Policy and Regulatory Developments

People's Republic of China

PBOC Reduces Reserve Requirement Ratio

On 16 April, the People's Bank of China (PBOC) reduced the reserve requirement ratio of banks by 100 basis points, effective 25 April. The PBOC placed restrictions on the funds freed by the reduction, stipulating that they must be used to repay loans from the PBOC's Medium-Term Lending Facility. Leftover funds must be used for lending to small and micro enterprises.

Government Issues New Rules on Local Government Bond Issuance

On 8 May, the People's Republic of China issued new rules governing the issuance of bonds by local governments. The new rules allow local governments to issue bonds with longer tenors, such as 15-year to 20-year bonds, and to allow bond issuances for the purpose of rolling over maturing obligations.

Hong Kong, China

HKMA Announces Details of the Pilot Bond Grant Scheme

On 10 May, the Hong Kong Monetary Authority (HKMA) issued a circular on the eligibility criteria for the 3-year Pilot Bond Grant Scheme (PBGS), which seeks to attract local, People's Republic of China-based, and overseas enterprises to issue bonds in Hong Kong, China. The PBGS is set to be launched upon the completion of the legislative process for the 2018/19 budget. Key eligibility criteria of the PBGS include the following:

(i) Eligible issuers are first-time issuers who have not issued bonds in Hong Kong, China in the 5-year period between 10 May 2013 and 9 May 2018, both days inclusive.

(ii) To be eligible, the bond must be issued in Hong Kong, China and have an issuance size of at least HKD1.5 billion (or the equivalent in foreign currency); it should be lodged with and cleared by the Central Moneymarkets Units or listed on the Hong Kong Stock Exchange, and should be issued to at least 10 persons (or fewer than 10 persons if none of them are an associate of the issuer).

(iii) The grant amount for each bond issue is equivalent to half of the eligible issuance expenses with a limit of HKD2.5 million if the bond, its issuer, or guarantors have received a credit rating from a rating agency recognized by the HKMA; or HKD1.25 million if none of the bond, its issuer, or guarantors have a credit rating. Each issuer can apply for a grant for two bond issuances at most.

HKMA Supports Enhancements to the QDI Scheme

In a press release in May, the HKMA announced that it is working with the Government of the Special Administrative Region of Hong Kong, China on enhancements to the Qualifying Debt Instrument (QDI) Scheme. The enhancements include expanding the 100% profits tax exemption coverage from debt instruments with an original maturity of at least 7 years to instruments of any duration; and to allow debt instruments listed on the Hong Kong Stock Exchange to become eligible as a QDI in addition to those lodged and cleared by the Central Moneymarkets Unit.

Indonesia

Bank Indonesia to Increase Liquidity in the Banking System

In January, Bank Indonesia announced improvements to the average reserve requirement ratios. The central bank eased the daily minimum reserve requirement of conventional domestic banks to 4.5% of Indonesian rupiah deposits from 5.0%. The 2-week average reserve requirement was, however, raised to 2.0% from 1.5%. This new reserve requirement for domestic conventional banks will take effect on 16 July.

New reserve requirement regulations will also come into effect on 1 October for foreign exchange for conventional domestic banks and Islamic banks. For foreign exchange, the daily minimum reserve requirement for conventional bank was lowered to 6.0% from 8.0%. For Islamic banks, the daily minimum reserve requirement was reduced to 3.0% from 5.0%. In addition, a 2-week average reserve requirement of 2.0% will be implemented for foreign exchange for both conventional banks and Islamic banks.

IDR-Denominated Bonds to Become Part of Bloomberg Barclay's Global Aggregate Index

In February, Bloomberg announced that it will include IDR-denominated bonds as part of Bloomberg Barclay's Global Aggregate Index, with effect in May. Some 50 series of IDR-denominated bonds will be added to the index, contributing to its returns by 1 June. This move is expected to boost interest in Indonesian bonds.

Republic of Korea

The Republic of Korea Plans KRW3.9 Trillion Supplementary Budget

In April, the Government of the Republic of Korea drafted a KRW3.9 trillion supplementary budget proposal to fund programs to support young adult employment and the promotion of local economies. Of the total, KRW2.9 trilllion has been set aside to focus on raising incomes of young adults by providing funding for their startup businesses and creating new jobs, among other projects. A budget of KRW1.0 trillion will be allotted for programs that will widen support for local enterprises. The government plans to finance the budget with KRW2.6 trillion from 2017 fiscal account surpluses and the remaining KRW1.3 trillion from public fund surpluses.

Malaysia

Bursa Malaysia Implements Intraday Short-Selling

Bursa Malaysia implemented the intraday short-selling (IDSS) framework on 16 April to boost liquidity in the local stock exchange. The measure is part of Bursa Malaysia's efforts to build a dynamic and vibrant capital market that will further improve flexibility for investors to refine their trading and risk management strategies. The list of approved stocks for IDSS comprises 280 securities and the list will be reviewed every 6 months. Compliance requirements and safeguards will also be put into place that include market controls for IDSS suspensions if a stock price falls more than 15% from the previous day's closing price or if the gross short-selling volume exceeds the daily maximum limit of 3% of outstanding shares per security.

Philippines

BSP Reduces Reserve Requirement Ratio

At its 24 May meeting, as part of its financial market reform agenda, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) made an operational adjustment by reducing the reserve requirement ratio for banks by 1 percentage point to 18.0%. The BSP had recently lowered the reserve requirement ratio to 19.0% from 20.0% in March. The gradual reduction is intended to make the BSP less reliant on reserve requirements in managing liquidity risk in the financial system. The reduction will be implemented starting 1 June 2018.

Singapore

MAS to Introduce Central Clearing for OTC Derivatives

On 2 May, the Monetary Authority of Singapore (MAS) announced new regulations, effective 1 October, that will require over-the-counter (OTC) derivatives to be cleared through central counterparties. The regulations are meant to mitigate the credit risk of nonstandard derivatives. The regulations will cover the widely traded Singapore and US dollar fixed-for-floating interest rate swaps, and will require banks with gross notional outstanding OTC derivative transactions exceeding USD20 billion to clear their trades with central counterparties regulated by the MAS.

Singapore and Japan to Renew Swap Arrangement

On 4 May, the MAS and the Ministry of Finance of Japan expressed their intent to renew the existing Bilateral Swap Agreement that enables both countries to swap their respective local currencies in exchange for US dollars in times of need. The two countries are also in talks to include the Japanese yen as an additional swap currency of choice. The move to renew the arrangement is for the mutual benefit of Singapore and Japan in order to facilitate financial and economic stability and promote the use of local currency in the region. The bilateral swap arrangement will expire on 21 May.

Thailand

Bank of Thailand Increases Frequency of Issuance of 2-Year Bonds

In January, the Bank of Thailand raised the frequency of issuance of its 2-year bonds to monthly from the previous schedule of every even month. New issuance of 2-year Bank of Thailand bonds are scheduled for February, May, August, November, while reopenings are scheduled in the months between each new issuance. The maximum issue size for a 2-year bond was also reduced to a range of THB15 billion–THB40 billion due to the increased frequency of issuance. The revision to the issuance plan was made to help ease liquidity conditions. The Bank of Thailand issues bonds for the management of money market liquidity.

Viet Nam

State Securities Commission Issues New Margin Lending Policy

Viet Nam's State Securities Commission issued a draft regulation requiring the initial margin ratio to be at least 60%, effective 1 February. The margin ratio of 60:40 means that investors have to deposit 60% of the purchase price and are allowed to borrow the remaining 40% from the broker. The regulation aims to reduce potential risks in the stock market and restrain credit growth in the banking and financial sector. At the same time, a credit slowdown could affect the growth momentum of the stock market.