Deutsche Bank
Global Transaction Banking

Market Developments & Regulatory Trends

Asia Pacific

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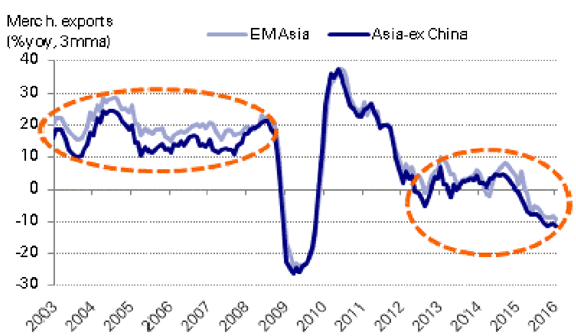
The world is becoming a more challenging and complex place to do trade and business.

In April, the IMF (World Economic Outlook, IMF, 12 Apr 2016) continued its warning of weaker global economy growth, with moderate recovery in advanced economies, slowing emerging markets and increased risks to the outlook.

In Asia, as a sign of times, both export and import volume continues to register steady declines (illustration below), which have prompted comments that the importance of trade in driving growth in ASEAN could be diluting.

Merchant exports volume



Source: Deutche Bank

In this edition, we highlight some market changes that are intended to help support and then drive growth. As examples, Singapore's 2016 budget reduced its qualified Financial Treasury Centre tax even as it focused on incentivising its domestic businesses to regionalise and increase productivity via incentives on automation. In a complementary step, Singapore had just closed a consultation to further refine its laws on electronic documents for trade. We believe such initiatives can mitigate certain supply chains and financing costs that can facilitate cross-border trade in the lead-up to the ratification of the Trans-Pacific Partnership which Singapore is a member of.

China's 13th Five-Year Plan gave its most senior officials' support for the developments of higher-value added industries, while providing for fiscal and monetary stimulus possibilities in 2016. While the direction bodes well for trade activities, it came amidst global concerns on competitive currency devaluations by major economies seeking to boost trade. In April, the USA had placed China, Japan and Germany – among others – in a new FX watch-list for potential unfair trade advantages over USA. Developments in the FX market will require close monitoring for risks management.

We have also included our Asia colleagues' recommendations for cross-border RMB infrastructure, FX hedges, loans, credits and deposits as reminders of some other important changes.

We hope you find this *Market Developments and Regulatory Trends* summary informative. We welcome your views on the topics, and look forward to sharing information and ideas with you.

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A 2016 budget on regionalisation – Singapore

The 2016 Singapore budget announcement included a reduced qualified regional treasury centre's concessionary tax rate from 10% to 8%, reinforcing Singapore's competitive as a treasury hubs. However, the budget had also said that substantive requirements will correspondingly rise. The proposed additional qualifying activities for the Global Trader Program (GTP) complemented the rate cut. Other incentives included those in asset management, insurance and maritime sectors. An anti-avoidance measure was also introduced in Intellectual Property Rights.

What this means to you

Clients who are assessing FTCs, as well as clients who are already operating FTCs in Singapore, should monitor and assess for the additional substantive requirements that the EDB is expected to release more details circa June 2016.

Source: http://www.singaporebudget.gov.sg/budget_2016/home.aspx

Higher value-added industry development – China's 13th Five Year Plan

In March, China's National People's Congress (NPC) approved the 13th Five-Year Plan (13th FYP), which emphasised on the developments of higher value added and service industries, as well as environmental concerns. Industries in focus include information technology, "Clean Tech", healthcare & biotech, science and technology and advanced manufacturing. Other major themes included urbanisation and a strengthened social security network. The 'One Belt One Road' initiative also received attention as a focus to rationalise excess capacity in industries such as steel.

NPC's outcomes also included a 2016 GDP target of between 6.5-7%, a budgetary fiscal deficit of 3%, and an increased broad money supply to 13% from 12%.

What this means to you

The Chinese authorities are seeking proactively to assuage market fears of a significant RMB devaluation. The outcomes of the NPC and China's continued restructuring of its industrial base and economy would provide longer term new economic potentials while in the short term, clients need to continue to pay attention to the global FX environment.

Source: Global Renminbi Solutions, Deutsche Bank Research

Cross-border financing

On May 3, PBOC released the circular on "Implementing Overall Macro-Prudential Management System for Nationwide Cross-Border Financing". Representing the results of cooperation between PBOC and SAFE, the circular established a way for corporations registered in China, foreign-invested entities and financial institutions to manage and report their cross-border financing on a new basis. For example, it introduced the concept of "cap" "balances" and an approach based on outstanding debt balance management. Cross-border financing does not require pre-approval which is now replaced by pre-registration. The Circular also expanded its previous scope of 27 designated banks and corporate in China's four Free-Trade Zones to all financial institutions and non-financial institutions incorporated in China with exceptions for real estate and government financing vehicles. The market is now awaiting detailed implementation rules by SAFE.

What this means for you

For China incorporated corporations, the Circular means that they can enjoy a more simplified foreign debt administration process regardless of where these corporations are sited in China, although there will be additional compliance reporting and a need to manage overall debt position under the new methods. For both borrowers and lenders, further clarifications will be essential, for example, whether a breach of the Cap would affect the validity of debt and therefore remittances of payments.

Source: PBoC, Clifford Chance

Better payments – Hong Kong CHAT, China CIPS

On March 17, the Hong Kong Monetary Authority (HKMA) announced that it aims to enhance the interfacing capabilities of its Renminbi Clearing House Automated Transfer System (CHATS) system with China's Cross-Border Interbank Payment System (CIPS) to offer better access to the currency for cross-border payments and offshore-to-offshore payments.

The roles of Hong Kong's RMB CHATS and China's CIPS are complementary and both contribute towards enhancing the efficiency of cross-border payments to benefit corporations planning to, or already using RMB.

Separately, SWIFT, the global provider of financial messaging services, has signed a MOU with plans to connect CIPS with the SWIFT global user community to facilitate cross-border RMB flows and harmonised payment formats. This is targeted for end-2017. As a result, more market participants can stand to benefit from faster payment processing.

What this means to you

These changes related to correspondent banking are driven by the increasing demand for better and faster cross-border payment services. Interoperability, alignment of standards and cost efficiency are some key potential benefits for clients. In this regard on multi-currency clearing, we could also highlight a SWIFT "Global Payment Innovation Initiative" that promotes faster and more transparent payment trails that can lead to increased treasury efficiencies. Deutsche Bank is part of this initiative.

Source: Institutional Cash Management APAC, Deutsche Bank

Value Added Tax (VAT) – China

On March 24, China's Ministry of Finance and the State Administration of Taxation issued a circular that contains the rates and rules to expand China's VAT system which would replace the Business Tax. The three main industries that now transition to VAT are financial services, real estate and construction, and lifestyle services.

This reform can also be regarded as a move to better align the tax system with the government's plan to increase the economic contribution of the country's service sectors to its fiscal positions. The new rules take effect from May 1, 2016.

What this means to you
Correspondent banking services delivered with the help of China-based financial institutions will be subjected to 6%VATon both transaction fees and credit interest disbursements. The end-to-end transaction cost that involves China-based correspondent banking can increase, leading to charges for the remitter/corporation. Corporation need to clarify who pays the VAT.

Source: PwC China; Institutional Cash Management APAC, Deutsche Bank

Foreign Currency (FX) hedging – Indonesia

On Dec 21, 2015, Indonesia's central bank – Bank Indonesia – issued new regulations on foreign exchange transactions buying IDR. The regulations included the lifting of the threshold from USD 1 million to USD 5 million without the need for to support transactions for foreign currency sold against the IDR.

In addition, new documentary requirements for FX purchases using IDR related to trade and services items were introduced. For example, importers now need to submit documents showing that the goods are meant to arrive and to be received in Indonesia. Eligible documents to support such a FX trade include the sales agreement, purchase order and evidence of the goods dispatch.

What this means to you
To facilitate FX hedging processes and to be compliant with Indonesia's currency regulations, we recommend you familiarise yourself with these new documentary requirements for cross-border trade activities.

Source: No17/49/DPM, Jakarta 21 December 2015, Circular To All Foreign Exchange Commercial Banks in Indonesia. Fourth Amendment of Bank Indonesia Circular Number 16/14/DPM dated 17 September 2014 regarding Foreign Currency against Rupiah Transactions between Banks and Domestic Parties.

Loans, Credits and Deposits

Indonesia

Banks with branches in Indonesia are now required by regulations to explicitly consider the stand-alone credit standing of MNC subsidiaries operating in Indonesia. Offshore parental guarantees, other documentary support or credit approvals are not considered eligible.

What this means to you
As stand-alone credit extension to a foreign subsidiary will require local credit committee reviews and justifications, local credit applications may take longer to be processed by banks.

India

In December 2015, an interest equalisation scheme on Export finance was announced by the Indian central bank – the Reserve Bank of India (RBI) – in order to increase the competitiveness of eligible exporters by reducing the interest costs on pre and post-shipment export loans denominated in INR. This incentive will be available for the next five years.

Source:https://rbidocs.rbi.org.in/rdocs/Notification/PDFs/257IE85A5E4193 54C4226B855C5C7E949DF9F.PDF

Starting April 1, 2016, RBI has asked banks to price all INR loans and credit limits against the Marginal Cost of Funds-based lending rate (MCLR). This is to increase transparency and to make lending rates more responsive to policy rate changes. Existing loans and credit limits remain unchanged until the time of repayment or renewal. The actual lending rates to clients will be determined by adding spread to the MCLR. By shifting to MCLR, the loan rates of different banks for different tenors are expected to decrease. Exceptions to MCLR include working capital term loans and fixed rate loans with a tenor of above three years – these can be priced without being linked to MCLR and therefore, to effect minimal changes to corporate borrowers. Please request for a FAQ from your relationship manager for more information.

Korea

Early 2016, the Korean tax authorities had also reduced the loan rate for domestic inter-company loans from 6.9% to 4.6%.

What this means to you
This is for your information.

Source: Deutsche Bank

Japan
To help boost inflation and growth, on Feb 16, Japan's central bank – Bank of Japan – adopted further quantitative easing and started charging financial institutions negative interest on a portion of their balances held with them. Current industry and regulatory discussions are on the cost impacts to corporate clients. Retail clients are unlikely to be affected while corporate and interbank clients are likely to be subjected to some form of fee as opposed to a "negative interest". These discussions are separate from the offshore situation, where some banks have already commenced negative interest charges on JPY balances.

What it means for you
The market is adjusting to the new monetary policy environment of negative rates and some uncertainties should be anticipated. Deutsche Bank will keep its clients apprised of further developments.

Source: Deutsche Bank

To learn more about these market development and regulatory trends contact Boon-Hiong Chan, Head of Market Advocacy Asia Pacific, Global Transaction Banking at boon-hiong.chan@db.com or your Deutsche Bank Relationship Manager.

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