

# Policy and Regulatory Developments

## People's Republic of China

### The PRC Widens CNY Trading Band

On 14 April, the People's Republic of China (PRC) widened the band in which the CNY is allowed to trade against the United States (US) dollar. The trading band was widened from 0.5% to 1.0% above or below the daily reference rate.

### The PRC, Japan, and the Republic of Korea Agree to Promote Cross-Border Bond Investment

On 3 May, the PRC, Japan, and the Republic of Korea agreed to enhance trilateral financial cooperation. The three countries agreed to promote investment by their respective foreign reserve authorities in each other's local bond markets.

### PBOC Reduces Reserve Requirement Ratios

On 14 May, the People's Bank of China (PBOC) cut banks' reserve requirement ratio by 50 bps. It was the second reserve requirement ratio cut this year.

### Pilot Program for SME Bonds Launched

On 23 May, the PRC launched a pilot program for the issuance of private placement bonds by small- and medium-sized enterprises (SMEs). The interest rates for the bonds will be capped at a maximum of three times the benchmark policy rate and the bonds must have maturities of 1 year or more.

### The PRC and Japan Begin Direct CNY-JPY Trading

On 30 May, the PRC and Japan began directly trading their currencies, bypassing the need to first convert the currencies into US dollars.

Also, unlike CNY-US\$ trading, CNY-JPY trading conducted in Japan will not be subject to a peg. However, CNY-JPY trading conducted in the PRC will be subject to a trading peg. The PBOC said that the move will help develop the foreign exchange market and reduce trading costs between the two countries.

### PRC Expands Asset-Backed Securitization Program for Banks

On 8 June, the PRC launched a pilot program for asset-backed securitization in the banking sector. The program is an expansion of a prior asset-backed securitization program that was halted in 2008. Under the new program, the investor base will be expanded to include insurance companies, investment funds, corporate pension funds, National Social Security Funds, and other qualified non-bank institutional investors. Ratings from two agencies will be required and the originator is required to maintain a 5% equity tranche in the securitized assets.

### The PRC Cuts Benchmark Rates

On 8 June, the PRC cut interest rates by 25 bps for the first time in 3 years. In addition, it adjusted the bands by which banks can vary their rates from the benchmark policy rates. The upper limit for deposit rates was set at 110% and the floor for lending rates was set at 80%. The PRC cut interest rates again on 5 July, this time by 31 bps for the lending rate and 25 bps for the deposit rate. This set the 1-year benchmark lending rate to 6.0% and the deposit rate to 3.0%. Also, the floor for lending rates was adjusted to 70% of the benchmark.

### The PRC Limits Local Government Bond Issuance

On 28 June, during the budget session of the Standing Committee of the National People's

Congress, the government rescinded an article in a budget law that would have allowed local governments to issue bonds directly. The move was taken in order to help contain fiscal risks.

The move, however, will not affect the prior approval given to Shanghai, Shenzhen, Guangdong, and Zhejiang to issue local government bonds subject to a quota.

### **NAFMII Issues Guidelines for Asset-Backed Securities of Non-Financial Companies**

On 8 August, the National Association of Financial Market Institutional Investors (NAFMII) issued guidelines allowing non-financial corporations to issue asset-backed securities. Previously, only banks were allowed to issue asset-backed securities. Under the guidelines, the bonds can either be sold through the interbank market or via private placement. If the bonds will be sold through the interbank market, there should be at least two ratings from two different rating agencies. Ningbo Urban Construction Investment, Nanjing Public Holding Group, and Shanghai Pudong Road & Bridge Construction were the first to issue bonds under the new rules.

## **Hong Kong, China**

### **HKMA Removes 20% Renminbi Net-Open Position Limits**

On 22 May, the Hong Kong Monetary Authority (HKMA) removed the 20% renminbi net-open position limit for authorized institutions. The affected institutions may now set their own position limit so long as the HKMA is informed and endorses the proposed limit.

### **Renminbi Liquidity Facility Opened**

On 15 June, the HKMA established a facility through which authorized institutions can obtain renminbi funding, provided sufficient eligible collateral is available. The renminbi funding has a tenor of 1 week; eligible collateral includes Exchange

Fund Bills and Notes (EFBNs), Hong Kong Special Administrative Region (HKSAR) bonds, and CNH-denominated bonds issued by the PRC.<sup>6</sup>

### **HKMA Launches Microfinance Scheme**

On 29 June, the Hong Kong Mortgage Corporation, in cooperation with six banks and five non-governmental organizations (NGOs), launched the Microfinance Scheme to provide microfinance loans of up to HKD300,000 with a maximum tenor of 5 years. The target borrowers for the program are business starters; self-employed persons; and those wishing to undergo training, upgrade their skills, or take certification programs.

## **Indonesia**

### **BI Issues FCY Term Deposit**

In June, Bank Indonesia (BI) began offering a term deposit instrument for foreign currency (FCY). The new instrument involves the placement of FCY by banks with BI. According to the central bank, the term deposit will be managed through various foreign exchange (FX) transactions to increase the FX supply in the market and enhance monetary policy operations through FX swap operations. The FCY term deposit facilities will carry maturities of 7, 14, and 30 days, and will be auctioned every Wednesday, or on other days as specified by BI. The central bank held its first auction on 13 June, consisting of 7- and 14-day term deposits. The auction was oversubscribed as bids reached US\$1.6 billion compared with a target of US\$700 million.

### **PBOC and BI Interbank Bond Market Agreement**

On 21 June, the PBOC and BI signed an Agency Agreement that will allow BI to invest in the interbank bond market of the PRC. The agreement reflects close collaboration between the PBOC and BI, and represents cooperation as a follow-up to their bilateral swap agreement. According to BI, access to the PRC bond market will facilitate

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<sup>6</sup> CNH bonds are renminbi-denominated bonds issued in Hong Kong, China.

efforts to diversify its FX reserves. As of end-June, Indonesia's foreign exchange reserves totaled US\$106.5 billion.

### **BI Announces New Regulations on Bank Ownership**

In July, BI announced new regulations limiting investor ownership of Indonesian banks. Under the new rules that became effective 13 July, the new acquisition of a domestic commercial bank by a financial institution is limited to a 40% ownership stake, a non-financial institution to 30%, and families or individuals to 20%. State-owned banks and banks undergoing a recovery are exempt from the new rules. Also, exemptions can be granted for new acquisitions of listed banks exhibiting financial strength and possessing a Tier 1 capital ratio of more than 6%.

### **BI and the Indonesian Government Announce Measures to Address Increasing Current Account Deficit**

In August, BI and the government held a coordination meeting to discuss measures to help the economy cope with a rising current account deficit. New measures announced on the part of BI include the following: (i) BI will allow investors to hedge their FX transactions with financial instruments carrying a minimum tenor of 1 week from a minimum of 3 months previously, effective 14 August; (ii) BI raised the floor of its deposit facility rate by 25 bps to 4.0% from 3.75%; the upper limit remains at 6.75%; (iii) BI also plans to tighten credit growth by strengthening the implementation of Loan-to-Value (LTV) limit, including a plan to ban the use of unsecured personal loans for credit advances. On the government side, a number of policies will be pursued to strengthen the current account to boost exports, manage imports, and improve the investment climate through fiscal instruments. In particular, anticipatory measures have been undertaken by the government with respect to taxation and custom duties.

## **Republic of Korea**

### **Regulation on Corporate Bond Underwriting Amended**

According to the Financial Supervisory Service (FSS), the regulation on underwriting corporate bonds was amended in April to require lead arrangers to conduct due diligence on corporate bond issuers and carry out demand forecasting in order to determine investors' level of demand and desired pricing for the bond.

### **MOSF Reports Economic Policy for 2H12**

The Ministry of Strategy and Finance (MOSF) reported in June that the economic policies of the Republic of Korea in the second half of the year would focus on minimizing the adverse effects of the global economic crisis on the domestic economy, conducting economic reforms, and supporting the working class. MOSF mentioned seven important tasks for the government to pursue, including (i) dealing with global financial turmoil effectively, (ii) continuing with fiscal stimulus by raising budgetary spending and providing supplementary budgets, (iii) establishing a facility investment fund to support such investment, (iv) keeping consumer price inflation at or near 2.0%, (v) generating 400,000 jobs within the year, (vi) promoting microfinance programs and housing support programs, and (vii) nurturing certain sectors as future growth engines.

### **FSC Forms Task Force for Legislation of Covered Bond Act**

In July, the Financial Services Commission (FSC) formed a task force that will help legislate the Covered Bond Act and thereby encourage banks to issue covered bonds. The FSC has reported that with the legislation of the Covered Bond Act, issuance of covered bonds will help banks lower their funding costs. The FSC expects that the draft bill will be submitted to the National Assembly for approval in November.

## Malaysia

### **BNM Announces Renminbi Settlement Services**

Bank Negara Malaysia (BNM) announced that Renminbi Settlement Services (RSS) would be included in its Real-Time Electronic Transfer of Funds and Settlement System (RENTAS), effective 21 March. Bank of China (Malaysia) Bhd. has been appointed as the onshore settlement institution for the RSS, which is expected to provide greater efficiency and competitiveness in trade settlement, facilitate bilateral trade between Malaysia and the PRC, and provide a natural hedge against the fluctuations and volatility of other currencies to eliminate settlement risk for renminbi transactions.

### **BNM, Euroclear, and HKMA Unveil Pilot Program for Cross-Border Bond Transactions**

BNM, Euroclear Bank, and the HKMA announced the launch of a pilot platform in March. The platform, which became operational on 30 March, allows investors in Hong Kong, China and Malaysia to buy and hold foreign debt securities, and settle cross-border transactions on a delivery-versus-payment basis. According to BNM and HKMA's joint press release, the platform is intended to facilitate the harmonization of market practices and standardization of the issuance and settlement of debt securities in order to deepen Asian bond market liquidity, attract investment, and increase operational efficiency. The pilot platform will optimize existing system links between HKMA's Central Moneymarkets Unit (CMU), BNM's RENTAS, and Euroclear, as well as strengthen the connections between local central securities depositories and FCY real-time gross settlement systems. It will also contain a comprehensive Asian debt securities database maintained by Euroclear. The new infrastructure is expected to strengthen cross-border issuance of local bonds in Hong Kong, China and Malaysia, and the rollout of the platform will provide investors and market intermediaries

with efficient and cost effective cross-border access to the Hong Kong, China and Malaysian bond markets.

## Philippines

### **BSP Adopts Stricter Compliance Rules for Banks**

In May, Bangko Sentral ng Pilipinas (BSP) adopted global practices for good corporate governance based on the Basel Committee on Banking Supervision's Principles for Enhancing Corporate Governance. These guidelines emphasize the need for the Board of Directors of banks to enhance their ability to exercise objective judgment and ensure a system of checks and balances.

The guidelines also covered the appointment and reporting line of a Chief Risk Officer. The performance ratings of the Chief Risk Officer should be confirmed by the Board of Directors and any replacement for this position should be reported to BSP.

The approved guidelines are the first of a three-part analysis of corporate governance, which will be followed by further reports governing internal controls and risk management. The three-part governance package is expected to be completed this year.

### **BSP Defers Implementation of PFRS 9 Financial Instruments to 1 January 2015**

In July, BSP deferred the mandatory effectivity date of Philippine Financial Reporting Standards (PFRS) 9 Financial Instruments to 1 January 2015 from 1 January 2013. BSP said the deferment is in line with the issuance by the International Accounting Standards Board (IASB) of further amendments to International Financial Reporting Standards (IFRS) 9, as well as its local adoption by the Financial Reporting Standards Council in December 2011. IFRS 9 Financial Instruments is the first phase of a three-phased improvement project by the IASB to replace IAS 39 Financial Instruments: Recognition and Measurement. Phases 2 and 3 of the project

are ongoing and deal with impairment and hedge accounting.

### **BSP Cuts SDA Rates and Tightens Rules**

BSP cut its Special Deposit Account (SDA) rates by 1/32 of a percentage point effective 13 July. SDAs are fixed-term deposits made by banks and trust entities with the BSP. After the BSP lowered its SDA rate and cut its policy rates last month, the 7-day SDA rate had been reduced to 3.78125% from 4.0625%, the 14-day SDA rate to 3.84375% from 4.125%, and the 32-day SDA rate to 3.90625% from 4.1875%. Based on data from BSP, SDA deposits stood at PHP1.64 trillion as of 22 June. BSP also tightened the rules on the use of the SDA by requiring banks and trust entities to certify that funds invested in the facility did not come from foreign investors or entities. This rule was issued to curb currency speculation.

## **Singapore**

### **MAS Revises Requirements Governing Marketing and Sale of Listed and Unlisted Investment Products**

In May, the Monetary Authority of Singapore (MAS) announced that effective 1 October the prescribed list of Excluded Investment Products (EIPs) would be revised to include EIP-equivalent investment products listed on foreign exchanges, certain Collective Investment Schemes (CIS), and sub-funds of investment-linked life insurance policies. Currently, all CIS are classified as Special Investment Products (SIPs). By October, MAS will classify a CIS as an EIP if its investment mandate (i) permits investments only in EIPs and (ii) prohibits it from engaging in securities lending or repurchase transactions.

### **SGX Ready to Trade Renminbi-Denominated Securities**

In July, Singapore Exchange (SGX) announced that it was ready to list, quote, trade, clear, and settle renminbi-denominated securities, which will complement the offshore renminbi bonds

listed on the exchange. Also, SGX is the first exchange to offer the clearing of over-the-counter (OTC) foreign exchange forwards for renminbi. Issuers listing renminbi-denominated securities on SGX can also choose to offer dual-currency trading. This would allow investors the flexibility to trade the securities in either renminbi or Singapore dollars.

### **MAS Sets Up Contingent Liquidity Facility**

MAS announced in its annual report released last July that it has entered into an agreement with the Singapore Deposit Insurance Corporation Limited (SDIC) through which MAS will offer a contingent liquidity facility of up to SGD20 billion in the event of a banking crisis. The agreement was signed in February; as of 31 March, no request had been made on the facility.

## **Thailand**

### **BOT and MAS Sign Memorandum of Understanding on Cross-Border Collateral Arrangement**

Bank of Thailand (BOT) announced in June that it had signed a memorandum of understanding with MAS to enter into a cross-border collateral arrangement to help maintain financial stability in Thailand and Singapore. Under this arrangement, eligible financial institutions operating in Thailand may obtain Thai baht liquidity from BOT by pledging Singaporean dollars or Singaporean central bank and government securities. Eligible financial institutions operating in Singapore may acquire Singaporean dollar liquidity from MAS by pledging Thai baht or Thai central bank and government securities.

### **Ministry of Finance Gives Approval to Five Foreign Entities to Issue LCY Bonds**

The Ministry of Finance announced in June that it had given approval to five foreign entities to sell LCY bonds in Thailand, totaling THB33 billion, between 1 May 2012 and 31 January 2013. The



foreign entities and the allowable amount of their respective bond issuances are (i) International Bank for Reconstruction and Development (THB5 billion), (ii) International Finance Corporation (THB5 billion), (iii) Swedish Export Credit Corporation (THB5 billion), (iv) Korea Gas Corporation (THB8 billion), and (v) Kookmin Bank (THB10 billion).

### **SEC Allows Sale of Unrated Bonds to Accredited Investors**

The Securities and Exchange Commission (SEC) decided in June to allow the sale of the following financial products to accredited investors such as institutional investors and high-net worth investors: (i) unrated bonds and (ii) non-retail mutual funds that invest in non-investment grade debt securities or in unrated bonds.

## **Viet Nam**

### **SBV Sets Maximum VND Short-Term Lending Rate of Credit Institutions**

Effective 8 May, the State Bank of Viet Nam (SBV) set credit institutions' maximum VND short-term lending rate for borrowers at 300 bps above the ceiling VND deposit rate for term deposits longer than 1 month. In the same circular, the SBV required credit institutions to set a ceiling loan

interest rate of 15% p.a. for four priority fields—agricultural and rural development, exports, supporting industries, and SMEs—once borrowers have met the credit extension conditions required by credit institutions.

### **SBV Cuts Vietnamese Dong Ceiling Deposit Rates**

The SBV has cut VND ceiling deposit rates four times since the beginning of the year. Effective 11 June, the SBV set the ceiling VND deposit rate at 2% for demand and time deposits of less than 1 month, and 9% for time deposits of 1 month to 12 months. Local people's credit funds have been authorized to apply a ceiling VND deposit rate of 9.5% for time deposits of 1 month to 12 months. The ceiling VND deposit rate for time deposits of 12 months or longer can be set by local people's credit funds, based on capital supply and demand in the local market.

### **SBV Cuts Key Rates for the Fifth Time in 2012**

Effective 1 July, the SBV cut key interest rates for the fifth time in 2012 on the back of easing inflation. The discount rate, refinancing interest rate, and overnight rate for inter-bank electronic payments were each cut by an additional 100 bps to 8%, 10%, and 11%, respectively.