# Policy and Regulatory Developments

## People's Republic of China

### Relaxation of Rules on Insurance Companies' Bond Investments

The China Insurance Regulatory Commission (CIRC) in October raised the limit on PRC insurers' corporate bond investments from 30% of their assets to 40%. Still, insurers' investments in bonds are limited to the bonds of large state-owned enterprises; Hong Kong, China-listed "red chips"; and companies with "H-share" issuance. In addition, the bonds that insurers may invest in must be rated BBB or higher. The CIRC also lifted the requirement that insurers' bond investments be limited to companies that have been profitable for the prior 3 years, requiring instead that the issuer's average yearly profit in the prior 3 years be higher than the yearly interest payments on the issuer's bonds.

### Domestic Bank Participation in Bond Trading on Exchanges

In early November, three large state-owned banks—the Bank of Communications (BOC), China Construction Bank (CCB), and the Industrial and Commercial Bank of China (ICBC)—received approval from the China Banking Regulatory Commission (CBRC) to engage in exchange-based bond trading. In addition to approval from regulators, the banks also need approval from the stock exchanges. At the time of this writing, the BOC and CCB have already received approval from the Shanghai Stock Exchange.

To provide a bridge between the PRC's two primary venues for bond trading—the interbank market and stock exchanges—CBRC and the China Securities Regulatory Commission (CSRC) jointly issued preliminary rules in January permitting listed banks to trade bonds on the country's stock exchanges. The interbank bond market is much larger than the exchange-traded market. Regulations for the entry of domestically-listed banks into exchange-based bond trading were released in early July.

Banks' participation in exchange-based bond trading is aimed at strengthening demand for the bonds of listed companies and increasing confidence in the successful distribution of their bonds on the exchanges.

### HSBC Becomes First Foreign Bank to Underwrite Domestic Issue

In November, HSBC (China) became the first foreign bank in the People's Republic of China (PRC) to participate in the underwriting of a domestic, CNY-denominated issue. The issue was a Bank of Shanghai dual-tranche senior finance bond, comprising a 3-year CNY2.0 billion tranche paying a fixed interest rate of 3.65% and a CNY3.0 billion floater paying interest of 92 basis points above the 1-year deposit rate. The joint lead managers for the issue were ICBC and Citic Securities. HSBC joined 25 other domestic banks and financial institutions in underwriting the issue.

### First Structured Medium-Term Note Issued

Also in November, the first structured medium-term note (MTN) in the PRC was issued by the Shandong Zhu Cheng SME Collective, a group of eight small- and medium-sized enterprises (SMEs), each of which is responsible for a portion of the total issue. The CNY500 million issue consisted of a CNY300 million senior tranche and a CNY200 million subordinated tranche. The senior tranche is guaranteed by China Bond Insurance and rated AAA by New Century, a domestic rating agency, while the subordinated tranche is rated AA-. Individually, the SMEs in the collective have domestic credit ratings of BBB or higher. The issuance of the subordinated tranche represents the first such offering in the SME and MTN bond markets.

### The PRC Launches 50-year Bond, Extending the Yield Curve

The PRC's Ministry of Finance in late November sold the country's first 50-year treasury bond, which is the country's longest-dated issue. The CNY20 billion issue pays a coupon of 4.3%. Before the issuance of the 50-year bond, the longest-maturity government bond was a 30-year bond. The 50-year bond was well received by long-term investors, particularly insurers and pension funds, as bids totaled nearly twice the amount offered.

## Hong Kong, China

### Institutional Issuance Program Bonds

In July, Hong Kong, China's Legislative Council approved the Special Administrative Region's Institutional Issuance Program. Under the program, the government is authorized to issue debt amounting to HKD100 billion over the next few years, with the aim of helping develop the domestic bond market and providing a benchmark for the pricing of corporate debt. Bonds issued under the program are liabilities of the Government of the Hong Kong Special Administrative Region, unlike exchange fund bills and notes (EFBNs), which are backed by foreign reserves under Hong Kong, China's currency board system.

Following the initial sale in September of HKD3.5 billion of bonds under the program, HKD2.0 billion of 5-year bonds and HKD2.5 billion of 10-year bonds were issued in November 2009 and January 2010, respectively.

### Issuance of PRC Treasury Bonds in Hong Kong, China

The PRC's Ministry of Finance reported in October 2009 that its CNY6 billion treasury bond offering in Hong Kong, China attracted subscriptions three times the offered amount. The sale is seen as part of the PRC's efforts to broaden the international use of the yuan and further develop the bond market of Hong Kong, China.

## Indonesia

### Scrapping of Double Taxation on Transactions in Islamic Financial Markets

In September, Indonesia's parliament passed a revised law on value-added taxes. The revision in the law scrapped the double taxation on transactions in Islamic financial markets. The law will come into effect in April 2010.

### Auction of Islamic Bonds

Beginning in mid-October, the Indonesian Finance Ministry commenced holding regular auctions of government *shari'a*-compliant debt instrument known as *sukuk*. The issuance of *sukuk* will follow the sale-and-lease structure of *ijarah*. The underlying assets to be used in the auction of *sukuk* will be state properties approved by the House of Representatives.

### Secondary Reserve Requirement

Effective 24 October 2009, banks were required to set aside 2.5% of IDR deposits as a secondary reserve requirement for unexpected liquidity needs. This raised banks' reserve requirement with Bank Indonesia (BI) to 7.5%. The secondary reserve requirement may be held in the form of treasury bonds, treasury bills, *Sertifikat Bank Indonesia* (SBI), or excess reserves.

### New Regulation to Prevent Tax Evasion

In January, a new rule to prevent tax evasion came into effect. The new regulation requires more detailed information from bond issuers to determine whether they are entitled to withholding tax rates below the standard rate of 20%. Borrowers setting up an offshore unit in a jurisdiction with a lower tax rate and a double taxation treaty with Indonesia need to prove the unit was not set up for the sole purpose of reducing their tax burden. This new regulation applies to both new issues and existing bonds.

## Republic of Korea

### Amendments to the Enforcement Decrees of the Banking Act and the Financial Holding Companies Act

In October, amendments to the enforcement decrees of the Banking Act and the Financial Holding Companies Act took effect. These amendments cover (i) management participation by a non-financial entity (NFE), (ii) approval of an NFE's bank ownership, (iii) approval of a private equity fund's bank ownership, and (iv) public pension funds' exemption from NFE restrictions.

### Amendments to the Enforcement Decree of the Financial Investment Services and Capital Markets Act

In December, amendments to the Enforcement Decree of the Financial Investment Services and Capital Markets Act (FSCMA) took effect with the aim of promoting corporate restructuring and mergers and acquisitions. These amendments include provisions on (i) incorporation of special purpose acquisition companies, (ii) fund valuation and fund sales commission, (iii) independent third-party valuation on mergers, and (iv) investment of private equity funds in restructuring and social overhead capital enterprises.

### Bank of Korea and Bank of Japan Agree to Extend Measure to Increase Size of the KRW–JPY Swap Arrangement

In January, the Bank of Korea and the Bank of Japan decided to extend an agreement increasing the size of their bilateral KRW–JPY swap arrangement—from USD3 billion to USD20 billion—until 30 April 2010. The increase in the size of the bilateral swap arrangement was originally valid from 12 December 2008 to 30 April 2009.

## Malaysia

### Corporate Debt Restructuring Committee Revises Eligibility Criteria

The Corporate Debt Restructuring Committee (CDRC) has revised its eligibility criteria to allow more companies to seek assistance from the CDRC in restructuring their debt obligations. Under the revised eligibility criteria, companies seeking to resolve their debt obligations under CDRC must fulfill the following criteria:

(i) aggregate indebtedness of MYR30 million or more;

(ii) at least two financial creditors;

(iii) not in receivership or liquidation, except in cases where receivers have been appointed over certain specified assets and the directors remain in control over the companies' overall operations; and

(iv) difficulties in servicing debt obligations, which may not include having already defaulted, provided criteria (i) and (ii) are met.

Also, the revised criteria also extends the eligibility of any company listed on Bursa Malaysia that has been classified as PN17 (Main Market) or GN3 (ACE Market) irrespective of the amount of debt outstanding.

### Securities Commission Provides Issuer Eligibility Guidelines for Structured Warrants

On 3 August, the approval for the issuance and listing of structured warrants was transferred from the Securities Commission of Malaysia (SC) to Bursa Malaysia. However, the SC will continue to evaluate and register structured warrants prospectuses, and has issued eligibility guidelines to assess the suitability of structured warrants issuers. The SC requires structure warrant issuers to submit a declaration that they comply with the requirements pertaining to issuer's risk management measures, sales and marketing practices, and internal control procedures. The declaration is to be submitted to the SC one month prior to the submission of a prospectus for structured warrants issues for registration.

### Government Plans to Introduce Goods and Services Tax in 2011

To increase its revenue base and help reduce the budget deficit, the Malaysian government is planning to introduce a new goods and services tax (GST) in 2011. The proposed 4% GST is expected to generate MYR1 billion in revenue per year. However, 40 basic goods and services including foodstuffs, residential accommodation, education, health services, public transportation, domestic water, and electricity supply will be exempted from the GST to protect the welfare of low-income groups. The GST has been successfully implemented in 140 countries. Among member countries of the Association of Southeast Asian Nations (ASEAN), only Brunei, Malaysia, and Myanmar have not implemented a GST.

## Philippines

### Monetary Board Aligns Rediscount Rate with Reverse Repurchase Rate

Bangko Sentral ng Pilipinas' (BSP) Monetary Board decided on 28 January to raise the peso rediscount rate by 50 basis points to 4.0% effective 1 February in a sign that the BSP has started to unwind its stimulus measures. The peso rediscount rate was previously held at 3.5% to ensure the orderly operation of domestic financial markets amid the global crisis. The overnight borrowing, or reverse repurchase facility, and the overnight lending, or repurchase facility, remained at 4.0% and 6.0%, respectively.

### Philippine Stock Exchange Tightens Rules on Short-Term Lending

The Philippine Stock Exchange (PSE) released Guidelines on Safeguards Against Securities Borrowing and Lending Program Violations and Expected Minimum Response by Trading Participants on 19 February. PSE identified the seven possible violations as follows: (i) the unauthorized lending of a client's securities, (ii) denial of the beneficial owner's right to vote, (iii) failure to share lending fees to beneficial owners of securities, (iv) breach of foreign ownership limits, (v) failure to manage collateral received resulting in loss of possible income, (vi) requiring unreasonably large value of collateral, and (vii) failure to properly distribute manufactured dividends. Violators are levied fines of between PHP10,000 and PHP50,000, while grave offenses can result in the suspension of the trading participant.

The guidelines will take effect on 5 March.

## Singapore

### Amendments to Government Securities Act Provide More Power to the Central Bank

On 11 January, Parliament passed the Government Securities (Amendment) Bill 2009 that provides the central bank more regulatory powers and the flexibility to manage the government bond market. When in force, the bill will provide the Monetary Authority of Singapore (MAS) regulatory powers over the primary dealers of bonds. MAS now has the power to inspect, suspend, and revoke appointments of primary dealers. The amendment will authorize MAS to redeem its Singapore Government Securities (SGS) before maturity at market price, if it deems necessary. MAS will also be allowed to enter into securities lending arrangements involving SGS with primary dealers. The amount MAS can lend, however, is limited to its own holdings. When MAS holdings are not enough to meet primary dealers' demand for SGS, the government can issue new SGS to MAS, which MAS can lend on an overnight basis.

### MAS Ends Swap Facility

MAS allowed its USD30 billion swap facility with the US Federal Reserve to lapse on 1 February as a result of improving wholesale funding market conditions.

## Thailand

### Bank of Thailand Releases Financial Sector Master Plan Phase II

In November, the Thai Economic Cabinet, Ministry of Finance, and Bank of Thailand released the second phase of the Financial Sector Master Plan (FSMP), which aims to boost the efficiency of financial institutions over the period 2010–2014. The plan includes reducing system-wide operating costs, promoting competition and financial access, and strengthening financial infrastructure. An FSMP Implementation Committee will be formed once the cabinet approves the principles stipulated in the plan.

### Thailand Lifts Capital Outflow Controls

In February, Thailand further relaxed foreign exchange regulations pertaining to investments abroad, foreign exchange hedging transactions, and corporate treasury centers. Thai firms are now allowed to freely make direct investments overseas. The size of portfolio investments allocated to investors and under the supervision of the Securities and Exchange Commission (SEC) has been expanded from USD30 billion to USD50 billion. Exporters and importers in Thailand can now unwind their foreign exchange hedging transactions without seeking permission. Also, an existing firm can set up a corporate treasury center and transfer foreign currencies between the treasury center and its affiliated firms located in Thailand. In addition, Thailand has raised the limit on the purchase of immovable properties overseas for Thai individuals from USD5 million per year to USD10 million per year and is allowing Thai companies to lend up to USD50 million to non-affiliated companies overseas.

## Viet Nam

### Viet Nam to Lift Ceiling on Foreign Ownership Ratio in Local Businesses

The Viet Nam State Securities Commission (SSC) is expected to release a decision raising the ceiling on the foreign ownership ratio in local business to 49%. While the maximum level of foreign ownership in public companies will increase from 30% to 49% of total chartered capital, the increase will not apply to credit institutions. For foreign-owned member funds, 100% foreign ownership will be allowed.

### Regulations to Tighten Establishment of Commercial Banks

The State Bank of Viet Nam (SBV) is drafting more detailed ground rules on the establishment of new joint stock commercial banks. The new regulations would lift the freeze on and tighten rules for establishing new banks. SBV froze the establishment of new commercial banks in August 2008 to stop the proliferation of weak banks.

### Viet Nam to Carry Out Further State-Owned Enterprise Reforms

The Vietnamese government is set to implement reforms on the equitization of state-owned enterprises following the Asian Development Bank's award of up to USD630 million to support the reform effort. Since 1992, the government has arranged 5,660 state-owned enterprises, of which 379 were transformed into single-member limited liability firms; 3,896 were equitized; 197 were transferred; 155 were sold; 30 were leased; 532 were merged with other firms; and 471 were dissolved. The government still holds 100% equity in 1,500 enterprises and is planning to improve the efficiency, profitability, and transparency of a number of large state-owned corporations.