Policy and Regulatory Developments

People's Republic of China

PBOC Hikes Reserve Requirement Ratios

In response to rising inflation and growing credit risks, the People's Bank of China (PBOC) embarked on a series of reserve requirement ratio hikes, raising the ratio 50 basis points (bps) in every month in 1H11. As of end-June, the reserve requirement ratio stood at 21.5% for large financial institutions and 19.5% for small and medium-sized institutions.

Foreign Banks Allowed to Underwrite Corporate Debt

On 17 June, the National Association of Financial Market Institutional Investors (NAFMII) gave permission to the local units of HSBC and Citibank to underwrite corporate debt, making them the first foreign banks with this underwriting authority.

Hong Kong, China

HKMA Launches CNH Fiduciary Account Service for Banks[5]

On 31 March, the Hong Kong Monetary Authority (HKMA) launched the CNH Fiduciary Account Service to provide another investment outlet for banks' CNH deposits as an alternative to the designated clearing bank, Bank of China (BOC). The service will effectively allow banks to invest CNH deposits directly with the PBOC via a custodial arrangement with BOC.

SFC to Regulate Credit Rating Agencies

On 28 April, the Securities and Futures Commission (SFC) announced that it would begin requiring credit rating agencies and their analysts to be licensed.

[5] CNH is the three-letter currency code commonly used for offshore renminbi.

Indonesia

Holding Period for SBI Set at 6 Months

Effective 13 May, the holding period for *Sertifikat* Bank Indonesia (SBI)—the amount of time before they can be sold by investors in the secondary market—was extended to 6 months. This policy aims to reduce the potential for sudden reversals of foreign short-term funds.

Finance Ministry Issues Islamic Treasury Bills

On 2 August, the Finance Ministry issued its maiden Islamic treasury bills, as part of efforts to diversify and increase the liquidity of Islamic bond instruments. The first issue of Islamic treasury bills carried a maturity of 6 months.

Republic of Korea

Investment of Foreign Exchange Agencies in Domestic Foreign Currency-Denominated Bonds Restricted

The Bank of Korea restricted foreign exchange agencies' investments in foreign currency-denominated bonds issued domestically for Korean won financing, effective 25 July. This was made in light of the Bank of Korea's new measures to enhance regulations on foreign currency-denominated loans implemented in July 2010, requiring these loans to be used for overseas purposes only. The Bank of Korea has noted that domestic foreign currency-denominated bond issuance by local enterprises has increased recently, with issuers converting 70% of their proceeds into the won.

Guidelines on Covered Bond Issuance Released

In June, the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS) jointly released guidelines on covered bond issuance, including the definition of covered bonds as well as the requirements for their issuance and cover assets. The guidelines specify that the eligible issuers of covered bonds are banks with more than a 10% Bank for International Settlement (BIS) ratio, or securitization entities established by such banks. Furthermore, the issuance amount must not be greater than 4% of the issuer's total liabilities and the maturity profile must be between 1 and 30 years. Finally, the cover assets must comprise certain mortgage loans and mortgage-backed securities (MBSs) issued by the Korea Housing Finance Corporation.

Preliminary Primary Dealer System Launched

The government launched its preliminary primary dealer (PPD) system in March in order to enhance the market-making primary dealer system and help further the development of the Korean Treasury Bond (KTB) market. In April, the government appointed two foreign banks—ING CB Seoul and Credit Agricole CIB Seoul—as PPDs in the domestic bond market. PPDs can participate in KTB auctions and conduct market-making obligations, but receive fewer incentives than primary dealers.

Malaysia

SC Launches New Capital Market Masterplan

In April, the Securities Commission (SC) launched the Capital Market Masterplan 2 (CMP2), a continuation of the previous Capital Market Masterplan, in an effort to expand the role of domestic capital markets in financing economic growth. The CMP2 aims to provide market participants a clear understanding of the government's long-term strategies for the development of Malaysia's capital markets, including

(i) promoting capital formation,
(ii) expanding intermediation efficiency and scope,
(iii) deepening liquidity and risk intermediation,
(iv) facilitating internationalization, and
(v) building capacity and strengthening information infrastructure.

The CMP2 cites the need to increase the capacity of the bond market to finance a wider base of industries and projects, as well as more sophisticated ventures. To this end, the CMP2 has articulated strategies that include

(i) strengthening disclosure and documentation standards and practices,
(ii) enhancing the credit rating agency regulatory framework,
(iii) reviewing the bond default process and promoting an active market for pricing distressed issues,
(iv) expanding participation of the investment management industry in the bond market,
(v) strengthening bond trading and post-trade infrastructure,
(vi) facilitating greater retail participation in the bond market, and
(vii) expanding the range of fixed-income products.

The CMP2 also outlines governance strategies to ensure investor protection and stability.

SC Issues Revised Guidelines for Corporate Bonds and *Sukuk*

In July, the SC issued revised guidelines for private debt securities and *sukuk* (Islamic bonds) in line with the broader objectives of the CMP2. The revised guidelines will 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 revised guidelines 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 or offers and provide greater disclosure of relevant information for debenture holders. The revised Islamic Security Guidelines provide greater clarity to ensure compliance with *sharia'h* (Islamic law) rulings and principles endorsed by the *Sharia'h* Advisory Council of the SC.

Philippines

BSP Raises Reserve Requirement Ratio to 10%

On 28 July, the Bangko Sentral ng Pilipinas (BSP) raised the statutory reserve requirement for peso deposit liabilities and deposit substitutes of all banks and non-bank financial institutions with quasi-banking functions. The statutory reserves of universal and commercial banks increased from 9% to 10%. Including a liquidity reserve requirement of 11%, the latest adjustment raised the total level of required reserves to 21% from 20%. The reserve requirement hike was a preemptive move to counter inflationary pressures arising from excess liquidity driven by strong capital inflows due to a favorable outlook for the Philippine economy. BSP, however, stated that inflation risks were still present and it remains ready to implement measures to ensure price stability.

Singapore

SGX to Trade SGS

The Singapore Exchange (SGX) commenced trading of Singapore Government Securities (SGSs) on 8 July in an effort to improve price transparency and liquidity in SGS bonds. It will also provide retail investors with a safe but higher-yielding alternative to bank deposits. Prior to this development, investors could only trade SGS bonds through dealer banks. A total of 19 SGS bonds amounting to SGD74 billion are currently traded on the SGX, with maturities of 5, 7, 10, 15, and 20 years. SGX's Central Depository acts as the custodian of SGS bonds.

SGX to Begin Clearing Non-Deliverable Forwards in September

SGX announced that in September it will begin clearing non-deliverable forwards (NDFs) of emerging Asian currencies, including the People's Republic of China (PRC) renminbi, Indonesian rupiah, Indian rupee, Korean won, Malaysian ringgit, Philippine peso, and NT dollar. The move was the result of new regulations in most G-20 economies requiring that trades involving a number of previously over-the-counter (OTC) derivatives be made through a central clearinghouse in order to provide a guarantee to the counterparty if the other party defaults. Though Singapore has not announced any mandatory requirements for central clearing, the finalization of rules on derivatives clearing in the United States, European Union, and several Asian countries will likely drive the success of this service. NDFs represent a large share of the trade in emerging market currencies as a majority of them are not fully convertible outside their country of origin. SGX successfully launched its first financial OTC derivatives clearing service in November for Singapore dollar interest rates.

Thailand

Thai Treasury Department Plans to Issue Securitized Bonds

The Treasury Department of Thailand announced in July its plans to issue THB3 billion worth of securitized bonds to finance property development projects. A major component of the construction efforts will be new government office buildings in Soi Ratchakru, Phaholyothin Road. The estimated construction cost of this project is THB2 billion–THB3 billion. If approved by the government, it would be the second time that Thailand has issued securitized bonds since it issued a THB21 billion securitized bond in 2005.

Viet Nam

Viet Nam Hikes Foreign Currency Reserve Requirement Ratios

The State Bank of Viet Nam (SBV) hiked foreign currency reserve requirement ratios for state-owned commercial banks, joint stock commercial banks, joint venture banks, foreign bank branches, and wholly owned foreign banks in June. The reserve requirement ratio for foreign currency demand deposits and time deposits with terms of up to 12 months was raised to 7.0% from 6.0%. For foreign currency deposits with terms longer than 12 months, the reserve requirement ratio was increased to 5.0% from 4.0%. For the Viet Nam Bank for Agriculture and Rural Development, Central People's Credit Fund, and cooperative banks, the reserve requirement ratio for foreign currency demand deposits and time deposits with terms of up to 12 months was set at 6.0%, while that for deposits with terms of more than 12 months was set at 4.0%.