Policy and Regulatory Developments

People's Republic of China

Green Bonds Program Expanded

On 6 April, the government launched a pilot program to allow People's Republic of China (PRC)-based issuers to issue and list green bonds on the Shanghai Stock Exchange. To qualify as a green bond, the most important requirement is that only green assets and projects can be funded by the proceeds of the bond.

World Bank Group to Issue Special Drawing Rights-Denominated Bonds in the Interbank Bond Market

On 21 August, the PRC approved the International Bank for Reconstruction and Development of the World Bank Group to issue Special Drawing Rights-denominated bonds in the PRC's interbank bond market. The issue size will be SDR2 billion and the bond will be settled in renminbi.

Hong Kong, China

Hong Kong, China Issues Silver Bonds

On 10 August, Hong Kong, China issued HKD3 billion worth of Silver Bonds under the Retail Bond Issuance Programme. The bonds, which can only be subscribed to by Hong Kong, China residents aged 65 years or older, pay interest on a semiannual basis. The coupon is based on the average rate of consumer price inflation in Hong Kong, China for the past 6 months or 2%, whichever is higher.

Indonesia

Finance Ministry Removes Withholding Tax on Interest Payments for Foreign Currency Government Bonds

In June, Indonesia's Ministry of Finance provided tax incentives to investors in conventional and Islamic foreign currency (FCY)-denominated government bonds by removing the withholding tax on interest payments. A withholding tax of 15% had been levied for Indonesian residents while a 20% tax was levied for nonresidents. The removal of the withholding tax will help lower the government's borrowing costs on its FCY government bonds. This will also help corporate bonds receive better pricing as government bonds are normally used as a benchmark for pricing. The regulation is effective retroactively from 1 January 2016.

Parliament Approves Tax Amnesty Law

In June, Parliament approved the Tax Amnesty Law to lure wealthy residents to repatriate funds parked in tax havens. The new law levies tax rates of 2.0%–5.0% for assets that are declared and repatriated and 4.0%–10.0% for assets that are only declared. Investment instruments have been prepared by the government for the placement of repatriated funds, which will need to be placed in the Indonesian capital market for a period of at least 3 years.

The government estimates that the measures will attract IDR4,000 trillion in declared assets and IDR1,000 trillion in repatriated funds. The government expects to raise IDR165 trillion in revenues from this program, which will help fund the larger deficit included in the 2016 revised budget. The tax amnesty program runs from 18 July 2016 to 31 March 2017.

Republic of Korea

Financial Services Commission Introduces Plan to Develop "Mega-Investment Banks"

The Financial Services Commission (FSC) announced in August its plan to develop "mega-investment banks" by enabling investment banks to acquire more than KRW10 trillion of equity capital and to broaden their scope of new business. The FSC stated that it plans for securities firms with more than KRW4 trillion of equity capital to be allowed to sell promissory notes and conduct foreign exchange transactions; for securities firms with equity capital of nearly KRW10 trillion to create investment management accounts and conduct property trust business; and for securities firms with equity capital of less than KRW4 trillion to be subjected to certain reforms to enable them to secure enough capital for corporate financing purposes. The plan is envisioned to take effect starting in 2017.

Financial Services Commission to Apply Foreign Currency Liquidity Coverage Ratio to Banks

The FSC reported in June its plan to apply an FCY liquidity coverage ratio rule in 2017. The rule will require commercial banks to hold 60% of their foreign exchange debt in the form of high-quality liquid assets starting in 2017, with the ratio increasing to 70% in 2018 and 80% in 2019.

Malaysia

Bank Negara Malaysia and Financial Markets Association of Malaysia Announce Kuala Lumpur USD–MYR Reference Rate

In June, Bank Negara Malaysia (BNM) and the Financial Markets Association of Malaysia announced the adoption of a new methodology for the computation of the Malaysian ringgit's exchange rate. The new rate shall be known as the Kuala Lumpur USD–MYR Reference Rate. Effective 18 July, the new reference rate will be based on the daily weighted average volume of the interbank USD–MYR foreign exchange spot rate transactions of domestic financial institutions between 8 a.m. and 3 p.m. BNM stated that the new methodology promotes transparency and is based on underlying trades, while the previous methodology was based on the submission of quotations by selected banks. In addition, the official closing time for the onshore ringgit foreign exchange market will be extended from 5 p.m. to 6 p.m.

Bank Negara Malaysia and Otoritas Jasa Keuangan Sign Bilateral Agreement

In August, BNM and Otoritas Jasa Keuangan signed a bilateral agreement under the Association of Southeast Asian Nations Banking Integration Framework to further promote banking and financial integration between Malaysia and Indonesia. The implementation of the agreement will involve BNM allowing Qualified Association of Southeast Asian Nations Banks from Indonesia to operate in Malaysia. The agreement envisions a greater role for Malaysian and Indonesian banks in facilitating cross-border trade and investment between the two markets.

Philippines

Bangko Sentral ng Pilipinas Further Liberalizes Foreign Exchange Rules

The Bangko Sentral ng Pilipinas announced in August that its Monetary Board approved further liberalization of its foreign exchange rules and regulations in line with the Philippine economy's increasing integration with the global economy. The new measures include, among others, increasing the amount of foreign exchange that local residents, both individuals and corporations, can purchase from the banking system, as well as allowing the sale of foreign exchange by banks and their foreign exchange entities for resident-to-resident transactions.

Singapore

Monetary Authority of Singapore's Renminbi Investments Included in Official Foreign Reserves

The Monetary Authority of Singapore announced that it would include renminbi financial investments as part of its Official Foreign Reserves beginning in June. The Monetary Authority of Singapore cited the following reasons for this move: (i) the PRC having taken significant steps to liberalize foreign institutional investors' access to its foreign exchange and securities markets, and (ii) the International Monetary Fund's announcement that it will include the renminbi in the Special Drawing Rights basket of currencies beginning in October.

Singapore Launches First Listed Private Equity Bonds

Astrea III, which is ultimately backed by Singapore's state-owned Temasek Holdings, successfully launched a series of private equity bonds in June. The bonds are backed by 34 private equity funds with interests in more than 590 companies, the first-of-its-kind bond series to be listed in Singapore. The issued bonds are designed to make private equity more accessible to a wider range of institutional and individual investors. The issuance amounted to USD510 million and comprised four classes of 10-year bonds—A-1 (SGD228 million), A-2 (USD170 million), B (USD100 million), and C (USD70 million)—ordered according to seniority and maturity, and with interest rates of 3.90%, 4.65%, 6.50%, and 9.25%, respectively. Class A-1 bonds are redeemable starting in year 3, while Class A-2 bonds can be redeemed starting in year 5.

Thailand

Bank of Thailand Releases Plan for Bond Issuance Program for the Second Half of 2016

In June, the Bank of Thailand (BOT) announced its plan to increase the maximum issuance sizes of all bills and fixed-coupon bonds, except for the 3-year floating-rate bond, as a response to potentially rapid changes in market liquidity conditions and large swings in the appetite for bonds amid heightened volatility in the global financial markets. Auction days and issuance frequencies for all types of BOT bonds will remain the same. Depending on liquidity conditions and the issuance calendar for Treasury bills, the central bank will also consider issuing 1-month BOT bills on an occasional basis.

Bank of Thailand Eases Rules for Ownership of Foreign Securities

On 5 July, the BOT issued a memorandum allowing Thailand's citizens direct investment access to foreign securities, effective 20 July. Individuals and corporations with deposits or securities of at least THB100 million can directly invest a maximum amount each year of USD5 million in foreign securities. Corporate treasuries will also be allowed to both issue and invest in onshore and offshore FCY-denominated debt beginning 28 July. Previously, stricter rules only allowed for firms to borrow foreign currency from financial institutions and invest in FCY-denominated securities that were issued offshore. This comes as part of the central bank's effort to dampen the strengthening of the Thai baht vis-à-vis the US dollar.

Viet Nam

State Bank of Vietnam Raises Prudential Ratios for Credit Institutions and Foreign Banks

In May, the State Bank of Vietnam revised its regulation on prudential ratios for credit institutions and foreign banks. The revision included increasing the ceiling limits on the purchase or investment of government bonds by banking institutions from 15% to 25% of their short-term funding source. The investment cap for foreign banks was also raised to 35% of their short-term funding source.