Policy and Regulatory Developments

People's Republic of China

SAFE Issues New Requirements on Net Open Position

On 6 May, the State Administration of Foreign Exchange (SAFE) announced that local banks with foreign currency (FCY) loan-to-deposit ratios exceeding 75% and foreign banks with FCY loan-to-deposit ratios exceeding 100% would be required to maintain a net open position on FCY holdings of at least zero.

SMEs Allowed to Issue Exchangeable Bonds

On 31 May, the Shenzhen Stock Exchange announced that it would allow small and medium-sized enterprises (SMEs) to issue exchangeable bonds. Exchangeable bonds are bonds collateralized with the listed equity securities of other companies. The coupon rate for the bonds cannot be three times higher than the relevant benchmark rate and the tenor must be at least 1 year. The bond conversion price also cannot be less than 90% of the 20-day average trading price of the collateral.

CSRC Increases QFII Quota

On 12 July, the China Securities Regulatory Commission (CSRC) announced that it would increase the Qualified Foreign Institutional Investor (QFII) Program's quota to US$150 billion. It also expanded the Renminbi Qualified Foreign Institutional Investor (RQFII) Program. (For more detail, see the Hong Kong, China Market Summary.)

PBOC Removes Lending Rate Floor

On 20 July, the People's Bank of China (PBOC) announced that it would remove the floor on lending rates. Previously, banks could not set lending rates lower than 30% of the benchmark rate. The PBOC also removed the limits on interest rates for bill discounting. However, the PBOC did not remove the floor on mortgage interest rates. The PBOC said that the moves were part of the People's Republic of China's (PRC) policy of moving toward a market-based interest rate regime.

The PRC to Audit Local Government Debt

On 26 July, the PRC ordered a nationwide audit of local government debt. The National Audit Office said the last audit found that local governments had a total of CNY10.7 trillion in outstanding debt at the end of 2010.

Hong Kong, China

RQFII Expanded

On 12 July, the PRC expanded the RQFII program. The RQFII program had been limited to financial institutions in Hong Kong, China but will now be expanded to include firms in London; Singapore; and Taipei,China.

Revision to the Renminbi Liquidity Facility

On 25 July, Hong Kong Monetary Authority (HKMA) expanded the CNH liquidity facility that provides CNH[7] funds to banks in Hong Kong, China. Previously, banks availing of the facility would receive funds the following day, which had to be repaid after 1 week. With the expansion of the facility, HKMA will provide banks two additional funding options: (i) overnight borrowing with funds available on the same day, and (ii) 1-day borrowing with funds available the following day.

[7] CNH bonds are renminbi-denominated bonds issued in Hong Kong, China.

Indonesia

Parliament Approves 2013 Revised State Budget

In June, Indonesia's House of Representatives approved the 2013 revised state budget, which paved the way for the government to raise fuel prices. The revised budget includes a deficit target equivalent to 2.4% of gross domestic product (GDP), up from 1.6% in the original budget. The fuel price hike took effect on 22 June, with prices for gasoline rising 44% and diesel rising 22%.

BI's First FX Swap Auction Oversubscribed

Bank Indonesia's (BI) first foreign exchange (FX) swap auction received a warm response from market participants, with bids reaching US$1.2 billion compared with a target of US$500 million. BI awarded a total of US$600 million worth of FX swaps in its first auction held on 17 July. The FX swap action is BI's newest monetary tool to help boost rupiah liquidity in the market and increase FX reserves.

BI Tightens Monetary Policy in August

In a meeting held on 15 August, the central bank said that it will continue to strengthen its policy mix to curb inflation and maintain a more sustainable balance of payments. BI will continue to conduct monetary operations to absorb excess liquidity. In line with this, the central bank plans to issue a new short-term instrument—a BI Deposit Certificate—which will only be sold to domestic banks and will not be offered to foreign investors. BI will also raise the secondary reserve requirement of banks to 4.0% from the current 2.5%, while keeping the primary reserve requirement at 8.0%.

On 29 August, BI's Board of Governors decided to introduce supplementary measures to strengthen its monetary and macro-prudential policy mix to curb inflation, stabilize the rupiah exchange rate, ease the current account deficit, and ensure macroeconomic and financial system stability. BI decided to raise its benchmark rate 50 basis points (bps) to 7.0%. It also raised the lending facility rate 25 bps to 7.0% and the deposit facility rate 50 bps to 5.25%. The minimum holding period for its central bank certificates, or *Sertifikat* Bank Indonesia, was reduced from 6 months to 1 month.

Republic of Korea

MOSF Announces Amendments to Regulations on KTB Issuance and Primary Dealer System

The Republic of Korea's Ministry of Strategy and Finance (MOSF) announced in July amendments to regulations on Korean Treasury Bond (KTB) issuance and the primary dealer system, with the amendments aimed at attracting greater primary dealer participation in the primary and secondary markets. The amendments extend the (i) differential knock-down rates for 10-, 20-, and 30-year bonds to 3 bps from 2 bps; (ii) threshold of primary dealers' non-competitive purchasing option to 10%; and (iii) quote spreads for long-term bonds given their yield volatility. MOSF stated that the amendments would be implemented sometime between the 10-year KTB auction starting on 15 July and the end of 2013.

FSC Introduces Measures to Invigorate Corporate Bond Market

The Republic of Korea's Financial Services Commission (FSC) announced measures in July to invigorate the country's corporate bond market and prevent the worsening of corporate funding conditions and the possible spillover of "destabilizing factors" from the market to the real economy. Specifically, the FSC measures include (i) a liquidity support program through government issuance of primary collateralized bond obligations, (ii) tax incentives for dividends of corporate bond funds with more than 30% of bonds rated BBB– or below, (iii) improvements in the Qualified Institutional Buyer system, (iv) easing of relevant regulations to boost demand for corporate bonds, (v) revisions to the regulations on asset-backed securities, (vi) reforms in the credit rating system, (vii) enhancements to the system for corporate bond issuance, (viii) improvements in the system for corporate bond management, and (ix) strengthening the effectiveness and transparency of the bond distribution system.

Republic of Korea Introduces 2013 Supplementary Budget, KTB Market Stabilization Measures

MOSF reported in April that a supplementary budget of KRW17.3 trillion will be utilized to help stimulate the domestic economy through the remainder of 2013. Of the amount, KRW12.0 trillion will be used to finance government revenue shortfalls and the remaining KRW5.3 trillion will be spent to supplement the government's budget expenditures.

MOSF reported that the 2013 supplementary budget calls for an additional net increase in issuance of KTBs amounting to KRW15.8 trillion. Since this will likely trigger upward pressure on interest rates, thereby imposing a burden on the market, MOSF has decided to reduce the issue amount for buy-backs. Against this backdrop, total issuance of KTBs for the year is projected to reach KRW88.5 trillion, which is KRW8.8 trillion higher than the previous estimate of KRW79.7 trillion.

Basel III Capital Regulations to Apply to Bank Holding Companies

The FSC announced in August that the Basel III capital regulations will apply to bank holding companies effective 1 December 2013. These regulations establish the minimum capital requirement ratios for bank holding companies at 4.5% for common equity capital, 6.0% for Tier 1 capital, and 8.0% for total capital. A capital conservation buffer will also be introduced to bank holding companies starting in 2016.

Malaysia

Malaysia Enacts Financial Services Act and Islamic Financial Services Act

Malaysia enacted a new single legislative framework for conventional and Islamic financial services effective 30 June. The new legislation provides clearly defined regulatory objectives and establishes accountability for Bank Negara Malaysia (BNM) in pursuing its principal objective of safeguarding financial stability. It sets forth transparent assessment criteria for authorizing institutions to engage in regulated financial transactions. The acts include provisions to regulate financial holding companies and non-regulated entities in order to take account of systemic risks that can emerge from the interaction between regulated and unregulated institutions, activities, and markets. The IFSA provides a comprehensive legal framework that is fully consistent with *sharia'h* (Islamic law) in all aspects of regulation and supervision, from licensing to the winding-up of an institution.

Philippines

BSP Further Limits Access to SDA Facility

On 9 May, the Monetary Board of Bangko Sentral ng Pilipinas (BSP) approved revised guidelines on the access of banks and trust departments and entities (acting as trustees) to the BSP's Special Deposit Account (SDA) facility. BSP will gradually reduce the SDA placements of investment management accounts of trust entities until the end of the year. The Monetary Board also stated that the low inflation environment and strong domestic growth prospects provided flexibility for BSP to restructure its monetary policy tools.

BSP Maintains Policy Rates

On 25 July, the Monetary Board of 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 its SDA facility were also left unchanged. The decision to hold the policy rates at their current levels reflected the Monetary Board's assessment that the inflation environment remains benign, with inflation expected to remain on target through the remainder of 2013 and all of 2014.

Philippine BTr Raises PHP150 Billion from Sale of RTBs

On 5 August, the Bureau of the Treasury (BTr) ended the offer period for Retail Treasury Bonds (RTBs) after raising a total of PHP150 billion. The RTBs carry a maturity of 10 years and a yield of 3.25%. The banks were given until 13 August to sell the RTBs to the public. Banks were also required to sell at least 20% of the RTBs to retail buyers, net of the PHP26.9 billion sold to government-owned corporations.

Singapore

MAS Introduces Debt Servicing Framework for Property Loans

On 28 June, Monetary Authority of Singapore (MAS) announced its plan to introduce a total debt servicing ratio framework for all property loans granted by financial institutions to individuals. This will require financial institutions to take into consideration borrowers' other outstanding debt obligations when granting property loans in order to strengthen credit underwriting practices among financial institutions and encourage financial prudence among borrowers. MAS will also refine rules related to the application of the existing loan-to-value (LTV) limits on housing loans.

BOJ and MAS Sign Cross-Border Collateral Arrangement

On 26 July, the Bank of Japan (BOJ) and MAS established a cross-border collateral arrangement to enhance financial stability in Singapore. Under the arrangement, eligible financial institutions operating in Singapore may obtain Singapore dollar liquidity from MAS by pledging Japanese government securities. This widens the range of acceptable collateral in MAS' liquidity facility and permits greater flexibility in the liquidity management of eligible financial institutions, including Japanese banks, operating in Singapore. This collaboration reinforces BOJ and MAS' commitment to the long-standing economic and financial relationship between Japan and Singapore.

Thailand

Thailand's Cabinet Approves Measures to Promote Stable Economic Growth

The Government of Thailand's Cabinet agreed during its 6 August meeting on the implementation by the relevant government offices of measures focusing on 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 SMEs to financing.

MOF Permits Two Foreign Entities to Issue LCY Bonds in Thailand

The Ministry of Finance (MOF) announced in May that it was permitting two foreign entities to sell THB-denominated bonds and debentures in Thailand, totaling THB14 billion, between 1 May 2013 and 31 January 2014. These two entities and their respective authorized bond issuance amounts are (i) Australia and New Zealand Banking Corporation (THB8 billion) and (ii) Westpac Banking Corporation (THB6 billion).

Amendments Approved to Regulations Governing REITs

Thailand's Securities and Exchange Commission (SEC) announced in July that the Capital Market Supervisory Board has approved amendment to regulations governing the creation and management of real estate investment trusts (REITs). The amendments will allow an REIT trustee to participate in more REIT-related businesses for as long as the trustee is independent from the REIT manager. Measures preventing conflicts of interest among REIT-related businesses will also be put in place.

Viet Nam

Viet Nam Devalues its Currency, Cuts Interest Rate Ceiling for Short-Term Deposits

Viet Nam recently devalued its currency by 1% versus the US dollar. Effective 28 June, the VND–US$ reference rate was adjusted from VND20,828 to VND21,036 per US$1. The objectives of the devaluation are to improve the country's trade balance and increase its foreign exchange reserves.

The State Bank of Viet Nam (SBV) announced a cut in the interest rate ceiling for VND deposits with tenors between 1 month and less than 6 months by another 50 bps to 7%, effective 28 June. The move aims to support economic growth. Short-term lending rates for five prioritized sectors—agriculture, exports, supporting industries, high-tech businesses, and SMEs—will now be capped at 9% rather than 10%.

Viet Nam Asset Management Company Begins Operations

On 26 July, Viet Nam Asset Management Company (VAMC) started operations with initial registered capital of VND500 billion. VAMC was created to better manage non-performing loans (NPLs) and promote credit growth in the country's banking system. VAMC—which is wholly state-owned and -managed, and supervised by SBV.