Policy and Regulatory Developments

Cambodia

Advanced Bank of Asia Lists Bonds on the Cambodia Securities Exchange

In August, Advanced Bank of Asia listed its bonds on the Cambodia Securities Exchange, making it the first commercial bank and third company to list its bonds on Cambodia's bourse. A 3-year bond amounting to KHR84.8 billion and carrying a coupon rate of 7.75% was issued to institutional and retail investors. Its coupon rate is higher than the term deposit rate of commercial banks, and the bond attained a B rating from S&P Global Ratings. Proceeds from the issuance will be used to expand the bank's operations to support rural businesses and small and medium-sized enterprises.

Since its launch in 2012, the Cambodia Securities Exchange has received total capital of more than USD150 million from eight listed companies, including five stock-listed companies and three bond-listed firms. The number of individual and institutional investors has also expanded since 2017 from 8,973 to more than 21,400.

People's Republic of China

The People's Republic of China Relaxes Restrictions on Use of Local Government Bonds Proceeds

On 11 June, the Government of the People's Republic of China allowed local governments to use funds raised from the issuance of special bonds for the 20%–25% equity requirement for certain types of infrastructure projects in order to boost infrastructure spending. The central government also said this would encourage local governments to issue special bonds with tenors longer than 10 years and use the proceeds of special bonds for Belt and Road Initiative projects, shanty-town renovations, and urban and rural infrastructure projects.

The People's Bank of China Reduces Reserve Requirement Ratio for Rural Banks

On 20 August, the People's Bank of China (PBOC) announced that it would make changes to how the benchmark loan prime rate is used. The PBOC said that banks are encouraged to use the loan prime rate as the benchmark for loan pricing instead of the existing 1-year benchmark lending rate. In addition, banks will need to link loan prime rate pricing to the rates used for the PBOC's existing medium-term lending facility. The goal of the PBOC is to reduce interest rate costs charged to borrowers.

Hong Kong, China

Hong Kong Monetary Authority and the Bank of Thailand Collaborate on Financial Innovation

On 12 May, the Hong Kong Monetary Authority (HKMA) and the Bank of Thailand (BOT) signed a memorandum of understanding to promote collaboration in financial innovation. One potential project highlighted during the signing was a joint research program on central bank digital currency, wherein the two banking authorities may share knowledge and experience from their respective research.

Hong Kong Monetary Authority Keeps Countercyclical Capital Buffer at 2.5%

On 9 July, the HKMA decided to maintain the countercyclical capital buffer (CCyB) at 2.5%. In its press statement, the HKMA noted that the latest data signals a lower CCyB at 1.75% due to the narrowing of the credit-to-gross domestic product gap, which indicated a slowdown in loan growth. However, after considering other factors, including the recovery of residential property prices and banking sector and economy-wide risks, the HKMA decided that holding the CCyB steady at 2.5% was more appropriate to provide an additional buffer should the systemic risks crystallize in the future. The CCyB is an integral part of the Basel III regulatory capital framework designed to increase the resilience of the banking sector in periods of excess credit growth.

Indonesia

Bank Indonesia Lowers Reserve Requirement Ratio

In June, Bank Indonesia (BI) announced cuts in the reserve requirement ratio for banks, which came into effect on 1 July, to help boost lending activities. The reserve requirement ratio was reduced by 50 basis points to 6.0% for conventional banks and 4.5% for Islamic banks. The average reserve requirement ratio was held steady at 3.0%.

Government Plans to Issue IDR185 Trillion Worth of Bonds in the Third Quarter of 2019

In June, the Government of Indonesia announced its plan to raise IDR185 trillion from the sale of Treasury instruments during the third quarter of 2019. The issuance plan includes the sale of conventional Treasury bills and bonds, and *sukuk*. For full-year 2019, the net issuance target was placed at IDR389 trillion with a gross issuance target of IDR825.7 trillion

Government Announces Macroeconomic Assumptions for 2020 Draft State Budget

In August, the President of Indonesia announced the macroeconomic assumptions for the draft 2020 state budget. Among the assumptions were (i) economic growth of 5.3% to be driven by consumption and investments, (ii) an inflation target of 3.1% to support purchasing power, (iii) an exchange rate of IDR14,400 per United States (US) dollar, (iv) a 3-month Treasury bill rate of 5.4%, and (v) an Indonesian crude oil price of USD65 per barrel. The government is looking at a 2020 budget deficit equivalent to 1.76% of the gross domestic product.

Republic of Korea

National Assembly Passes 2019 Supplementary Budget

In August, the National Assembly passed the 2019 supplementary budget to help boost the economy and improve public safety. The supplementary budget was KRW856.8 billion short of the KRW6.7 trillion budget submitted in April. The budget included additional allotments of KRW273.2 billion for spending on manufacturing supplies and KRW94.5 billion for disaster-stricken areas and programs aimed to improve air and water quality, and waste management.

The Bank of Korea and Financial Regulators Establish Cooperation to Avoid Sudden Volatility

In August, the Bank of Korea, Financial Services Commission, and Financial Supervisory Service held a meeting to discuss recent developments in financial markets and pledged cooperation to address any sudden volatility. Risks related to the current financial market volatility were stated, particularly the ongoing trade tensions between the People's Republic of China and the US, uncertainties over monetary policy direction in the US, and the sudden devaluation of the Chinese renminbi. The agencies also highlighted the Republic of Korea's record-high foreign exchange reserves and strong foreign net lending balance. The government will continue to monitor the markets. For the stock market, contingency plans include allowing stock buybacks and tightening short-selling rules. The government will also disburse 75% of the supplementary budget in August and September to support exports. In relation to this, the government will continue to conduct talks with Japan to address its imposition of trade restrictions on Korean exports.

Malaysia

Four Regional Central Banks Sign Letters of Intent on Local Currency Settlement

On 5 April, three bilateral letters of intent were signed by Bank Negara Malaysia (BNM), the Bangko Sentral ng Pilipinas (BSP), BI, and BOT. The Philippine central bank was party to all three letters with the three other central banks. The letters expressed intentions to establish local currency (LCY) settlement frameworks between the four economies involved. Having such frameworks is beneficial as LCY settlement of trade and other financial obligations reduces transaction costs and foreign exchange risks. Furthermore, LCY settlement within the Association of Southeast Asian Nations region will promote economic and financial integration, and help develop member economies' foreign exchange and financial markets. BI and the BOT already have an existing LCY settlement framework and agreed to expand its coverage.

Bank Negara Malaysia Announces Development Initiatives for the Financial Market

On 16 May, BNM announced initiatives to improve efficiency, accessibility, and liquidity in the domestic financial market. Available off-the-run bonds that may be borrowed through reverse repurchase for market making will be increased. The proposed extension of reverse repurchase tenors beyond 1 year is still up for review. The delivery mechanism for settlement of Malaysia Government Securities futures will be enhanced. Trust banks and global custodians are now allowed to apply under the dynamic hedging program in order to perform dynamic hedging on behalf of their clients. Institutional investors may now buy or sell forward contracts to purchase Malaysian ringgit above the current threshold of 25% of the underlying security, upon approval of BNM. A standard documentation guide for foreign exchange transactions has been developed. Finally, the central bank will continue facilitating the market-making capabilities of appointed overseas offices to ensure global market participants have ample access to ringgit prices.

Philippines

Bangko Sentral ng Pilipinas Issues Risk Management Guidelines for Investments

In August, the BSP issued risk management guidelines for investments made by banks and quasi-banks, given their exposures on bonds issued by emerging economies, complex structured products, and other tradable assets. The BSP guidelines highlight the need for due diligence prior to investing as well as on an ongoing basis. They consider lessons from the global financial crisis and the guidelines included in the Basel Core Principles for Effective Banking Supervision. In particular, banks and quasi-banks with significant holdings of foreign-currency-denominated securities are required to determine whether these firms have sufficient capital to cover risks that may arise from currency conversion restrictions imposed by relevant foreign governments.

Singapore

Monetary Authority of Singapore Replacing 24-Week Monetary Authority of Singapore Bills with 6-Month Singapore Government Securities Bills

On 24 May, the Monetary Authority of Singapore announced that it would gradually replace 24-week Monetary Authority of Singapore bills with 6-month Singapore Government Securities (SGS) bills starting in July. The switch was spurred by the SGS market's continued growth and development, with recent years seeing a steady increase in outstanding SGS bills and bonds. The growth was attributed to demand from financial institutions for high-quality liquid assets and from retail investors for Singapore Savings Bonds. The switch was also meant to meet the demands of an expanding investor base for short-term SGD-denominated securities as SGS bills become more accessible to a wider range of investors such as asset managers, corporations, and retail investors.

Thailand

Bank of Thailand Implements Measures to Enhance Monitoring of Short-Term Capital Flows

In July, the BOT issued new measures to stem the impact of short-term capital inflows amid a strengthening baht. The BOT lowered the limit on the outstanding balance of nonresident baht accounts and nonresident securities accounts for securities to THB200 million from THB300 million. The measures became effective on 22 July. Nonfinancial corporations with underlying trade and investment activities in Thailand that have opened accounts directly with Thai financial institutions may request a waiver from the new outstanding balance limit; requests for waivers will be considered on a case-by-case basis. In addition, the BOT tightened reporting requirements for nonresident holdings of debt securities issued in Thailand. The names of end beneficiaries are required to be reported for all nonresident holdings of Thai debt securities, effective for the July 2019 reporting period. In its press statement, the BOT emphasized that it would take additional measures if speculative inflows persisted.

Bank of Thailand Cuts Bond Supply in July

The BOT trimmed its supply of short-term bonds for July in a move viewed by market observers as an effort to slow capital inflows and curb the baht's appreciation. The weekly issuance of 3-month bonds was reduced from THB45 billion to THB35 billion, while the supply of 6-month bonds was cut from THB45 billion to THB40 billion per week. The supply of 1-year bonds was likewise be reduced to THB35 billion in July from THB40 billion in June. The total reduction in the month of July amounted to THB60 billion.

Viet Nam

Ha Noi Stock Exchange Launches Government Bond Futures

In July, the Ha Noi Stock Exchange launched the government bond futures contract, marking the second derivatives product available in Viet Nam. The bond futures contract will utilize a hypothetical 5-year government bond issued by the State Treasury, which has a large listing volume and commands high liquidity. Initially, the 5-year bond futures will only be traded by institutional investors. The derivatives market saw rapid development after the VN-30 Index futures contract was launched in August 2017, which was aimed to limit risks in the equity market. As of June, trading volume had increased 10 times and open interest volume surged 2.7 times relative to 2017. The bond futures contract is expected to meet investors' investment needs for risk prevention and support the further deepening and development of Viet Nam's government bond market.

Merger of Ha Noi Stock Exchange and Ho Chi Minh Stock Exchange into Viet Nam Stock Exchange

During the 36th session of the National Assembly Standing Committee held on 12–16 August, the merger of the Ha Noi Stock Exchange and the Ho Chi Minh Stock Exchange was announced. The merged entity will be known as the Viet Nam Stock Exchange and will be based in Ha Noi. It will be managed by the Ministry of Finance acting as a focal point for all stock- and securities-related activities. The National Assembly Standing Committee believes that the merger of the two stock exchanges will promote uniformity in the market, increase transparency and efficiency in governance, and ensure the legal rights of investors.