Policy and Regulatory Developments

People's Republic of China

Rules Issued for Bond Connect

In June, the People's Republic of China (PRC) issued regulations governing foreign investment in the interbank bond market through Bond Connect, a program that links the PRC's and Hong Kong, China's bond markets. Under the Bond Connect regulations, foreign investors can purchase bonds in the PRC's interbank bond market using either renminbi or a foreign currency. Qualified investors include foreign central banks, sovereign wealth funds, international organizations, investors under the Renminbi Qualified Foreign Institutional Investor program, and financial institutions.

Rules Issued to Distinguish between Ordinary and Professional Investors

In July, the PRC issued regulations that require investors in securities to be classified as either professional or ordinary investors based on asset size, earnings, and investment experience. To be classified as professional, investors must have assets of at least CNY5 million or yearly income of at least CNY500,000. They must also have at least 2 years of investment experience. The rule does not prevent ordinary investors from purchasing riskier products, rather they must be informed about the riskiness of the investment if they seek to purchase assets deemed to be above their risk level.

Hong Kong, China

Hong Kong, China's Renminbi Quota for Institutional Investors Increased

In July, the Hong Kong Monetary Authority announced that the PRC's State Council approved an increase in Hong Kong, China's Renminbi Qualified Foreign Institutional Investor quota from CNY270 billion to CNY500 billion.

Indonesia

Bank Indonesia to Allow Non-Dollar Currency Swaps for Hedging

In July, Bank Indonesia announced that it will allow non-dollar currency swaps for hedging transactions. Initially, the central bank will enter into hedging transactions for Japanese yen swaps, which will be followed by swaps denominated in euros and Chinese renminbi. The move by Bank Indonesia is expected to reduce dependence on the US dollar for trade and finance.

Indonesian Parliament Approves Revision to 2017 State Budget

On 27 July, the Indonesian Parliament approved the government's proposed revision to the 2017 state budget. The revised state budget now estimates marginally lower revenue of IDR1,736.1 trillion and higher spending of IDR2,133.3 trillion. As a result, the budget deficit was projected to reach an equivalent of 2.9% of GDP, up from 2.4% in the original budget. To fund the budget gap, the government will increase its bond issuance in 2017 to IDR467.3 trillion. The underlying macroeconomic assumptions for the revised budget include (i) annual GDP growth of 5.2%, (ii) annual inflation of 4.3%, (iii) an exchange rate of IDR13,400 per USD1, (iv) a 3-month Treasury bill annual rate of 5.2%, and (v) an Indonesian crude oil price of USD48 per barrel.

Bank Indonesia Releases New Regulations for Commercial Paper Issuance

Bank Indonesia released new regulations for the issuance of commercial paper by nonbank corporate entities. The new regulations, which came into effect on 4 September, allow corporates to issue commercial paper with a maturity of 1 year or less, subject to certain requirements. The new rules governing commercial paper issuance require issuing companies to have a healthy financial position for a period of 3 years and an assessment from a rating agency.

Republic of Korea

National Assembly Approves KRW11.2 Trillion Supplementary Budget

In July, the Republic of Korea's National Assembly approved the government's KRW11.2 trillion supplementary budget proposal. The supplementary budget will allocate KRW4.2 trillion to increase hiring in the public sector and provide more regular jobs in small and medium-sized enterprises. Of the total supplementary budget, KRW1.2 trillion will be allotted to programs that expand employment, particularly among the youth and women who want to return to the workforce; KRW2.3 trillion will be spent on policies to support the working class, including an expansion of the number of basic social security beneficiaries; and KRW3.5 trillion will be used to support local governments, particularly education programs.

Financial Services Commission Announces New Mortgage Rules

In August, the Financial Services Commission announced new measures to curb speculative demand in the Republic of Korea's housing market. Measures include tightening the loan-to-value and debt-to-income ratios to 40% each for home buyers in "bubble-prone areas." For multiple homeowners, mortgage borrowing will also be subject to tighter loan-to-value and debt-to-income ratios; the ratios for both will be trimmed by 10 percentage points.

Malaysia

Bank Negara Malaysia Removes Reserve Fund Requirement for Islamic Banks

Bank Negara Malaysia will no longer require Islamic banks to maintain reserve funds effective 3 May. In the past, Islamic banking institutions were required to set aside a percentage of profits into a reserve fund prior to dividend distribution to serve as a buffer to be drawn upon during periods of stress. This prudential tool ensured banks could continue serving as financial intermediaries without disruption. According to the central bank, with the new policy in place, Islamic banks are only required to maintain minimum capital to operate and provide financial services effectively, and also remain to comply with the stringent capital requirements of the Basel III accord.

Bursa Malaysia Launches Leading Entrepreneur Accelerator Platform

Bursa Malaysia launched in July a platform for small and medium-sized enterprises (SMEs), the Leading Entrepreneur Accelerator Platform (LEAP), to serve as avenue to tap the capital market. SMEs can be listed on LEAP to provide them fund-raising through the capital market and at the same time comply with the regulations required of a firm preparing for a formal listing. LEAP is part of a system in which SMEs and start-ups can be listed on the equity crowdfunding platform, then on LEAP, and subsequently on the Ace Market and Main Market. Qualifying for listing on the platform does not require a track record of profits and operating history.

Philippines

Bangko Sentral ng Pilipinas Considers Liberalizing Foreign Exchange Rules

In July, the Bangko Sentral ng Pilipinas announced new reforms aimed at further liberalizing the foreign exchange market, including easing existing rules on foreign currency exchange to make it more attractive for the public to transact through formal platforms such as banks rather than in unregulated platforms like money changers and remittance agents. Current rules are seen by the Bangko Sentral ng Pilipinas as restrictive, difficult, opaque, and shallow, resulting in higher costs of doing business and an expanding black market. The proposed liberalization would make the system more risk-based and transparent.

Department of Finance Outlines the Second Package of the Comprehensive Tax Reform Program

In May, the Department of Finance said it expects to submit the second package of the comprehensive tax reform program to the Philippine Congress by the fourth quarter of 2017. The second package will plug tax holiday loopholes granted by investment promotion agencies such as the Board of Investments and the Philippine Economic Zone Authority. The current tax perks allow companies to shift expenses from projects that are subject to tax holidays in order to maximize profits. The second package is revenue neutral wherein forgone revenue from lowering the corporate income tax rate to 25% from 30% will be offset by eliminating some tax incentives.

Singapore

Monetary Authority of Singapore Offers Grant to Encourage Rated Bond Issuance

On 30 June, the Monetary Authority of Singapore (MAS) launched a Singapore dollar credit rating grant to promote the issuance of rated bonds in the LCY bond market. MAS noted that only about half of the current outstanding corporate SGD-denominated bonds are rated. The SGD400,000 grant per issuer will be available to qualified foreign and domestic issuers for a 5-year period and will be used to cover all expenses related to obtaining credit ratings from an international credit rating agency.

Thailand

Bank of Thailand Reduces Issuance of Short-Term Bills

In April, the BOT decided to scale back the issuance of bills with 3-month and 6-month maturities by THB80 billion. The new measure was made to curb the rapid appreciation of the Thai baht.

Bank of Thailand Eases Regulations on Foreign Exchange

On 5 June, the BOT relaxed its foreign exchange regulations to enhance the ease of doing business through a reduction in compliance costs. Starting in the fourth quarter of 2017, Thai investors with assets above THB50 million will be allowed to directly invest a maximum of USD1 million in securities abroad each year. The reform aims to give the private sector flexibility in conducting foreign exchange transactions and hedging based on internal risk management and control policies within the framework set by BOT. The loosening of foreign exchange rules will (i) streamline the process, reduce required documents, and encourage the use of electronic forms; (ii) enhance flexibility in foreign exchange risk management; (iii) allow more alternatives in foreign exchange services, especially in retail cross-border transactions; and (iv) allow more investment options for investors and companies based in Thailand. Given the continued appreciation of the Thai baht, the BOT reform will not only improve the ease of doing business, but also address currency speculation by improving the process of capital outflows.

Viet Nam

State Treasury to Issue VND45 Trillion of Government Bonds in the Third Quarter of 2017

In July, the State Treasury announced its bond issuance plan for the third quarter of 2017 valued at VND45 trillion. Of this amount, VND18 trillion is expected to be raised from the issuance of 5-year bonds and VND3 trillion from 7-year bonds. Bond sales amounting to VND6 trillion each are targeted from the issuance of 10-, 15-, 20-, and 30-year bonds.

Viet Nam Launches Derivatives Market

In August, a derivatives market was officially launched in Viet Nam, marking an important milestone in the development of its securities market. Three types of derivatives instruments will be offered: (i) futures contract for the VN30 Index, (ii) futures contract for the HNX30 Index, and (iii) futures contract for 5-year government bonds. The futures contract for the VN30 Index was the first derivatives product to be launched.