Policy and Regulatory Developments

People's Republic of China

The PRC Tightens Rules on Interbank Bond Trading

On 9 May, the People's Republic of China (PRC) suspended trading of bond accounts by non-financial institutions on the interbank bond market. On 9 July, the People's Bank of China (PBOC) issued rules requiring interbank bond market participants to conduct all trades through the National Interbank Funding Center. The move is part of the government's crackdown on illegal bond trading activities. Among the activities that the government is targeting are the use of third parties by financial managers to move bonds off their balance sheets to manipulate profits and trading volumes, and the use of client funds to skim profits for personal gain.

The PRC Launches Treasury Bond Futures Trading

On 6 September, the trading of treasury bond futures, previously banned in 1995, resumed trading. The bond futures contract will be based on a hypothetical 5-year bond, but actual bonds with tenors between 4 years and 7 years will be allowed as the deliverable asset.

Shanghai Free Trade Zone Launched

On 29 September, the Shanghai Free Trade Zone was officially opened. At the time of the opening, 10 banks had already received approval to operate in the free trade zone. Companies' activities are subject to a "negative list" that details restrictions. Companies are free to conduct their activities so long as the acts are not specifically banned by the list, which includes restrictions on investments in telecommunications and broadcasting. Investments in news portals and online gaming are also banned. Also, foreign auto companies are still limited to a 50% stake in a joint venture and there will be restrictions on investments in financial institutions.

The free trade zone is expected to allow financial institutions to set their own borrowing and lending interest rates and the freer conversion of the renminbi is anticipated.

New Prime Lending Rate Launched

On 25 October, the PRC launched a benchmark lending rate to guide banks in setting lending rates to their prime customers. The benchmark is another step in the liberalization of the PRC's interest rates since it removed the limits on lending rates on 20 July. The new rate has a 1-year tenor and is set by nine commercial banks: Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of China, Bank of Communications, Citic Bank, Shanghai Pudong Development Bank, China Merchants Bank, and Industrial Bank.

Hong Kong, China

Malaysia and Hong Kong, China Agree to Strengthen Financial Cooperation

On 28 August, the Hong Kong Monetary Authority (HKMA) and Bank Negara Malaysia (BNM) held a meeting in Kuala Lumpur to discuss bilateral economic and financial issues. Following the meeting, the two central banks agreed to help strengthen economic cooperation by promoting trade and investment. Among the areas discussed were offshore renminbi business development and the internationalization of Islamic finance.

Indonesia

BI and PBOC Extend Bilateral Swap Arrangement

On 2 October, Bank Indonesia (BI) signed an extension of its bilateral swap arrangement with the PBOC amounting to CNY100 billion–IDR175 trillion (US$16.3 billion). The new agreement will run for 3 years and is subject to an extension depending on an agreement between the two parties. The new bilateral swap arrangement is expected to boost trade and direct investment between Indonesia and the PRC, and bolster the availability of short-term liquidity.

Indonesia and the Republic of Korea Establish Bilateral KRW–IDR Swap Arrangement

On 12 October, the ministries of finance and central banks of Indonesia and the Republic of Korea agreed to establish a bilateral KRW–IDR swap arrangement. The size of the swap arrangement is up to KRW10.7 trillion–IDR115 trillion (US$10 billion). The agreement will run for 3 years and is subject to an extension depending on an agreement between the two parties. The bilateral swap arrangement aims to promote bilateral trade and further strengthen financial cooperation between the two countries.

House of Representatives Approves the 2014 National Budget

On 25 October, the House of Representatives approved the 2014 national budget. The underlying macroeconomic assumptions included in the budget are (i) economic growth of 6.0%; (ii) an inflation rate target of 5.5%; (iii) an IDR–US$ exchange rate of IDR10,500–US$1, (iv) a 3-month treasury bill yield of 5.5%; (v) an Indonesian crude oil price of US$105 per barrel; and (vi) oil and gas lifting volumes set at 0.87 million barrels per day and 1.24 million barrels per day, respectively. The 2014 budget estimates central government revenues of IDR1,667.1 trillion and expenditures of IDR1,842.5 trillion, resulting in a budget deficit of IDR175.4 trillion, or the equivalent of 1.7% of gross domestic product (GDP).

Republic of Korea

Republic of Korea and UAE Establish Bilateral Currency Swap Arrangement

The Bank of Korea and the Central Bank of the United Arab Emirates (UAE) announced in October the establishment of a 3-year KRW–AED swap arrangement. The size of the bilateral currency swap arrangement is up to KRW5.8 trillion–AED20 billion (US$5.4 billion). The arrangement can be extended upon agreement by both parties and is aimed at promoting bilateral trade and financial cooperation between the Republic of Korea and the UAE.

Republic of Korea and Malaysia Establish Bilateral Currency Swap Arrangement

The Bank of Korea and Bank Negara Malaysia announced in October the establishment of a 3-year KRW–MYR swap arrangement. The size of the bilateral currency swap arrangement is up to KRW5 trillion–MYR15 billion (US$4.7 billion). The arrangement can be extended upon agreement by both parties and is aimed at promoting bilateral trade and financial cooperation between the Republic of Korea and Malaysia.

2013 Tax Revision Bill Finalized

The 2013 Tax Revision Bill was finalized in September, according to the Ministry of Strategy and Finance (MOSF). The revisions included increases in income tax deductions for long-term mortgage payments and rental payments, increases in the earned income tax credit and charitable donation tax credit, and reductions in sales taxes for rental houses and income taxes for small rental homes.

Malaysia

Malaysia, Singapore, and Thailand to Establish ASEAN CIS Framework

On 1 October, the Securities Commission Malaysia; Monetary Authority of Singapore (MAS), and Securities and Exchange Commission of Thailand signed a memorandum of understanding to establish the framework for an ASEAN Collective Investment Scheme (CIS) that will facilitate cross-border offerings to retail investors in Malaysia, Singapore, and Thailand. The signatories expect the framework to be implemented in the first half of 2014.

BNM and the Central Bank of the United Arab Emirates Enhance Cooperation

On 10 October, BNM signed a memorandum of understanding with the Central Bank of the United Arab Emirates to further strengthen Islamic financial services linkages between the two countries.

2014 Federal Budget Released

On 25 October, Malaysia announced the release of its 2014 federal budget covering economic activity; fiscal management; and human capital, urban, and rural development. The government's fiscal deficit will be reduced from 4.0% of GDP in 2013 to 3.5% in 2014 as Malaysia moves toward a balanced budget by 2020. The government assured the public that the federal debt level will not exceed the government's limit of 55% of GDP. Malaysia will implement a series of fiscal consolidation measures including a 6% goods and sales tax by 1 April 2015, the abolition of the sugar subsidy of MYR0.34 per kilogram effective 26 October, and an increase in the real property gains tax rates.

Philippines

BSP Releases Amended Rules on Market Valuation of Government Securities

On 27 September, BSP released the amended rules on the market valuation of government securities. As stated in BSP Circular 813, the benchmark or reference prices to be used for the market valuation shall be based on the weighted average of completed or executed deals in a trading market registered with the Securities and Exchange Commission (SEC). Only in the absence of completed or executed deals, shall the following be applied: (i) the simple average of all firm bids per benchmark tenor shall be used for benchmark government securities, and (ii) the interpolated yields derived from the benchmark or reference rates shall be used for non-benchmark government securities. The circular took effect 15 calendar days following its publication.

BSP Maintains Policy Rates

On 24 October, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) decided to keep its key policy rates—the overnight borrowing and lending rates—steady at 3.5% and 5.5%, respectively. The reserve requirement ratios and the interest rate for BSP's Special Deposit Account facility were also kept steady.

Singapore

Singapore and other APEC Economies to Launch Asia Region Funds Passport

On 20 September, the finance ministers of Singapore, Australia, the Republic of Korea, and New Zealand signed a statement of intent to jointly develop the Asia Region Funds Passport (ARFP), which will facilitate the cross-border offering of funds in the region. When implemented, the ARFP will offer fund managers operating in a passport economy a direct and efficient route to distribute their funds in other passport economies. Investors in the region will also benefit from having access to a broader range of quality investment products. As an inclusive regional initiative, the ARFP will strengthen the region's fund management capabilities, deepen its capital markets, and provide financing for sustainable economic growth.

The PRC Extends CNY50 Billion RQFII Quota to Singapore

On 22 October, the PRC and Singapore agreed on initiatives to strengthen their cooperation on financial sector development and regulation. One of these initiatives is for the PRC to extend its Renminbi Qualified Foreign Institutional Investor (RQFII) program to Singapore, with an aggregate quota of CNY50 billion, in order to allow qualified Singapore-based institutional investors to channel offshore renminbi from Singapore into the PRC's onshore securities markets. Under this initiative, RQFII license holders may also issue CNY-denominated investment products to investors based in Singapore, within the RQFII quota. This program will help diversify the investor base in the PRC's capital market and promote the renminbi for investment use. In addition, Singapore will be given consideration as one of the investment destinations under the new Renminbi Qualified Domestic Institutional Investor (RQDII) scheme. This will allow qualified PRC institutional investors to use renminbi to invest in Singapore's capital markets. The measure will help broaden the universe of assets available to PRC investors and expand the investor base in Singapore's capital markets.

Thailand

Thailand's Cabinet Approves Measures to Promote Stable Economic Growth

On 6 August, the Government of Thailand's Cabinet agreed on the implementation of measures focusing on stimulating private consumption, private investment, government spending, and exports. These measures, aimed at promoting stable economic growth, include (i) offering tax incentives to boost the tourism industry and promote the organization of seminars, (ii) promoting investments in the agro-processing industry, (iii) accelerating budget disbursements for fiscal years 2013 and 2014, (iv) expanding exports into potential new markets, and (v) increasing the access of small and medium-sized enterprises (SMEs) to financing.

Thailand Plans US$-Denominated Bond Issuance for Infrastructure Financing

The Government of Thailand plans to issue US$-denominated bonds worth between US$1 billion and US$1.5 billion in 2014 to help finance its infrastructure projects—such as transport infrastructure—as well as water management projects. The country's infrastructure needs for fiscal year 2014 was estimated at THB137 billion, and is part of the government's total funding needs worth THB756 billion for the fiscal year.

CGIF Guarantees Noble Group's THB2.85 Billion 3-Year Bond

The Credit Guarantee and Investment Facility (CGIF) announced in April its first guaranteed bond transaction, which is Noble Group's THB-denominated bond issuance worth THB2.85 billion sold in Thailand's LCY bond market. The bond has a tenor of 3 years, a coupon rate of 3.55%, and a rating of 'AAA(tha)' from Fitch Ratings (Thailand).

Viet Nam

SBV Issues New Rules on VAMC's Operations

On 6 September, SBV released Circular No.19/2013/TT-NHNN to regulate the purchase, sale, and resolution of nonperforming loans (NPLs) by the Viet Nam Asset Management Company (VAMC). The circular confirms that banks with a bad-debt ratio higher than 3% must sell their NPLs to VAMC, which will issue special bonds upon purchase of impaired loans. VAMC can restructure such loans and provide financial support to the debtors if the purchased loans satisfy all stipulated conditions such as ability to repay debts. VAMC can then sell the purchased impaired loans via auction, competitive offering, or an equity swap with corporate debtors.