Policy and Regulatory Developments

People's Republic of China

The PRC Doubles CNY Trading Band Limit

On 17 March, the People's Republic of China (PRC) doubled the limit by which the renminbi can trade against the United States (US) dollar from 1% to 2% above or below the daily reference rate. The PRC said that it widened the trading band to further develop the exchange market and to allow market forces a greater role in determining exchange rate prices.

PBOC Reduces Reserve Requirement Ratio

On 22 April, the People's Bank of China (PBOC) reduced the reserve requirement ratio of state-level rural commercial banks and state-level rural cooperative banks by 200 basis points (bps) and 50 bps, respectively. The PBOC said that the cut was consistent with a prudent monetary policy and is not expected to affect overall liquidity in the financial system. The move is designed to help allocate greater resources and provide support for the agriculture sector.

The PRC Limits Interbank Lending

On 17 May, the PRC announced a number of rules to limit interbank lending. Banks can no longer make interbank loans with tenors of more than 3 years. Also, interbank funds cannot exceed one-third of a bank's liabilities and interbank lending to a single financial institution cannot exceed 50% of the institution's Tier 1 capital.

Hong Kong, China

Shanghai and Hong Kong, China Link Exchanges

On 10 April, the China Securities Regulatory Commission and the Securities and Futures Commission of Hong Kong, China jointly announced the linking of exchanges in Shanghai, China and Hong Kong, China to allow investors from both markets to invest in each other's securities. The pilot program is expected to be launched in 6 months.

Indonesia

Bank Indonesia Expands MRA Participation with Banks

On 13 February, Bank Indonesia signed a mini-Master Repo Agreement (MRA) with an additional 38 banks, bringing to 46 the total number of banks that can use the standard mini-MRA in conducting repurchase transactions. The move is expected to promote and further deepen the market for repo transactions. The implementation of the mini-MRA has significantly increased the volume of repurchase transactions.

Bank Indonesia and The Bank of Korea Sign Bilateral Swap Agreement

On 6 March, Bank Indonesia and The Bank of Korea signed a bilateral local currency (LCY) swap agreement to enhance bilateral trade between the two markets. The agreement will ensure the use of LCY in trade settlements between the two markets, even during times of financial stress, and strengthen financial cooperation. The facility allows for the bilateral exchange of Indonesian rupiah and Korean won between the two central banks worth up to IDR115 trillion–KRW10.7 trillion for a period of 3 years.

Republic of Korea

Regulation on the Supervision of Covered Bond Issuance Takes Effect in April

The Regulation on the Supervision of Covered Bond Issuance, which was approved by the Financial Services Commission (FSC), took effect on 23 April, thereby finalizing the legal framework for the issuance of covered bonds in the Republic of Korea. This regulation provided further details in connection with provisions of the Covered Bond Act and its Enforcement Decree such as (i) qualifications of underlying assets, (ii) standards for evaluating underlying assets in a cover pool, and (iii) market-making roles for underwriters. On the qualifications of underlying assets, the regulation states that at least 20% of home mortgage loans subsumed in the underlying assets need to have a debt-to-income ratio of not more than 70%, and that more than 30% of the home mortgage loans must be fixed-rate loans. Furthermore, the evaluation of underlying assets must be based on market prices, if available, otherwise by book value derived using international accounting standards. Lastly, the decree requires covered bond issuers to register the market-making roles of their underwriters during the filing of their issuance plan.

Enforcement Decree of Covered Bond Act Takes Effect in April

The Republic of Korea's Enforcement Decree of the Covered Bond Act took effect on 15 April following Cabinet approval the previous week. The decree contains detailed provisions as mandated by the Covered Bond Act on the qualifications of eligible issuers of covered bonds, criteria of the cover pool, and cap on corporate bond issuance.

On the qualifications of eligible covered bond issuers, the decree provides for institutional requirements—which specify banks, Korea Housing Finance Corporation, Korea Finance Corporation, and other similar institutions as mandated by the Act—consisting of (i) a financial institution with more than KRW100 billion worth of equity capital, (ii) a Bank for International Settlements (BIS) ratio of more than 10%, and (iii) a risk management system.

On the cover pool, the decree states that the underlying assets comprise home mortgage loans, aircraft and ship mortgages, public bonds, and high-quality assets with a stable cash flow; that the liquid assets include cash, certificates of deposit, and other liquid assets that can be converted into cash within 3 months; that the other assets encompass operation and sales of assets, recovery from underlying assets, and gains earned through management; that the minimum ratio of collateralization is 105%; and that the underlying assets are required to be evaluated by market prices, or in the absence of market prices, by acquisition prices or book value. Finally, the decree pinpoints the limit of covered bond issuance to be 4% of the total assets of the issuer.

Malaysia

New Reference Rate Framework Introduced

Bank Negara Malaysia (BNM) announced that the Base Rate will replace the Base Lending Rate as the main reference rate for new retail floating rate loans and the refinancing of existing loans, effective 2 January 2015.

The new reference rate aims to better reflect changes in costs arising from monetary policy and market funding conditions, while encouraging greater discipline and efficiency among financial institutions in the pricing of retail financing products. The Base Rate will be determined by financial institutions' benchmark cost of funds and the statutory reserve requirement. Other components of loan pricing—such as borrower credit risk, liquidity risk premium, operating costs, and profit margin—will be reflected in the spread above the Base Rate. Under this cost-plus structure, financial institutions can no longer offer lending rates below the reference rate.

HKMA and BNM Hold Joint Conference on Islamic Finance

On 14 April, the Hong Kong Monetary Authority (HKMA) and BNM jointly organized an Islamic finance conference in Hong Kong, China to promote *sukuk* (Islamic bonds) as a viable financing and investment instrument. The event followed the first meeting between HKMA and BNM held in December 2013.

With the tax framework for *sukuk* in place, HKMA encouraged local and overseas entities to utilize Hong Kong, China's financial platform for *sukuk* issuance. HKMA is working closely with the Government of the Special Administrative Region to prepare for the inaugural issuance of *sukuk* under the Government Bond Programme.

BNM identified potential areas of collaboration such as the dual listing of *sukuk*, leveraging Malaysia's *sharia'h* (Islamic law) governance framework and arbitration platform, and developing human capital in Islamic finance.

Philippines

BSP Maintains Policy Rates, Raises Reserve Requirement Ratio

On 8 May, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) raised the reserve requirement ratio by an additional 1 percentage point to 20.0% effective 30 May. Meanwhile, key policy rates—the overnight borrowing and lending rates—were kept steady at 3.5% and 5.5%, respectively. The reverse repurchase rate, repurchase rate, and BSP's special deposit account facility were also kept unchanged. The BSP noted that the future inflation path continues to be broadly in line with BSP's target ranges of 3.0%–5.0% for 2014 and 2.0%–4.0% for 2015. The Monetary Board stated that the balance of risks to inflation continues to be on the upside. These include upward pressure on food prices as a result of expected drier weather conditions, and the pending petitions for adjustments of transport and power rates. The adjustment in the reserve requirement ratio is intended to protect the country's financial stability against potential risks brought about by continued strong domestic liquidity growth.

Philippine Government Maintains Inflation Rate Targets for 2014, 2015, and 2016

On 21 April, the Philippine Development Budget Coordination Committee maintained its inflation rate targets of 4.0% ±1 percentage point for 2014 and 3.0% ±1 percentage point for 2015 and 2016. The Philippine government states that the 2014 inflation target remains appropriate based on the most recent assessment of inflation developments, evolving economic and inflation trends, the general public's inflation expectations, and the BSP's emerging forecasts.

Singapore

SGX Launches Clearing of Non-Deliverable Interest Rate Swaps in MYR and THB

On 7 April, Singapore Exchange (SGX) launched the clearing of non-deliverable interest rate swaps (NDIRS) in MYR and THB (settled in US$). This new asset class and clearing service created more options in addition to SGX's existing interest rate swap in SGD and US$ and non-deliverable forwards in seven Asian currencies. It also addressed clients' need to better manage counterparty and operational risks while still enjoying other benefits provided by SGX's financial infrastructure.

Thailand

Disclosure of Debt Issuance by Foreign Bank Branches Revised

Thailand's Securities and Exchange Commission (SEC) announced in April that its Capital Market Supervisory Board has approved revisions to regulations governing the debt issuance, offering, and disclosure of foreign bank branches in Thailand. The revisions require that information about foreign bank branches as debt issuers must be emphasized, and that the credit ratings of foreign banks and branches must be disclosed.

SEC Amends Regulation Governing REIT Trustees

Thailand's SEC stated in March that its board had approved amendments on regulations governing trustees of real estate investment trusts (REITs) in order to attract more trustee participation and thereby promote the development of the REIT market in Thailand. The specific regulatory amendments include (i) allowing trustees to manage REITs' non-real estate assets provided that they are independent from the asset owners; (ii) permitting the outsourcing of the management to an asset management licensee, subject to certain conditions; and (iii) relaxing the REIT holding limit whenever the trustee holds up to 50% of the total number of REIT units sold.

SEC to Allow Offering of ASEAN CIS to Retail Investors in Thailand in 2Q14

Thailand's SEC announced in February that it would allow the offering of Association of Southeast Asian Nations (ASEAN) Collective Investment Schemes (CIS) to retail investors in Thailand, with the new regulations to take effect in 2Q14. The offering of ASEAN CIS to Thai retail investors will be conducted by securities companies based in Thailand.

BOT Announces Bond Issuance Program for 2014

The Bank of Thailand (BOT) announced in December its bond issuance program for full-year 2014. Under this program, BOT will (i) not issue 1-month discounted bonds; (ii) expand the range of issue size (per auction) for short-term and floating rate bonds, while maintaining the issue size for 2- and 3-year bonds; and (iii) reopen the issuance of 3-year floating rate bonds. Moreover, the program specifies that BOT will be issuing the following types of bonds in 2014: (i) discount bonds—specifically, cash management bills, 3- and 6-month bills, and 1-year bonds; (ii) fixed coupon bonds—specifically 2- and 3-year bonds; and (iii) 3-year floating rate bonds. The central bank will continue to adopt the same auction calendar as followed previously.

Viet Nam

New Decree on Banking Supervision Issued

On 7 April, Decree No. 26/2014-ND-CP was issued covering the organizational structure and operations of banking supervision. The decree stipulates that banking sector supervisors, including the agencies and individuals of the State Bank of Viet Nam (SBV), can require supervised credit institutions to undergo an audit by an independent company when the institutions are (i) at risk of being put under special control, (ii) under consideration for the termination of a period of special control, or (iii) undergoing reorganization in accordance with Article 153 of the Law on Credit Institutions.

Banking supervision will be conducted by SBV's Banking Supervision Agency (BSA) and the banking supervision departments of SBV provincial and city branches. BSA will advise the SBV Governor in the following areas: (i) management of credit institutions and foreign bank branches, (ii) inspection activities, (iii) resolution of complaints and denunciations, (iv) anticorruption and anti-money laundering, and (v) deposit insurance.

The decree will take effect on 1 June and replace Decree No. 91/1999/ND-CP dated 4 September 1999.