Policy and Regulatory Developments

People's Republic of China

Property Companies Allowed to Issue Medium-Term Notes

On 3 September, the People's Republic of China (PRC) allowed qualified, listed property companies to issue medium-term notes on the interbank bond market. Funding from the notes can be used for new residential projects, operating cash flows, or bank loan repayment. The funds cannot be used for land purchases.

New Regulations to Manage Local Government Debt Risks

On 2 October, the State Council of the PRC passed new regulations governing local government debt. Under the new rules, local governments can now issue bonds directly subject to a quota. There are other restrictions such as the requirement that funding raised from bond issuances by local governments cannot be used to pay for existing government operations. It can only be used to repay debt servicing and to fund public services. In addition, local governments are no longer allowed to issue bonds through special funding vehicles or local-government-owned corporations.

Hong Kong, China

Hong Kong, China Issues Debut *Sukuk*

On 10 September, Hong Kong, China, issued its debut *sukuk* (Islamic bond). The *sukuk* was priced at a profit rate of 2.005%. The *sukuk* has an issue size of US$1.0 billion and demand was strong with orders exceeding US$4.7 billion. In terms of geography, buyers of the *sukuk* were diverse, with 36% going to the Middle East, 47% to Asia, 6% to Europe, and 11% to the US.

Indonesia

Bank Indonesia Issues Guidelines for State-Owned Companies on FX Hedging Transactions

On 17 September, Bank Indonesia issued guidelines for state-owned firms to engage in foreign exchange (FX) hedging transactions. Bank Indonesia noted that hedging transactions serve as an important measure to strengthen exchange rate stability and ease pressure in the domestic FX market. Through the issuance of the guidelines, Bank Indonesia expects the volume of FX hedging transactions by state-owned companies to increase, and for the perception to diminish that losses incurred from such activities are considered state losses. Bank Indonesia has been encouraging state-owned companies to undertake hedging transactions for foreign currency borrowings to cover FX risks.

Government Approves 2015 State Budget

On 29 September, the House of Representatives approved the 2015 state budget, which projects a deficit equivalent to 2.2% of gross domestic product (GDP). The 2015 budget deficit was up from the deficit projection of 1.7% made in the original 2014 state budget, but down from the projection of 2.4% in the revised 2014 state budget. The underlying macroeconomic assumptions for the 2015 state budget include (i) GDP growth of 5.8% year-on-year (y-o-y), (ii) annual inflation of 4.4% y-o-y, (iii) an exchange rate of IDR11,900 per US$1, (iv) a 3-month Treasury bill rate of 6.0%, and (v) an Indonesian crude oil price of US$105 per barrel.

Republic of Korea

Basel III LCR Introduced in the Banking Sector

In August, the Financial Services Commission (FSC) introduced Basel III's liquidity coverage ratio (LCR) to banks conducting business in the Republic of Korea. The FSC stated that domestic banks are obliged to meet the minimum LCR of 100% starting January 2015; domestic branches of foreign banks are required to meet the minimum ratio of 20% starting in 2015, and the ratio will be raised 10 percentage points each year to reach 60% by 2019; and the minimum ratio for specialized banks and policy banks will start at 60% in 2015 and climb by 10 percentage points per year to reach 100% by 2019.

Prudential Regulation Reform for the Asset Management Industry

The Republic of Korea's FSC announced in September plans for the reform of prudential regulations governing the country's asset management industry. The plans involve replacing the net capital ratio—which has been utilized since April 1997 as a standard for "prompt corrective action" covering asset management and securities companies—with a minimum capital requirement for the equity holdings of asset management companies. The plan is expected to take effect in April 2015.

Malaysia

Prime Minister Announces 2015 Federal Budget

On 10 October, Malaysia announced the release of its 2015 federal budget. The 2015 budget allocates MYR273.9 billion, an increase of MYR9.8 billion from the 2014 initial allocation. The government stated that the economy is expected to grow between 5% and 6% in 2015, and the government's fiscal deficit will be reduced to 3% of GDP. The government also announced planned amendments to tax rates in 2015, including a reduction in income taxes by 1%–3%, implementation of the goods and services tax of 6%, and abolition of the sales and services tax. Furthermore, the corporate income tax and small and medium-sized income tax will be reduced 1% each in 2016. To strengthen the Islamic financial market, the government plans to introduce the Investment Account Platform, a *shari'a*-compliant investment product that will allow investors to finance businesses, small and medium-sized enterprises, and other entities via the Islamic financial market. The Investment Account Platform will have an initial start-up fund of MYR150 million. The government also announced plans of further rationalization of its current subsidies. A report by the Ministry of Finance indicated a reduction in subsidies to MYR37.7 billion in 2015 from MYR40.6 billion in 2014.

Philippines

BTr Issues Circular for LCY Government Securities Secondary Market

On 22 September, the Bureau of Treasury (BTr) issued a circular on the Revised Rules and Regulations for the Issuance, Placement, Sale, Service, and Redemption of Treasury Bills and Bonds under Republic Act No. 245 (as amended). The circular provides guidance on the implementation of non-restricted trading across tax categories in the secondary market for Philippine LCY coupon-bearing government securities, with the intention of deepening liquidity in the bond market and providing additional investment avenues for tax-exempt institutions and individuals. The circular also covered the tax-tracking mechanisms and operating guidelines to be used in the trading and settlement of the bonds. These include the establishment and opening of a Securities Account for Tax Tracking (SATT), the monitoring of the balances in the SATT, the assignment of an Investor Code associated with the SATT, and the reimbursement of any final withholding tax—to be calculated by a tax-tracking facility—that may have been deducted from the proceeds of the tax exempt holder or seller. The circular is targeted to take effect on 27 October.

Bank of Japan and BSP Sign Third Bilateral Swap Arrangement

On 17 October, the Bank of Japan and the Bangko Sentral ng Pilipinas (BSP) signed their third Bilateral Swap Arrangement, which is an expansion of a prior agreement. The new arrangement allows a swap between US dollars and Philippine pesos of up to US$12 billion from Japan, and allows the swap between US dollars and Japanese yen of up to US$500 million from the Philippines. The arrangement also includes a crisis prevention scheme to address possible liquidity needs.

BSP Increases Minimum Capital Requirement for Banks

On 20 October, the Monetary Board of the BSP decided to increase the minimum capital requirement for all bank categories to further strengthen the banking system. The BSP noted that this is different from the Basel III requirements as implemented by previous BSP circulars. The new minimum capital requirement for universal and commercial banks will be tiered based on a bank's network size, as measured by the number of branches. For thrift, rural, and cooperative banks, the head office location and size of the physical network are to be considered in the tiering. Banks that will not immediately comply with the new capital requirement may avail of a 5-year transition period. These banks will be required to submit an acceptable capital build-up program. The banks that fail to submit an acceptable program and those that fail to comply with the new capital requirements shall be subject to restrictions on future expansion plans.

Singapore

ASEAN CIS Framework Launched

On 25 August, the Monetary Authority of Singapore (MAS), Securities Commission for Malaysia, and Securities and Exchange Commission (Thailand) jointly launched the Association of Southeast Asian Nations (ASEAN) Collective Investment Scheme (CIS) Framework to facilitate cross-border offers of CIS to retail investors. The ASEAN CIS Framework allows fund managers based in Singapore, Malaysia, and Thailand to offer CIS products to retail investors in all three markets under a streamlined authorization process.

Thailand

SEC Allows Commercial Banks to Offer Basel III-Compliant Tier 2 Instruments to Retail Investors

The Securities and Exchange Commission (SEC) announced in September that the Capital Market Supervisory Board has approved regulations to allow the offering of commercial banks' Basel III-compliant Tier 2 instruments to retail investors, with the regulations to take effect starting in 4Q14.

Revised Rules on Adequacy of Net Capital of Securities Companies

The SEC announced in September that the Capital Market Supervisory Board had approved the revision of rules governing securities firms that are unable to maintain adequate net capital as required. The revised rules took effect in October 2014.

Viet Nam

Viet Nam Releases New FCY Rules for Vietnamese Nationals

On 17 July, the Government of Viet Nam issued Decree No. 70/2014/ND-CP allowing Vietnamese nationals to deposit foreign currency (FCY) in local banks and withdraw principal and interest in the currency deposited. The decree also allows resident and nonresident to buy, transfer, or carry FCY abroad without the need to show certification of fulfilment of tax obligations in Viet Nam. Residents with FCY-denominated incomes from exports or other income sources abroad may transfer them into their FCY-denominated accounts in licensed credit institutions in Viet Nam. On the other hand, if residents intend to retain such income abroad, they must first acquire permission from the State Bank of Viet Nam (SBV).

VSD Issues Rules on Securities Lending

On 6 September, the Viet Nam Securities Depository (VSD) released the list of securities to be used as collateral under its Decision No. 111/QD-VSD on securities lending regulations. This comprises 223 codes listed on Viet Nam's two national stock exchanges, including government bonds and government-guaranteed bonds listed on the Ha Noi Stock Exchange. The rate to be deducted from the prices of securities used as collateral was set at 5% for government and government-guaranteed bonds, 30% for securities in the VN30 and HNX30 packages, and 40% for all other bonds. Lending rates shall be based on the agreement between the borrower and lender, but should not exceed 120% of the rate regulated by the SBV.