Policy and Regulatory Developments

People's Republic of China (PRC)

Clearstream and Euroclear Enable Settlement of CNY-Denominated Securities

On 27 September, Clearstream and Euroclear allowed the settlement and clearance of CNY-denominated securities issued outside of the PRC, including Eurobonds and securities issued in Hong Kong, China. Prior to this move, foreign investors could only settle in Hong Kong dollars for securities listed on the Shenzhen Stock Exchange and United States (US)dollars for securities listed on the Shanghai Stock Exchange.

PRC Revises Rules on Panda Bonds

The PRC issued revisions to Panda bonds, which are CNY-denominated bonds issued by foreign institutions in the PRC. The revised rules allow international organizations, such as the World Bank and Asian Development Bank, to convert the yuan proceeds in a different currency and transfer the funds overseas with the approval of the State Administration of Foreign Exchange (SAFE), conditional upon the bond having a rating of AA from at least two rating agencies, one of which should be registered in the PRC to rate CNY-denominated bonds.

Banks Barred from Providing Mortgages to Third Home Buyers

On 30 September, the State Council of China ordered banks to stop providing mortgages to buyers seeking to purchase a third (or more) home. Also, first-time home buyers must now make a down payment of 30% of the house's price compared with the previous requirement of 20%.

PRC Allows Foreign Institutions to Open Yuan Accounts

The People's Bank of China (PBOC) issued regulations on 6 October that allow foreign institutions to open cross-border settlement accounts at locally registered banks. According to the rules, foreign institutions can either open an account with a domestic bank or the local unit of a foreign bank. There are, however, restrictions imposed on the accounts. Institutions cannot convert the yuan in the accounts to a different currency or withdraw it as cash. The PBOC said that these rules do not apply to CNY-settled accounts opened by foreign central banks, interbank settlement accounts set up by foreign banks, special yuan accounts opened by qualified foreign institutional investors for trading securities in the PRC, or special accounts for investing in the PRC's interbank bond market.

Chinese Insurers Barred from Property Speculation

The China Insurance Regulatory Commission issued regulations in early October barring Chinese insurance companies from speculating in the property sector. According to the rules, insurers are allowed to invest up to 10% of their assets in elderly citizen communities and the medical services sector, but are not allowed to invest in commercial or residential properties, nor are they allowed to set up real estate enterprises.

PBOC Hikes Reserve Requirement Ratios

The PRC hiked its reserve requirement ratio by 50 basis points for all banks and another 50 basis points for a select few bank in response to accelerating inflation. The PBOC initially hiked by 50 basis points the reserve requirements of the four big state banks and one other bank—China Construction Bank, Bank of China, Agricultural Bank of China, and Bank of Communications—

effective 15 November. The PRC subsequently announced a 50 basis points hike for all lenders, effective 16 November. On 19 November, the PRC again hiked the reserve requirement ratio by 50 basis points. This effectively brings the reserve requirement rate of the four big state banks to 18.5%, and to 18.0% for other large financial institutions, and 16.0% for small and medium-sized financial institutions.

Hong Kong, China

ADB Raises CNY1.2 Billion in First Supranational Issue in Hong Kong, China

In October, the Asian Development Bank (ADB) raised CNY1.2 billion of 10-year bonds in Hong Kong, China. The bonds were sold at par and with a coupon rate of 2.85%. The offering was the first issued in Hong Kong, China by a highly-rated supranational. The bonds are expected to provide a benchmark for longer-term debt since most yuan bonds sold in Hong Kong, China have tenors of 5 years or less. Proceeds from the issuance will be used to finance ADB projects in the People's Republic of China.

Indonesia

BI Announces New Regulations on Reserve Requirements and Bank Lending

In September, Bank Indonesia (BI) announced new regulations on reserve requirements and bank lending to help contain inflation and boost economic growth. Beginning in November, the primary reserve requirement will be raised to 8.0% of deposits—from 5.0%—while the secondary reserve requirement will remain at 2.5%. Banks that are able to comply with the new primary reserve requirement will earn 2.5% interest on the amount covering the 3-percentage-points increase in primary reserves. On the other hand, those banks that fail to meet the new 8.0% primary reserve requirement will be fined the equivalent of 125% of the average 1-day overnight Jakarta Interbank Offered Rate (JIBOR). BI also announced a regulation designed to give banks incentives for maintaining their loan-to-deposit ratios within a range of 78%–100%, effective 1 March 2011.

BI Plans to Offer New Term Deposits

In October, BI announced that it is planning to issue new term deposits as it seeks to reduce currency volatility following a surge in capital inflows. The central bank is looking at offering term deposits with maturities of 3, 6, and 9 months. Currently, 1-month and 2-month deposits are being offered. The central bank has yet to decide when to issue the new term deposits.

Republic of Korea

The Republic of Korea to Introduce Short-Term KTBs

In July, the Republic of Korea announced its plan to issue Korean Treasury Bonds (KTBs) with maturities of less than 1 year in order to form a short-term benchmark bond rate. The issuance of short-term KTBs will take place following revisions to the National Finance Act to be made in 2011/12.

FSC Approves Regulation to Improve Trading of Long-Term KTB Futures

In September, the Financial Services Commission (FSC) of the Republic of Korea approved the Korea Exchange's amended version of its Derivatives Market Business Regulation, which aims to enhance the trading of long-term KTB futures. The revised version calls for harmonizing regulations on short-term and long-term KTB futures to improve their accessibility and facilitate the trading of these derivative instruments. This provision includes a change of the final settlement method for 10-year KTB futures to cash settlement (from physical delivery) in order for primary dealers to actively trade 10-year KTB futures. The amended version aims to stabilize price movements and enhance market-making functions in the KTB futures market.

Malaysia

BNM Further Liberalizes FX Rules

In August, Bank Negara Malaysia (BNM) announced the further liberalization of foreign exchange (FX) administrative rules to promote efficiency in trade. The new rules provide for the following:

(i) the use of the ringgit as a settlement currency for the international trade of goods and services between residents and non-residents;

(ii) the borrowing of any amount of foreign currency by a resident company from its respective non-resident, non-bank related company, thus abolishing all limits on cross-border, foreign currency inter-company borrowings; and

(iii) the lifting of the limit on residents' anticipatory hedging of current account transactions with licensed onshore banks.

To promote bilateral trade between the PRC and Malaysia, the China Foreign Exchange Trading System (CFETS) has issued a separate statement that allows trading of the yuan against the ringgit. Aside from the ringgit, other currencies that are traded on the CFETS are the US dollar, euro, pound sterling, yen, and Hong Kong dollar.

Philippines

Government and Petron Issue Peso Global Bonds

In September, the government sold PHP44.1 billion (USD1.0 billion) of 10-year bonds in the first offshore LCY bond issuance from an Asian country. These bonds were settled in US dollars and are exempt from the Philippines' 20% tax on interest income. The Philippine government noted that the peso global bond offer will enhance its debt investor profile by attracting more offshore investors to the country's capital markets, and that it will support its external liability management, especially in mitigating exposure to foreign exchange risk. The Bureau of Treasury does not count this bond as part of the government's PHP-denominated bond stock because the bonds are mainly held by foreigners and will be settled in US dollars upon maturity.

Over a month after the successful issue of the government's USD1.0 billion peso global bond, energy company Petron Corporation raised PHP20.0 billion from the issuance of a 7-year peso global bond. The Petron global peso bond pays a coupon of 7.0% per year, but is subject to a 20% withholding tax.

BSP Issues Moratorium on Approval of Banks' Hybrid Tier 1 and 2 Capital Instruments

Bangko Sentral ng Pilipinas (BSP) issued a memorandum in October to temporarily halt the approval of Hybrid Tier 1, Tier 2, and other redeemable capital instruments. According to BSP, the moratorium was put in place to avoid uncertainty with the upcoming adoption of the Basel 3 reform package, as some debt instruments that are compliant with existing regulatory capital rules may be considered non-compliant under Basel 3. Banks and other financial institutions with approved but unissued Hybrid Tier 1 and Tier 2 capital instruments were also advised to defer issuance to ensure conformity with the forthcoming capital guidelines. The moratorium will be in effect until 31 December 2010. The new Basel 3 capital rules, subject to approval of the leaders of the Group of 20 countries, are targeted to be implemented beginning 1 January 2013.

Singapore

Singapore Exchange Launches Initiatives to Boost Bond Listing and Trading

In August, the Singapore Exchange (SGX) launched initiatives to promote the listing, trading, and distribution of fixed-income instruments in Singapore. Among the initiatives are measures to attract companies listed in Singapore to issue bonds that can be listed and traded on the SGX, which, in turn, plans to streamline the approval process for bond listings and cut the time required for approval in half.

In addition to attracting bond listings, SGX plans to encourage the listing and trading of preference shares and convertible bonds. By 1Q11, SGX expects to put in place an on-exchange secondary market allowing for the trading of Singapore Government Securities both by individual and institutional investors.

SGX Launches ADRs

In October, SGX launched American Depository Receipts (ADRs) on its GlobalQuote platform (SGX's quotation board for international securities). SGX-quoted ADRs will enable investors to trade shares of 19 major Asian companies, including Baidu and Suntech Power Holdings, which do not have Asian home exchanges. The availability of Asian ADRs will enable investors to trade the shares of all of these companies during Asian trading hours. The launch also marks cooperation between SGX and NASDAQ OMX to bring ADR quotations on GlobalQuote, thereby linking up market participants in both trading pools. The Bank of New York acts as the depository bank for this new ADR program.

Thailand

Finance Ministry Relaxes Capital Outflow Controls

In September, the Finance Ministry of Thailand announced regulatory changes to promote foreign investment and capital outflows in an effort to slow the appreciation of the baht, which has gained about 8% against the US dollar year-to-date due to capital inflows and a steady trade surplus. The five new regulatory measures include

(i) allowing Thai firms to invest and lend without limit to affiliate companies abroad;

(ii) allowing Thai firms to lend up to USD50 million per year to non-affiliated companies abroad;

(iii) increasing the foreign property investment cap from USD5 million to USD10 million;

(iv) increasing the maximum foreign currency deposits held by Thai individuals and companies from USD100,000 and USD300,000, respectively, to USD500,000 for both; and

(v) increasing mandatory repatriation of export earnings from USD20,000 to USD50,000.

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 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 as the government wants 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 Export–Import Bank of Thailand—are 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 Foreign Exchange Transactions

The Bank of Thailand (BOT) issued measures relaxing foreign exchange regulations to increase the flexibility of Thai businesses in managing foreign exchange risks. Effective 12 October, Thai exporters were permitted to transfer foreign currency deposits to counterparties in Thailand for payment of goods and services, with the limit on foreign exchange 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.

Viet Nam

Fees on Corporate Bonds to Be Cut by 50%

In August, the prime minister's working group proposed that the Ministry of Finance reduce corporate bond issuance acceptance fees by 50% in an effort to harmonize them with fees on other licenses such as investment registration and construction. The proposed changes would adjust fees to the following levels:

(i) VND5.0 million for bond issues of less than VND50 billion,

(ii) VND10.0 million for issues of less than VND150 billion,

(iii) VND17.5 million for issues of less than VND250 billion, and

(iv) VND25.0 million for issues larger than VND250 billion.

Viet Nam's Central Bank to Revise Bank Legal Capital Roadmap

In August, the State Bank of Vietnam's governor signed Decision No. 2020/QD-NHNN forming a draft commission to prepare, revise, and edit Decree No. 141/2006/ND-CP, which promulgates minimum chartered capital and the accompanying time lines for local banks. The proposal seeks to set minimum legal capital for commercial banks at VND3 trillion by the end of 2010, VND5 trillion by the end of 2012, and VND10 trillion by the end of 2015. Currently, Viet Nam has nine commercial banks with over VND3 trillion in chartered capital, while 30 banks have less than VND3 trillion.