Policy and Regulatory Developments

People's Republic of China

Allowable Investments for QFIIs Expanded

On 28 July, the China Securities Regulatory Commission (CSRC) issued new rules allowing Qualified Foreign Institutional Investors (QFIIs) to invest in the interbank market. QFIIs were previously only allowed to trade in the exchange market. The new regulations also allow QFIIs to invest in private placement bonds issued by small and medium-sized enterprises (SMEs). Finally, the 20% stake limit in a listed company was raised to 30%.

CSRC Approves First Direct Offshore Bond Fund

On 16 October, the CSRC approved Huaxia Asset Management's bid to launch a bond fund investing in offshore bonds under the Qualified Domestic Institutional Investor (QDII) program. The fund will invest 80% of its assets in bonds, unlike existing QDII funds that invest mostly in equities. The fund will also invest in bonds directly, rather than indirectly, as is the case with other QDII bond funds.

Allowable Offshore Investments of Insurance Companies Expanded

On 23 October, the China Insurance Regulatory Commission (CIRC) began allowing insurance companies to invest offshore in countries other than Hong Kong, China. The list of allowable countries was expanded to 45 and the allowable investments were expanded from bonds and equity to also include real estate, currency products, and fixed-income products other than bonds.

Bank of Communications Prices First ABS under Pilot Program

On 2 November, Bank of Communications priced the first asset-back security (ABS) under the new ABS pilot scheme. The security comprises three tranches. The A1-rated tranche had a size of CNY850 million and was priced at 4.2%. The A2-rated tranche had a size of CNY1.6 billion with a floating rate of 140 basis points (bps) over the 1-year deposit rate. The B-rated tranche was sized at CNY310 million with a floating rate of 300 bps over the 1-year deposit rate. An unrated subordinated tranche worth CNY263.3 billion will also be privately placed. The collateral for the notes comprises 60 corporate loans from 34 borrowers.

Hong Kong, China

HKMA to Implement First Phase of Basel III

On 19 October, the Hong Kong Monetary Authority (HKMA) announced that the first phase of its implementation of Basel III requirements would take effect on 1 January 2013. The first phase consists mostly of changes to the capital adequacy ratio, splitting it into three distinct ratios: (i) common equity Tier 1 capital ratio, (ii) Tier 1 capital ratio, and (iii) total capital ratio.

Indonesia

BI to Impose Capital Requirements on Foreign Lenders

In August, Bank Indonesia (BI) announced plans to require foreign banks to comply with minimum paid-up capital requirements. Current regulations require domestic banks to meet a IDR3 trillion capitalization. Foreign banks that will be affected by this new regulation are those that were set up at a time when BI allowed foreign lenders to open branches without establishing a locally incorporated company.

BI to Require *Shari'a* Banks to Comply with LTV Rule

In August, BI announced plans to require *shari'a* banks to comply with the loan-to-value (LTV) rule currently applied to conventional banks. The LTV rule requires a minimum down payment amount for those seeking housing and automotive loans, effective 15 June. The minimum down payment requirement is 25% for two-wheeled vehicles and 30% for 4-wheeled vehicles. *Shari'a* banks were excluded from the regulation as Islamic rules do not require down payments.

Republic of Korea

FSS Introduces Tighter Rules on Commercial Paper

The Financial Supervisory Service (FSS) announced in October that it had begun requiring issuers of asset-backed commercial paper to disclose the structure, credit ratings, and collateral of these instruments, together with information on the issuers' financial soundness and credit ratings. The FSS also announced that a one-stop inquiry system for commercial paper would be established in October and that it would strengthen its supervision of brokerages selling asset-backed commercial paper.

FSC and FSS Revise Regulations on Bank Supervision

The Financial Services Commission (FSC) announced in September a joint effort with the FSS to revise regulations on bank supervision for domestic implementation of Basel III standards, which will take effect in 2013. The revisions will include subdividing the criteria for the minimum capital requirement, which is 8% of total capital, into three criterion: (i) 4.5% of common equity Tier 1 capital, (ii) 6% of Tier 1 capital, and (iii) 8% of total capital. The revisions will also include the introduction of a capital buffer of 2.5 percentage points in addition to the minimum capital requirement.

Malaysia

ASEAN Trading Link Launches with the Connection of Bursa Malaysia and Singapore Exchange

ASEAN Exchanges—a collaboration among the seven stock exchanges of the Association of Southeast Asian Nations (ASEAN) that seeks to promote growth in the region's capital markets—announced the rollout of the ASEAN Trading Link on 18 September with the connection of Bursa Malaysia and Singapore Exchange. The ASEAN Trading Link allows connected brokers to execute trades directly to connected exchanges without having to be licensed with that exchange.

Bloomberg AIBIM Bursa Malaysia Corporate *Sukuk* Index Launches

Bloomberg announced in September the launch of an index developed in partnership with the Association of Islamic Banking Institutions Malaysia (AIBIM) and Bursa Malaysia. The Bloomberg AIBIM Bursa Malaysia Corporate *Sukuk* (Islamic bonds) Index will serve as a benchmark for investors in MYR-denominated *sukuk* in Malaysia. According to Bloomberg, the new index will track and measure the performance of the most liquid and credit worthy *sukuk* in Malaysia.

Philippines

BSP Requires Loss Absorbency Clause for Hybrid Instruments

Bangko Sentral ng Pilipinas (BSP) issued Circular 768 on 21 September, requiring instruments eligible as capital under Basel III rules to have loss absorbency features. The circular requires hybrid Tier 1 capital and lower Tier 2 capital to either be written off or converted into common equity upon the occurrence of a trigger event as determined by BSP. In addition, the circular states that "the issuance of any new shares as a result of the trigger event must occur prior to any public sector injection of capital so that the capital provided by the public sector is not diluted."

Singapore

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Thailand

BOT Announces Capital Account Liberalization Master Plan

In October, the Bank of Thailand (BOT) proposed the Capital Account Liberalization Master Plan to encourage businesses and depositors to diversify their investments and enhance business efficiency, create an environment for more balanced capital flows, and promote financial market development to facilitate economic integration under the ASEAN Economic Community, which comes into effect in 2015. Specifically, the BOT announced plans to relax rules on outward portfolio investment to allow (i) listed companies to directly invest in derivatives and securities products outside Thailand, (ii) Thai residents to buy foreign currency (FCY) bonds issued in Thailand, and (iii) institutional investors to freely unwind foreign exchange hedging. Additionally, the BOT stated that it will conduct an initial relaxation of foreign exchange regulations by the end of the year and that it will allow Thai individuals to invest in securities outside Thailand through securities companies or private funds without BOT approval.

SET Connects to ASEAN Trading Link

The Stock Exchange of Thailand (SET) became the third stock exchange to connect to the ASEAN Trading Link in October, following Bursa Malaysia and Singapore Exchange. The ASEAN Trading Link was launched in September to offer investors single entry-point access to ASEAN's participating stock exchanges. Brokers who are connected through the ASEAN Trading Link can execute trades directly on any of these three stock exchanges.

Viet Nam

Government Tasks the SBV to Strengthen the Banking Sector in 2013

On 8 October, the Government of Viet Nam released a resolution appointing the State Bank of Vietn Nam (SBV) to take necessary measures to tighten discipline in the banking sector and strengthen all weak banks in 2013. The SBV was also asked to design comprehensive solutions to deal with non-performing loans, increase foreign reserves, and strictly control the exchange rate. In the same resolution, the government re-emphasized that it will continue to pursue a flexible monetary policy to help businesses maintain access to capital while seeking to avoid a recurrence of high inflation. The government also announced it would continue to offer a 3-month extension of value added tax payments due in June 2012.

In addition, the Ministry of Planning and Investment has been instructed to speed up investment promotion and take more measures to mobilize and disburse official development assistance (ODA) and foreign direct investment (FDI) capital. The ministry will revamp its statistical methodology in accordance with international standards to improve socio-economic data collection.