HSBC Global Research

31 May 2023

Accessing Asia

New policies and regulations: What you need to know

Free to View
Multi-asset - Asia

- Asian markets continue to open up to overseas investors
- We provide an update on the latest policies and regulations that can help increase market access and boost liquidity
- They cover equities, bonds, rates, FX, and ESG, as well as crypto trading and foreign direct investment

Opening up. This report is in response to client queries about where the next access opportunities are in Asia. It's intended as an overview of the projects in multiple markets and asset classes that are in development for the next few years, rather than a comprehensive guide of all current regulations. Highlights include:

Mainland China. The "Connect" initiatives, which started with Stock Connect back in 2014, continue to expand. Swap Connect, which allows Hong Kong and international investors to participate in mainland China's interbank interest rate swap market, has just been launched. The regulators are now working on Insurance Connect and a plan to expedite the opening up of mainland China's Treasury bond futures market to overseas investors, including the potential listing of Treasury bond futures on HKEX.

Hong Kong. The settlement of RMB trading in Hong Kong is scheduled to start on 19 June this year. The HKD-RMB dual counter model will allow investors to trade some Hong Kong-listed shares in either HKD or RMB and help to deepen the liquidity of Hong Kong's offshore RMB market. Meanwhile, retail trading of cryptocurrencies will start tomorrow (1 June), boosting ambitions to make the city a hub for virtual assets.

ASEAN. Countries across Southeast Asia are taking steps to deepen their financial markets. In Vietnam, a new IT system expected to be in operation this year should improve trading, clearing and settlement processes. The authorities hope this will strengthen the case for the market to be upgraded from frontier to emerging market status by 2025. Singapore has become a hub for family offices set up by high net worth individuals, and Indonesia has launched two initiatives – a Blueprint for Money Market Development 2025 to accelerate FX and domestic financial market development, and a 2023-27 Indonesian Capital Market Roadmap.

India. India government bonds are on a positive watch list for inclusion in the widely tracked J.P. Morgan EM Bond Index. The next review will take place in September 2023. Inclusion would allow a large slice India's USD1trn INR bond market to join the index at a weighting of up to 10%, leading to potential inflows of USD20-30bn.

ESG. The pace of change in ESG regulation and policies is accelerating, especially in the area of improving the level of disclosure. For example, in Hong Kong, all listed companies will be required to make climate-related financial disclosures by 2025.

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Eliot Camplisson*
Co-Head of Global Research, Asia-Pacific
The Hongkong and Shanghai Banking Corporation Limited

Frederic Neumann
Chief Asia Economist, Co-head Global Research Asia
The Hongkong and Shanghai Banking Corporation Limited

Paul Mackel
Global Head of FX Research
The Hongkong and Shanghai Banking Corporation Limited

Keith Chan
Head of Asia Credit Research
The Hongkong and Shanghai Banking Corporation Limited

Pin Ru Tan
Head of Asia Pacific Rates Strategy
The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch

Himanshu Malik, CFA
Senior Global Emerging Markets Rates Strategist
The Hongkong and Shanghai Banking Corporation Limited

Wai-Shin Chan, CFA
Head, Climate Change Centre; Head, ESG Research
The Hongkong and Shanghai Banking Corporation Limited

Herald van der Linde*, CFA
Head of Equity Strategy, Asia Pacific
The Hongkong and Shanghai Banking Corporation Limited

Steven Sun*, CFA (Reg. No. S1700517110003)
Head of Research, HSBC Qianhai Securities Limited
HSBC Qianhai Securities Limited

Joy Wang*
Head of ASEAN Equity Research and ASEAN Property
The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch

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Mainland China

Insurance Connect

Insurance Connect, once launched, will make cross-border health insurance purchases and claims settlement more convenient. The plan is for insurance service centres to provide cross-boundary after-sales service, such as claims reimbursement and policy administration. It will also allow mainlanders who have bought insurance products in Hong Kong and Macau to make claims more easily. Regulators are still working on the details and no launch date has been announced.

Treasury Bond Futures

There are plans to expedite the opening up of China's Treasury bond futures market to overseas investors, including the potential listing of Treasury bond futures on HKEX. The launch date has yet to be confirmed.

Stock Connect

Northbound trading now includes mainland stocks with a market cap of RMB5bn

On 13 March 2023, more than 1,000 stocks – including multinational companies – were added to the Stock Connect scheme which allows investors greater access to mainland shares, while boosting trading liquidity in Hong Kong. Northbound trading now includes mainland stocks with a market cap of RMB5bn (USD717m) or above that meet liquidity criteria, and southbound trading includes stocks of primary-listed foreign companies that are constituents of Hang Seng composite indices. The move boosts the number of mainland stocks eligible for trading via the northbound link to about 2,516, up from 1,458.

Swap Connect

Swap Connect was launched on 15 May 2023, led by the start of northbound trading. It allows Hong Kong and international investors to participate in mainland China's interbank interest rate swap market and better hedge their risks when investing in the onshore markets. Southbound trading is expected to follow at a later date, giving mainland investors access to Hong Kong's financial derivatives market.

IPOs

The first batch of initial public offerings under a streamlined listings regime debuted in Shanghai and Shenzhen on 10 April 2013. Under the new system, China's securities regulator relinquishes its role in reviewing IPOs, transferring the vetting power to the stock exchanges, making it easier for companies to go public. The reforms are an extension of an initiative first tested in 2019 on China's tech-focused boards, the Star Market in Shanghai and ChiNext in Shenzhen.

MSCI EM Index weighting

In 2019, MSCI increased the inclusion ratio of China A-shares from 5% to 20% in the MSCI Emerging Markets Index.

Panda bonds

New fund management rules have been introduced for Panda bonds

New fund management rules have been introduced for Panda bonds, RMB-denominated debt sold by overseas issuers in China, in order to facilitate the financing of overseas institutions in the domestic bond market. The new regulations came into effect on 1 January 2023. Management rules for panda bonds, including those related to fund registration, fund remittances and the opening of accounts, will be unified in China's interbank bond market and exchange-traded bond market. Overseas institutional investors will also be allowed to conduct foreign exchange derivative transactions with qualified domestic financial institutions to manage their exchange rate risks. The issuers can keep funds raised in China or remit them overseas.

Bond custody

China has introduced a new multi-tier custody model under which foreign investors may invest in China bonds via their local custodian bank instead of a settlement agent bank under the existing settlement agent model. The aim is to provide a unified regulatory framework for foreign investors to invest in both the interbank bond market and exchange-traded bond market. The new rules took effect from 1 January 2023.

FX

China has extended the trading hours of the interbank foreign exchange market

China has extended the trading hours of the interbank foreign exchange market, effective from 3 January 2023. The foreign exchange market's hours will be extended to 3am, Beijing time, to cover more trading hours in Asia, Europe and North America. The market's trading hours were previously from 9.30am to 11.30pm. The operational times of market management systems, such as the central parity rate, the floating range of the RMB exchange rate and market maker quotations, will be extended accordingly. The extension will help expand the depth and breadth of the domestic foreign exchange market, promote the co-ordinated development of onshore and offshore forex markets, and provide more convenience for global investors.

ESG disclosure

In 2022, the China Enterprise Reform and Development Society – a think-tank under the State-owned Assets Supervision and Administration Commission – published the country's first ESG disclosure standards: the "Guidance for Enterprise ESG Disclosure" as a first step towards disclosing ESG issues.

Hong Kong

Equities – RMB settlement

The settlement of RMB trading in Hong Kong is set to launch on 19 June 2023

The settlement of RMB trading in Hong Kong is set to be launched on 19 June 2023. The HKD-RMB dual counter model will allow investors to trade some Hong Kong-listed shares in either HKD or RMB. More than 20 Hong Kong-listed companies have applied for the dual-currency counters, representing almost 40% of Hong Kong market turnover. Hong Kong Exchange and Clearing (HKEX) said that at the initial stage it will be a market maker for Hong Kong and international investors able to trade RMB shares and the model will be expanded to mainland Chinese investors later. The dual-counter model will increase international and mainland Chinese investors' choice of offshore RMB financial products and help deepen the liquidity of Hong Kong's offshore RMB market.

Swap Connect

Swap Connect was launched on 15 May 2023, led by the start of northbound trading. It allows Hong Kong and international investors to participate in mainland China's interbank interest rate swap market and better hedge their risks when investing in the onshore markets. Southbound trading is expected to follow later, giving mainland investors access to Hong Kong's financial derivatives market.

Retail crypto trading

Hong Kong's Securities and Futures Commission (SFC) will allow retail trading of cryptocurrencies, effective 1 June 2023, in line with the drive to make Hong Kong a hub for virtual assets. The new rules will permit licensed exchanges to sell retail investors crypto currencies with large market caps and high liquidity, including Bitcoin and Ether.

Summary of Connect programs

Date	Name	Details
November 2014	Stock Connect – Shanghai/Hong Kong	A mutual market access programme that allows investment in eligible Shanghai-listed shares through the Stock Exchange of Hong Kong and eligible Hong Kong-listed shares through the Shanghai Stock Exchange.
December 2016	Stock Connect – Shenzhen/Hong Kong	A mutual market access programme that allows investment in eligible Shenzhen-listed shares through the Stock Exchange of Hong Kong and eligible Hong Kong-listed shares through the Shenzhen Stock Exchange.
July 2017	Bond Connect – Northbound trading	Offers international investors access to mainland China government bonds.
September 2021	Bond Connect – Southbound trading	Offers mainland institutional investors the ability to invest in Hong Kong and the global bond market.
September 2021	Wealth Management Connect Scheme	The Wealth Management Connect Scheme allows eligible mainland, Hong Kong and Macau residents in the Guangdong-Hong Kong-Macau Greater Bay Area (GBA) to invest in wealth management products distributed by banks in each other's market through a closed-loop funds flow channel established between their respective banking systems.
October 2021	MSCI China A 50 Connect	The MSCI China A 50 Connect (USD) Index Futures is the first officially recognised offshore market risk management tool for Stock Connect-eligible A-shares.
July 2022	ETF Connect	The inclusion of ETFs in Stock Connect offers diversification and investment opportunities for both global and mainland investors in the longer term. ETF Connect will provide more access for foreign investors to industry-themed mainland ETFs. Under the new cross-border trading scheme, 83 mainland-listed ETFs (53 in Shanghai and 30 in Shenzhen) can be initially traded by international investors via the northbound Stock Connect route. These include ETFs tracking the CSI300 and ChiNext indices.
August 2022	Trading calendar enhancements	The adjustments, effective April 2023, address the misalignment between Stock Connect holidays, allowing Stock Connect to trade on all the days which are trading days in either market. This adds up to over 10 trading days to Northbound and Southbound Connect each year.
March 2023	Expansion of stocks under Stock Connect	1) Northbound trading: An additional 598 stocks listed on the Shanghai Stock Exchange (SSE) and 436 stocks listed on the Shenzhen Stock Exchange (SZSE) are included on the list of mainland China Connect Securities. 2) Southbound trading: Four international companies listed in Hong Kong included in Southbound trading. The scope of eligible stocks for southbound trading under Shanghai-Hong Kong Stock Connect will be expanded to include constituents of the Hang Seng Composite SmallCap Index with a market capitalisation of HKD5bn or above, aligned with the existing scope of eligible stocks for southbound trading.
May 2023	Swap Connect	Swap Connect will eventually allow mutual access to interest rate swap trading to promote financial derivatives markets. At the initial stage, Swap Connect will allow Hong Kong and international investors to participate in mainland China's interbank interest rate swap market, without changing their existing trading and settlement practices. Southbound trading is expected to follow later, giving mainland investors access to Hong Kong's financial derivatives market.
June 2023	RMB counter	The initiative is scheduled to launch on 19 June 2023. Adding an RMB counter to Stock Connect will allow mainland Chinese investors to trade Hong Kong-listed shares in either HKD or RMB. The initiative has the potential to help expand channels for two-way cross-border RMB capital circulation and deepen liquidity in Hong Kong's offshore RMB market.
TBC	Treasury Bond Futures	A plan to expedite the opening up of China's Treasury bond futures market to overseas investors, including the potential listing of Treasury bond futures on HKEX.
TBC	Insurance Connect	Insurance Connect will make cross-border health insurance purchases and claims settlement more convenient. The plan is for insurance service centres to provide cross-boundary after-sales service, such as claims reimbursement and policy administration. It will also allow mainlanders who have bought insurance products in Hong Kong and Macau to make claims more easily.

Source: Various news sources, HSBC

Equities – the Nasdaq of the East

The Hang Seng Index (HSI) is becoming more tech-heavy, with more "new economy" growth names listed, reducing the substantial weighting of financials. This transition has been driven by regulatory changes in the US, where as a result of new disclosure rules, many mainland China companies with American Depository Receipts (ADRs) have moved their listings to Hong Kong.

By weighting, financials accounted for 27% of the index at the end of March 2023, down from 34% in 2019. Technology names account for 28%, up from 20% four years ago. Meanwhile, in March this year, HKEX proposed allowing two categories of specialist technology companies to list – those with at least HKD250m in annual revenue, and businesses that have yet to commercialise their products.

Digital currency

Hong Kong has launched a trial scheme for a digital version of the local currency, called the e-HKD. According to a statement by the Hong Kong Monetary Authority (HKMA) on 18 May 2023, 16 banks and payment companies will select groups of clients to test six potential uses for the e-HKD – tokenised asset settlement, Web3 trading, clearing online payments, payments in shops and restaurants, collecting government pay-outs, and tokenised deposits.

Typhoon trading

HKEX is exploring arrangements to continue operations during severe weather in a bid to facilitate trading amid wider trends of remote working in the finance industry.

ESG and climate disclosure

HKEX has launched a three-month consultation on enhancing climate disclosure

In April 2023, HKEX launched a three-month consultation on enhancing climate disclosure under its listing rules to make climate disclosures mandatory. All listed companies would be required to make Task Force on Climate-related Financial Disclosures (TCFD) by 2025.

Taiwan

ESG disclosure

In June 2022, the Taiwan Stock Exchange (TWSE) introduced a new ESG reporting mandate for listed companies on both the TWSE and the Taipei Exchange (TPEx). Under the new rule, companies are required to publicly disclose relevant information regarding their ESG practices and development on an annual basis.

India

Index inclusion

India government bonds are on a positive watch list for inclusion in the widely tracked J.P. Morgan EM Bond Index (GBI EM). The next review will take place in September 2023. Inclusion would allow a large slice India's USD1trn INR bond market to join the index at a weighting of up to 10%, leading to potential inflows of USD20-30bn. Remaining barriers to entry include margin requirements for trading, issues with moving money out of the country from bond sales, and the time required to register an onshore account.

Internationalising the INR

Central bank governor Shaktikanta Das has urged countries accumulating excess INR from exporting goods to India to put the funds into government bonds (*Bloomberg*, 24 May 2023). His comments come as India tries to internationalise its currency, not just to reduce its own dollar demand, but also offer the INR as an alternative for trade to countries facing a shortage of USD.

Ease of doing business

In December 2022, the Securities and Exchange Board of India (SEBI) approved the simplification of requirements for onboarding foreign portfolio investors (FPIs). The aim is to facilitate the ease of doing business and reduce the time taken for the registration of FPIs.

Commodities – direct market access

On 10 May 2023, the direct market access (DMA) facility in exchange traded commodity derivatives (ETCDs) was extended to foreign portfolio investors (FPIs). DMA allows brokers' clients to directly access the exchange trading system through the broker's infrastructure to place or execute orders without manual intervention by the broker.

FDI incentives

India is unveiling a INR170bn (USD2.1bn) financial incentive plan to attract companies looking to diversify tech supply chains beyond China (*Bloomberg*, *Reuters*, 18 May 2023). Prime Minister Narendra Modi wants to build on the success of Apple's local assembly operations – which have helped the US company produce about 7% of its global iPhone output – to promote the country as a global manufacturing hub.

India has proposed a regulatory framework for ESG disclosures

ESG disclosure

In February 2023, the Securities and Exchange Board of India proposed a regulatory framework for ESG disclosures by listed entities, ESG ratings in the securities market, and ESG investing by mutual funds in order to facilitate the balance between transparency, simplification, and ease of doing business.

The regulator has also mandated that the top 1,000 listed companies by market cap to make filings in line with the Business Responsibility and Sustainability Reporting (BRSR) framework from financial year 2022-23. In FY2021-22, more than 175 companies reported on the BRSR on a voluntary basis.

The government has launched a Sovereign Green Bond Framework

Green bonds

The government has launched a Sovereign Green Bond Framework to help fund green infrastructure. The bonds are available to foreign investors without restrictions. In 1Q 2023, the Reserve Bank of India (RBI) issued two INR160bn (USD1.93bn) sovereign green bonds in 5Y and 10Y tenors. The proceeds will be used to fund solar, wind and small hydro power projects. Additional issuance is planned in the second half of FY23-24.

Onshore non-deliverable derivative market

In 2020, banks which operate International Financial Services Centre Banking Units were permitted to transact with non-residents and with each other in INR non-deliverable FX derivative contracts (NDDCs). To deepen the NDDC market, in April 2023, the RBI permitted these banks to offer INR NDDCs to resident users in the onshore market.

Korea

Equities

South Korea has abolished a rule that makes foreign investors register with authorities in order to trade Korean stocks, amid a push to attract overseas investment. The regulatory change, announced in January 2023, is part of efforts to get the country's stock market included in the top grade of global market indices. The government has been seeking to get the Korean equity market upgraded to "developed" status from the current "emerging" status.

Bonds

In September 2022, Korea Treasury Bonds (KTBs) were placed on a watch list for potential inclusion in the widely tracked World Government Bond Index (WGBI). As a result, foreign investments in KTBs were made tax exempt from 1 January 2023.

In addition, the Korea Securities Depository (KSD) plans to collaborate with Euroclear Bank, the Brussels-based international central securities depository, to support a cross-border link granting international investors access to KTBs.

The Korean government has announced a plan to increase the accessibility of the onshore FX market

FX

On 7 February 2023, the Korean government announced a plan to increase the accessibility of the onshore FX market in line with global standards. All measures are expected to be implemented by 2H24. The measures include: 1) allowing foreign financial institutions that are not based in Korea to directly participate in the onshore interbank FX market and trade FX spot and forwards, upon registration with the Korean authorities and subject to eligibility conditions; and 2) extending the onshore interbank FX market to 2am Korean standard time (KST), and eventually allowing the market to open for trading 24 hours a day. Currently, the onshore FX market closes at 3.30pm KST.

ESG disclosure

In January 2021, the Financial Services Commission (FSC) announced a series of measures to improve corporate disclosure rules in South Korea, including initiatives to promote ESG and responsible investing.

Singapore

Family offices and VCCs

Singapore now has about 700 family offices, up from 400 at the end of 2020, according to government estimates. They help to increase assets under management and strengthen the country's status as a global wealth management hub. Family offices usually have diversified investment portfolios, split between equities, fixed income, and alternative investments like private equity, venture capital, hedge funds, and real estate.

To attract asset managers to domicile in Singapore, the Monetary Authority of Singapore (MAS) introduced the Variable Capital Company (VCC) structure in 2020. Today, over 800 VCCs have been established. In January 2023, government grants to defray the set-up costs of new VCCs were extended to 15 January 2025.

ESG disclosure

ESGenome, a digital disclosure portal, was launched in 2022

Under the phased approach to mandate Climate-related Financial Disclosures (TCFD), climate reporting is mandatory for issuers in: 1) the financial industry; 2) agriculture food and forest products industry; and 3) energy industry starting from 2023. This will be extended to the materials and buildings industry and transportation industry by calendar year 2024. Meanwhile, in September 2022, the MAS and Singapore Exchange jointly launched ESGenome, a digital disclosure portal that allows companies to report ESG data and investors to access this data.

In addition, new ESG disclosure and reporting rules came into force in January 2023. Singapore funds will be required to disclose information on an ongoing basis, and investors will receive yearly updates on the progress of the ESG goals.

Indonesia

Financial reforms

To deepen the country's financial markets, Bank Indonesia has developed a Blueprint for Money Market Development 2025 to accelerate FX and domestic financial market development, which includes strategies to enhance the hedging market and instruments in the domestic market. The authorities have also taken initiatives to relax regulations to encourage the use of hedging instruments by corporates and banks.

Capital market roadmap 2023-27

The Indonesian Financial Services Authority (OJK) has launched the 2023-27 Indonesian Capital Market Roadmap that aims to promote a deep, liquid, competitive, trusted and sustainable capital market as well as encourage the role of the private sector in financing government development programs as an alternative source of funding.

The roadmap highlighted five key pillars: 1) accelerating market development through efficient financial sector products and services; 2) accelerating sustainable finance programs; 3) strengthening the role of industry players in the development of the financial sector in line with best practices and market conduct; 4) increasing investor protection; and 5) enhancing digital financial services to increase the financial sector's credibility and public trust.

Indonesia wants to attract foreign investment from companies across the EV supply and value chain

FDI and EVs
As Indonesia looks to transform itself into a global EV hub, it has been working to attract foreign investment from a range of companies across the EV supply and value chain. FDI is eligible for a range of incentives, including multi-year tax holidays and import duty exemptions.

FDI and the new capital
Indonesia has announced a range of new incentives to attract foreign investment to the new capital, Nusantara, in Kalimantan. The government plans to provide 100% tax holidays that will last between 10-30 years, based on the sector, for companies investing at least IDR10bn (USD674,000) in the new capital. The authorities have started building basic infrastructure in the area and aims to begin relocating some government officials and civil servants in 2024.

Green taxonomy and ESG reporting
In early 2022, the Financial Service Authority of Indonesia (OJK) unveiled the first version of its Green Taxonomy, a classification system for green economic activities. All listed companies have been required to publish sustainability reports since 2020.

Carbon trading platform
In May 2023, the country's financial regulator announced a plan to establish a carbon exchange in the second half of this year.

Malaysia

Equities
In October 2022, Securities Commission Malaysia announced a range of initiatives to improve financing to small and medium enterprises (SMEs). These include the establishment of a digital innovation fund, as well as the opening up of the market to sharia-compliant crowdfunding and peer-to-peer financing platforms. The government's 2023 budget also introduced income tax deductions for SMEs seeking to list on the exchange.

FX
The Central Bank of Malaysia is focusing its efforts on making the onshore FX markets more resilient and building greater capacity for market participants to manage their FX risk. The central bank has been promoting the Dynamic Hedging Programme, which provides institutional investors with the flexibility to actively manage their FX risk exposure.

Green taxonomy and ESG reporting
In December 2022, the Securities Commission of Malaysia unveiled the principles-based Sustainable and Responsible Investment Taxonomy for the Malaysian market. The government will launch a framework on ESG standards by year end to help local companies transition to renewable energy. The framework will focus on small and medium enterprises (SMEs) to help them in terms of funding and building export capacity.

Thailand

FX
The Bank of Thailand promotes onshore FX activities by offshore corporates through the Non-resident Qualified Company (NRQC) scheme. Non-resident companies that trade and have direct investments in Thailand are allowed to conduct THB FX transactions with onshore financial institutions without having to provide documentary proof for each transaction. Anticipatory hedging and balance sheet hedging are also allowed.

Thailand is implementing an ambitious five-year investment promotion strategy

FDI

In January 2023, Thailand started implementing an ambitious five-year investment promotion strategy aimed at attracting more advanced technologies and upstream industries. Thailand is offering incentives that include up to 13 years of corporate income tax exemptions for investments in upstream industries and advanced technology, such as wafer fabrication, biotech, nanotech, and advanced materials.

ESG: Green taxonomy

Thailand is planning to announce a transition-focused green taxonomy this year that builds on the ASEAN taxonomy, following the consultation from the Bank Of Thailand last year.

The Philippines

FDI

The amendments to the Public Service Act, which enables 100% foreign ownership of services such as airports, railways, tollways, and telecommunications, were approved on 4 April 2023.

In October 2022, the Department of Justice issued a legal opinion stating that renewable energy investments are not subject to foreign ownership restrictions. This is expected to increase FDI and facilitate the shift to renewable power.

In December 2021, the Retail Trade Liberalization Act lowered the paid-up capital requirements for foreign retail enterprises.

Vietnam

Equities

A new IT system provided by the Korean stock exchange is expected to be operational later this year. It should improve trading and access to information, stimulate the launch of new instruments such as intra-day and odd-lot trading, and allow for a more efficient clearing and settlement process. This opens the door for the removal of the pre-funding requirements for buy trades in the future. The State Securities Commission (SSC) has also proposed allowing firms to issue up to 10% in non-voting shares, which would improve access for foreign investors. The authorities hope that this will strengthen the case for the Vietnam stock market to be upgraded from frontier market to emerging market status by 2025.

FX

The State Bank of Vietnam (SBV) announced a widening of the trading band for the dong, effective from 17 October 2022. The interbank USD-VND exchange rate will now be allowed to deviate by 5% each way per day from the daily central rate, compared with 3% previously.

Last year, the SBV drafted a new FX hedging requirement for offshore USD loans, requiring a company borrowing offshore USD to have a mandatory hedge of 30% of the loan. This policy has yet to be implemented.

FDI

In June 2022, Vietnam's National Assembly passed a series of policies to promote FDI, including a new 'Law on Intellectual Property' which strengthens the framework for trademark protection, as well as a new 'Law on Insurance Business', which expands the number of products which insurers are allowed to sell in the country.

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