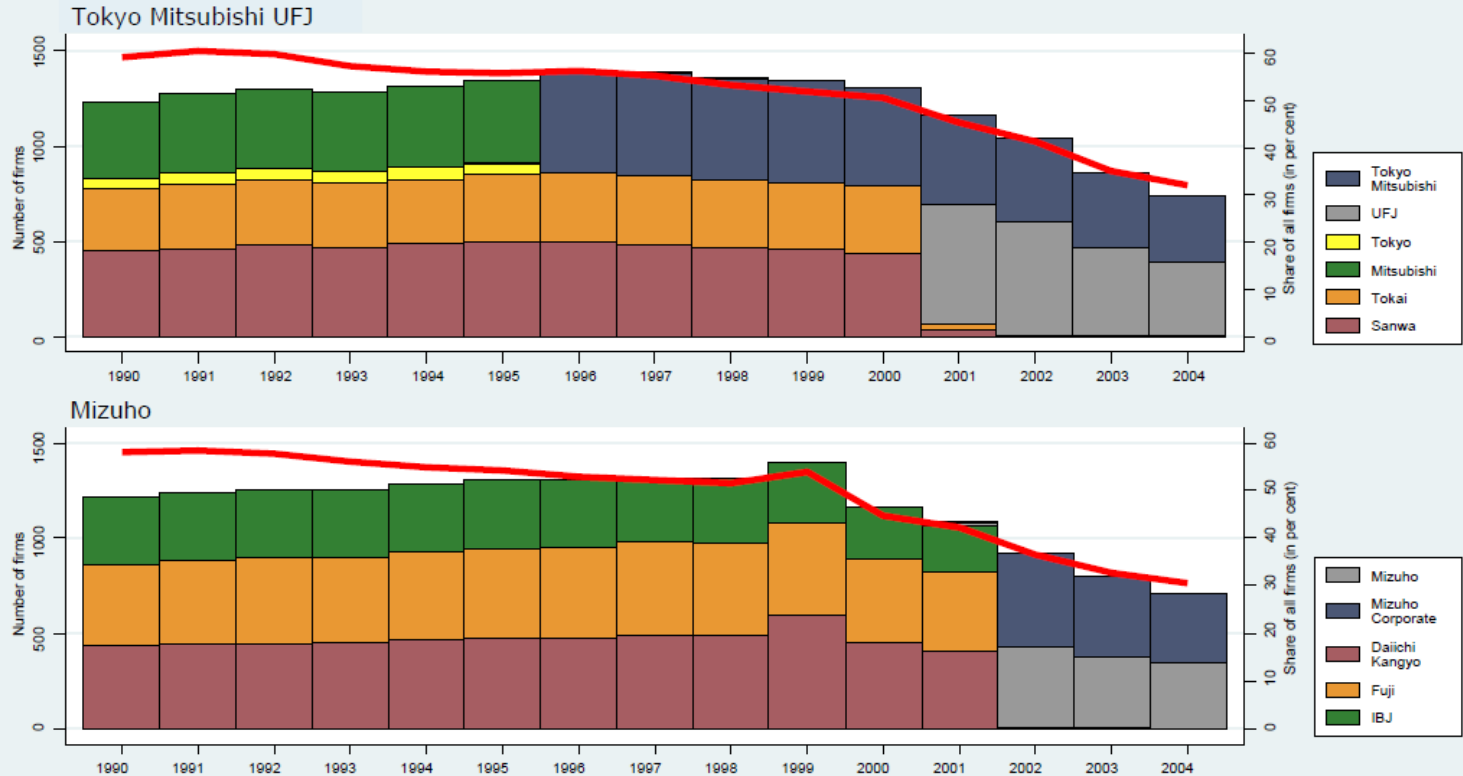
Notes: Shows average shareholding ratios at listed firms on the First Section of Tokyo, Osaka, and Nagoya stock exchanges. Financial institutions exclude cross-shareholders. Listed firms exclude financial institutions and cross-shareholders.



# Japan—Cross-ownership and investment

Graph 2.2: Mega-banks' equity portfolios, by sub-bank

Stacked bars (lhs) indicate the number of firms in which the bank is listed in the top ten shareholders  
 Red lines (rhs) plot the total for each mega-bank as a share of total firms in the Kaigin database



Source: Kaigin Financial Data

# Japan—Cross-ownership and investment

- McGuire, P. (2009), Bank ties and firm performance in Japan: Some evidence since FY2002, *BIS Working Paper 272*.
  - Since the mid–1990s, major Japanese banks have sold off a significant portion of their holdings of corporate equity.
  - There is some evidence that, after FY2001, banks' sales of equity accelerated, even holdings in firms for which the bank served as the main bank.
  - However, affiliation with a main bank—proxied by firm-bank loan and shareholding ties—continues to be negatively associated with firm performance through FY2004.
  - Regression estimates suggest that firms with strong bank ties are less profitable, face higher interest payments, and yet do not seem to enjoy lower stock price volatility than other firms.
  - These effects are strongest for firms with a history of outside financing options, consistent with earlier arguments that the benefits of main bank relationships accrue to the banks themselves.

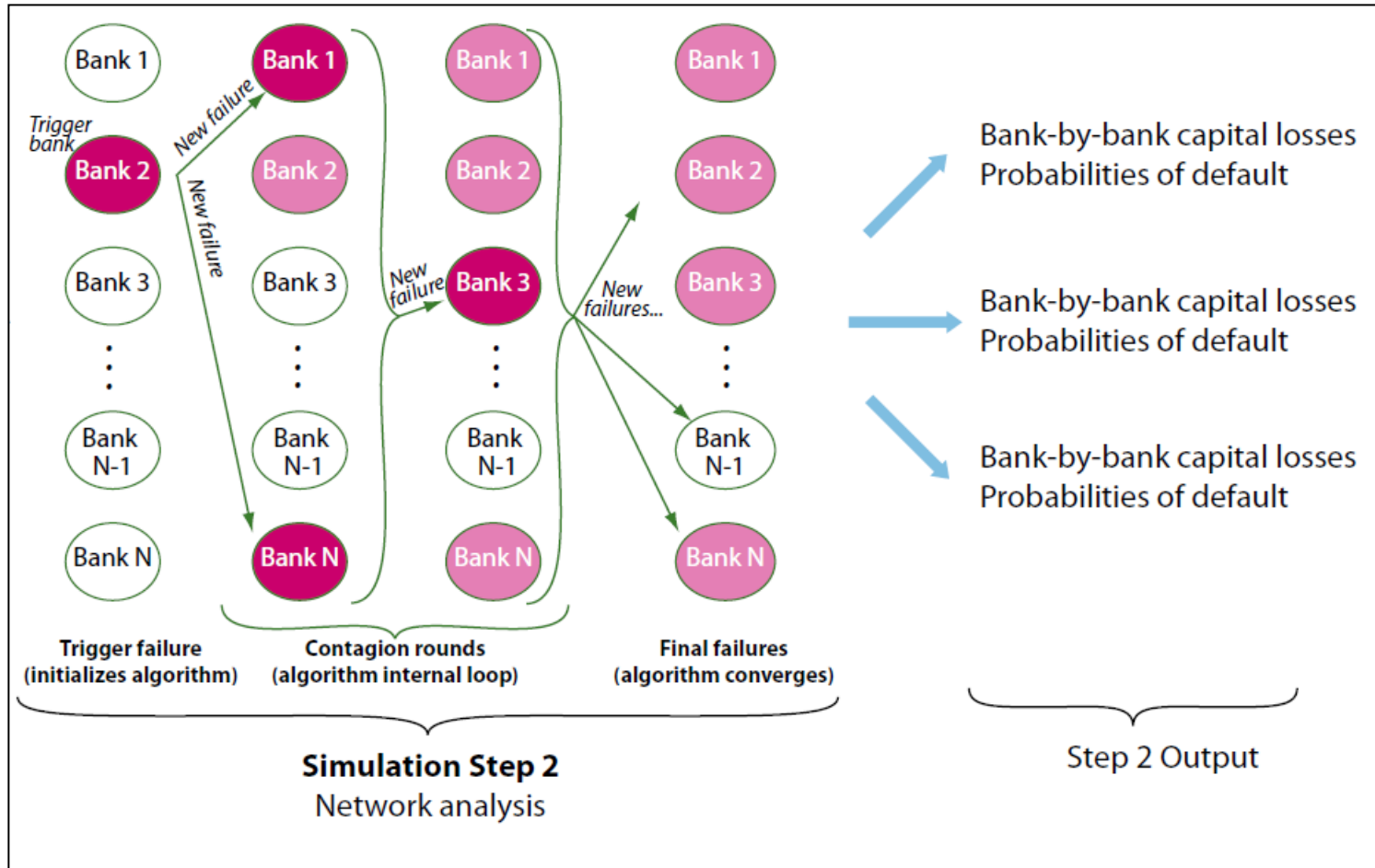


# Japan—Cross-ownership and investment

- Nitta, K. (2008), Corporate Ownership Structure in Japan—Recent Trends and Their Impact, Financial Research Group .
  - The corporate ownership structure in Japan has changed significantly since the late 1990s. Using a new shareholder classification, we analyze ownership trends and their impact on corporate management. Among other things, our results reconfirm that unwinding of cross-shareholdings and growing institutional ownership have helped to enhance management discipline at public companies.

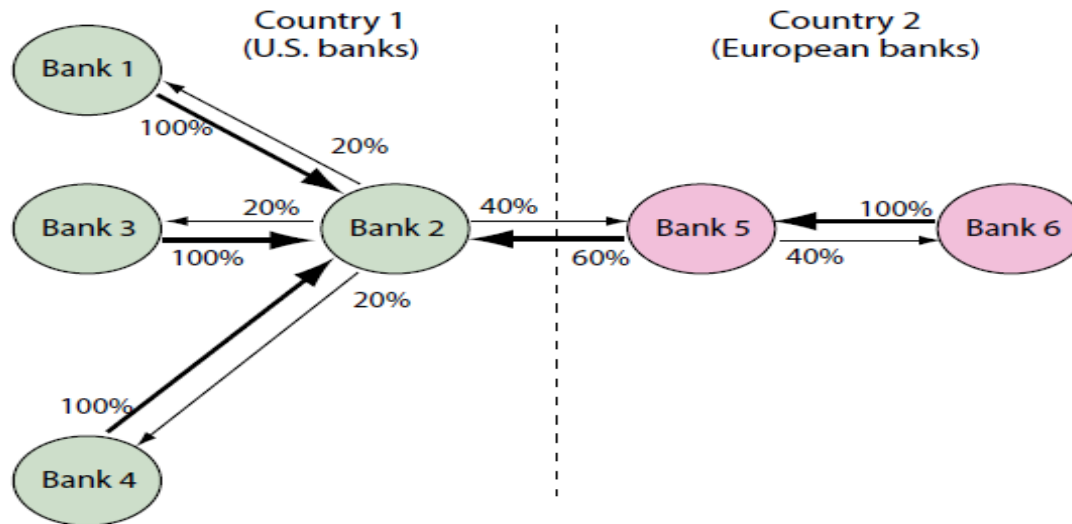


# Network Analysis of Systemic Risk



# Network Analysis of Systemic Risk

**Figure 2.1. Network Structure of Cross-Border Interbank Exposures**



Source: IMF staff calculations.

Note: Percentage number indicates interbank exposure in percent of lending bank's total interbank exposure. The origin of the arrows denotes the lending bank and the end of the arrow denotes the borrowing bank; the thickness of the arrows is proportional to the value of the bilateral exposure.

# Policy issues

- Financial sector stability
  - Credit risk
  - Capital adequacy
  - Spillovers, contagion and systemic risk
  - Regulatory issues
- Efficiency
  - Pricing risk
- Corporate governance—banks/enterprises
  - Disclosure and transparency





Thank you

