Policy and Regulatory Developments

People's Republic of China (PRC)

PBOC Signals Greater Yuan Flexibility

On 20 June, the People's Bank of China (PBOC) announced that the yuan's exchange rate would be allowed to adjust based on floating bands. The announcement signaled a move towards a more flexible exchange rate regime. The PBOC, however, ruled out a one-time revaluation of the currency and no timeframe was announced for the shift in policy.

Yuan Settlement Pilot Program Expanded

The PBOC announced on 22 June that it would expand coverage of its pilot yuan settlement program to include the rest of the world. Previously, the program, which allows for use of the yuan for trade settlement, had been limited to members of the Association of Southeast Asian Nations (ASEAN); Macao, China; and Hong Kong, China. The PBOC also expanded the number of provinces and municipalities participating in the pilot program by eighteen. The pilot program was introduced in July 2009. Shanghai and four cities in Guangdong province were the first cities in the PRC to be allowed to settle external trade using the yuan.

Insurance Regulator Sets Rules on Insurers' Investments

The PRC's insurance regulator, the China Insurance Regulatory Commission, issued a detailed set of rules on insurers' investments on 5 August. According to the Provisional Measures on Insurance Capital Uses, insurance companies will not be permitted to invest more than 10% of their assets (as of the most recent quarter) in the property market. The rules also set ceilings on investments in different asset classes. Insurance companies can invest up to 20% of their assets in equities and up to 5% in stakes in unlisted enterprises. Insurers will also be allowed to invest up to 20% of their assets in unsecured corporate bonds and the debt of non-financial firms, and up to 5% in debt associated with infrastructure projects. PRC insurance companies' assets totaled CNY4.5 trillion at the end of 2Q10, with equity investments accounting for 10% of these assets.

Mini-QFII Program Under Consideration

In July, the PRC was reported to be considering the establishment of a "mini-Qualified Foreign Institutional Investor (QFII)" scheme on a pilot basis. Under the scheme, the Hong Kong, China subsidiaries of PRC-based brokerages and fund managers would be permitted to channel offshore yuan back into the PRC's domestic capital markets, providing them with an expanded range of CNY-denominated investment opportunities. The scheme is reportedly set to be implemented in late 2010 or early 2011. The program, along with the opening up of the PRC's interbank bond market to overseas investors (see below), is part of the PRC's efforts to promote international use of the yuan.

PRC Begins to Open Interbank Bond Market to Overseas Investors

On 17 August, the PBOC announced that it would permit non-resident financial institutions greater access to the PRC's interbank bond market as part of a pilot program to promote cross-border yuan trade settlement and broaden investment channels for yuan to flow back to the PRC. Foreign investment in the PRC's capital markets had previously been limited to QFII program participants.

Under the measures announced by the PBOC, central banks, yuan-clearing banks, and banks based in Hong Kong, China and Macao, China that are participating in the PRC's yuan trade settlement program will be allowed to invest their yuan holdings in the PRC's interbank bond market. Institutions approved to participate in the program will be subject to investment quotas set by the PBOC.

Hong Kong, China

HKMA and PBOC Signs Supplementary Memorandum of Cooperation on Yuan Transactions

On 19 July, the Hong Kong Monetory Authority (HKMA) and PBOC signed a supplementary memorandum of cooperation regarding the expansion of the existing yuan trade settlement scheme. The HKMA and PBOC have agreed to strengthen cooperation and further promote Hong Kong, China's status as a yuan market platform in an effort to develop more CNY-denominated business outside of the PRC.

Also, the PBOC and Bank of China (Hong Kong) signed a revised settlement agreement on yuan clearing. According to the HKMA, following the revision of the settlement agreement, there will no longer be restrictions on banks in Hong Kong, China in establishing yuan accounts for and providing related services to financial institutions. In addition, individuals and corporations will be able to conduct yuan payments and transfers through banks. As a result, many types of CNY-denominated financial intermediation are expected to be introduced in Hong Kong, China.

Indonesia

Policy Package to Strengthen Monetary Management and Develop Financial Markets

In June, Bank Indonesia (BI) announced a policy package that aimed to boost the effectiveness of monetary policy transmission, shore up financial system stability, and encourage financial market deepening. The package includes the following measures:

(i) Effective 17 June, BI widened the range of its overnight interbank money market rate from 6.0%–7.0% to 5.5%–7.5%.

(ii) Effective 1 July, the net open position holding limit of foreign exchange by banks was capped at 20% of capital.

(iii) Effective 7 July, a minimum 1-month holding period is required for investors of *Sertifikat* Bank Indonesia (SBI) with 1-month maturities. Also, new monetary instruments in the form of term deposits were introduced.

(iv) BI began issuing longer-tenor SBI with maturities of 9-months, effective the second week of August, and 12-months, effective the second week of September.

(v) By 2011, BI will introduce three-party repurchases of government bonds.

According to BI, these policies are not being instituted to control the foreign exchange market, but rather to support sustainable macroeconomic stability and strengthen the momentum of economic recovery.

Debt Issuance to be Trimmed

In late July, the Ministry of Finance reported that government spending was sluggish in the first half of the year, resulting in a lower-than-projected budget deficit for 2010. The government managed to spend only IDR395.8 trillion, or 35.1% of the target set in the 2010 revised state budget, in the first half of the year. Revenue collection reached 44.7% of the target. This resulted in a budget surplus amounting to IDR47.9 trillion in the first half of 2010. As a result, the Ministry of Finance now estimates a deficit equivalent to only 1.5% of GDP for the year as a whole, compared with its earlier forecast of 2.1%.

In line with this development, the government will trim its remaining debt issuance by 26%. The debt issuance target will be reduced by IDR15 trillion out of the IDR58 trillion worth of debt still to be issued.

Treasury Bill Issuance to be Reduced

In mid-August, Rahmat Waluyanto, Director General of Debt Management announced that the Ministry of Finance will reduce treasury bill issuance to control refinancing risks. He explained that the value of short-term treasury bonds with tenures of less than 5 years (including treasury bills) accounts for 18% of total IDR-denominated treasury notes. In the future, this percentage will be cut to less than 10% to attract more capital into the long-term treasury bond market to lessen the market's vulnerability to the risk of capital flight.

BI Announces New Regulations on Reserve Requirements and Bank Lending

In September, 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-point 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 new regulation designed to give banks incentives for maintaining their loan-to-deposit ratio within a range of 78%–100%, effective 1 March 2011.

Republic of Korea (Korea)

Korea To Introduce Short-Term KTBs

In July, Korea publicized 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 Promote Trading of Long-Term KTB Futures

In September, the Financial Services Commission (FSC) of Korea approved the Korea Exchange's amendments to the 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 the accessibility of KTB futures and facilitate the trading of these derivative instruments. The amended regulation, which is expected to be implemented in October, 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 PRC 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

Bond Exchange Program Planned

In August, the Philippine Bureau of the Treasury revealed its plan to allow the exchange of shorter- and longer-term bonds in order to lengthen the maturity profile of the Philippine government's debt. In particular, 5-year government bonds can be exchanged for 10-year bonds, while 10-year bonds can be exchanged for 20- or 25-year bonds. This bond exchange program is expected to be launched by the end of the year.

Singapore

PBOC and MAS Agree to a Bilateral Currency Swap

On 23 July, the PBOC and the Monetary Authority of Singapore (MAS) agreed to a bilateral currency swap arrangement to promote bilateral trade and direct investment. The swap arrangement will provide PRC yuan liquidity of up to CNY150 billion and Singapore dollar liquidity of up to SGD30 billion. The initial term of the arrangement is 3 years with the possibility for extension.

SGX 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. The SGX plans to streamline the approval process for bond listings and cut the time required for approval in half.

In addition to attracting bond listings, the SGX plans to encourage the listing and trading of preference shares and convertible bonds. By 1Q11, the 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.

Thailand

Thai Cabinet Approves Draft Securities Bill

In May, the Thai Council of Ministers approved a draft securities bill that allows the demutualization of the Stock Exchange of Thailand (SET). The bill will pass through the National Economic and Social Development Board and the Commerce Ministry for scrutiny. The SET will be the trading center and the Securities and Exchange Commision (SEC) will be in charge of capital market development and rule formulation. The Finance Ministry proposed the amendment to better connect Thailand's financial markets with the global economy and improve management of the free flow of investments.

SEC Approval and Credit Rating Required for State-Owned Enterprises and Government Agencies to Issue Bonds

The SEC announced a regulation that requires state-owned enterprises and government agencies to obtain SEC approval and a credit rating before issuing bonds. This rule has previously only applied to private companies issuing debt instruments. The Thai Finance Ministry has been reducing the financial dependency of state-owned enterprises and state agencies on the central government by decreasing the amount of guaranteed debt, and signaling that such enterprises and agencies need to rely less on the government for financing.

Viet Nam

SBV to Base Policy Rate on Market Rates

In June, the Vietnamese National Assembly passed legislative amendments requesting the State Bank of Vietnam (SBV) to use market interest rates as a basis of monetary policy. The SBV usually publishes a base rate every month, but with the amendment, the SBV will publish monthly market rates as reported by credit institutions. The changes will take effect on 1 January 2011.

Limited Liability Companies to Issue Bonds

In July, the Ministry of Finance issued a draft decree that allows limited liability companies to issue corporate bonds in the domestic and international capital markets. The draft decree identifies which limited liability companies are allowed to issue bonds and provides a legal framework to enterprises on international bond issuance.