Policy and Regulatory Developments

People's Republic of China

PBOC Hikes Reserve Requirement Ratios

The People's Republic of China (PRC) has implemented a series of increases in the reserve requirement ratios for financial institutions, reflecting continued concerns over inflation and the pace of credit growth. New loans granted in 2010 exceeded the official target of CNY7.5 billion to reach CNY7.95 billion. By mid-March, the People's Bank of China (PBOC) had hiked the reserve requirement ratio six times—by 50 basis points each time—since November 2010. These hikes effectively brought the reserve requirement rate to 20.5% for several major banks, 20.0% for other large financial institutions, and 18.0% for small and medium-sized financial institutions.

Bank Clients Allowed to Invest in Currency Swaps

On 31 January, the State Administration of Foreign Exchange (SAFE) issued a circular that will allow banks to offer currency swap products to their corporate clients, effective 3 March. Prior to this, currency swaps were only available on the interbank market. Under the new guidelines, banks that have been trading currency swaps for at least 1 year may offer the facility to their clients.

Hong Kong, China

Bank of China Offers Renminbi Repos

On 20 February, Bank of China announced that it would begin offering renminbi repurchase and lending facilities in Hong Kong, China. According to the bank, the launch of these facilities will spur the development of new CNY-denominated products and facilitate renminbi settlements.

Indonesia

State Firms to Purchase Government Bonds in the Event of Sudden Capital Outflows

In January, the Ministry of Finance and the State Enterprises signed a memorandum of understanding requiring state-owned firms to act as stand-by purchasers of government bonds in the event of sudden capital outflows. Under the scheme, a bond stabilization fund will be created to help protect the economy in case of sudden capital flight. The government has appointed 13 major state companies and financial institutions to participate in the bond stabilization fund: four banks (Bank Mandiri, Bank Rakyat Indonesia, Bank Negara Indonesia, and Bank Tabungan Negara), and nine non-bank and insurance companies (including Jaminan Kredit Indonesia and Asuransi Kredit Indonesia).

BI Implements Measures to Minimize the Risk of Capital Flight

In January, Bank Indonesia (BI) re-introduced a measure that limits overseas short-term borrowing by Indonesian banks to 30% of their capital. Also, BI announced that it will require Indonesian banks to increase their foreign exchange reserves deposited with the central bank as part of measures to absorb foreign exchange liquidity. BI will require banks to increase their foreign exchange reserves to 5.0% of foreign exchange deposits in March and 8.0% in June.

Republic of Korea

Withholding Tax Re-Imposed on Foreign Investors’ LCY Government Bond Holdings

The government re-imposed a 14% tax on interest income and a 20% tax on capital gains from Korean Treasury Bonds (KTBs) and Monetary Stabilization Bonds (MSBs) held by foreign investors, effective 1 January. This was made following the passage of legislation in December calling for the restoration of the withholding tax in order to mitigate capital flow volatility and minimize systemic risks to the domestic economy.

New Measures to Stabilize Prices and Combat Inflation

In January, the government announced new measures to help mitigate spikes in prices and curb inflationary pressures. Among these measures were the lowering of import tariffs and the provision of financial and tax incentives to private and public sector entities in support of price stabilization.

Regulatory Measures to Enhance Derivatives Trading Introduced

New regulatory measures to improve the trading of derivatives products were introduced in January by the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS), together with the Korea Exchange (KRX) and the Korea Financial Investment Association (KOFIA). These measures aim to reduce settlement risk, mitigate shocks in the market, and enhance financial soundness.

Malaysia

International Islamic Liquidity Management Corporation Established

In October, Bank Negara Malaysia (BNM), 10 other central banks, and two multilateral organizations established the International Islamic Liquidity Management Corporation (IILM) to assist financial institutions offering Islamic financial services to manage their liquidity and enhance institutional linkages. The IILM initiative will facilitate cross-border investment flows by issuing short-term, multi-currency liquidity instruments beginning in December 2011.

Malaysia was selected as the host country for the IILM. In addition to Bank Negara Malaysia, founding members include the Central Bank of Qatar, Bank of Mauritius, Saudi Arabian Monetary Agency, Central Bank of the United Arab Emirates, Central Bank of Iran, Bank Indonesia, Banque Centrale du Luxembourg, Central Bank of Nigeria, Central Bank of Sudan, Central Bank of Turkey, Islamic Development Bank, and Islamic Corporation for the Development of the Private Sector.

Bursa Malaysia, AIBIM, and Bloomberg Launch New *Sukuk* Index; Malaysia to Start Cross-Border *Sukuk* Trading in 2H11

On 21 February, Bursa Malaysia, the Association of Islamic Banking Institutions Malaysia (AIBIM), and Bloomberg LP launched the Bloomberg AIBIM Bursa Malaysia Sovereign *Sharia’h* Index (BMSSI) as part of efforts to enhance the Islamic finance platform. The new MYR-denominated *sukuk* index aims to provide a benchmark for future *sukuk* issuances, as well as a measurement of the performance of MYR-denominated government Islamic securities.

Bank Negara Malaysia also announced that its wholly-owned subsidiary, the Malaysian Electronic Clearing Corporation (MyClear), has embarked on an initiative to allow cross-border trading of Islamic bonds. Set to launch in the second half of 2011, MyClear will provide a platform for Malaysians to invest in foreign securities held by international and regional securities depositories.

Philippines

BSP Further Liberalizes Rules on FX Transactions

In November, Banko Sentral ng Pilipinas (BSP) issued Circular 698, which further liberalized the rules governing foreign exchange (FX) transactions. The circular comprised the following measures:

(i) increase the present ceiling of over-the-counter FX purchases made by residents from authorized agent banks (AABs) and AAB foreign exchange corporations without documentation for non-trade current account;

(ii) increase the present ceiling on the amount of pesos that departing non-resident tourists and Filipinos residing abroad may reconvert at airports or other ports of exit without need for proof-of-sale of FX;

(iii) increase the present ceiling on residents' purchase of FX from AABs and AAB foreign exchange corporations—from USD100,000 to USD1 million—to cover advance payment requirements for import transactions with prior BSP approval, subject to standard documentary requirements;

(iv) allow prepayment of private sector, BSP-registered foreign and FCY loans to be funded with FX from AABs and AAB foreign exchange corporations without prior BSP approval, subject to presentation of supporting documents;

(v) allow registering banks to act on requests by foreign investors for conversion into FX and outward remittances of peso funds, not to exceed the FX brought into the country less the amount used for investments actually made in the country, subject to conditions and documentary requirements; and

(vi) increase the present ceiling per investor per year—from USD30 million to USD60 million—of the amount that residents may purchase from AABs for outward investments and/or investments in Republic of the Philippines bonds and other Philippine debt papers issued offshore, including PHP-denominated instruments to be settled in FX, provided the total FX purchases for any or all of these purposes by any investor in 1 year does not exceed the prescribed limit. This increase will be complemented by the following additional measures:

 (a) lift the registration requirement for outward investment in excess of USD60 million and replace this with reporting to BSP; and

 (b) extend the period of inward remittance and conversion to pesos, or re-investment of proceeds and related earnings on outward investment of residents, from 2 and 7 banking days, respectively, to 30 banking days from receipt of funds abroad.

Singapore

World Bank and Finance Ministry of Singapore Launch Regional Infrastructure Finance Center of Excellence

In November, the World Bank and the Finance Ministry of Singapore launched the Infrastructure Finance Center of Excellence (IFCOE) to assist regional governments in tapping the private sector for investments in Asian infrastructure. IFCOE also aims to expand the infrastructure finance advisory work of the World Bank–Singapore Urban Hub (Singapore Hub). IFCOE is a specialized unit created under the Singapore Hub, which was established in June 2009.

Singapore Government Bonds to Trade on SGX

In January, the Finance Ministry of Singapore announced that it would allow the trading of Singapore Government Securities (SGS) on the Singapore Exchange (SGX) by June 2011. The ministry aims to provide retail investors with a safe but higher-yielding alternative to bank deposits. The SGX plans to continue enhancing its infrastructure to facilitate bond listing and trading, as well as expanding its product range to include SGS.

Funding for Proposed SGX–ASX Merger

The SGX announced in January that it has secured long-term financing from six banks to fund its proposed merger with the Australian Securities Exchange (ASX). The financing includes term loans worth SGD3.8 billion and AUD750 million from the Australia and New Zealand Banking Group (ANZ Bank), the Singapore branch of the Bank of Tokyo-Mitsubishi UFJ, DBS Bank, Oversea-Chinese Banking Corp, United Overseas Bank, and National Australia Bank. In October, ASX and SGX announced that they had agreed to merge, creating the world's fifth-largest exchange group and Asia's second-largest behind the Hong Kong Stock Exchange.

Thailand

Thai Cabinet Approves a 15% Tax on Bonds

The Thai government has approved the imposition of a 15% tax on interest and capital gains earned by foreign investors from Thai bonds in an effort to slow foreign currency (FCY) inflows and ease the baht's appreciation. Effective 13 October, foreign investors trading government, central bank, or state enterprise bonds were required to pay a withholding tax of 15%. Meanwhile, the Customs Department is considering waiving import tariffs on machinery that cannot be produced in Thailand to help exporters and small and medium-sized enterprises (SMEs) improve their productivity. State banks—Krung Thai Bank, Small and Medium Enterprise Development Bank of Thailand, Islamic Bank of Thailand, and the Export–Import Bank of Thailand—are also offering forward contracts to protect SMEs against volatility in the exchange rate. The Government Savings Bank provides SMEs a credit line of up to THB5.0 billion. Also, the Revenue Department is planning to offer local companies additional tax breaks for asset depreciation. According to the Ministry of Finance, about 10,000 SMEs need assistance as a result of the baht's recent appreciation.

BOT Relaxes Regulations on FX Transactions

The Bank of Thailand (BOT) relaxed FX regulations to increase the flexibility of Thai businesses in managing FX risk. Effective 12 October, Thai exporters were permitted to transfer FCY deposits to counterparties in Thailand for payment of goods and services, with the limit on FX transactions being increased to USD50,000 from USD20,000. Also, Thai businesses undertaking direct investment or lending abroad of USD10 million or more per year are now required to notify the BOT.

Thai Financial Regulators to Create Bond Information Center

In December, the BOT signed an agreement with the Securities and Exchange Commission, Stock Exchange of Thailand, Thai Bond Market Association, and Public Debt Management Office to create the Thailand Financial Instruments Information Center (TFIIC). TFIIC is part of the Thai government's 5-year capital market master plan, which aims to collect information on financial instruments by related sources, share the information, and provide linkages among related agencies.

Revenue Department of Thailand to Slash Corporate Income Tax

In January, the Revenue Department of Thailand considered slashing the corporate income tax rate to 18% from the current 30%. The tax department is preparing to restructure taxes in order to boost Thailand's competitiveness in advance of Thailand's membership in the Association of Southeast Asian Nations (ASEAN) Economic Community (AEC) in 2015. The AEC will permit the free movement of goods, investment, and labor between member countries without the imposition of taxes or other barriers.

Viet Nam

SBV Sets Ceiling on Banks' Mobilizing Rates at 14.0%

In December, the State Bank of Viet Nam (SBV) reached a consensus with the General Secretary and the Viet Nam Banks Association to put a ceiling on Vietnamese dong mobilizing rates—the banks' lending rates—at 14.0% per annum. This step was taken in line with the Prime Minister's directive of stabilizing the country's money market and ensuring a sound banking system.

SBV Adjusts Interbank Average Exchange Rate

In February, the SBV adjusted the interbank average exchange rate to VND20,693 = USD1 from VND18,932 = USD1, while narrowing the trading band for the exchange rate to ±1.0% from ±3.0%. The devaluation of the Vietnamese dong came amid an effort to improve liquidity in the FX market. The last time the SBV adjusted the interbank average exchange rate was in August when it devalued the currency with the aim of trimming Viet Nam's trade deficit.