Policy and Regulatory Developments

People's Republic of China

PRC Allows CNH to Be Used for Cross-Border Investment

On 14 October, the People's Republic of China (PRC) released two sets of regulations paving the way for CNH funds raised in Hong Kong, China to be used for foreign direct investment in the PRC. The Notice on Cross-Border Renminbi Foreign Direct Investment was issued by the Ministry of Commerce, and the Renminbi Foreign Direct Investment Settlement Rules were issued by the People's Bank of China (PBOC).

PRC to Provide Support for Small and Micro-Sized Enterprises

On 14 November, the China Regulatory Banking Commission (CBRC) granted three banks authority to issue special bonds for the purpose of funding small-scale enterprises. On 2 February, Premier Wen Jiabao said that the government would provide support for these enterprises through a CNY15 billion fund and the extension of preferential tax policies until 2015.

CSRC to Develop High-Yield Bond Market

On 6 March, the China Securities Regulatory Commission (CSRC) announced plans to develop a high-yield local currency (LCY) bond market that will help provide additional financing to small and medium-sized enterprises (SMEs). According to press reports, the CSRC is working on guidelines for the establishment of the market. The bonds are to be issued on the securities exchanges and will be subject to quotas.

PRC Widens CNY Trading Band

On 16 April, the PBOC began allowing the renminbi to trade within a wider band. The renminbi subsequently began trading in a range of 1.0% above and below a daily reference exchange rate. Previously, the renminbi could only trade in a band of 0.5% above and below the daily reference rate.

Hong Kong, China

HKMA Launches Pilot Platform for Cross-Border Debt Security Investment between Malaysia and Hong Kong, China

On 13 March, the Hong Kong Monetary Authority (HKMA), Bank Negara Malaysia (BNM), and Euroclear Bank jointly announced the launch of a pilot program allowing for cross-border investment and settlement of debt securities. Through the pilot platform, investors in Hong Kong, China and Malaysia can buy and hold the LCY debt securities of each country on a delivery-versus-payment (DVP) basis.

Indonesia

BI to Allow *Sukuk* for Reverse Repo Operations

Effective 1 December, Bank Indonesia (BI) began allowing the use of *sukuk* (Islamic bonds) in the reverse repo transactions of *shari'a* (Islamic law) banks and business units. Indonesian *shari'a* banks can purchase at least IDR1 billion of *sukuk* from the central bank and in exchange they will receive transaction margins when they buy back the *sukuk* at an agreed price after a specified time. This regulation aims to absorb excess liquidity among *shari'a* banks, specifically those banks with a finance-to-deposit ratio of at least 80% and those that participate in BI's *shari'a* monetary operations.

BI to Purchase Long-Term Bonds and *Sukuk* to Help Stabilize Bond Market

In January, BI announced plans to purchase long-term government bonds as part of efforts to defend the Indonesian rupiah and stabilize the domestic bond market. Since September 2011, the central bank has been buying short- and medium-term government bonds in the market to support prices. In February, BI announced that it would purchase Islamic government debt to help stabilize the bond market and deepen the *shari'a* financial market.

Republic of Korea

2012 Treasury Bill Issuance Plan Introduced

In February, the Ministry of Strategy and Finance (MOSF) introduced its issuance plan for treasury bills in 2012. The plan indicated that issuance in February–March would include 63- and 182-day bills amounting to KRW5 trillion. In an initial step, the government issued 63-day treasury bills totaling KRW1 trillion in February.

KOFIA to Launch Trading Platform for SME Bonds

The Korea Financial Investment Association (KOFIA) plans to establish a trading platform—an electronic over-the-counter system—for the bonds of SMEs. The issuers of the bonds will be local unlisted firms with asset sizes of less than KRW500 billion. The trading system is expected to be launched in May.

Malaysia

BNM and MAS Sign MOU to Enhance Domestic Liquidity

In January, BNM and the Monetary Authority of Singapore (MAS) signed a memorandum of understanding (MOU) to strengthen their cooperation in carrying out domestic liquidity management and enhance the liquidity of financial institutions in both countries. The cross-border collateral agreement allows eligible financial institutions in Singapore to pledge ringgit or MYR-denominated government and central bank securities to obtain Singapore dollar liquidity from MAS. Likewise, eligible financial institutions in Malaysia may pledge Singapore dollars or SGD-denominated government securities to obtain ringgit liquidity from BNM.

BNM Issues New Liberalization Measures

In February, BNM issued new liberalization measures to enhance competitiveness and develop domestic financial markets. The new measures (i) permit licensed onshore banks to trade one foreign currency (FCY) against another with a resident, (ii) allow licensed onshore banks to offer MYR-denominated interest rate derivatives to a non-bank non-resident; and (iii) permit residents to convert a MYR- or FCY-denominated debt obligation into a debt obligation of another FCY. These new measures are designed to increase liquidity, depth, and participation in domestic financial markets.

BNM Announces a Renminbi Settlement Service

BNM announced that Renminbi Settlement Services (RSS) were to be included in its Real-Time Electronic Transfer of Funds and Settlement System (RENTAS) beginning 21 March. Bank of China (Malaysia) Bhd. has been appointed as the onshore settlement institution for RSS, which will provide greater efficiency and competitiveness in trade settlement, facilitate bilateral trade between Malaysia and the PRC, and provide a natural hedge against the fluctuations and volatility of other currencies while eliminating settlement risk for renminbi transactions.

Philippines

BSP to Implement Basel III Provisions by 2014

In January, Bangko Sentral ng Pilipinas (BSP) announced that it would adopt all provisions of the Basel III Agreement effective 1 January 2014. While the Basel Committee on Banking Supervision allows for the staggered implementation of Basel III provisions up until January 2019, BSP decided to adopt all capital adequacy standards 5 years ahead of this timeline. Further, BSP will impose higher capital ratios than those suggested by the Basel Committee. BSP will be conducting a quantitative study in 2Q12 to identify which banks are most susceptible to potential negative impacts from the implementation of its new guidelines.

BSP Simplifies Reserve Requirement Rules, Cuts Ratios by 3 Percentage Points

Effective 6 April, BSP will adopt a simplified reserve requirement policy. Under the new rules, existing statutory and liquidity reserve requirements will be unified into a single reserve requirement, and BSP will not pay interest to the banks on the unified reserve requirement. Cash-in-vault (for banks) and demand deposits (for non-bank financial institutions with quasi-banking functions) will no longer count toward reserve requirement compliance.

Under existing rules, banks are paid interest rates of 4% on amounts up to 40% of their regular reserves. They are also paid on their liquidity reserves—a rate equivalent to comparable government securities less 50 basis points. Upon adoption of the new rules, BSP will lower the reserve requirement ratio by 3 percentage points—to 18%—to offset the impact on banks' intermediation costs. Universal and commercial banks will maintain a reserve ratio of 18% from 21%.

Singapore

MAS Announces Initiatives to Improve LCY Corporate Debt Market

MAS Managing Director Ravi Menon announced in March three initiatives to improve efficiency and liquidity in Singapore's LCY corporate debt market. These initiatives include (i) providing swap liquidity to primary dealer banks handling SGD-denominated debt issuances for foreign companies; MAS will support swap transactions at market-determined prices to develop swap market liquidity for longer tenors; (ii) partnering with the industry in the creation of a lending platform for SGD-denominated corporate debt securities from which market players will be allowed to borrow securities for market making; and (iii) initiating a price discovery platform targeted for completion in the second half of the year. This platform aims to improve transparency in the corporate bond market and provide reliable mark-to-market prices to allow market participants to contribute end-of-day prices for a range of SGD-denominated corporate bonds.

Thailand

Bank of Thailand and BNM Sign MOU on Cross-Border Collateral Arrangement

The Bank of Thailand (BOT) announced in February that it had signed an MOU with BNM to enter into a cross-border collateral arrangement to strengthen liquidity facility measures for financial institutions operating in both countries. Under this arrangement, eligible financial institutions operating in Thailand may acquire Thai baht liquidity from BOT by pledging ringgit or MYR-denominated central bank and government securities, while eligible financial institutions in Malaysia may obtain Malaysian ringgit liquidity from BNM by pledging baht or THB-denominated central bank and government securities.

Ministry of Finance Gives Approval to Seven Foreign Companies to Issue LCY Bonds

The Ministry of Finance announced that it granted approval to seven foreign companies to sell LCY bonds totaling THB66 billion between 1 January and 30 September. The foreign entities and the allowable amount of their respective bond issuances are (i) Australia and New Zealand Corporation (THB8 billion), (ii) Citigroup (THB10 billion), (iii) Hana Bank (THB10 billion), (iv) Industrial Bank of Korea (THB10 billion), (v) Korea Development Bank (THB8 billion), (vi) Korea Eximbank (THB10 billion), and (vii) Korea National Oil Corporation (THB10 billion). Hana Bank issued THB10 billion worth of dual-tranche bonds in February.

Viet Nam

VBMA Agreement Assigns Market Maker Status to Eight Banks

At the annual meeting of the Viet Nam Bond Market Association (VBMA) held on 9 December, eight banks—Bank For Investment and Development of Viet Nam, Viet Nam Bank for Foreign Trade, HSBC Viet Nam, ANZ Viet Nam, Standard Chartered Viet Nam, Viet Nam Technological Commercial Joint-Stock Bank, BNP Paribas Viet Nam, and Viet Nam Maritime Commercial Joint Stock Bank—signed an agreement to commit themselves to act as experimental market makers in the LCY bond market. The move aims to increase market transparency, boost transaction volume and liquidity, improve market efficiency, and provide a reliable LCY bond market yield curve for domestic and potential foreign investors. The banks also agreed to support market players in evaluating their mark-to-market portfolios in order to more accurately reflect portfolio performance and to bring bond trading activities in Viet Nam closer to international best practices.