# Policy and Regulatory Developments

## People's Republic of China

### PBOC Eases Commercial Bank Rules on Property Development Loans

In October, the People's Bank of China (PBOC) relaxed rules on property loans made by commercial banks. Previously, property development loans were capped at 10% of total loans. The new rules allow commercial banks to extend property development loans subject to their own discretion.

### The PRC and Hong Kong, China Launch Stock Connect

In November, the People's Republic of China (PRC) and Hong Kong, China linked their stock exchanges, allowing investors in the Hong Kong Stock Exchange (HKEx) and the Shanghai Stock Exchange (SSE) to trade shares in each other's market. While the program will allow all HKEx participants and foreign investors to trade on the SSE via Stock Connect, participants from the PRC will be limited to institutional investors and individuals with a minimum balance of CNY500,000. Stock Connect has quotas of CNY250 billion of net purchases for investments in the SSE and CNY300 billion for investments in the HKEx.

### PBOC Reduces Required Reserve Ratios

In February, the PBOC reduced the required reserve ratio for all financial institutions by 50 basis points (bps). It also lowered the required reserve ratio of city commercial banks and qualified noncounty level rural commercial banks by an additional 50 bps. In addition, the PBOC lowered the reserve requirement ratio of the Agricultural Development Bank of China by another 400 bps. The PBOC said that the required reserve ratio adjustment would help boost micro- and small-sized enterprises, and support the agricultural sector and major water conservation projects.

## Hong Kong, China

### HKMA Introduces Intraday CNY Repo Facility

In November, the Hong Kong Monetary Authority (HKMA) introduced an intraday repo facility to provide CNY-denominated funds to financial institutions conducting renminbi business in Hong Kong, China. The old facility had tenors of overnight, 1 day, and 1 week. The new facility will provide greater flexibility in managing renminbi transactions and provide support for the recently launched Stock Connect.

### HKMA Designates Seven Dim Sum Bond Liquidity Providers

In November, the HKMA designated seven banks as primary liquidity providers for CNY-denominated bonds traded in Hong Kong, China. The liquidity providers will be given a dedicated repo facility of CNY2 billion to assist in their transactions. The seven banks are Bank of China (Hong Kong), BNP Paribas, China Construction Bank Corporation (Asia), Citibank N.A, HSBC, the Industrial and Commercial Bank of China (Asia), and Standard Chartered Bank (Hong Kong).

### HKMA to Promote Government Bond Liquidity

In December, the HKMA announced two measures to promote the Hong Kong dollar bond market. The first will streamline bonds issued under the Exchange Fund Programme and the Government Bond Programme (HKSAR bonds). Under the new rules, the HKMA will no longer issue Exchange Fund Notes with tenors of 3 years or above; maturing Exchange Fund Notes will be replaced with Exchange Fund Bills of similar size; and the HKMA will no longer issue HKSAR bonds with maturities of 2 years, it will only issue HKSAR bonds with maturities of 3 years and above.

The HKMA will also provide a discount facility for HKSAR bonds to provide greater liquidity.

## Indonesia

### Bank Indonesia Issues New Rules on US$ Loans for Nonbank Corporations

In October, Bank Indonesia announced new regulations to mitigate the risks of foreign loans undertaken by nonbank corporations. According to the new regulations, Indonesian firms that plan to borrow in US dollars should meet three indicators: (i) liquidity strength, (ii) hedging ratio, and (iii) credit ratings. Effective January 2015, companies planning to undertake foreign loans are required to hedge at least 20% of short-term dollar debt and have a minimum liquidity ratio of 50%. By 2016, the hedging ratio will be raised to 25% and the liquidity ratio to 70%, and only firms with an international rating of BB or above will be allowed to tap foreign loans. The rating rule, however, does not apply to firms borrowing for infrastructure-related projects. Noncompliance would lead to Bank Indonesia issuing a reprimand letter to overseas creditors and Indonesian-based regulators.

In January, Bank Indonesia issued another regulation on reporting foreign currency borrowings. Indonesian residents and corporates are now required to disclose and provide a report on significant overseas borrowings. The new rule requires disclosure when the difference between foreign liabilities and foreign assets surpasses US$100,000. The disclosure includes details of offshore borrowings and a foreign debt management plan.

### IBPA, OJK, and IDX Launch New Local Bond Index

In November, the Indonesia Bond Pricing Agency (IBPA), Otoritas Jasa Keuangan (OJK), and the Indonesia Stock Exchange (IDX) jointly launched INDOBeX, a local benchmark bond reference index designed to improve liquidity in the bond market by providing investors with data on bond prices and performance. INDOBeX has three component indices: (i) composite index, (ii) government bond index, and (iii) corporate bond index.

### Government Plans to Expand Underlying Assets for *Sukuk*

In February, the Government of Indonesia disclosed plans to expand underlying assets for *sukuk* (Islamic bonds) to help improve liquidity in the Islamic bond market. It is considering the inclusion of state-owned goods and services as collateral backing *sukuk*. Currently, the government is using infrastructure projects as an underlying asset for *sukuk* issuance.

## Republic of Korea

### 2015 Financial Policy Announced

The Financial Services Commission of the Republic of Korea announced in January its 2015 financial policy. The policy direction has three goals: (i) creative finance, (ii) consumer trust, and (iii) financial stability. Each policy goal has three tasks. For creative finance, the tasks are to (i) enhance the role of finance in supporting the real economy by promoting venture capital investments, (ii) improve the competitiveness of the financial sector by continuing financial regulatory reform, and (iii) facilitate the convergence of the financial sector and the information technology sector. The tasks under consumer trust are to (i) enhance consumer protection in the financial sector, (ii) restore trust in financial markets, and (iii) improve access to financial services for marginalized groups. For financial stability, the tasks are to (i) have a preemptive response to potential risks in household debt, (ii) conduct corporate restructuring continually, and (iii) ensure financial stability by addressing domestic and external risks.

### 2015 Economic Policy Announced

The Republic of Korea's Ministry of Strategy and Finance introduced in December its 2015 economic policy identifying four basic economic policy directions: (i) improving economic fundamentals via structural reform in order to promote economic recovery, (ii) revitalizing the domestic economy consistent with structural reform, (iii) having a preemptive response to risk factors, and (iv) establishing the groundwork for reunification by instilling "inter-Korean trust."

## Malaysia

### BNM and PBOC to Establish Renminbi Clearing Arrangements in Malaysia

In November, Bank Negara Malaysia (BNM) and the PBOC entered into an agreement to establish renminbi clearing arrangements in Malaysia. The agreement calls for both central banks to coordinate their supervision of business conducted in renminbi, exchange information, and work to improve the arrangement.

### BNM, Bank Indonesia, and OJK Sign Agreement on ASEAN Banking Integration Framework

In December, BNM, Bank Indonesia, and OJK signed an agreement for the bilateral implementation of the Association of Southeast Asian Nations (ASEAN) Banking Integration Framework between Malaysia and Indonesia. The agreement defines Qualified ASEAN Banks and calls for the presence of Malaysian and Indonesian banks in each other's jurisdiction.

## Philippines

### BSP Approves Expanded Role for Foreign Banks in the Philippines

In November, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) approved the implementing rules and regulations of Republic Act No. 10641, which outline an expanded role for foreign banks in the Philippines. Under the law, a foreign bank that is widely owned and publicly listed in its home country can operate in the Philippines either as a branch or a wholly owned subsidiary, and own up to 100% of the voting stock of an existing domestic bank (up from 60%). In addition, foreign banks can now control a combined 40% of the total assets of the banking system (up from 30%).

### BSP Allows Qualified Thrift Banks to Act as Dealers of Deliverable Foreign Exchange Forwards

In November, the BSP approved thrift banks that are authorized to issue foreign letters of credit, and deal with import and export drafts or bills of exchange, to act as dealers of deliverable foreign exchange forwards. Qualified thrift banks may apply for a Type 2 limited dealers license, subject to certain criteria and the existing licensing process. The minimum criteria include having adequate capital proportional to the risk of dealing with derivatives and a risk management system in place that is compliant with the risk management guidelines for derivatives.

## Singapore

### MAS and PBOC Strengthen Financial Cooperation

In October, the Monetary Authority of Singapore (MAS) and the PBOC agreed to strengthen financial cooperation in the areas of the offshore renminbi market, capital markets, and insurance. Two initiatives have been agreed on: (i) direct CNY–SGD currency trading (effective 28 October), and (ii) PRC-incorporated financial institutions being permitted to issue renminbi bonds in Singapore directly. Plans to enhance collaboration between the derivatives markets of Singapore and the PRC are under consideration. Also, MAS and the China Insurance Regulatory Commission are looking at initiatives in catastrophic risk insurance.

### SGX to Launch a Bond Trading Platform

In November, Singapore Exchange (SGX) announced plans to launch a bond trading platform that will be operational by mid-2015. The trading platform will initially be used to trade G3 currency bonds issued by Asian corporates. Subsequently, it will handle the trading of Asian local currency bonds. As part of this initiative, SGX has created SGX Bond Trading, a trading platform that aims to become an Asian liquidity center for high-yield and investment grade corporate bonds.

### MAS and CBM Strengthen Bilateral Cooperation

On 3 February, MAS and the Central Bank of Myanmar (CBM) entered into an agreement to strengthen bilateral cooperation between the two parties. The Memorandum of Understanding calls for cooperation on banking supervision and capacity building between MAS and CBM.

## Thailand

### Rules on Fund Investments in Derivatives and Structured Notes Revised

The Securities and Exchange Commission (SEC) in Thailand stated in February that the Capital Market Supervisory Board has approved the revision of the rules governing mutual funds, provident funds, and private funds for retail investors with respect to their investment in derivatives and structured notes. Approved changes include the broadening of the underlying assets for derivatives and structured notes, and the revision of the definition of a structured note and its underlying assets under the category of credit risk to be consistent with international standards. The revisions aim to encourage funds to invest in derivatives and structured notes.

### 2015 Strategic Plan Launched

In December, Thailand's SEC launched its strategic plan for 2015. One of the thrusts of the plan is to broaden and deepen Thailand's capital markets, and promote Thailand as a "regional financial connector."

## Viet Nam

### CGIF Closes First VND-Denominated Guaranteed Bond

The Credit Guarantee and Investment Facility (CGIF) closed its first guarantee of a VND-denominated bond with Masan Consumer Holdings. The company is a subsidiary of Masan Group Corporation. The bond is a VND2.1 trillion 10-year issuance, the first 10-year bond issued by a nonbank corporation in Viet Nam.