Policy and Regulatory Developments

People's Republic of China

PBOC Expands Deposit Coverage for Reserve Requirement Ratios

On 29 August the People's Bank of China (PBOC) announced that for the purpose of calculating required reserves, margin deposits—such as those paid for issuing bankers' acceptances, letters of guarantee, and letters of credit—would be included among items that must be reserved against. The amount to be set aside as reserves will be divided over stages to allow banks time to adjust, with the largest banks asked to set aside the reserves over three stages and smaller banks over six stages. The corresponding increase in required reserves is estimated to be the equivalent of a 100 bps–150 bps hike in the reserve requirement ratio.

Local Governments Allowed to Issue Bonds

On 20 October the Ministry of Finance launched a trial program allowing four local governments to issue bonds directly in their own name. The four local authorities granted permission were the provinces of Guangdong and Zheijiang, and the municipalities of Shanghai and Shenzen.

Hong Kong, China

Hong Kong, China's Role as Offshore Renminbi Center Expanded

On 17 August the People's Republic of China's (PRC) Vice Premier Li Keqiang gave special attention to Hong Kong, China during his keynote speech at the Forum on the 12th Five Year Plan and Economic, Trade, and Financial Cooperation and Development between the PRC and Hong Kong, China. He stressed that plans for expanding Hong Kong, China's already important role as an offshore financial center would give Hong Kong, China an advantage as an offshore renminbi center. The plans mentioned include allowing Hong Kong, China's insurance companies to open branches in the PRC; the issuance of more sovereign bonds in Hong Kong, China; and the launch of the mini-Qualified Foreign Institutional Investor Program with an initial quota of CNH20 billion, of which 80% is to be invested in the onshore bond market.

Indonesia

BI Issues New Regulations on Export Proceeds and Foreign Debt Withdrawals

On 30 September Bank Indonesia (BI) issued new regulations governing export proceeds and foreign debt withdrawals. Under the new policies exporters will be required to transfer their proceeds from offshore banks into domestic banks within a period of 3 months after the date included on the Export Declaration Form. This policy will become effective on 2 January 2012. During the transition period exporters will be given up to 6 months from the date on the Export Declaration Form to comply with the new measure.

Another new regulation issued by BI requires debtors to conduct their foreign borrowing through domestic banks. The new regulations apply to borrowing in cash, non-revolving loan agreements, and debt securities.

According to BI, the main objective of these new policies is to strengthen macroeconomic stability, particularly exchange rate stability. BI governor Darmin Nasution said that the policies will improve the sustainability of foreign exchange flows into the domestic market by reducing dependence on short-term funding.

Indonesia Passes Bill to Create Financial Services Supervisory Authority

On 28 October Indonesia's House of Representatives passed a bill to create a new financial entity to supervise the country's financial sector by early 2013. The Financial Services Supervisory

Authority (OJK) will assume BI's supervisory role over commercial banks. OJK will also oversee capital markets and non-banking institutions that are currently monitored by the Capital Market and Financial Institution Supervisory Board (Bapepam LK).

Republic of Korea

Tax Revision Bill for 2011 Introduced

In September the Ministry of Strategy and Finance introduced its tax revision bill for 2011. The bill aims to facilitate sustainable growth and promote employment, improve fiscal conditions, and foster fair competition. One of the key aspects of the bill is fair taxation: yields derived from issuing foreign currency (FCY) bonds domestically will be taxed just like local currency (LCY) bonds, and capital gains taxes coming from financial products, including derivatives, will be legislated.

The Bank of Korea and PBOC Expand Bilateral Swap Arrangement

In October the Bank of Korea announced the renewal of its bilateral swap arrangement with the PBOC for 3 years. The size of the swap arrangement was expanded from KRW38 trillion–CNY180 billion to KRW64 trillion–CNY360 billion.

Malaysia

SC Issues Revised Guidelines for Corporate Bonds and *Sukuk*

In July the Securities Commission of Malaysia (SC) issued revised guidelines for private debt securities and *sukuk* (Islamic bonds) in line with the broader objectives of the Capital Market Masterplan 2. The revised guidelines replace the earlier Guidelines on Offering Private Debt Securities and Guidelines on the Offering of Islamic Securities, both of which were issued in July 2004. The new measures streamline the approval process and time-to-market for the issuance of corporate bonds and *sukuk*. The revised guidelines also remove the mandatory rating requirement for selected issues and offers, and provide greater disclosure of relevant information for debenture holders. The revised Islamic Security Guidelines provide more clarity to ensure compliance with *sharia'h* (Islamic law) rulings and principles endorsed by the *Sharia'h* Advisory Council of the SC.

Acts Amended Pursuant to Capital Market Masterplan 2

Amendments to the Securities Act 1993 and Capital Markets and Services Act 2007 (CMSA), pursuant to strategies outlined in the Capital Market Masterplan 2, came into force on 3 October. The amendments include

(i) a legal framework for the private retirement scheme industry,
(ii) licensing provisions in the CMSA,
(iii) regulations pertaining to over-the-counter (OTC) derivatives and a framework for reporting OTC derivative contracts,
(iv) a framework to enable the Audit Oversight Board to grant recognition to foreign auditors, and
(v) authority for the SC to obtain information considered necessary for the purposes of monitoring, mitigating, and managing systematic risks; and to issue directives for managing systemic risk.

Philippines

BSP Tightens Rules on Hedging Instruments

Bangko Sentral ng Pilipinas (BSP) imposed stricter rules on hedging instruments, particularly non-deliverable forward (NDF) contracts, to reduce speculation in the foreign exchange market. An NDF is a contract between two parties to buy or sell an asset such as foreign exchange at an agreed price and settlement date in the future. Counterparties settle the difference between the contracted NDF price and the spot price upon maturity. BSP raised the market risk weighting of NDF contracts to reflect the potential systemic risk they generate as a result of increased volatility in the foreign exchange market. The market risk capital charge to be used in the capital adequacy ratio (CAR) computation for banks for the net open position of NDF contracts will be raised from 10% to 15% effective 1 January 2012.

Singapore

MAS Announces New Capital Requirements for Singaporean Banks

The Monetary Authority of Singapore (MAS) released new capital rules for banks in Singapore that exceed the levels established under the Basel III agreement. Effective 1 January 2015, MAS will require Singapore-incorporated banks to have a minimum common equity Tier 1 capital adequacy ratio (CAR) of 6.5%, a Tier 1 CAR of 8.0%, and a total CAR of 10.0%. In addition, MAS will require Singapore-incorporated banks to meet the minimum capital adequacy requirements of Basel III by 1 January 2013, which is 2 years ahead of the Basel Committee's 2015 timeline. MAS plans to adopt Basel III's capital standards to improve the consistency, transparency, and quality of the capital base, and to strengthen the risk coverage of capital rules for banks.

Thailand

BOT and 11 Commercial Banks Sign MOU for BOT Savings Bond Sale

In August the Bank of Thailand (BOT) and 11 commercial banks signed a memorandum of understanding (MOU) permitting the commercial banks to sell 3- and 7-year BOT savings bonds worth THB50 billion between 26 August and 6 September. The savings bonds were issued to help ensure money market liquidity and provide an alternative investment vehicle for individuals, cooperatives, foundations, and nonprofit organizations.

Ministry of Finance Adjusts Application Period for LCY Bond Issuance

The Ministry of Finance announced in October that it has approved the adjustment of the application period for issuing LCY bonds in Thailand to three times in a year, covering the months of March, July, and November. The ministry also required that the applicant be able to issue within 9 months of the approval date for the bond issuance. The ministry stated that revisions to the application period would help facilitate and promote LCY bond issuance in Thailand.

Viet Nam

SBV Issues Circular on Corporate Bond Purchases by Credit Institutions and Foreign Bank Branches

The State Bank of Viet Nam (SBV) issued a circular enumerating the conditions required for credit institutions and branches of foreign banks to purchase corporate bonds. The circular notes that buyers of corporate bonds must be (i) commercial banks, (ii) finance companies, or (iii) foreign bank branches established under the Law on Credit Institutions. Furthermore, the SBV specified that these institutions must (i) have licenses issued by the SBV that cover the purchase of corporate bonds, (ii) meet SBV requirements on prudent operational ratios, and (iii) have an internal credit rating system of corporate bond issuers.

Viet Nam Hikes FCY Reserve Requirement Ratios

On 29 August the SBV hiked the FCY reserve requirement ratios for state-owned commercial banks, joint stock commercial banks, joint venture banks, foreign bank branches, and wholly owned foreign banks. The reserve requirement ratio for FCY demand deposits and time deposits of less than 12 months was raised from 7.0% to 8.0%, while the ratio for FCY time deposits of more than 12 months was increased from 5.0% to 6.0%. For the Viet Nam Bank for Agriculture and Rural Development, the Central People's Credit Fund, and cooperative banks, the reserve requirement ratio for FCY demand deposits and time deposits of less than 12 months was raised from 6.0% to 7.0%, while the ratio for deposits with terms of more than 12 months was raised from 4.0% to 5.0%.