

# Policy and Regulatory Developments

## People's Republic of China

### The PRC Mulls Increasing QFII and RQFII Quotas

On 15 January, the Chairman of the China Securities Regulatory Commission, Guo Shuqing, announced that the People's Republic of China (PRC) plans to increase the quotas for Qualified Foreign Institutional Investors (QFII) and Renminbi Qualified Foreign Institutional Investors (RQFII). The quotas could possibly be increased tenfold in the future, he said. Guo also said that the PRC will support two-way balanced portfolio investment, which would allow non-residents to diversify existing investments in the PRC.

### PBOC to Use Short-Term Liquidity Operations to Manage Money Supply

On 21 January, the People's Bank of China (PBOC) announced that it will begin using short-term liquidity operations as an additional tool to manage the money supply. The main tools will be repo and reverse repo agreements with maturities of less than 7 days.

## Hong Kong, China

### HKMA Revises Rules on CNH

On 15 January, the Hong Kong Monetary Authority (HKMA) released two new regulations making it easier for banks to hold offshore renminbi (CNH). The first one allows banks to include renminbi currency futures as part of the calculation of a bank's net open position. The second one shortens the notice period from two business days to one business day for banks seeking to tap the HKMA renminbi liquidity facility.

## DBS Launches Renminbi Index

On 16 January, DBS Bank Ltd. (Hong Kong, China) launched a DBS Renminbi Index for VVinning Enterprises (DRIVE). The index measures actual usage and acceptance of the renminbi among enterprises in Hong Kong, China, and gauges sentiment for the expanded use of the renminbi as a global currency. The index is based on a survey along four dimensions: (i) actual business performance in the last 12 months and expectations for the next 12 months, (ii) past and future demand for renminbi in business operations, (iii) use of renminbi in trade settlement, and (iv) ease of access to renminbi financing. The initial index value in 4Q12 was 54.9; future updates are to be released quarterly.

## Indonesia

### BI Announces New Capital Adequacy Ratios for Banks

In December, Bank Indonesia (BI) announced new capital requirements for banks as part of efforts to strengthen the banking system. Beginning in March, banks will be required to maintain a capital adequacy ratio (CAR) of between 8% and 14%, depending on their risk profile. Currently, the CAR for all banks is set at 8%. Based on the new regulation, banks with a low risk profile will continue to maintain a CAR of 8%, banks with a second-level risk profile will be required to maintain a CAR of 9%–10%, and those with a third-level risk profile will be required to maintain a ratio of 10%–11%. High-risk banks (fourth- and fifth-level risk profiles) will be required to maintain a CAR of 11%–14%. BI also set a special requirement, known as a capital equivalency maintained asset (CEMA), for foreign banks operating in Indonesia.

## Indonesian Government to Hedge FCY Liabilities Against Fluctuations in Interest and Exchange Rates

In January, the Ministry of Finance issued a regulation that would allow the government to hedge its foreign currency (FCY)-denominated liabilities, for both bonds and international loans, against fluctuations in interest and exchange rates. The decree, however, did not indicate which specific hedging instruments it will use. The mechanism for conducting hedging transactions is still being formulated by the government. The decree requires the government counterparty for hedging transactions to have at least an A credit rating from two international rating agencies.

## Republic of Korea

### FSC Releases Legislative Notice on Proposed Covered Bonds Act

The Financial Services Commission (FSC) released a legislative notice on its proposed Covered Bonds Act in October. The notice includes the definition of covered bonds and eligible issuers, the cover pool, registration of the issuance plan and cover pool, the management of the cover pool, and the preferential rights of covered bond investors. The FSC reported in its January press release that the draft bill of the Covered Bond Act was approved by the Cabinet on 29 January.

### FSC Sets Implementation Plan for Basel III

The FSC stated in December that it will set a specific timeline for domestic implementation of Basel III in the Republic of Korea, and that this will reflect global trends with respect to other countries' implementation experiences. The FSC reported that 11 countries had finalized their implementation plans for Basel III, while 15 countries, including the Republic of Korea, had drafted regulations for Basel III implementation.

## Malaysia

### BNM and SC Sign MOU to Strengthen Joint Regulatory Oversight

On 30 October, Bank Negara Malaysia (BNM) and Securities Commission Malaysia (SC) signed a Memorandum of Understanding (MOU) to improve their joint regulatory oversight. The MOU provides for enhanced collaboration between BNM and SC, with the aim of promoting financial sector and capital market stability. The MOU reinforces the intent to collaborate, cooperate, and share information to enable both agencies to effectively carry out their respective mandates.

### SC Introduces New Capital Market Regulations

On 2 January, SC announced new capital market regulations through the Capital Markets and Services (Amendment) Act 2012 (CMSA 2012), which aims to encourage market innovation, promote market efficiency, and allow for more informed investment decisions. CMSA 2012 introduces a new approval framework that will facilitate the offering of a broader array of capital market products for the benefit of issuers, intermediaries, and investors. New regulations under CMSA 2012 include, among others, (i) guidelines for business trusts that allow for greater fundraising flexibility and provide investors with an opportunity to invest in a new asset class, (ii) revised guidelines on private debt securities and *sukuk* (Islamic bonds) that allow publicly listed companies and banks to offer bonds and *sukuk* to retail investors, and (iii) the establishment of a consolidated capital market compensation fund.

### RAM Ratings Launches Global and ASEAN Ratings Scale

In January, RAM Ratings Services Bhd. launched its global and Association of Southeast Asian Nations (ASEAN) ratings scales. The scale will enable RAM to benchmark ratings against global and regional peers. The Credit Guarantee and Investment Facility (CGIF) was the first institution to be given a global and ASEAN rating of AAA by RAM.

## Philippines

### **BSP Adopts Disclosure Rules for Capital Instruments**

On 1 February, Bangko Sentral ng Pilipinas (BSP) added disclosure requirements, which are Basel III compliant, for debt instruments issued by banks. BSP has added a client suitability measure to determine whether the investor understands the risks involved in an investment. A risk disclosure statement must also be included that outlines the risks as well as the processes that would follow once thresholds are breached.

### **AMLA Amendments Approved**

On 7 February, Congress ratified amendments to the Anti-Money Laundering Act (AMLA). The amendments include expanding the list of covered institutions required to report transactions in excess of PHP500,000 and the list of unlawful activities covered by the AMLA. The covered institutions were expanded to include companies such as forex dealers, pawnshops, remittance agents, and pre-need firms. Unlawful activities include terrorism, financing of terrorism, fraud, and bribery.

## Singapore

### **PBOC Appoints Clearing Bank for Renminbi in Singapore**

On 8 February, the PBOC appointed the Industrial and Commercial Bank of China's (ICBC) Singapore branch as the clearing bank for renminbi in Singapore. The Monetary Authority of Singapore (MAS) will work closely with the PBOC and ICBC in implementing clearing arrangements in Singapore. The appointment of a renminbi clearing bank in Singapore marks a milestone in financial cooperation between the PBOC and MAS, and will enable Singapore to facilitate greater use of the renminbi for trade, investment, and other economic activities in the region.

## Thailand

### **MOF Permits Eight Foreign Entities to Issue LCY Bonds in Thailand**

The Ministry of Finance (MOF) has permitted eight foreign entities to sell THB-denominated bonds and debentures in Thailand, totaling THB59 billion, between 1 January and 30 September. These entities and their respective authorized bond issuance amounts are as follows: (i) Industrial Bank of Korea (THB10 billion), (ii) ING Bank (THB10 billion), (iii) Korea Eximbank (THB10 billion), (iv) Shinhan Bank (THB10 billion), (v) Woori Bank (THB10 billion), (vi) Rabobank Nederland (THB4 billion), (vii) Noble Group (THB3.5 billion), and (viii) Ministry of Finance of Lao PDR (THB1.5 billion).

### **BOT Provides Notification on Basel III's Capital Adequacy Framework**

In December, the Bank of Thailand (BOT) provided notification on Basel III's capital adequacy framework. The central bank informed Thai banks of the requirement to maintain a minimum common equity ratio of 4.5%, a Tier 1 ratio of 6.0%, and a total capital ratio of 8.5%. The notification also stipulates that branches of foreign banks are required to maintain a total capital ratio of 8.5%.

## Viet Nam

### **SBV Cut Key Rates in December for the Sixth Time in 2012**

On 24 December, the State Bank of Viet Nam (SBV) cut key interest rates for the sixth time in 2012 in a continuation of its policy of monetary easing. The discount rate and the refinancing interest rate were each cut by an additional 100 bps to 7.0% and 9.0%, respectively.