Policy and Regulatory Developments

People's Republic of China

Local Government Issuance Program Launched

On 29 May, the People's Republc of China (PRC) launched a pilot program allowing 10 local government units to issue bonds directly. A similar pilot program was to have been launched before, but was scrapped over concerns about mounting local government debt. On 23 June, Guangdong issued the first local government bonds under the pilot program, auctioning 5- and 10-year bonds.

The PRC Expands Coverage of Targeted Ratio Cuts

On 31 May, the People's Bank of China (PBOC) announced that it would extend a reserve requirement ratio cut, originally targeted to state-level rural banks and rural cooperatives, to include other types of banks with a certain level of loans to the agricultural industry and small- and medium-sized enterprises.

The PRC Pursues Measures to Promote Agricultural Sector

On 28 August, the PBOC announced an increase in its re-lending quota by CNY20 billion to help support the agricultural industry and rural financial institutions. The relending facility allows financial institutions to provide loans to various sectors from funds provided by the PBOC. In addition, the PBOC said that qualified rural financial institutions availing of the facility will be charged 100 basis points less than the preferential rate for agricultural loans.

Hong Kong, China

Hong Kong, China Announces Planned *Sukuk* Issuance

On 4 July, Hong Kong, China announced that it had selected HSBC, Standard Chartered Bank, CIMB, and National Bank of Abu Dhabi as underwriters for its debut *sukuk* (Islamic bond) issuance. The issuance is expected to be priced in September with a target size of between US$500 million and US$1.0 billion, and a tenor of 5 years. The structure to be used is expected to follow the *ijarah* (leasing) principle.

Indonesia

Parliament Approves Revised 2014 State Budget

In June, the House of Representatives approved the 2014 revised state budget, which projects a deficit equivalent to 2.4% of GDP, compared with 1.7% in the original budget. The revised 2014 state budget raised the net government securities financing requirement to 2.6% of GDP. In absolute terms, the net government securities financing requirement is up 29.2% from the original budget to IDR265.0 trillion. The underlying macroeconomic assumptions for the revised state budget include (i) GDP growth of 5.5%, (ii) annual inflation of 5.3%, (iii) an exchange rate of IDR11,600 to US$1, and (iv) a 3-month treasury bill rate of 6.0%.

Bank Indonesia Issues *Shari'a* FCY Term Deposits

On 25 July, Bank Indonesia announced plans to issue *shari'a* FCY term deposits as part of efforts to develop *shari'a* banking and deepen the *shari'a* financial market. The term deposits are FCY-denominated Islamic monetary instruments that will complement FCY liquidity management in the *shari'a* financial market. They will be based on a *ju'alah* contract, which is backed by a commitment to provide a specific return after completion of a job, and carry a tenor of between 1 day and 12 months. The first auction was subsequently held on 20 August.

Republic of Korea

Financial Regulatory Reforms Announced

The Republic of Korea's Financial Services Commission (FSC) announced in July plans for financial regulatory reform, including (i) building a financial regulatory system with "better regulation," (ii) mitigating inconveniences facing financial consumers and enhancing support for the real economy, (iii) creating growth opportunities and new markets for the financial sector, (iv) abolishing implicit regulations, (v) establishing a permanent system for financial regulatory reform, and (vi) tightening internal controls and market discipline for financial institutions.

Road Map for Derivatives Market Unveiled

The FSC introduced in June a road map for the development of the country's derivatives market. The road map seeks to develop the exchange-traded derivatives market into a "risk-managed market" by promoting greater autonomy in market operations and introducing new derivatives products. The road map also calls for the over-the-counter derivatives market to utilize a central counterparty for a wider range of derivatives contracts and to introduce a trade repository system. In the derivatives-linked securities market, the road map calls for the listing of exchange-traded notes, enhancing public disclosure and sales of equity-linked securities and derivatives-linked securities, and standardizing issuance of equity-linked warrants.

Public Institutions' Debt Reduction Plans Approved

The Republic of Korea's Ministry of Strategy and Finance announced in June the acceptance of the revised debt reduction plans—totaling KRW6.2 trillion—submitted by 10 highly-indebted public institutions to frontload debt reduction in 2014.

Malaysia

Prime Minister Announces Liberalization Measures

In June, Prime Minister Najib Razak announced several measures aimed at liberalizing Malaysia's financial sector. Effective immediately, the barriers for new foreign unit trust management companies entering Malaysia were lifted. Effective 1 January 2015, credit rating agencies will be given more flexibility in the trading of unrated bonds and *sukuk*. Effective 1 January 2017, mandatory credit ratings for new corporate issues will be removed and full foreign ownership of international credit rating agencies will be allowed. The liberalization program seeks to strengthen the country's capital market in support of sustainable, long-term growth.

Philippines

BSP to Monitor Banks' Real Estate Exposure

On 11 June, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) approved preemptive macroprudential policy measures to monitor the exposure of the banking system to real estate development. This policy, which includes stress tests, reinforces the requirement for banks to have sufficient capital to withstand shocks that could affect their credit risk exposure to real estate. The stress tests are in accordance with international standards under the Basel Accords. Universal, commercial, and thrift banks are required to meet a Capital Adequacy Ratio of 10% of qualifying capital (QC) after adjusting for the stress test results. Universal and commercial banks, and their thrift bank subsidiaries are also required to maintain a level of Common Equity Tier 1 equivalent to at least 6% of QC after adjusting for the stress test. For stand-alone thrift banks, a Tier 1 ratio of 6% of QC is required.

Singapore

MAS to Promote Renminbi Use in Singapore

On 13 June, the Monetary Authority of Singapore (MAS) announced an initiative to promote renminbi transactions, including the provision of an overnight renminbi liquidity facility for financial institutions in Singapore beginning 1 July. The liquidity facility will provide up to CNY5 billion in overnight funds for borrowing by eligible counterparties. Singapore dollars, Singapore Government Securities bills and bonds, and MAS bills may be used as collateral for the overnight liquidity facility.

PBOC Allows Limited Cross-Border Transactions with Singapore

On 13 June, the Nanjing branch of the PBOC announced it would allow eligible corporations, equity investment funds, and individuals in Suzhou Industrial Park (SIP) to conduct renminbi cross-border transactions with eligible participants in Singapore. The new regulation allows for the following transactions: (i) banks in Singapore can provide renminbi lending to corporates in SIP, (ii) corporates in SIP can issue renminbi bonds in Singapore, (iii) equity investment funds in SIP can directly invest in corporates in Singapore, and (iv) individuals in

SIP can provide renminbi remittances to Singapore for the settlement of current account and direct investment transactions.

On 9 July, the Tianjin branch of the PBOC made a similar announcement allowing eligible corporations, equity investment funds, and individuals in Sino–Singapore Tianjin Eco-City to conduct renminbi cross-border transactions with eligible participants in Singapore.

Thailand

Structured Notes Regulations Streamlined

The Securities and Exchange Commission (SEC) announced in August that the Capital Market Supervisory Board had approved the streamlining of regulations on structured notes. The new rules will allow the issuance of LCY- and FCY-denominated structured notes; harmonization of the types and classifications of issuers, both in initial public offerings and private placements; removal of the minimum face value of THB10 million in both cases; and removal of the minimum redemption value, which is 80% of the principal, for private placements only. These regulatory revisions will take effect in 4Q14.

New Regulations for Municipal Bond Issuance

The SEC reported in July that the Capital Market Supervisory Board approved regulations governing municipal bond issuances from municipalities, provincial administration organizations, public organizations, Bangkok Metropolitan Administration, Pattaya City, and any juristic person as defined by specific law. These regulations, which cover LCY- and FCY-denominated municipal bonds offered in onshore and offshore markets, will take effect on 1 January 2015.

Viet Nam

Decree on State Foreign Exchange Reserves Issued

On 20 May, Decree No. 50/2014/ND-CP was issued to manage foreign exchange reserves, which are defined as foreign currencies in cash and deposits abroad, securities and other valuable papers issued by the government and foreign and international institutions, Special Drawing Rights reserved at the International Monetary Fund (IMF), gold managed by SBV, and other foreign currencies of the government. The decree identifies five sources of foreign reserves: (i) the state budget and foreign exchange market, (ii) loans from banks and international financial institutions, (iii) the State Treasury and credit institutions, (iv) profits from official foreign exchange reserve investments, and (v) other sources. The decree further states that SBV will manage the state foreign exchange reserves and stipulate the structure, criteria, and limits of investments, which will be approved by the SBV Governor and reported to the Prime Minister on a semi-annual basis. SBV will determine the investment structure of the Foreign Exchange Reserve Fund based on global trends in exchange rate fluctuations, interest rates, and gold prices; and the status of the international reserves (foreign currency and gold) of other countries, as compiled by the IMF. SBV will also stipulate the investment structure of the Exchange Rate Stabilization and Gold Market Management Fund.

The decree supersedes Decree No.86/1999/ND-CP, dated 30 August 1999, and takes effect on 15 July.

Viet Nam Dong Devalued

On 19 June, State Bank of Viet Nam (SBV) devalued the Vietnamese dong by 1% against the United States (US) dollar for the first time in 12 months in a move to boost exports. SBV re-set its exchange rate for the US currency to VND21,246 per dollar from VND21,036. The change also allows the Vietnamese dong to fluctuate by 1% above or below the central bank's rate.