Policy and Regulatory Developments

People's Republic of China

New Regulations for the Issuance of Local Government Bonds

In February and March, the People's Republic of China (PRC) announced new rules governing the issuance of local government bonds in the first quarter of 2017 to limit the credit risk of local governments. The regulations will limit the total amount that a local government can issue, subject to a formula. In addition, local governments cannot issue more than 30% of the quota in a single quarter. Funds sourced from bonds issued from the debt swap program can only be used for the repayment of debt. The PRC also raised the quota of local government bond issuance from CNY17.2 trillion to CNY18.8 trillion.

Limits on Use of Low-Rated Bonds as Borrowing Collateral

On 7 April, the PRC issued rules prohibiting the use of corporate bonds with credit ratings lower than AAA or corporate bonds issued by corporates with a credit rating lower than AA as collateral for short-term borrowing. The new rule affects only corporate bonds issued after 7 April.

Hong Kong, China

The People's Republic of China and Hong Kong, China Launch Bond Market Link

On 17 May, the PRC and Hong Kong, China approved a plan to link the PRC's interbank bond market with Hong Kong, China's bond market. The link will allow Hong Kong, China and foreign investors to invest in the PRC's bond market via Hong Kong, China's financial markets.

Indonesia

Bank Indonesia and the Bank of Korea Renew Bilateral Currency Swap Arrangement

On 6 March, Bank Indonesia and the Bank of Korea agreed to renew their bilateral local currency swap arrangement to promote bilateral trade and financial cooperation between the two markets. The agreement calls for the exchange of local currencies up to KRW10.7 trillion–IDR115 trillion for a period of 3 years, subject to an extension with the consent of both parties.

Bank Indonesia Issues New Regulation to Boost the Trading of Negotiable Deposit Certificates

In March, Bank Indonesia issued a new regulation to boost the trading of negotiable deposit certificates and encourage financial institutions to invest excess cash in these instruments. The new regulation, which will take effect on 1 July, provides guidance on the approval process for issuers, transactions, and supervision, among others. Bank Indonesia is also looking at issuing regulations for commercial paper transactions.

Republic of Korea

Financial Services Commission Announces New Approach to Corporate Restructuring

On 13 April, the Financial Services Commission announced a new approach to corporate restructuring in the Republic of Korea. This is to complement the existing framework and introduce more market-based restructuring schemes where capital market players, particularly private equity funds, will have an active role. The new approach includes a review and revision of banks' existing credit-risk evaluation models and frameworks. Companies that are included under a workout program are to be reevaluated and a more appropriate plan will be considered. This may be a continuation of the workout program or a buyout plan by private equity funds. A public–private joint fund worth KRW8 trillion will also be raised over the next 5 years. State-run banks will provide KRW4 billion and the remaining half will be funded by the private sector. The fund is intended to provide sufficient liquidity in the corporate bond market and encourage more private investments in corporate restructuring.

Malaysia

Securities Commission Allows Regulated Short-Selling of Corporate Bonds

In April, Malaysia's Securities Commission allowed principal dealers, primarily banks, to undertake a regulated short-selling of corporate bonds. The Securities Commission has set out conditions on how the regulated short-selling of corporate bonds is to be conducted and the requirements to ensure market stability. The commission's regulatory development is in line with Malaysia's efforts to develop its bond market and boost liquidity.

Bank Negara Malaysia Eases Rules on Short-Selling of Government Securities

Bank Negara Malaysia (BNM) eased rules on the short-selling of Malaysian Government Securities (MGS) starting 2 May. The move is part of the liberalization measures by the central bank to develop domestic financial markets and restore investor interest in government debt. Prior to this development, only licensed banks and investment banks were allowed to short-sell MGS. The new rule allows companies and insurers to short-sell MGS to help them manage their risk and generate more trading volume, resulting in higher liquidity onshore. The central bank also said this will attract foreign investors to bring funds back to the domestic market. The clampdown on nondeliverable forwards launched in November in an effort to stabilize the ringgit saw foreign investors offload government securities.

The Bank of Japan and Bank Negara Malaysia Conclude Bilateral Currency Swap Agreement

The Bank of Japan and BNM reached a bilateral currency swap agreement in early May. The agreement between the central banks will allow them to swap their currencies with US dollars when needed up to a maximum of USD3 billion. The arrangement will deepen the economic and trade ties between the Japanese and Malaysian markets and contribute to financial stability in Southeast Asia.

Philippines

The Philippines to Borrow PHP180 Billion in the Second Quarter of 2017

The Government of the Philippines plans to borrow PHP180 billion domestically in the second quarter (Q2) of 2017, the same amount as planned borrowing in the first quarter of 2017. The offer will comprise up to PHP90 billion each of Treasury bills and Treasury bonds to be sold in six scheduled auctions. The Q2 2017 planned borrowing is higher than the PHP135 billion target in Q2 2016. Treasury bonds will have longer maturities of 7, 10, and 20 years, as the government wants to stretch its liability amid a rising interest rate environment, especially as the United States Federal Reserve has signaled two more rate hikes this year. In the first quarter of 2017, the government sold PHP150.6 billion of government securities.

ASEAN Banking Integration Framework Negotiations Conclude between Bangko Sentral ng Pilipinas and Bank Negara Malaysia

The Bangko Sentral ng Pilipinas and BNM signed in April the Declaration of Conclusion of Negotiations under the Association of Southeast Asian Nations (ASEAN) Banking Integration Framework. This marked the completion of negotiation between the central banks, allowing the entry of Qualified ASEAN Banks between the two countries. Under the agreement, these banks will have greater access to each other's markets and more operational flexibility in banking activities. The Bangko Sentral ng Pilipinas has also signed a Letter of Intent with the Bank of Thailand to begin similar discussions on the ASEAN Banking Integration Framework.

Singapore

Monetary Authority of Singapore Eases Finance Company Regulations in Support of Small and Medium-Sized Enterprise Financing

In February, the Monetary Authority of Singapore eased business restrictions on finance companies in support of their lending operations to small and medium-sized enterprises (SMEs). Uncollateralized business loans will be raised to 25% from 10% of its capital funds. The limit on an uncollateralized business loan to a single borrower will be raised to 0.5% of capital funds from the current limit of SGD5,000. Finance companies will also be allowed to offer current account and checking services to their business customers. Finally, the Monetary Authority of Singapore will consider applications for any foreign merger or takeover of a finance company if the merger partner or acquirer commits to maintaining SME financing as a core business. The aim of the relaxed regulations is to enhance the ability of finance companies to provide financing for SMEs.

Thailand

Securities and Exchange Commission Tightens Regulations on Nonrated Bonds

New regulations from the Securities and Exchange Commission governing nonrated and non-investment grade bonds went into effect on 16 January. Asset management companies were given 120 days to comply. The new regulations effectively bar any intermediary, including asset management companies, from holding more than one-third of any nonrated or non-investment grade bond issue. In addition, the intermediary is also barred from being the issuer's major creditor. The regulations were aimed at reestablishing investor confidence and protecting investors after a string of unrated bills of exchange began defaulting in October 2016.

The Bank of Japan and Bank of Thailand Sign Bilateral Swap Arrangement

On 5 May, the Bank of Japan and the Bank of Thailand signed their fourth bilateral swap arrangement with a facility size of USD3 billion. The arrangement will enable authorities in both economies to swap their local currencies against US dollars. The aim is to reinforce the stability of financial markets and to deepen economic cooperation and trade between both economies.

Viet Nam

Ministry of Finance Issues Regulations on the Buyback of Government Bonds

Effective 1 May, the Government of Viet Nam can conduct buybacks and repurchases of government bonds. Eligible bonds for repurchase are those issued by the State Treasury. Bond repurchases by the government are conducted to help better manage its liabilities and establish benchmark interest rates. Buyback transactions will be undertaken in the Hanoi Stock Exchange (HNX) through negotiated sale or bidding process. The Ministry of Finance will provide the interest rate range for bond buybacks. This new regulation is expected to boost liquidity and maintain stability in the bond market.

Ministry of Finance Issues Regulations on Short-Selling and Sell–Buyback of Government Bonds

The Ministry of Finance issued a new regulation that will take effect on 1 September, allowing short-selling and repurchase transactions among member participants of HNX. The short-selling term will only be allowed up to a maximum of 180 days and must not exceed the remaining maturity of the bonds. Both HNX and Viet Nam Securities Depository also released rules governing short-selling and sell–buyback of bonds to help deepen the derivatives market in Viet Nam.