HSBC Global Research

Currencies
Emerging Markets
December 2011

HSBC's Emerging Markets Currency Guide 2012

Pointing the way

This compendium of regulations is an essential companion for investing, hedging or simply transacting in Emerging Market currencies.

While some countries will continue to move further along the path of regulatory tightening, there are also some that are relaxing their regulatory frameworks.

This guide provides the key facts and insights one needs to make the most of the increasing opportunities that Emerging Market currencies offer.

Emerging Markets FX:

Regulatory understanding a priority

Understanding the regulatory environment for Emerging Market currencies should be a top priority. Given the significant periods of financial market stress seen over the past year, many countries will continue to promote financial stability as a key part of their economic policies. This, in turn, suggests that potential regulatory changes will be influential for respective currencies in the coming year and beyond.

This regulatory shift has been unfolding over many decades and will continue to do so as the transfer of capital across borders intensifies. While some countries will continue to move further along the path of regulatory tightening, there are some countries that are relaxing their regulatory frameworks. However, as we have said for some time, the legitimacy of regulation that can impact currencies is very much here to stay.

Another key focus in the coming year will be how Emerging Market currency liquidity develops. Given the financial market turbulence seen during the past year, there was a decline in the average daily turnover in a number of Emerging Market currencies. Regulators will face the twin challenge of minimizing exchange rate volatility while keeping exchange rates liquid. How different authorities approach these two tasks will need careful monitoring and will no doubt provide opportunities and risks in various currencies.

New markets continue to develop

The growth of new currencies has not slowed, however. Last year, we flagged the opening of the offshore renminbi (or CNH) market, and our readers will find all the latest regulatory updates and market information on that fast-growing currency within this compendium. We expect the CNH's development to continue to evolve at an exciting pace this year. Also, for the first time in this document, we include sections on the Costa Rican colón and the Guatemalan quetzal.

Emerging Markets will continue to drive global growth in the coming years. These newer markets will become an even greater focus for investment and currency development. Knowing the ins and outs of these currencies and how to deal in them is becoming increasingly important for investors and corporates across the world. This guide gives the in-depth insight that one will need to make the most of the widening global economy and the increasing opportunities that Emerging Market currencies offer.

We hope you find our Emerging Markets Currency Guide 2012 useful.

Currency publications

Currency Outlook

Our Currency Outlook comprises feature pieces on the longer-term currency market outlook and is published monthly. It focuses on the G20.

Currency Weekly

Primarily focused on the G10, and published every Monday, our Currency Weekly includes a feature on the major theme for the coming week and trade ideas.

Emerging Markets FX Roadmap

Our monthly EM FX Roadmap outlines the macro outlook for EM currencies. It contains our trading portfolio, and concise summaries of our calls on the three EM regions.

Asian FX Focus

Published at least bi-weekly, our Focus looks at regional thematic and currency-specific issues.

Asian FX Policy Dashboard

The Asian FX Policy Dashboard provides a comprehensive assessment of FX policy, its cost, and the sustainability of the overall policy regime. It is published on a monthly basis.

Latam FX Focus

Regular ad hoc pieces focusing on regional thematic and currency issues in Latin America.

FX Edge

Our daily FX Edge publication analyses events and trends in the G10 currency markets.

Trade Recommendations

Our trading notes provide short-term tactical trading recommendations by superimposing quantitative analysis on the underlying macroeconomic data, setting out specific take-profit and stop-loss levels.

Quantitative Analysis

Our quantitative research focuses on constructing currency tools that offer systematic intelligence on the markets. Flagship products include bespoke currency overlay advice, surprise indices, "risk on – risk off", and market risk appetite indices.

Our Surprise Indices measure the extent to which actual economic data differ from market expectations in the G10 and Asian countries. They are published on a weekly basis.

We publish a weekly overview of various "risk" indices. This document firstly looks at how the "risk on – risk off" phenomenon is driving markets and which asset classes are currently the most and least correlated with "risk dynamics". This document also contains two risk appetite indices: (1) HSBC Market Risk Appetite Index — a conventional price-based risk index; and (2) Open Positions Risk Appetite Index — a speculative positioning based risk index. By watching how money flows between contracts, we are able to measure risk appetite more explicitly.

These publications are available on the HSBC Research Web site and on Bloomberg ({HSBO <GO>})

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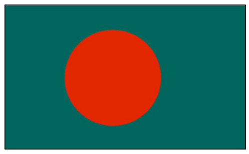
Asia

Bangladeshi taka (BDT)



- Bangladesh Bank (BB), the Central Bank of Bangladesh, sets FX and monetary policy, and maintains the BDT in a managed, floating regime
- The BDT is non-deliverable and only convertible on the current account
- The market is closed on Friday and Saturdays

In March 1994 the Bangladesh Taka (BDT) was declared convertible for current account transactions and the declaration symbolized a turning point in the country's exchange management and exchange rate systems. In May 2003, the BDT exchange rate was declared floating when the band of the central bank's USD buying/selling rate was withdrawn.

Spot

An active and deep two-way market for the USD-BDT is yet to evolve where the participants mostly engage in cover operations. There are also activities in FCY-BDT for G10 currencies. While there is no restriction for interbank participants to transact in BDT against foreign currencies, clients can only transact for valid commercial transactions. There are no brokers in the market and most deals are done over the phone and through the Reuters Dealing System.

Forwards/FX swaps

While there is an active FX swap market, these are very short dated. Most volumes are transacted within one week which the banks use as a funding tool. The outright forward is very popular among corporate entities which have a genuine underlying transaction. These are usually for 3-6 month tenors but longer tenors of up to 2-3 years can also be undertaken for small ticket sizes. There is no regulatory restriction for the forward tenors. BDT has no NDF market.

The only yield curve to indicate a term structure of interest rates is the treasury yield curve which is not always reflective of the actual market. There was an attempt in early 2010 to reflect market rates by introducing DIBOR (Dhaka Interbank Offer Rate) which can be viewed on Reuters page "DIBR". However, this rate is rarely updated and is not representative of actual interbank rates.

Options

The central bank has eased its stance to allow BDT vanilla FX options, in order for participants to hedge underlying exposure. However, prior approval is required for any new structures.

Normal market conditions

Normal market conditions

Onshore average daily spot volume	USD20m
Onshore spot transaction	USD0.5-1m
Onshore spot bid/ask spread	5-10 pips (0.05-0.10BDT)
Onshore average daily forward volume	USD1-2m
Onshore forward transaction	USD0.25-0.5m
Onshore forward bid/ask spread	100-150 pips (1.00-1.50 BDT)

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

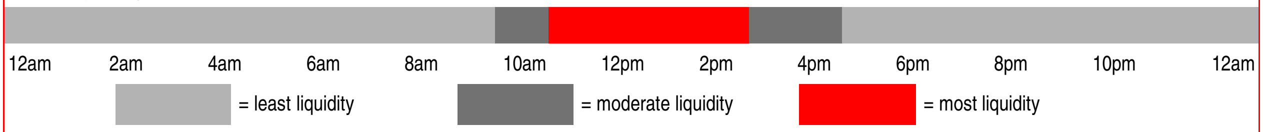
Exchange rate mechanism

Banks quote their own exchange rates based on prevailing market conditions while BB intervenes from time to time to adjust the foreign currency liquidity and their expected market rates.

Background

- BB regulates the banking industry under the guidance of the Ministry of Finance. Broadly, its objectives are to maintain price and exchange rate stability, exchange rate competitiveness, and to promote growth in agriculture and other priority sectors.
- BB closely monitors the stability of the BDT exchange rate to maintain FX reserves, and to manage the monetary and credit systems with a view to stabilising inflation.
- After becoming convertible on the current account in 1994, the BDT was pegged to a weighted currency basket of Bangladesh's major trading partners.

Liquidity at a glance



Notes: Times are based on Bangladesh local time = GMT + 6 hours
Source: HSBC

- While the BDT exchange rate was floated in 2003, it is yet to be made convertible on the capital account.

Repatriation and other regulations

Regulations

Onshore-onshore

- Onshore entities can engage in both spot and forward transactions for valid underlying commercial transactions. Supporting documentation is required in some special cases.
- Banks can extend local currency working capital finance or local currency term loans to foreign-owned/controlled companies operating in Bangladesh.

Offshore-onshore

- Offshore counterparties can buy BDT but are not allowed to sell BDT to purchase foreign currency.
- Non-residents can invest in securities quoted on the local stock exchange, with foreign exchange brought in from overseas. This can be achieved by opening a non-resident investor's Taka account (NITA) with any bank.
- Investors can buy foreign currency from their NITA account, after payments of capital gains tax and after auditors' certification. Cash related to securities transactions (i.e. purchases, sales and income) must be routed through this account.
- Travellers can bring in up to USD5,000 (or equivalent in other currency) without declaration.

Onshore-offshore

- 100% foreign-owned industrial enterprises and joint-venture industrial enterprises located in export processing zones may freely borrow in foreign currency from local banks as well as from abroad without prior approval from the central bank.

Offshore-offshore

- There is no offshore market for BDT.

Repatriation

- Neither remittance of non-residents' income from investments in Bangladesh nor remittance of dividends declared from previous years' accumulated reserves requires prior central bank approval.

Additional information

Holiday calendar

	Date	Event
2012	21 Feb	International Mother Language Day
	17 Mar	Birthday of Bangabandhu Sheikh Mujibur Rahman
	26 Mar	Independence Day
	14 Apr	Bengali New Year
	1 May	May Day
	17 May	Buddha Purnima*
	15 Aug	National Mourning Day
	28 Aug	Shab-E-Qudr*
	30 Aug	Eid-ul-Fitr*
	6 Oct	Bijaya Dashami
	6 Nov	Eid-ul-Azha*
	16 Dec	Victory Day
	25 Dec	Christmas Day

Note: *Subject to the appearance of the moon, may last more than one day.
Source: Metropolitan Chamber of Commerce and Industry, Dhaka

Information sources

Board of Investment	www.boi.gov.bd
Ministry of Finance	www.mof.gov.bd
Dhaka Stock Exchange	www.dsebd.org
Central Bank of Bangladesh	www.bangladesh-bank.org
Export Processing Zone Authority	www.epzbangladesh.org.bd
HSBC Reuters Dealing page	HSDK

Brunei dollar (BND)

- The Autoriti Monetari Brunei Darussalam (AMBD) acts as the Central Bank of Brunei Darussalam
- The BND is fully convertible, and there are no exchange controls
- Under the Currency Interchangeability Agreement (CIA) between Singapore and Brunei, BND is pegged to SGD at par

FX framework

Exchange rate mechanism

- Under the Currency Interchangeability Agreement (CIA) between Singapore and Brunei, the BND is pegged to the Singapore dollar (SGD) at par. SGD is customary tender in Brunei, along with BND.
- This agreement allows both countries to interchange their currencies at par with neither running the risk of exchange rate fluctuations. This further facilitates trade and commerce between the two countries.
- Foreign investors and corporations can deal in spot.
- There is no FX forward or options market in Brunei.
- Under the CIA, hedging can be conducted via the Singapore Exchange or using over-the-counter options in Singapore.
- Tenors in the Singapore market are liquid up to one year, with prices available up to five years.

Background

- On 15 July 2010, His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam announced the establishment of a new financial institution to come into effect on 1 January 2011, to be known as the Autoriti Monetari Brunei Darussalam (AMBD). It is responsible for monetary policy, monitoring financial institutions and currency trading.
- The Autoriti Monetari Brunei Darussalam Order, 2010, amongst other things, provides for the establishment of the AMBD and its Board, and deals with matters connected to the objects, operation, administration, functions, powers and duties of the AMBD. This includes relations between the AMBD and the government; relations between the AMBD and banks and financial institutions; and consequential and related amendments to other written laws that govern the activities supervised by the AMBD.
- The AMBD is a corporate body, acting as the Central Bank of Brunei Darussalam, performing functions such as the formulation and implementation of monetary policy, supervision of financial institutions and currency management. In line with the introduction of the Autoriti Monetari Brunei Darussalam Order, 2010, His Majesty the Sultan and Yang Di-Pertuan Negara Brunei Darussalam has also consented to the amendment of the Currency and Monetary Order, 2004, cited as Currency and Monetary (Amendment) Order, 2010, which also commenced on 1 January 2011.
- This Order, amongst other things, provides for the transfer of Brunei Currency and Monetary Board's (BCMB) powers to the AMBD, including its assets and liabilities. In addition, this Order also provides for the establishment of the Currency Fund for the purpose of currency management.
- Following the establishment of the AMBD, the Ministry of Finance wishes to reaffirm that the Currency Interchangeability Agreement between the Government of His Majesty the Sultan and Yang Di-Pertuan Negara Brunei Darussalam and the Government of the Republic of Singapore will remain intact.

Repatriation and other regulations

- There are no exchange control laws in Brunei.
- As part of the Government of His Majesty The Sultan and Yang Di-Pertuan of Brunei Darussalam's continuous effort in combating money laundering and terrorism financing activities, the AMBD announced that commencing 1 August 2011, every person moving into or out of Brunei Darussalam, holding Physical Currency and Bearer Negotiable Instruments with total value exceeding BND15,000 (or its equivalent in a foreign currency) is required to declare/report such amount to the officers of the Royal Customs and Excise Department upon arrival or officers of the Immigration and National Registration Department upon departure using the prescribed forms which will be made available at every control post at all major entry and exit points of Brunei Darussalam.
- This new reporting requirement is pursuant to the Anti-Money Laundering Order, 2000, and is in line with international standards, which require countries to have measures in place to detect the physical cross border movement of cash and bearer negotiable instruments. Failure to give a full and accurate report can result in a fine not exceeding BND50,000, and/or imprisonment for a term not exceeding three years.
- This declaration requirement is not a restriction on bringing in or taking out of Brunei Darussalam, any type of document of physical currency and bearer negotiable instruments. The public are advised to read the "General Information" section of the Currency and Bearer Negotiable Instruments (CBNI) Report, available on the AMBD's Web site, which contains further information on the currency declaration requirements.

Additional information

Holiday calendar

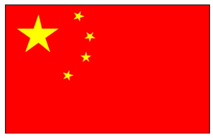
	Date	Event
2012	2 Jan	New Year
	23 Jan	Chinese New Year
	6 Feb	Prophet Mohammad's Birthday
	23 Feb	28th National Day
	31 May	Anniversary of Royal Brunei Malay Regiment
	18 Jun	Israk Mikraj*
	15 Jul	HM The Sultan's 65th Birthday
	21 Jul	First Day of Ramadhan*
	6 Aug	Anniversary of the Revelation of the Holy Quran*
	20 Aug	Hari Raya Aidifitri*
	27 Oct	Hari Raya Aidiladha*
	15 Nov	Islamic New Year
	25 Dec	Christmas Day

Note: *Muslim Holidays are subject to change due to lunar sightings
Source: HSBC, http://www.information.gov.bn

Information sources

Ministry of Finance	www.mof.gov.bn
AMBD	www.ambd.gov.bn

Chinese renminbi (CNY)



- The People's Bank of China (PBOC), China's central bank, maintains the currency in a managed float with reference to a basket of currencies
- The CNY, or renminbi (RMB), is non-deliverable and partially convertible
- On 19 June 2010, the PBOC announced a change in the FX regime to enhance exchange rate flexibility

The following products are available:

- Spot FX, deliverable forwards and FX swaps out to five years[1]
- Deliverable FX options out to three years
- Deliverable cross-currency swaps out to five years
- Non-deliverable forwards (NDFs) out to ten years
- Non-deliverable FX options out to five years with further tenors on a case-by-case basis
- Non-deliverable cross-currency swaps out to five years
- Non-deliverable interest rate swaps out to five years

Spot

Onshore CNY FX spot is available with documentary proof of an underlying transaction.

Forwards/FX swaps

In the onshore market, RMB forwards and FX swaps with maturities up to five years are available to onshore institutions to hedge FX exposure. However, documentary proof of underlying exposure must be provided. Tenors are available out to ten years; however, the best liquidity is found in tenors of one year or less.

In the offshore market CNY can now be traded as either a fully deliverable offshore currency, or via USD-settled NDFs. Please refer to the chapter titled *Offshore Chinese renminbi (CNH)* on page 14 for further details on the offshore renminbi.

Options

Onshore clients can buy common European options of CNY against foreign currencies on an actual needs basis. State Administration of Foreign Exchange (SAFE) has announced that, as of 1 December 2011, risk reversals will be permitted. Tenors are available out to three years; however, the best liquidity is found within two years.

In the offshore market, USD-settled non-deliverable options (NDOs) are available on the renminbi out to five years and further tenors on a case-by-case basis. Options expire simultaneously with the NDF fixing publication.

A range of FX structured products are also available for risk management or investment purposes.

Currency swaps

Since August 2007, institutions with FX forward licences – Designated Foreign Exchange Banks (DFXBs) – have been able to trade CNY currency swaps in the interbank market. The currency pairs are: USD, EUR, JPY, HKD, GBP, MYR and RUB against CNY. Banks have been allowed to offer CCS to corporate clients since 1 March 2011. The same foreign currency regulation which used to be applied on CNY forwards and CNY FX swaps is applied to CCS.

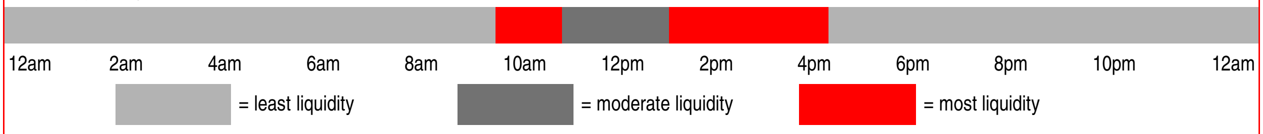
Interest rate swaps

CNY interest rate swaps (IRS) are available only for financial institutions to hedge CNY interest rate risk.

CNY forward rate agreements (FRAs) can only be executed with financial institutions registered with the PBOC.

1 Onshore only – must be done through a designated FX bank.

Liquidity at a glance



Notes: Times are based on Shanghai local time = GMT + 8 hours
Source: HSBC

Normal market conditions

Normal market conditions	
Onshore daily average spot volume	USD15bn
Onshore spot transaction	USD5-15m
Onshore spot bid/ask spread	5-20 pips (0.0005-0.0020CNY)
Onshore forward & swap volume	USD10bn
Onshore forward & swap transaction	USD10-20m
Onshore forward spread	50–100 pips (0.0050-0.0100CNY) in 6M
Onshore implied option volatility spread	0.5 vol
Offshore daily NDF average volume	USD3bn
NDF transaction	USD10m
NDF spreads	40-60 pips (0.0040-0.0060CNY) in 6M
Offshore implied option volatility spread	0.2 vol

Note: Data above only refers to inter bank market. Spreads are subject to change with market developments.
Source: HSBC

FX framework

Exchange rate mechanism

- CNY is partially convertible – fully convertible on the current account but only on a restricted basis on the capital account.
- The CNY exchange rate is calculated and published by China Foreign Exchange Trade System (CFETS).
- Seven CNY related currency pairs are traded in CFETS: USD-CNY, HKD-CNY, JPY-CNY, EUR-CNY, GBP-CNY, CNY-MYR and CNY-RUB.
- In the interbank market, the daily trading band of the CNY against the USD is +/- 0.5%, around the opening middle rate fix at 9.15am Shanghai time.
- The USD-CNY middle rate fixing is set by a weighted average rate quoted by all CNY market makers after deducting both the highest/lowest one before the market opens.
- The highest/lowest price spread of the USD-CNY exchange rate dealt with clients is limited to 1% of the USD-CNY middle rate as announced by the PBOC and the middle rate must be included within the range.
- Since 1 January 2006 existing DFXBs have been permitted to engage in a "bilateral trading platform" which allowed them to trade directly with other member banks in the CNY FX spot market, as opposed to just trading with CFETS. However, they continue to be governed by the daily trading band.

Central bank intervention mechanism

- The PBOC conducts its open-market operations via government bond repos as well as issuing, buying and selling PBOC bills in the interbank market.

Background

- On 21 July 2005, China announced a 2.1% one-off revaluation of CNY against USD, and the reform of the exchange rate mechanism where CNY would no longer be pegged to USD, but instead would be managed with reference to a basket of currencies.
- Although the full details of the basket were not disclosed at the time, on 10 August 2005 China indicated that USD, EUR, JPY and KRW were the main reference currencies in the basket. The other currencies referenced were SGD, MYR, RUB, AUD, THB and CAD. All these currencies are among China's top 15 trading partners.
- On 2 August 2005, the PBOC expanded the eligibility of CNY forward licences to all policy banks, state commercial banks, city commercial banks, rural commercial banks and rural cooperative banks, as well as foreign banks.
- Starting in late 2008, authorities took concrete steps to accelerate the process of RMB internationalization and open up the offshore RMB market. Please see the chapter titled *Offshore Chinese renminbi (CNH)* on page 14.
- On 19 June 2010, in view of the recovering economic situation and financial market developments both at home and abroad, and the Balance of Payments (BOP) situation in China, the PBOC decided to proceed with further reform of the RMB exchange rate regime and to enhance RMB exchange rate flexibility.
- The China Banking Regulatory Commission (CBRC), which separated from the PBOC in April 2003, performs the role of banking regulator while the PBOC is responsible for monetary policy.

- SAFE is responsible for implementing exchange control regulations. Any non-explicitly addressed type of CNY conversion and repatriation requires prior approval from SAFE.

Fixing mechanism

- The market opens at 9:30am and closes at 4:30pm.
- The CNY fix is taken two working days prior to value and is the rate at 9:15am, Hong Kong time, as set by the PBOC. It is published on Reuters page "SAEC". e.g. value 28 April; fix 26 April.

Repatriation and other regulations

Repatriation

Dividends

- Since July 1996, the authorities have allowed free CNY convertibility relating to current account items, including the payment of dividends from after-tax profits, to be effected at designated FX banks and supported with written resolutions of the board of directors concerning profit distribution, audit reports and tax-clearance documents.

Principal and interest

- Repayment and repatriation of principal and interest are capital-account items and subject to prior SAFE approval.

A- and B-shares

- A-shares (denominated in CNY) are open to Qualified Foreign Institutional Investors (QFII) who have obtained approval from the PBOC, SAFE and the China Securities Regulatory Commission (CSRC).
- The repatriation of principal and proceeds derived from A-share investments is subject to strict control.
- Sale proceeds and income from B-shares (denominated in USD and HKD) invested by foreign investors can be repatriated.
- All PRC-registered enterprises are required to obtain tax-clearance documents from the local tax authorities in order to remit non-trading-type payments.

Regulations

- China maintains strict controls on its currency, although recently some progress has been made towards easing restrictions.
- Non-residents and Foreign Investment Enterprises (FIEs) must obtain a Foreign Exchange Registration Certificate (FERC) to open a foreign currency account onshore. There are three types of foreign currency accounts for non-residents: capital accounts (for investment and repatriation), current accounts (for trade) and loan accounts (for receiving and repaying loans).
- Trade-related transactions are permitted cross-border, and will occur at what is effectively the CNY onshore rate. This must occur through designated clearing banks and must be supported by appropriate documentation.
- Residents may hold foreign currency in onshore accounts.

Onshore-onshore

Spot

- Only entities registered in China can trade CNY onshore. All spot CNY FX transactions must be executed with a DFXB. DFXBs can square their net CNY position in CFETS.
- On the current account, the CNY is convertible with certain restrictions applied. All deals are required to have proper eligible supporting documents. The repatriated foreign currency which an enterprise collects from exports and intends to convert into CNY shall first be put in an export foreign currency account which is opened in the name of the enterprise in a bank, and subject to inspection. The range of incomes and payments shall be provided for foreign exchange administration.
- On the capital account and loan account, CNY conversions require SAFE approval and other supporting documents.

Forwards, FX swaps and options

- Onshore entities can access the local forward market provided these forward contracts are used to cover current account transactions. However documentary proof, such as trade agreements, must be provided.
- Onshore entities can also access the local forward market for hedging of the following capital items:
  - repayment of domestic foreign currency working capital loans
  - repayment of external debt registered with SAFE

- income or expenses of direct investment registered with SAFE
- facilitation of capital injections of foreign investment enterprises registered with SAFE
- remittance of foreign currency income of an overseas listed domestic company registered with SAFE
- any other transaction with SAFE approval

- CNY options may be traded on the interbank market and with clients. Clients cannot sell options unless they offset the positions against buy-in options. Upon the maturity of the options, if the clients choose to exercise their options, the banks must conduct an authenticity and regulatory examination of the compliance of the receipts and payments of foreign exchange delivered by the clients. In the event that the scope of the foreign exchange receipts and payments of the clients options trading is the same as that of the clients forward settlement and sales of foreign exchange, the scope therein is limited to the receipts and payments of spot settlement and sales of foreign exchange that can be carried out in compliance with the foreign exchange administration regulations.
- On 9 November 2010 SAFE imposed a floor limit of the Bank's synthetic exchange position on cash basis. This new regulation restricts banks' outright forward positions only and has no impact on FX swap positions. This results in two separate markets onshore for FX swaps and FX forwards.

Offshore-onshore

- No entities outside China are allowed to participate in onshore trading of the CNY. But offshore entities can receive and pay RMB as part of a trade settlement process. This trade settlement scheme has been rolled out globally as well as fully onshore.

Onshore-offshore

- Corporates registered in China cannot buy or sell foreign currency offshore.
- Any resident borrowing from abroad is subject to stringent controls. All such loans must be approved by and registered with SAFE.
- RMB overseas direct investment: Effective 6 January 2011, subject to the approval of the relevant Chinese authorities, onshore enterprises (excluding financial institutions) may use RMB for overseas direct investment, including but not limited to the establishment of new entities and/or undertaking projects overseas, acquisition or share participation in target entities and/or projects overseas.

Offshore-offshore

- Please see the chapter titled *Offshore Chinese renminbi (CNH)* on page 14 for more details on the offshore RMB market.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	23-27 Jan	Lunar New Year*
	2-4 Apr	Ching Ming Festival
	1 May	Labour Day
	22 Jun	Tuen Ng Festival
	30 Sep	Mid-Autumn Festival
	1-5 Oct	National Day*

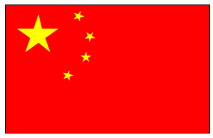
*Approximate dates; the actual holiday will be announced by the Chinese government in due course
Source: Bloomberg

Information sources

The People's Bank of China	www.pbc.gov.cn
State Administration of Foreign Exchange	www.safe.gov.cn
Ministry of Commerce	www.mofcom.gov.cn
National Development and Reform Commission	www.ndrc.gov.ch
China Banking Regulatory Commission	www.cbrc.gov.cn
China Securities Regulatory Commission	www.csrc.gov.cn
Reuters Fixing Page	PBOCA, HSBCNDF, SAEC, CHIBOR,SHIBOR, HSBCCN
Bloomberg Fixing Page	APF<go>

HSBC

Offshore Chinese renminbi (CNH)



- The RMB became deliverable offshore in Hong Kong in July 2010
- RMB can be freely transferred between accounts in Hong Kong, and banks can create and sell investment products
- The offshore RMB market is developing rapidly, and interaction with onshore is growing

On 19 July 2010, a new rule was introduced to enable the transfer of RMB funds between accounts and across banks for any purpose in the offshore market. The transfer of RMB between Hong Kong and onshore is still subject to regulations and approval by mainland authorities.

Bank of China (Hong Kong) – BOC(HK) – is the designated clearing bank in Hong Kong and provides the platform of CNH settlement for the offshore market. CNH is the common currency code used to reference offshore RMB traded in the Hong Kong market.

The following products are available:

- Spot FX, deliverable forwards and FX swaps[2]
- Deliverable FX options out to five years, with further tenors on a case-by-case basis
- Bonds
- Time deposits and certificates of deposit
- Structured products, including structured deposits, notes and swaps

Spot

Overall spot market liquidity has picked up to as high as USD1.5bn daily since the new rules came into place. Participating banks in Hong Kong provide three types of RMB exchange rate transactions: (1) for personal RMB business, (2) for trade purposes, and (3) for general purposes.

Foreign exchange positions from the first two categories can be squared with the clearing bank, so the market trades close to the onshore rate generally. There is a quota on how much the clearing bank in Hong Kong can settle for trade-related transactions. The details of the quota are undisclosed, but are believed to be currently RMB8bn on net USD buying and selling, and reviewed on a quarterly basis[3].

For general purpose FX transactions, as banks need to warehouse the risk or square in the interbank USD-CNH market, this rate can differ materially from the onshore spot exchange rate.

HSBC spot, forward and swap rates can be found on Reuters at HSBCRMB and cross rates at HSBCRMBX.

Forwards/FX swaps

CNH deliverable offshore forwards are available out to three years. Liquidity has improved significantly in the last year. The curve is based broadly on the offshore USD and RMB money market interest rate differential. However, the curve can deviate from the implied interest rate differential due to underdevelopment of the market.

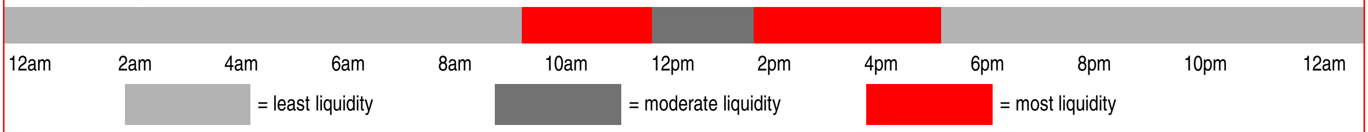
Options

Deliverable CNH options, meaning physical offshore RMB settlement options, are available without restriction to any non-individual counterparty (i.e. corporates and investors) that has a physical CNH nostro account in Hong Kong. Options on USD-CNH and CNH crosses are available out to three years, and beyond on a case-by-case basis. The average transaction size is USD30m with the daily turnover being up to USD500m.

2 For offshore purposes only

3 http://online.wsj.com/article/BT-CO-20111121-705074.html

Liquidity at a glance



Notes: Times are based on Hong Kong local time = GMT + 8 hours
Source: HSBC

Currency swaps

HSBC offers cross-currency swaps for CNH, predominantly against USD out to the 3-year tenor, with ticket size averaging USD10-20m. Even though client transactions have been dealt out to 5yr or longer, they are only being considered with on a case-by-case basis. In general, clients have been moving their interest from the longer established NDS market to this market. Hence the liquidity for CNH CCS has constantly been improving.

Interest rate swaps

The interbank money market is still relatively underdeveloped. Offshore deposit rates differ from those onshore, driven by a lack of transactional demand for funds which are relatively expensive compared to USD and HKD. There is currently no liquid IRS market. The onshore and offshore rates will likely only converge more closely when either offshore bond markets are developed further or banks are able to access onshore CNY bond markets more freely.

Banking and structured products

A number of hedging products are available for risk management or investment purposes. These include vanillas, European barriers, and digital options hedging RMB exposure versus any other currencies with physical settlement. Various investment products in RMB such as structured deposits (linked to FX, rates, equities or gold), notes or swaps out to two years are available. These can be traded with RMB as the underlying currency or as part of a basket and can be structured to suit bespoke needs.

Bonds

There is a vibrant primary and secondary market of offshore RMB bonds issued in Hong Kong settled in CNH. Also available are CNY synthetic bonds (priced out of the NDF curve), and total return swaps (TRS) on HK RMB bonds settled in CNH.

Opening an account in CNH

All clients can open a RMB account in Hong Kong or with offshore affiliates and are subject to normal account opening procedures. Offshore RMB accounts can also be opened in other jurisdictions and will be subject to local regulations, although nearly all offshore RMB activity is ultimately settled and delivered in Hong Kong (cross-border RMB activity, however is actively done in many offshore jurisdictions).

Normal market conditions

Normal market conditions	
Daily average spot volume	USD1.5bn
Spot volume per transaction	USD10m
Spot bid/ask spread	10-20pips (0.0010-0.0020CNH)
Daily average forward volume	USD3bn
Forward & swap volume per transaction	USD10m
Forward spread	50-200 pips (0.0050-0.0200CNH)
Daily average option volume	USD500m
Option transaction	USD30m
Implied option volatility spread	0.5 vol

Note: Data above only refers to interbank market. Spreads are subject to change with market developments.
Source: HSBC

FX framework

Exchange rate mechanism

- Offshore RMB is traded as any other deliverable currency in Hong Kong.
- The offshore RMB fixing rate is calculated by averaging the middle quotes after excluding the highest two and lowest two quotes provided to HKMA by contributing banks. This is published on Reuters page <CNHFIX=> at 11.15am local time.
- BOC(HK) is the designated clearing bank.
- Banks can provide non-individual customers with General Purpose RMB accounts which allow free transfer of funds for any purpose, though positions arising from this cannot be squared with the clearing bank. Loans may be made to corporate clients for trade and general purposes.

- Banks are required to maintain a minimum 25% of customer deposits in cash and settlement balance with the clearing bank.
- RMB loans to personal customers are not permitted.
- There is one-way conversion for designated business customers from RMB to USD or HKD through the clearing bank.
- Banks may borrow funds from mainland correspondent banks for up to one month for trade.

Background

- In late 2003, the People's Bank of China (PBOC) and the Hong Kong Monetary Authority (HKMA) agreed that Hong Kong banks could conduct personal RMB business on a trial basis. BOC(HK) was designated as the RMB clearing bank.
- In 2004, the clearing bank began to provide services for participating banks to square RMB open positions that resulted from permitted RMB exchange business.
- The offshore RMB bond market was established in Hong Kong in 2007 when the PBOC announced "Interim Measures for the Administration of the Issuance of RMB Bonds in Hong Kong Special Administrative Region by Domestic Financial Institutions".
- China Development Bank (CDB), China's state policy bank, was the first to issue RMB bonds in Hong Kong in July 2007.
- The bond market has developed rapidly since then. Since 2010, financial institutions or corporates incorporated outside China have been allowed to issue in RMB provided proceeds are kept offshore unless otherwise approved by China regulators.
- In 2008, the PBOC and the HKMA signed an agreement to set up a currency swap line. The size of the swap line was doubled to RMB400bn in 2011.
- 2009 saw an acceleration in market developments:
  - The State Council approved RMB trade settlement on trade between Hong Kong and Guangdong/Yangtze River Delta and a supplementary memorandum was signed in June 2009.
  - HSBC was the first bank to issue RMB bonds in Hong Kong.
- 2010 proved to be a watershed year for the Hong Kong RMB market:
  - In February, the HKMA released a circular to expand the scope of offshore RMB bonds, including the eligibility of issuers, issue arrangements and types of investors. Previously RMB bond proceeds could not be remitted back to China without PBOC approval. However, in October 2011 a process to allow RMB FDI from offshore to onshore was formalised (see below). RMB raised offshore can also be used freely outside China for any purpose.
  - In July, the PBOC and BOC(HK) inked an agreement lifting the last restrictions on Hong Kong's RMB interbank market. Following this, there were no longer restrictions on banks in Hong Kong establishing RMB accounts for and providing related services to corporates. Individuals and corporations were also able to conduct RMB payments and transfers through the banks. This gave the green light to non-bank financial institutions to open RMB accounts held in different Hong Kong banks, for any purpose.
  - This led to many firsts: in July, shortly after the announcement, CITIC Bank International issued the first ever CNH CD and Hopewell Highway Infrastructure issued the first CNH corporate bond. In August, retail CNH CDs were offered, and McDonald's became the first foreign company to issue CNH bonds in Hong Kong.. The Asian Development Bank became the first supranational to issue CNH bonds. It is also the first 10-year CNH bond in Hong Kong and first foreign issuer to have the bonds listed.
  - In July the cross-border RMB trade settlement scheme was rolled out globally and domestically to 20 provinces.
  - In August, the PBOC announced a pilot scheme to allow three types of offshore institutions – clearing banks, RMB trade settlement banks and central banks – to reinvest offshore RMB accumulated from cross-border trade settlement into the onshore interbank bond market.

- 2011 has since seen a further development of cross-border channels, as well as smaller regulatory adjustments to support the growing scope and depth of the offshore RMB.
  - In January 2011, the PBOC for the first time allowed banks and enterprises to make overseas direct investments in RMB.
  - PBOC announced the launch of the RMB Fiduciary Account Scheme which facilitates Participating Banks to better manage their credit exposure to the Clearing Bank.
  - In April, PBOC signalled the start of a trial programme for inward foreign direct investment denominated in RMB.
  - April also saw the first offshore RMB IPO.
  - In June, the PBOC required onshore agent banks to quote RMB FX to overseas banks for physical goods trade settlement only and the proceeds have to be remitted out within three months.
  - The Treasury Market Association of Hong Kong launched spot USD-CNY (HK) fixing on 27 June 2011 to provide a reference rate for offshore RMB products.
  - In late July, HKMA revised rules on RMB Net Open Positions (NOP) with the clearing bank, allowing forward positions in opposite directions to offset net open positions, effectively excluding CNH swaps from NOP limits.
- On 17 August 2011, further measures were outlined to increase the pace of internationalisation.
  - The previous trade settlement scheme was rolled out nationally, from 20 provinces before. With this step there are no remaining jurisdictional restrictions in participating in cross-border trade settlement.
  - A RMB Qualified Foreign Institutional Investor (QFII) was to be set up. This was formalised in December 2011 and gave a RMB20bn quota for Hong Kong subsidiaries of mainland fund management and securities companies to make RMB investments in mainland securities.
  - All mainland companies are able to issue RMB bonds in HK, rather than just financials and overseas firms. The first non-financial bond issuance occurred shortly afterwards in November 2011.
  - Offshore firms to be able to invest RMB as FDI into mainland China more freely, rather than on a case-by-case basis. Approval will still be required from the Ministry of Commerce in certain circumstances, including if the amount is greater than RMB300m, or related to specific industries. These regulations were formalised in October 2011.

Regulations

Repatriation

- Offshore RMB accounts may be set up in other jurisdictions and offshore RMB may be remitted to any other foreign centre, subject to local regulations, except for mainland China.

Bond market

- Existing eligible issuers are any financial institutions or corporates incorporated outside China, and onshore Chinese financial institutions approved by PBOC and SAFE.
- In August 2011, China's Vice Premier Li announced that onshore corporates would also be able to issue in the offshore CNH market, subject to approval.
- The investor base is mainly Hong Kong retail and institutional investors and international investors with CNH funds.
- Any offering and marketing activities are subject to the usual restrictions imposed under applicable securities law.
- For onshore Chinese financial institutions and corporates, approvals are required in order to bring proceeds onshore.
- For offshore issuers, no approval of issuance is required as long as the funds stay offshore. To bring proceeds onshore, approvals are needed for the repatriation, though not for the bond issuance.

Offshore-offshore / offshore-onshore

- CNH is the exchange rate at which RMB is traded in the Hong Kong interbank system. Hong Kong is the only jurisdiction where offshore RMB trading is sanctioned and regulated. However, trading of

RMB in other offshore jurisdictions is not explicitly restricted.

- Offshore entities may freely establish nostro RMB (CNH) accounts in Hong Kong.
- The daily conversion limit for Hong Kong residents is set at RMB20,000. This is dealt at the CNY spot rate rather than the CNH spot rate. The daily remittance limit to China is RMB80,000.
- FDI is permitted in RMB into the mainland, though it must be approved onshore under FDI regulations. For transactions under RMB300m only local approval is required. FDI investment in securities and derivatives investment are still forbidden, but foreign investors may participate in any private placement or share transfer agreement made by public listed companies, subject to MOFCOM approval.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	23-25 Jan	Lunar New Year
	4 Apr	Ching Ming Festival
	6 Apr	Good Friday
	9 Apr	Easter Monday
	28 Apr	Buddha's Birthday
	1 May	Labour Day
	23 Jun	Tuen Ng Festival
	2 Jul	SAR Establishment Day
	1 Oct	Mid-Autumn Festival
	2 Oct	National Day
	23 Oct	Chung Yeung Festival
	25-26 Dec	Christmas

Source: Bloomberg, HSBC

Information sources

The Hong Kong Monetary Authority	www.info.gov.hk/hkma
Invest Hong Kong	www.investhk.gov.hk
The People's Bank of China	www.pbc.gov.cn
State Administration of Foreign Exchange	www.safe.gov.cn
China Banking Regulatory Commission	www.cbrc.gov.cn
HSBC Reuters Page	HSBCRMB
HSBC RMB Resource Centre	www.hsbcnet.com/gbm/rmb

Hong Kong dollar (HKD)

- The Hong Kong Monetary Authority (HKMA) maintains a currency board system that requires Hong Kong's monetary base to be fully backed by foreign reserves
- The HKD is a freely tradable and convertible currency that is linked to the USD with currency board backing
- In May 2005, the HKMA introduced two-way convertibility, in which it guarantees to buy USD-HKD at 7.75 and sell at 7.85

The following suite of products is available:

- Spot FX
- FX forwards out to ten years
- FX options out to five years and further tenors on a case-by-case basis
- Cross currency swaps out to ten years
- Interest rate swaps, local bonds and money market products

Spot

HKD is a freely tradable and convertible currency linked to USD. USD-HKD trades within a band of 7.75-7.85.

Forwards/FX swaps

The forward market is active. Estimated daily turnover in the forward market is roughly USD6bn. Normal transactions are around USD50m, although much larger transactions are not uncommon in shorter-dated tenors. There are no restrictions on trading between onshore and offshore.

Options

The options market is reasonably liquid, with daily volumes frequently reaching USD1-2bn. Options are commonly available out to five years, with longer expirations available upon request. The normal size of an options transaction can be as high as USD500m.

A range of FX structured products are also available for risk management or investment purposes.

Currency swaps and bonds

Hong Kong's swaps markets are well developed and offer excellent liquidity. There are also a range of local sovereign and corporate debt products available.

Normal market conditions

Normal market conditions	
Average daily spot volume	USD6bn
Spot transaction	USD50m
Spot bid/ask spread	2 pips (0.0002HKD)
Average daily forward volume	USD6bn
Forward transaction	USD50m
Forward spread	out to 1 year 10 pips (0.0010HKD)
Average daily option volume	USD1-2bn
Option transaction	Up to USD500m
Implied option volatility spread	0.1 vol

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

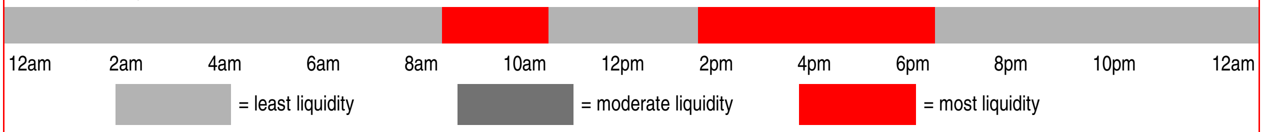
Exchange rate mechanism

The HKD is a freely tradable and convertible currency that is linked to the USD with currency board backing. USD-HKD 7.80 is the rate at which the note-printing banks can exchange HKD notes for certificates of indebtedness and vice-versa.

The HKMA has the ability to intervene anywhere within the 7.75-7.85 convertibility zone. Liquidity can be adjusted via open-market operations, including:

- issuing and buying Exchange Fund Bills
- the discount window
- direct intervention in the FX market

Liquidity at a glance



Notes: Times are based on Hong Kong local time = GMT + 8 hours
Source: HSBC

- a mandate introduced in 1988 (though as yet unused) which allows the HKMA to impose negative nominal interest rates should speculative flows become too great

Background

- Between 1974 and 1983, a floating exchange rate regime was in place.
- However, volatility in growth and inflation saw the government announce a link to USD at a rate of HKD7.80.
- The purpose of implementing the currency peg was to provide a stable exchange rate environment to conduct business in Hong Kong, during what was expected to be a period of uncertainty leading up to the 1997 handover of sovereignty.
- The Hong Kong Government remains committed to the peg arrangement.
- Between September and November 1998 measures were introduced by the Hong Kong Government designed to strengthen the currency board system.
- In May 2005, the HKMA introduced a two-way convertibility undertaking arrangement whereby the HKMA stands to buy USD at 7.75 and sell USD at 7.85. Central parity remains at 7.80.

Repatriation and other regulations

Regulations

- The government maintains no controls on the currency. There are no restrictions on:
  - the repatriation of capital
  - the remittance of profits
  - borrowing from abroad
  - non-residents borrowing locally
  - residents or non-residents holding foreign currency in onshore accounts
- The HKD is freely tradable and convertible.
- Onshore spot, forward and currency option markets are available to onshore and offshore entities. The government makes no distinction between local and foreign companies.
- Both residents and non-residents are free to buy and sell securities and other instruments on Hong Kong's capital and money markets, with no restrictions on the types of account available.
- There are no limits on repatriation. Cross-border remittances are readily permitted, and authorities do not require the disclosure of any related information.

Additional information

Holiday calendar

	Date	Event
2012	2 Jan	New Year's Day
	23-25 Jan	Lunar New Year
	4 Apr	Ching Ming Festival
	6-7 Apr	Good Friday
	9 Apr	Easter Monday
	28 Apr	Buddha's Birthday
	1 May	Labour Day
	23 Jun	Tuen Ng Festival
	2 Jul	SAR Establishment Day
	1 Oct	Mid-Autumn Festival
	2 Oct	National Day
	23 Oct	Chung Yeung Festival
	25-26 Dec	Christmas

Source: Bloomberg, HSBC

Information sources

The Hong Kong Monetary Authority	www.info.gov.hk/hkma
Invest Hong Kong	www.investhk.gov.hk

HSBC

Indian rupee (INR)

- The Reserve Bank of India (RBI) maintains the INR in a managed floating regime
- The INR is convertible on the current account but is relatively restricted on the capital account
- The RBI monitors the value of the INR against a Real Effective Exchange Rate (REER)

The following products are available:

- Spot FX[4]
- Onshore deliverable forwards/swaps out to ten years
- Onshore money market instruments
- Onshore interest rate swaps out to ten years
- Onshore options out to seven years
- Offshore non-deliverable forwards/swaps out to ten years*
- Offshore non-deliverable options out to five years and further tenors on a case-by-case basis*

Spot

The spot market is well developed and liquid, with a large number of private, foreign and state-run banks participating.

Forwards

Given transactional restrictions there is an onshore and offshore INR forward market. Offshore non-deliverable forwards* are available out to ten years. The fixing rate is set by the RBI and posted to Reuters page "RBIB". Onshore deliverable forwards are typically available for hedging only, i.e. only entities with underlying exposure can book forward contracts. However these rules have been liberalised through the years, and today corporate entities can use past performance as underlying exposure and book contracts. Further details are available on the RBI's Web site. The best liquidity in the forward market is for tenors of one year or less, but longer maturities are available and reasonably liquid up to ten years.

Options

Onshore, deliverable FX options out to seven years are available while offshore, non-deliverable options* out to five years are available. Longer tenors are available on a case-by-case basis. While the RBI lifted regulations prohibiting the trading of options on the INR in 2003, there are still strict limitations on trading options onshore. For instance, clients may not receive net premium, may not trade in barrier products and products other than bought vanilla options are only allowed subject to certain conditions being met.

A range of FX structured products are also available for risk management or investment purposes.

Normal market conditions

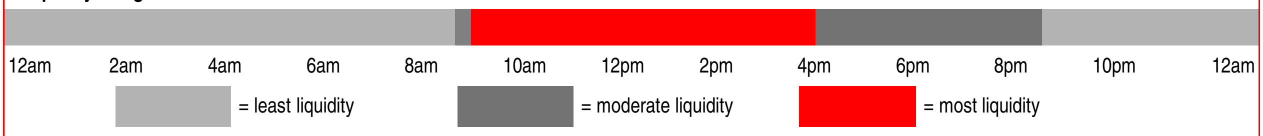
Normal market conditions	
Onshore daily average spot volume	USD5bn
Onshore spot transaction	USD5m
Onshore spot bid/ask spread	2 pips (0.02INR)
Onshore daily average forward volume	USD3bn
Onshore forward transaction	USD10m
Onshore forward spread	2 pips (0.02INR)
Offshore daily average NDF volume*	USD1.7-2.2bn
NDF transaction*	1M USD5m
NDF spread*	1M 2 pips (0.02INR)
Onshore implied option volatility spread	1.0 vol
Offshore implied option volatility spread*	0.4 vol

Note: Spreads are subject to change with market developments
Source: HSBC

4 Customer sale of rupees can only be done onshore

** Offshore INR products cannot be offered onshore in line with domestic regulations / FEMA Act.*

Liquidity at a glance



Notes: Times are based on Mumbai local time = GMT + 5.5 hours
Source: HSBC

FX framework

Exchange rate mechanism

- The INR exchange rate is determined in the interbank foreign exchange market. The RBI announces a daily reference rate for INR against USD, JPY, GBP and EUR.
- While there is no band or peg that the RBI monitors, the value of the INR is tracked on the basis of the REER. The REER is tracked against a basket of six currencies: USD, EUR, GBP, JPY, CNY, and HKD. However, the INR rate has been known to deviate significantly from the longer-term REER average.
- Though there is a stated policy of allowing market moves based on underlying fundamentals, the RBI can intervene actively in the foreign exchange market in cases of excessive volatility.

Background

- Exchange controls are established by both the government and the RBI. The Foreign Exchange Management Act (FEMA) of 2000 mandates that the government will oversee current account transactions while the RBI will regulate capital account transactions.
- Restrictions on purchases and sales of INR have been significantly relaxed since the early 1990s.
- Since 1995, INR has had full current account convertibility, though exchange controls on capital account transactions remain in effect.

Fixing mechanism

- The market opens at 9:00am and closes at 5:00pm Mumbai time (the market does not close for lunch). It is open for corporates from 9:00am to 4:30pm.
- Market liquidity is best between 11:00am and 1:30pm.
- The INR fix is the rate prevailing anytime in a half an hour window between 11:45am and 12:15pm two business days prior to value date as published at 1:00pm on the RBI Web site and on Reuters. The reference rate is based on inputs from onshore banks selected by the RBI during the window period.
- To trade off the fix rate onshore an order must be passed before 11:15am on the fix date.
- Mumbai cut expires 11:30am Mumbai time.

Repatriation and other regulations

Regulations

- Non-resident Indians may borrow locally; however the money may not be remitted overseas.

Spot

- Only "authorised dealers" who are registered with the RBI can engage in the buying and selling of INR against foreign currencies with the public. These positions are squared off in the interbank market.
- Market participants are able to buy INR freely from any bank for transactions approved under FEMA. Approval is not required for most current account transactions.
- However, some types of transactions are subject to limits, where approval from the RBI is necessary.
- Purchase of foreign currencies against INR is allowed for current account transactions including repatriating profits from foreign-funded companies, as well as for daily recurring transactions in the ordinary course of business (e.g. travelling).
- INR is not convertible on the capital account unless transactions come under the standing approvals issued by the RBI for routine capital account transactions, such as investments by Foreign Institutional Investors (FIIs). Other permitted capital account transactions include foreign direct investment, foreign currency loans and bonds, securities and equity investments overseas.
- All cash/tom/spot transactions by an Authorised Dealers on behalf of clients will be undertaken for actual remittances/delivery only and cannot be cancelled or cash settled.

Forwards and options

- Onshore entities can access the local forward market, provided these contracts are used to cover genuine foreign exchange exposure. Documentary proof, such as invoices or trade agreements, must be provided to the authorised dealer. The RBI does allow hedging of trade exposure based on a company's past performance, subject to certain limits.
- FIIs may hedge their exposures onshore through forward contracts or options. These can be cancelled but may not then be subsequently rebooked. The forward contracts may, however, be rolled over on or before maturity.
- Forward contracts by residents to hedge current account transactions are not allowed to be cancelled and rebooked. For contracts booked on a past-performance basis, only 25% of the exposure can be hedged, cannot be cancelled and must be deliverable.
- Onshore INR currency options have been permitted since July 2003. All regulations relating to forward contracts also apply to currency options. Net receipt of premium is not allowed under any option structure. Only vanilla calls, puts and combinations thereof are allowed. Option products other than vanilla bought options are allowed only subject to certain conditions including net-worth and accounting policies adopted. Barrier options are not allowed in the onshore INR option market.
- Residents borrowing from abroad are subject to regulatory controls. However, there is an automatic route that allows corporates to raise funds via External Commercial Borrowings (ECBs) from overseas lenders within designated limits and for specific end uses.
- Foreign investment made after 1 January 1993, as well as any proposed FDI can be hedged through forward contracts provided the investor has received all the regulatory approvals and completed all the formalities relating to the proposed investment.

Other hedging instruments

- Companies are allowed to use currency and coupon swap transactions to hedge the FX exposure on long-term foreign currency loans or to manage interest costs on INR denominated borrowings.
- Companies can use interest rate options, caps, collars and forward rate agreements (FRAs) to hedge the interest rate exposure on foreign currency borrowings.

Repatriation

Dividends

- Companies may remit dividends overseas to foreign investors after they have been declared by the board of directors. Companies may also hedge the FX exposure on this dividend on behalf of foreign investors.
- Companies can remit dividends to non-resident shareholders after all applicable taxes are paid.

Interest

- Remittance of interest on foreign currency loans/bonds is permitted.

Principal

- Remittance of principal is allowed as per the original loan agreement.
- Tax clearance documentation must be submitted for non-trade-related payments.

Additional information

Holiday calendar

	Date	Event
2012	26 Jan	Republic Day
	20 Feb	Mahashivrati
	8 Mar	Holi
	2 Apr	Half-yearly closing of accounts
	5 Apr	Mahavir Jayanti
	6 Apr	Good Friday
	14 Apr	Dr Babasaheb Ambedkar Jayanti
	1 May	Maharashtra Day
	15 Aug	Independence Day
	18 Aug	Parsi New Year
	20 Aug	Id-Ul-Fitr
	19 Sep	Ganesh Chaturthi
	29 Sep	Annual closing of accounts
	2 Oct	Mahatma Gandhi Jayanti
	24 Oct	Dasara
	26 Oct	Id-Ul-Zua
	13-14 Nov	Diwali
	28 Nov	Guru Nanak Jayanti
	25 Dec	Christmas Day

Source: Bloomberg

Information sources

Reserve Bank of India	www.rbi.org.in
Ministry of Finance	finmin.nic.in
The Associated Chambers of Commerce and Industry of India	www.assocham.org
Reuters Fixing Page	RBIB
Bloomberg Fixing Page	APF<go>

HSBC

Indonesian rupiah (IDR)

- Bank Indonesia (BI), the central bank of the Republic of Indonesia, operates a managed floating currency regime
- Offshore, the IDR is only tradable on a non-deliverable basis
- The offshore non-deliverable forward market is moderately liquid with an estimated daily turnover of USD1bn

The following products are available:

- Spot FX[5]
- Forwards out to ten years
- FX options out to five years and further tenors on a case-by-case basis
- Cross currency swaps out to ten years
- Local bonds and money market instruments

Spot

The IDR is a non-deliverable, freely floating currency. However, BI, Indonesia's central bank, occasionally intervenes to curb excessive market volatility.

Forwards/FX swaps

Offshore, the IDR is traded on a non-deliverable forward basis. There is an onshore forward market where participants are free to buy IDR. Documentary proof is required for buying foreign currency if the amount exceeds IDR100m. Non-residents are allowed to sell USD forwards, however, supporting documentation is required.

Options and currency swaps

Offshore, vanilla options and structures out to five years are available. Any longer tenors will be considered on a case-by-case basis.

Onshore, options and cross currency swaps are allowed, but documentation is required to sell or buy foreign currency against IDR.

Bonds

Liquidity in the local debt market is slowly improving. SBI Paper must be held for at least six months, prior to being traded in the secondary market.

Normal market conditions

Normal market conditions

Onshore average daily spot volume	USD500m
Onshore spot transaction	USD2m
Onshore bid/ask spread	3-5 pips (3-5 IDR)
Onshore average daily forward volume	USD200-300m
Onshore forward transaction	USD10m
Onshore forward spread	10 pips (10 IDR)
Offshore average daily NDF volume	USD0.7-1.3bn
NDF transaction	USD5m
NDF spread	10 pips (10 IDR)
Onshore implied option volatility spread	3 vol
Offshore implied option volatility spread	1 vol

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

Exchange rate mechanism

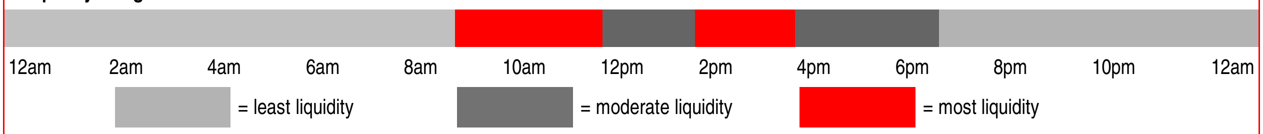
- The IDR is a non-deliverable, freely floating currency.

Central bank intervention mechanism

- BI occasionally intervenes to curb excessive market volatility by transacting through major state banks or directly with banks.
- BI also occasionally intervenes verbally by directly calling the active banks to reduce their speculative trading.

5 Spot FX is only available onshore. Non-residents may only transfer funds in exceptional circumstances.

Liquidity at a glance



Notes: Times are based on Jakarta local time = GMT +7 hours
Source: HSBC

Background

- Indonesia adopted a crawling peg regime in 1986. The value of the IDR was monitored against a basket of the currencies of Indonesia's main trading partners.
- Under the crawling peg regime, the IDR underwent a managed depreciation at an average annual rate of about 4% versus the USD for the five years before 1997, until it was floated during the Asian financial crisis.
- On 19 January 2001, BI announced that a new rule would be enforced to prohibit onshore banks from lending to non-resident accounts or any IDR transfers to offshore accounts.
- Although not explicitly stated, this meant that offshore trading in IDR would no longer be allowed. The IDR thus became a non-deliverable currency.
- BI reaffirmed that the spirit of the regulations was to mitigate IDR volatility by eliminating its availability overseas, and that it had no intention of moving away from the free-floating exchange rate system or introducing capital controls.

Fixing mechanism

- The market opens at 9am, closes for lunch between 12-2pm, and then closes at 5pm.
- The IDR fix is taken two days prior to value and is the rate at 10am Jakarta time as per average polling conducted by the Association of Banks in Singapore using contributing banks' prices.
- For example, to trade off the fix for value 28 April, orders must be passed before 10:30am on 26 April.
- Indonesia cut expires 11am HK time.
- The fixing rate is published on Reuters page ABSIRFIX01 or on Telerate page "50157". Both Singapore and Jakarta holidays apply.

Repatriation and other regulations

Regulations

- All offshore counterparties who wish to deal in the onshore FX market should provide the supporting documentation of their economic activity in Indonesia. International transactions and transfers have specific limitations.
- IDR is not allowed to be transferred out of Indonesia.
- All foreign exchange transactions between an onshore entity and an offshore counterparty must be reported to BI.
- Both residents and non-residents may hold foreign currency accounts in Indonesia.
- IDR may be transferred from residents to non-residents within Indonesia for amounts up to IDR500m without documentation. However, a non-resident party must state the reason for the transfer.
- For any incoming/outgoing amount above USD10,000 or equivalent, both parties must advise the bank as to why the transaction is required. Information is reported to BI. For local individuals or entities, a tax identification number is also required.
- Margin trading of foreign currency against IDR is strictly prohibited in the onshore market.

Export proceeds and offshore loans: Reg number 13/20/PBI/2011

- On 30 September 2011, BI issued regulation number 13/20/PBI/2011 regarding the Receipt of Export Proceeds and Withdrawal of Offshore Loans, which will be effective as of 2 January 2012. This covers:
  - The obligation of exporters to receive their foreign currency from export proceeds in the domestic bank.
  - The obligation of exporters to withdraw offshore loans through the domestic bank

- The implementation of both new regulations:
  - The receipt of offshore loans through a domestic bank must be done by 90 calendar days (at the latest) after the date of the export notification form. Exporters who breach the regulation will be subject to an administrative sanction of 0.5% of the notional amount of export fund proceeds that have not been received through the foreign exchange bank (min IDR10m, max IDR100m)
  - The withdrawal of offshore loans through a domestic bank applies to offshore loan proceeds in the form of cash funds originated from:
  - – offshore loans based on the loan agreement in the form of a non revolving loan which is not used for refinancing;
  - – the difference between the refinancing facility and the amount of the old offshore loan; and
  - – offshore loans based on debt securities in the form of Bonds, Medium Term Notes (MTN), Floating Rate Notes (FRN), Promissory Notes (PN), and Commercial Paper (CP).
  - – the withdrawal of offshore loans must be reported to BI.
  - The central bank will monitor and audit the compliance of exporters and debtors.
  - The regulation will become effective as of 2 January 2012 and the sanctions will become effective as of 2 July 2012.

Open market operations: Reg number 12/11/PBI/2010

- On 2 July 2010, BI issued regulation number 12/11/PBI/2010 regarding Open Market Operation.
- Open Market Operation is conducted as part of the monetary policy implementation by BI through Certificate of Bank Indonesia (SBI) issuance, term deposit transactions, repo transactions, reverse repo transactions, and buying and selling of securities in the secondary market (outright).
- SBIs are issued to absorb the liquidity of IDR in the money market through auction mechanism. SBIs must be held for at least six months prior to being traded in the secondary market. The obligation to hold SBIs is exempted for SBI transactions by Monetary Operation participants with BI. Those transactions include repo transactions, outright, hibah and collateralization.

Structured products: Reg number 11/26/PBI/2009

- On 1 July 2009, BI issued regulation number 11/26/PBI/2009 regarding Structured Products for commercial banks.
- For every transaction of a Structured Product with the combination of derivative vs. derivative (for example the combination of a forward and an option), the customer is obliged to give 10% cash collateral of the notional transaction on the initial date of transaction.
- The customer will be categorized as either professional, eligible or retail:
  - The customers classified as professional consist of:
  - – companies involved in financial sectors (banks, securities companies, finance companies, or future traders), the Republic of Indonesia Government or the government of other countries; BI or the central banks of other countries, multilateral development banks or institutions.
  - – companies other than the companies listed above which fulfill the following terms:
    1. have minimum capital higher than IDR20,000,000,000 (or equivalent in foreign currencies); and
    2. have carried out business activities for a minimum 36 months consecutively.
  - The customers classified as eligible consist of :
  - – companies involved in financial sectors (pension funds, insurance companies)
  - – companies other than the companies listed above which fulfill the following terms:
    1. have minimum capital of IDR5,000,000,000 (or equivalent in foreign currencies); and
    2. have carried out business activities for a minimum 12 months consecutively; and

Table 1: For transaction values above IDR500m, the following documents are required

Transactions	Documentary proof required
1. Payments related to acquisition of direct investment:	
▸ Dividend payments	▸ Copy of shareholders' meeting results
▸ Direct investments	▸ Copy of sale-and-purchase contract
2. Payments related to transactions of IDR securities/valuable paper issued by Indonesian entity:	
▸ Sales and purchases of securities	▸ Copy of sale/purchase confirmation from broker or other authorised party
▸ Dividend payments	▸ Copy of dividend payment confirmation from issuing company
▸ Interest payments for bonds and other securities	▸ Copy of payment notification from issuer of bond or other securities
▸ SBI transactions	▸ Copy of BDS or equivalent proof
3. Payments related to offshore borrowings in IDR (including debt restructuring)	▸ Copy of credit agreement
4. Opening of import D/C at onshore banks	▸ Copy of import documents
5. Opening of local D/C (SKBDN)	▸ Copy of purchasing documents
6. A) Purchases of goods and services in Indonesia B) Purchases and sales of goods and services in Indonesia	▸ Copy of binding documents or sale/purchase invoices
7. Costs of living for foreigners in Indonesia	▸ Copy of binding document invoices

Source: HSBC

- individual customers who have an asset portfolio such as cash, current accounts, savings, and/or deposits of a minimum of IDR5,000,000,000 (or equivalent in foreign currencies).

- A customer is classified as retail if he does not fulfill the criteria for professional and eligible customers.

Foreign currency purchases from banks: Reg number 10/28/PBI/2008

- On 12 November 2008, BI issued regulation number 10/28/PBI/2008 regarding foreign currency (FCY) purchases against IDR from banks.
- Every purchase of FCY against IDR by customers or foreign parties with value not exceeding USD100,000 per month should be accompanied by a formal declaration with stamp duty signed by the customer.
- For every purchase of foreign currency against IDR by customers/foreign parties above USD100,000 or its equivalent per month per customer/foreign party, the following documents should be submitted :
  - Copy of the customer's tax identity document (NPWP), unless the customer is a foreign party
  - Copy of business license from the relevant authority
  - Documents evidencing the underlying transaction
  - Statement letter with stamp duty signed by the customer/foreign party or their respective authorized person stating that the underlying documents are valid and will only be used to purchase foreign currency at the maximum in the same amount as the underlying transaction across all banks in Indonesia

Table 2: Allowable transactions for spot and forward trades

Transaction type	Spot		Forward		Swap	
	Buy IDR Sell FCY	Sell IDR Buy FCY	Buy IDR Sell FCY	Sell IDR Buy FCY	S/B IDR B/S FCY	B/S IDR S/B FCY
Offshore non-bank with local bank	1,2,3,4,5,6A IDR funds not staying for more than 2 business days	Permitted*	1,2,3,4,5*	1,2,3,4,5*	1,2,3,4,5* Min tenor 3M	1,2,3,4,5* Min tenor 3M
Offshore non-bank with offshore bank	Beyond Bank Indonesia control, but can not be settled onshore if dealt.					
Offshore bank with local bank	1,2,3,4,5,6A IDR funds not staying for more than 2 business days	Permitted*	1,2,3, 4,5*	1,2,3,4,5*	1,2,3,4,5* Min tenor 3M	1,2,3,4,5* Min tenor 3M
Offshore bank with offshore bank	Beyond Bank Indonesia control, but can not be settled onshore if dealt.					
Resident with local bank	Permitted	Permitted*	Permitted	Permitted	Permitted	Permitted

Note: SBI and interest/coupon/dividend of an investment are not eligible for hedging. Hedging L/C or SKBDN can be less than 3 months.
*permitted with underlying transactions (refer to FX regulations).
Permitted transactions types as referred to in Table 1.
Source: HSBC

- On 27 November 2008, BI issued a circular letter to all commercial banks in Indonesia which specified that underlying transactions can include trade activities and payments of services (including school fees and medical expenses), repayments of loans in foreign currencies, and payments of asset purchases abroad. In addition, FCY purchases by non-bank money changers licensed by BI, travel agents for business activities and deposits in foreign currencies are considered underlying transactions.
- In this circular, BI also mentioned that FCY purchases against IDR were prohibited in any amount if the purchases or the potential purchases were related to structured products. Structured products here are defined as the products issued by banks which are a combination of an asset and a derivative in FCY against IDR.

Derivative transactions

- Banks are prohibited from conducting margin trading in FCY against IDR for derivative transactions, whether for their own account or for the account of customers.
- However, margin trading in foreign currencies against other foreign currencies is allowed, but subject to conditions stated in BI regulation no. 7/31/PBI/2005, Article 4.

Onshore-onshore

- Onshore entities are free to access the local spot and forward markets without supporting documents.
- Currency accounts in all major trading currencies are available from banks licensed to deal in foreign currencies, with no restrictions on foreign currencies held by non-residents. If they receive IDR, they need to show supporting documentation or the stated purpose of the transactions depending on the amounts received.

Offshore-onshore

- BI rules allow foreign investors to buy IDR as long as they show proof of investments in Indonesia.
- Offshore entities are required to provide the proof of underlying economic activity in order to buy and sell IDR versus USD FX spot, or through forward contracts documents. Under new regulations 10/28/OBI/2008, offshore entities (non-resident) are required to provide declaration statements in addition to the documents evidencing the underlying transaction for every purchase of FCY against IDR above USD100,000 (refer to the section "Regulation number 10/28/PBI/2008" above).
- In all instances, IDR-related FX deals must be transacted with onshore banks, and any IDR payable to counterparties must be credited to an onshore account.
- Local banks are prohibited from entering into the following types of transactions with non-residents:
  - Extending credit in IDR or foreign currencies, unless through certain retail consumer loans
  - Granting overdraft facilities, including temporary and intra-day overdrafts
  - Placing IDR funds with non-residents, including IDR transfers to banks offshore
  - Purchasing securities in IDR issued by non-residents
  - Inter-office transactions in IDR
  - Equity participation in IDR with non-residents
- Document verification is the responsibility of remitting banks and receiving banks.

Table 3: For IDR transfers

IDR TO IDR FROM	Resident with a/c at local bank	Foreigner with a/c at local bank	Resident with a/c at offshore bank	Foreigner with a/c at offshore Bank
Resident with a/c at local bank	Permitted	1,2,3,4,5,6A,7	Prohibited	Prohibited
Foreigner with a/c at local Bank	Permitted	1,2,6B,7	Prohibited	Prohibited
Resident with a/c at offshore bank	Permitted	1,2,3,4,5,6A,7	Prohibited	Prohibited
Foreigner with a/c at offshore bank	Permitted	1,2,6B,7	Prohibited	Prohibited

Note: Permitted transactions types as referred to in Table 1.
Source: HSBC

Onshore-offshore

- Loans from abroad to state-owned companies and foreign investment companies should be reported to BI.
- All other foreign borrowings must be reported to the Finance Ministry and BI.
- Repayment of approved loans is unrestricted, subject to special requirements for certain types of offshore loans.

Offshore-offshore

- The offshore market is limited to the non-deliverable forward (NDF) market.

Repatriation

- Capital inflows are subject to approval, whereas there are no restrictions or limitations on repatriation.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's day
	23 Jan	Chinese New Year
	5 Feb	Prophet Muhammad's Birthday
	23 Mar	Saka New Year
	6 Apr	Good Friday
	6 May	Waisak day
	17 May	Ascension Day of Jesus
	17 June	Ascension of The Prophet Muhammad
	17 Aug	Independence day
	19-20 Aug	Idul Fitri
	26 Oct	Idul Adha
	15 Nov	Islamic New Year
	25 Dec	Christmas

Note: Holidays are dependent on the Muslim Lunar Calendar and may differ from the date given
Source: HSBC, Bloomberg

Information sources

Bank Indonesia	www.bi.go.id
Bloomberg Fixing Page	APF<go>
Reuters Fixing Page	ABSIRFIX01

HSBC

Malaysian ringgit (MYR)

- Bank Negara Malaysia (BNM), the central bank of Malaysia, maintains the MYR under a managed floating regime
- The MYR is not convertible outside of Malaysia, although the authorities have recently started to liberalise regulatory controls[6]
- The central bank monitors the exchange rate against a currency basket to ensure that the exchange rate remains close to its fair value

The following products are available:

- Onshore spot FX and forwards
- FX options in MYR and other currency pairs
- Structured derivatives and investments
- MYR fixed income securities
- Interest rate swaps and options (IRS and IRO)
- Forward rate agreements
- Wealth management products

Spot

Offshore entities may access the onshore spot and forward market for many categories of transactions. Details of the permitted transactions are provided in the following pages.

Forwards/FX swaps

A local forward market is available in USD-MYR and major currency pairs. Liquidity is ample up to six months. Forward quotes beyond six months are readily available, but are less frequently traded.

Options

The onshore USD-MYR currency option market is popular with corporate and retail customers for hedging and investment purposes respectively. A range of FX structured products are also available for risk management or investment purposes.

Normal market conditions

Normal market conditions

Onshore average daily spot volume	USD1.2bn
Onshore spot transaction (market lot)	Via brokers: USD3m Via Reuters: USD5m
Onshore bid/ask spread	20–30 pips (0.0020 – 0.0030MYR)
Onshore average daily forward volume	USD500-700m
Onshore forward transaction	USD10m
Onshore forward spread	1-6M: 3-20 pips (0.0003-0.0020MYR)
Onshore implied option vol spread	1-2 vol

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

Exchange rate mechanism

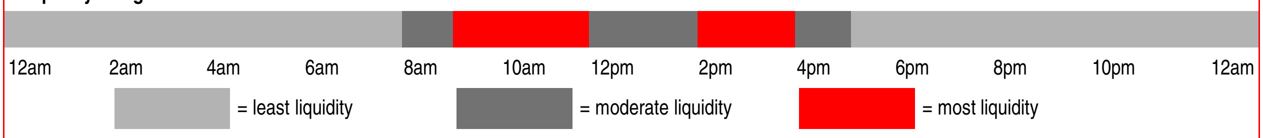
- MYR trades in a managed float with its value largely determined by market forces and economic fundamentals. BNM monitors MYR against a currency basket of its major trading partners. Promoting the orderliness of the exchange rate markets has been seen as the primary objective of BNM's FX policy.

Background

- Foreign exchange activities are governed by the Exchange Control Act of 1953 and implemented through Exchange Control of Malaysia (ECM) notices issued by BNM.
- Prior to 1 September 1998, MYR traded under a floating exchange rate mechanism.
- From 1 September 1998 to 21 July 2005, the MYR was fixed at an exchange rate of USD-MYR 3.80.
- On 21 July 2005, the USD-MYR peg was removed and Malaysia adopted a managed float for the USD-

*6 MYR can be traded outside Malaysia in a limited manner, described in this text by items marked by **

Liquidity at a glance



Notes: Times are Kuala Lumpur local time = GMT + 8 hours

MYR exchange rate. This occurred just hours after the revaluation of the Chinese RMB.

- Recent years have seen ongoing liberalisation of the foreign exchange market.

Repatriation and other regulations

Regulations

Onshore-onshore

Spot

- Commercial banks and money changers are licensed under the Exchange Control Act and Money Changing Act to buy and sell foreign currency.
- There are no restrictions on non-residents holding foreign currency locally.
- All transactions of foreign exchange for the purpose of purchases and sales of MYR must be transacted through authorised dealers.
- Resident exporters with export earnings are allowed to pay another resident company in foreign currency for the settlement of goods and services. The foreign currency funds used for such settlements shall be sourced from the resident payer's foreign currency account.
- Resident exporters may open foreign currency accounts with licensed onshore banks to retain any amount of export proceeds.
- A resident company or individual with no domestic MYR credit facility is free to invest abroad. The investment may be made through:
  - The conversion of MYR
  - Foreign currency funds retained domestically or offshore
  - Proceeds from listing of shares onshore and offshore
  - Foreign currency credit facilities – up to MYR10m equivalent for individuals; and for companies, up to MYR100m equivalent in aggregate on a corporate group basis
- A resident with a domestic MYR credit facility may convert MYR into foreign currency up to the following limits for investments in foreign currency assets, including the extension of foreign currency credit facilities to non-residents:
  - For companies: up to MYR50m per calendar year on a corporate group basis
  - For qualified companies (resident companies that have been granted permission based on the prudential requirements stipulated by the central bank): up to any amount of Direct Investment Abroad and up to MYR50m equivalent per calendar year for investments in other foreign currency assets. Direct Investment Abroad comprises investment resulting in at least 10% equity ownership or control of a non-resident company, inter-company lending to non-resident related companies, capital expenditure in unincorporated entities or projects by agreement where no establishment is created for instance, where capital contribution is at least 10% of project cost, where the resident is entitled to at least 10% of profits from the unincorporated entity or project, where the resident has management control of the unincorporated entity or project.
  - For individuals: up to MYR1m per calendar year
- Non–residents may open MYR "external accounts" onshore.

Forwards and options

- Non-bank counterparties, such as importers and exporters, can use currency options and forward contracts to manage their foreign exchange risk.
- All forward contracts must be supported by underlying trade/service/commercial/capital account transactions allowed under ECM. The purchase/sale of FX forward contracts must correspond to an underlying trade or capital account related transaction.

- The maturity dates of the forwards should be the expected dates of the receipt or payment of the underlying transaction.
- Residents are allowed to enter into hedging arrangements on anticipatory current account transactions with no threshold limit on amount and tenure. Residents are also allowed to enter into forwards to hedge committed capital account payments, including loan repayments and equity hedges on foreign currency exposures of approved investments abroad.

Offshore-onshore/onshore-offshore

- A resident is allowed to make payments to, or receive payments from, a non-resident in MYR in addition to payments in foreign currency as settlement for goods or services provided that:
  - Payment in MYR by the resident to the non-resident must be made into the External Account (please refer to the section on External Account for details) of the non-resident
  - Receipt of MYR by the resident company from the non-resident must be effected from the External Account of the non-resident or an External Account of an appointed overseas branch of the same banking group of an onshore bank to facilitate the sale or purchase of MYR vis-à-vis foreign currency on a spot or forward basis
  - Any conversion of foreign currency into MYR or vice-versa for the settlement must be undertaken with a licensed onshore bank or an appointed overseas branch of the banking group of a licensed onshore bank
  - Any remittance abroad must be undertaken in foreign currency
- All invoicing and settlements of exports and imports between residents with non-residents can be made in foreign currency or MYR. Supporting documents are required. Authorised dealers can request documentary evidence of the underlying foreign currency transaction being hedged. For settlement in MYR, a non-resident company can obtain MYR from the following sources:
  - An external account maintained with an onshore bank
  - Sale of foreign currency into MYR with an onshore bank or an appointed overseas branch within the same banking group of an onshore bank *
  - MYR trade financing facility from an onshore bank
- A resident company is allowed to borrow any amount of foreign currency from:
  - Non-resident non-bank related companies includes the ultimate holding, parent/head office, subsidiary/branch, associate or sister company
    - However, where the non-resident non-bank related company is set up solely to obtain foreign currency loans from a non-resident financial institution, the amount of borrowing from the non-resident non-bank related company is subject to the prevailing aggregate limit of MYR100m equivalent from non-residents.
  - Other resident companies within the same corporate group in Malaysia
  - Licensed onshore banks
  - Licensed international Islamic banks
- A resident company is free to obtain any amount of foreign currency supplier's credit for capital goods from non-resident suppliers.
- A resident company or an individual is free to refinance outstanding approved foreign currency borrowing, including principal and accrued interest.
- A resident company is allowed to borrow foreign currency up to the equivalent of MYR100m in aggregate on a corporate group basis from other non-residents (including financial institutions) other than non-resident non-bank related companies. This limit includes the raising of funds through the issuance of foreign currency denominated bonds onshore and offshore. Approval from the central bank is required for transactions above the specified limit.
- A resident individual is allowed to obtain foreign currency credit facilities up to an equivalent of MYR10m in aggregate from licensed onshore banks, licensed international Islamic banks and non-residents (including financial institutions).

- Special status companies listed below are free to obtain any amount of foreign currency facilities for any purpose:
  - Operational headquarters approved by Malaysian Industrial Development Authority which provides qualifying services to its offices/related companies in and outside Malaysia
  - Companies participating in and undertaking Information and Communication Technology (ICT) activities and which have been awarded Multimedia Super Corridor (MSC) status by the government through the Multimedia Development Corp
  - Qualified biotechnology companies which are awarded the Bionexus status by the Malaysian Biotechnology Corp Sdn Bhd
  - Companies approved by the Ministry of Finance to undertake qualifying activities under the six targeted service-based sectors in the Iskandar Regional Development Authority (IRDA) approved zones which are awarded the IDR status by IRDA
- To avoid settlement failure, licensed onshore banks may extend MYR intra-day and overnight overdraft facilities up to two working days, with no rollover option to non-resident stockbroking companies or global custodian banks for the purchase of MYR instruments transacted on Bursa Malaysia, or settled via RENTAS (Real Time Electronic Transfer of Funds and Securities System) and Bursa Malaysia. The use of the facility to finance direct purchases of securities, or for any other purpose is prohibited.
- Resident companies can borrow in MYR, including the issuance of MYR-denominated redeemable preference shares or loan stocks from:
  - A non-resident non-bank parent company up to any amount to finance activities in the domestic "real sector". Real sector refers to the sector where there is production of goods and services which includes all industries except for financial services.
  - Other non-resident non-bank companies or individuals up to MYR1m in aggregate.
- Resident individuals can borrow up to MYR1m in aggregate from non-resident non-bank companies and individuals for use in Malaysia.
- Resident companies, licensed onshore banks, and resident individuals can lend any amount in MYR to non-resident non-bank companies and individuals to finance real sector activities in Malaysia.
- Licensed onshore banks and approved investment banks are allowed to enter into forward contracts with non-residents as follows:
  - Forward foreign exchange purchase or sale contracts against MYR based on committed purchase or sale of MYR assets. The forward contracts can be entered into at the point when the non-resident commits to purchase or sell the MYR assets.
  - Forward foreign currency sale contracts against MYR with non-residents for the sale of MYR assets purchased after 1 April 2005, provided the amount of MYR to be sold (hedged) by the non-resident does not exceed the principal amount of the investment. Currency options can be used as a hedging tool to manage the foreign exchange exposure.
- A licensed onshore bank is allowed to buy or sell foreign currency against MYR on spot or forward basis with appointed overseas branches within the same banking group to facilitate the settlement for the following purposes:
  - goods or services with residents
  - purchase or sales of MYR assets with residents or non-resident investors

  The overseas branches must conduct only straight pass-through transactions matched with a back-to-back arrangement on the exchange rate, amount and value date with the licensed onshore bank. There will be no:
  - gapping of the MYR positions in the books of the overseas branches
  - physical withdrawal of MYR at the overseas branches; all settlements must be transacted onshore

  - public display of the MYR exchange rate by the overseas branches
- Licensed onshore banks, Labuan offshore banks and overseas banks are allowed to open foreign currency accounts for residents and non-residents for any purpose.
- Licensed onshore banks may open accounts in MYR known as "external accounts" for non-residents. Non-residents may use the MYR funds in the 'external accounts' for the following purposes:
  - Purchase of foreign currency other than that of a Restricted Currency (i.e. the Currency of the State of Israel)
  - Payment to another non-resident for the following:
    – Purchase of MYR assets in Malaysia
    – Granting, servicing or repayment of any permitted MYR credit facility
  - Payment to a resident for the following:
    – Purchase of MYR assets in Malaysia
    – Purchase of goods and services
    – Granting, servicing or repayment of any permitted MYR credit facility
    – Settlement of a permitted ringgit-denominated financial or non-financial guarantee
    – Settlements of commodity murabahah transactions undertaken through a resident commodity trading service provider
    – Administrative or statutory expenses incurred in Malaysia
  - Cash withdrawal of any amount
  - The buying and selling of MYR investment products through a licensed onshore bank or stockbroking company in Malaysia
- The sources of funds in the MYR external account may be from:
  - The sale of foreign currency other than that of a Restricted Currency to a licensed onshore bank
  - Proceeds from sales of good and services to residents
  - Sale of MYR assets
  - All income earned in Malaysia, including from salaries, wages, royalties, commissions, interest, fees, rentals, profits or dividends
  - Reimbursement or rebate in MYR payments incurred in Malaysia
  - Proceeds from drawdown or repayment of MYR credit facilities permitted by BNM
  - Deposit of MYR notes not exceeding MYR10,000 per day
  - Deposit of cheques up to MYR5,000 per cheque for any purpose
- BNM will consider, on the merits of each case, applications by Multilateral Development Banks (MDBs), where Malaysia is a member, and foreign multinational companies (MNCs), which are not incorporated in Malaysia but have a presence in Malaysia through subsidiaries or related companies, to issue MYR denominated bonds in Malaysia. Resident and non-resident investors may purchase these MYR denominated bonds.
- Non-resident investors are allowed to hedge foreign exchange and interest rate risks arising from investments in the MDB or MFI (Multilateral Financial Institutions) or MNC bonds.
- The MDBs, MFIs and MNCs may apply to enter into forward contracts and interest rate swaps with authorised dealers to hedge the foreign exchange and interest rate risks arising from the issuance of these bonds.
- CNY-MYR started quoting on CFETS (China Foreign Exchange Trading System) from 19 August 2010 as part of an initiative by the two countries to facilitate settlement of bilateral trade and services in CNY and MYR.*

Offshore-offshore

- Entities established under the Labuan International Offshore Financial Centre (IOFC) are treated as non-residents.
- The offshore market in USD-MYR became unavailable with the imposition of capital controls on 1 September 1998. This regulation is generally still effective.
- Offshore entities in Labuan are allowed to buy or sell foreign currency (other than the Restricted Currency) against another foreign currency spot or forward with licensed onshore banks, licensed offshore banks (excluding licensed offshore investment banks) in Labuan as well as non-residents outside Malaysia.

Repatriation

- Foreign direct investors are able to repatriate their investments, including capital, profits, dividends and interest.
- Non-resident portfolio investors may repatriate their principal and profits.

Additional information

Holiday calendar

	Date	Event
2012	2 Jan	New Year's Day
	23-24 Jan	Lunar New Year
	1 Feb	Federal Territory Day
	6 Feb	Prophet's Birthday
	7 Feb	Thaipusam Day
	1 May	Labour Day
	5-May	Wesak Day
	2 Jun	King's Birthday
	20-21 Aug	Hari Raya Puasa
	31 Aug	National Day
	17 Sep	Malaysia Day
	26 Oct	Hari Raya Haji
	13 Nov	Deepavali
	15 Nov	Awal Muharram
	25 Dec	Christmas Day

Note: Some holidays are based on the lunar calendar and may differ from the date given
Source: Prime Minister's Department, Bloomberg

Information sources

Central Bank of Malaysia	www.bnm.gov.my
Securities Commission	www.sc.com.my
Treasury Malaysia	www.treasury.gov.my
Stock Exchange	www.klse.com.my
Bloomberg Fixing Page	BNMF6
Reuters Fixing Page	MYRFIX2

Mauritian rupee (MUR)

- The Bank of Mauritius (BoM) allows MUR to be freely traded and convertible, with no exchange controls
- There are no restrictions on MUR spot and forwards, while MUR currency options against trade commitments are permitted
- Interbank transactions are limited as most banks give priority to servicing trade-related and investment requirements of their corporate customers

The following products are available:

- Spot and forward FX
- FX options (including in MUR)

Spot

Liquidity in the interbank market is limited as most banks give priority to servicing trade and investment requirements of their customers.

Forwards/FX swaps

The market for forwards is relatively subdued. FX swaps against MUR are fairly liquid up to one month.

Options

MUR currency options are most widely available out to one year. Further tenors are available on a case-by-case basis. A range of FX structured products are also available for risk management or investment purposes.

Normal market conditions

Normal market conditions

Onshore average daily spot volume	USD20m
Onshore spot transaction	USD0.5m
Onshore bid/ask spread	30 pips (0.30MUR)
Onshore average daily forward volume	USD2m
Onshore forward transaction	USD1m
Onshore forward spread	10-15 pips (0.10-0.15MUR)
Implied option vol spread	2 vol

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

Exchange rate mechanism

- MUR is freely tradable and convertible, with no exchange controls.

Local MUR restrictions

	Onshore-onshore bank			Offshore-offshore bank		
	Spot	Forward/ swap	Option	Spot	Forward/ swap	Option
MUR	Yes	1 year*	Yes**	Yes	Yes	Yes

Notes: *Mainly bid-side-only due to market conditions; **Restricted volume
Source: HSBC

Background

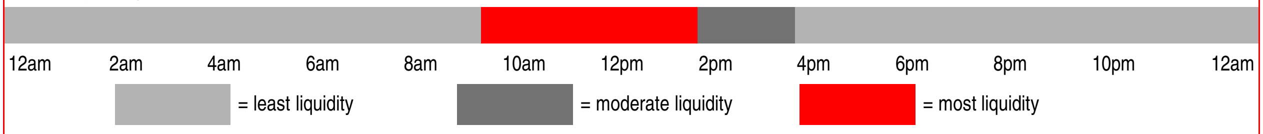
- A managed floating exchange rate regime was in place prior to 1 July 1994.
- MUR was devalued in 1979 and in 1982.
- The USD-MUR exchange rate is mainly determined by forces of local demand and supply – i.e. by commercial banks.

Repatriation and other regulations

Regulations

- According to the Foreign Exchange Dealers Act of 1995, a foreign exchange dealer's overnight exposure is restricted to a maximum percentage of net owned funds.
- As from 1 January 2011, banks have been required to observe a daily overall foreign exchange limit not exceeding 15% of their Tier 1 or permanent capital.
- All domestic banks are required to submit a daily return on their foreign exchange transactions in all currencies as well as their overall foreign exchange

Liquidity at a glance



Note: Times are Mauritius local time = GMT + 4 hours
Source: HSBC

exposure. Banks' overall foreign exchange positions are monitored on a daily basis.

- Overnight exposure of a money-changer may not exceed 75% of net owned funds.
- Foreign exchange transactions are executed by banking and non-banking institutions which hold a dealing licence issued by BoM.
- No official exchange rate is published. Indicative rates are published daily by commercial banks.
- MUR currency options have recently been permitted with restricted volumes against trade related exposures only.
- Mauritian residents are allowed to hold foreign currency accounts with banks in Mauritius as well as overseas.
- Non-residents may hold MUR or any foreign currency account without any restriction.
- There is now only one type of banking licence with both offshore and onshore banks falling under the Banking Act of 2004.[7]

Repatriation

- There are no limits on repatriation.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year
	2 Jan	New Year
	23 Jan	Chinese New Year
	1 Feb	Abolition of Slavery
	7 Feb	Thaipoosam Cavadee
	20 Feb	Maha Shivaratree
	12 Mar	National Day
	23 Mar	Ougadi
	1 May	Labour Day
	15 Aug	Assumption
	19 Aug	Eid Ul Fitr
	20 Sep	Ganesh Chaturthi
	2 Nov	Arrival of Indentured Labourers
	13 Nov	Divali
	25 Dec	Christmas Day

Source: Bloomberg, HSBC

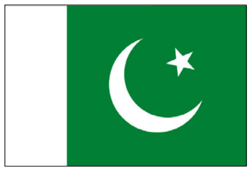
Information sources

Bank of Mauritius	bom.intnet.mu

7 Please see the Bank of Mauritius Web site for details: http://bom.intnet.mu/pdf/Legislation_Guidelines_Compliance/Legislation/Banking%20Act%202004_20090810.pdf

HSBC

Pakistani rupee (PKR)



- The State Bank of Pakistan (SBP) operates a managed floating currency regime
- The PKR is partially convertible and non-deliverable offshore
- The SBP intervenes in the interbank market through spot or outright forward deals to stabilise PKR as per its monetary policy guidelines

The following products are available:

- Spot
- Outright forwards
- Forward / forward discounting
- Cross currency hedging

Spot

The PKR is partially convertible and onshore FX spot is available with documentary proof of an underlying transaction.

Forwards

The onshore forward market is available for customers wishing to hedge import and export related exposure. The interbank forward market is also active.

Options

Onshore, the SBP does not authorize USD-PKR FX options. However FX options in G5 currencies (USD, EUR, JPY, GBP, CHF) are available on a case-by-case basis. Offshore options on PKR may also be possible, again on a case-by-case basis.

A range of FX structured products are also available for risk management or investment purposes.

Normal market conditions

Normal market conditions	
Onshore average daily spot volume	USD300m
Onshore spot transaction	USD2m
Onshore bid/ask spread	3-5 pips (0.03-0.05PKR)
Onshore average daily fwd volume	USD300m
Onshore forward transaction	USD5m
Onshore forward spread	5-10 pips (0.05-0.10PKR)

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

Exchange rate mechanism

- PKR is a partially convertible and moderately managed floating currency.
- The SBP intervenes in the interbank market by buying or selling USD-PKR for value spot or in outright forward deals to stabilise PKR spot, whenever it deems appropriate.
- PKR cash liquidity in the system is managed by the SBP through open market operations (OMOs) from time to time.

Repatriation and other regulations

Repatriation

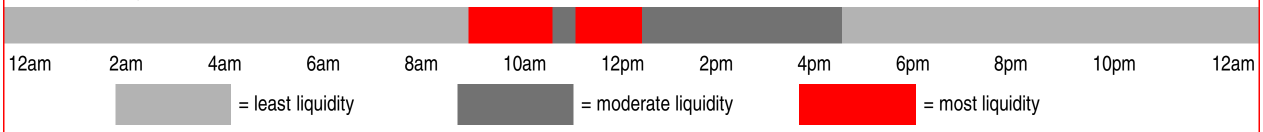
Remittance of royalties/fees

- The SBP allows remittance of royalties or franchise/technical service fees/charges in the financial sector – i.e. from commercial banks and non-bank financial institutions (NBFIs), including leasing/modaraba companies and investment banks, to their foreign partners in respect of their branded financial products/services within the areas of their authorised business.
- The SBP allows Pakistani domestic residents to remit funds to educational institutions/universities for foreign education.

Remittance by foreign funds

- The SBP permits remittances of divested proceeds by foreign investors who maintain custodian accounts with different financial institutions/banks.

Liquidity at a glance



Notes: Times are based on Pakistan local time = GMT + 5 hours
Source: HSBC

Regulation

Onshore-onshore

- Interbank trading in spot/forwards is allowed by the SBP but banks are required to remain within the "net open limit" set by the central bank.
- There is no upper limit on USD nostros on banks.
- Onshore entities can deal in PKR but each transaction must be backed by underlying trade transactions.
- Onshore exporters are permitted to keep 10% of their proceeds in foreign currency accounts onshore. They must, however, convert the remainder into PKR.
- Forward-to-forward discounting of trade bills is permitted.

Foreign currency accounts

- Pakistani residents and expatriates working/living in Pakistan may hold foreign currency accounts with banks in Pakistan in major currencies (USD, GBP, EUR and JPY).

Prepayment of foreign private loans

- The SBP allows corporate borrowers to pre-pay foreign private loans (other than government-guaranteed loans) on a case-by-case basis. However, corporates need to complete the remittance formalities with SBP before execution.

Kerb market

- In Pakistan, there is a foreign exchange market that runs parallel to the interbank market, commonly known as the kerb market.
- Most kerb market transactions are cash based. All individuals and companies can freely buy and sell USD and other frequently traded currencies in the kerb market without any restriction. However, companies operating in the kerb market are also monitored by the SBP.
- Typically the USD trades at a 0.5%-1% premium over the prevalent rate in the interbank FX market.

Offshore-onshore

- PKR is not fully convertible. Offshore entities may buy PKR spot to meet their PKR obligations. Offshore companies can not sell PKR against foreign currencies without prior approval from SBP.
- Non-resident Pakistanis and foreign nationals can remit foreign exchange into Pakistan in their foreign currency and PKR accounts. However, the PKR in these accounts is not re-convertible into foreign exchange.

Market deregulation and introduction of derivative products

- SBP now allows banks to offer derivative products to their customers on a case-by-case basis. The SBP is also granting Authorized Derivative Dealer (ADD) licences to banks, which authorizes them to offer derivative products to end-users as well as other interbank players with no prior approval from SBP.
- The derivative products available in Pakistan are PKR interest rate swaps, cross currency USD-PKR basis swaps, PKR forward rate agreements (FRAs) and G5 currency FX options.
- Banks are required to cover their exposures on G5 currency options on a back-to-back basis from other banks.
- PKR FX derivative trading is not authorized by SBP.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	5 Feb	Kashmir Day
	4 Feb	Prophet's Birthday*
	23 Mar	Pakistan Day
	1 May	Labour Day
	1 Jul	Bank Holiday
	20 Jul	First Ramzan*
	14 Aug	Independence Day
	19 Aug	Eid ul Fitr*
	26 Oct	Eid Al Adha*
	9 Nov	Iqbal Day
	25 Dec	Birthday of Quaid-e-Azam and Christmas

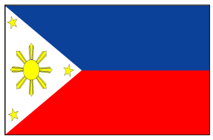
* Holidays are dependent on the Muslim Lunar Calendar and may differ slightly from the date given. Certain holidays may last for more than one day.
Source: HSBC

Information sources

State Bank of Pakistan	www.sbp.org.pk
Govt. of Pakistan Statistics Division	www.statpak.gov.pk
Securities and Exchange Commission of Pakistan	www.secp.gov.pk

HSBC

Philippine peso (PHP)



- The Bangko Sentral ng Pilipinas (BSP) maintains a freely floating currency regime but will intervene to manage excessive volatility
- Offshore, the PHP is traded on a non-deliverable forward basis
- Banks are allowed to engage in a range of products including spot, outright forward and swaps in PHP and other third currencies

The following products are available:

- Spot FX[8]
- Onshore forwards out to three years and swaps out to seven years[9]
- Offshore non-deliverable forwards (NDFs) and swaps
- Local bonds and money market products
- Onshore deliverable and offshore non-deliverable options out to five years

Spot

The onshore spot market opens at 9:00am Manila time, is closed for lunch from 12:00pm to 2.30pm, and closes at 4:00pm. 36 local and foreign commercial banks are members of the Philippine Dealing Exchange System (PDEX). The PDEX is an electronic-based network providing the infrastructure for trading, with quotes published on Reuters. The reference exchange rate (or fix) most commonly used is determined by the weighted average of all FX transactions on the PDEX between 9:00 and 11:30am (Manila time). Customers may also request to use a reference rate of the weighted average of the whole day, or from the afternoon trading session.

Forwards/FX swaps

In the onshore market, PHP forwards are liquid with residents and non-residents allowed to sell USD-PHP forwards without approval. However, neither residents nor non-residents are allowed to buy USD-PHP forwards without proper documentation, as required by the BSP. In the offshore market, PHP is traded as USD net settled NDFs. Turnover in the PHP NDF market, with an estimated daily volume of USD600m, is low when compared to other Asian currencies. Although tenors are available out to seven years, most liquidity is in tenors of one year or less.

Options

The onshore FX options market has limited liquidity with a small broker market. In contrast, the offshore options market is relatively liquid. Onshore and offshore FX options are also available to five years and further out on a case-by-case basis.

A range of FX structured products are also available for risk management or investment purposes.

Currency swaps and bonds

The domestic swaps and bond markets are active, while non-deliverable swaps are also available offshore.

Normal market conditions

Normal market conditions

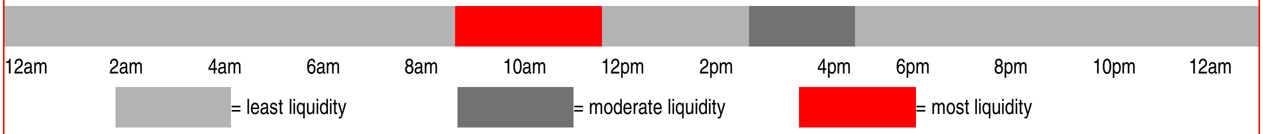
Onshore average daily spot volume	USD800-900m
Onshore spot transaction	USD1-3m
Onshore bid/ask spread	2-3 pips (0.02-0.03PHP)
Onshore average daily forward volume	USD600m
Onshore forward transaction	USD5-10m
Onshore forward spread	1 month 2 pips (0.02PHP) 12 months 50-60 pips (0.50-0.60PHP)
Offshore average daily NDF volume	USD500-600m
NDF transaction	USD10-20m
NDF spread	3-5 pips (0.03-0.05PHP)
Onshore implied option volatility spread	2.0 vol
Offshore implied option volatility spread	1.0 vol

Note: Spreads are subject to change with market developments
Source: HSBC

8 Offshore counterparties can only sell the currency if the investment is duly approved and registered through the BSRD (Bangko Sentral ng Pilipinas Registration Document) with the International Department of the BSP. Further proof of divestment documents and recipient information will also be necessary.

9 Offshore counterparties can trade provided that supporting documents are presented on or before value/settlement date under current FX regulations, and that maturity dates match. Prior approval is required for FX swaps where the offshore counterparty is on the Buy/Sell side. However, non-residents may engage with Sell/Buy FX swaps without clearance provided that it is not intended for peso loans to local residents.

Liquidity at a glance



Notes: Times are based on Manila local time = GMT + 8 hours
Source: HSBC

FX framework

The BSP is responsible for formulating and implementing monetary policy and foreign exchange controls. Since 1992, the BSP has maintained a freely floating currency regime where the value of PHP is determined by market forces. However, the BSP will intervene in the market to defend against what it considers to be excessive market volatility.

The Philippine government has loosened some of its currency controls over the past few years. Despite the recent moves toward liberalisation, PHP remains only partially convertible. The ability to transfer capital to and from the Philippines is largely dependent on the type of investment and the investment's registration status with the BSP.

There are numerous government agencies overseeing foreign investments in the Philippines. The agencies are the Board of Investment (BOI), the Securities and Exchange Commission (SEC), the Bureau of Trade Regulation and Consumer Protection (BTRCP) and the BSP. Prospective investors are advised to contact these agencies to officially register their investments. The BOI is the agency primarily responsible for issuing investment incentives, of which there are several.

General incentives are offered to companies that increase local productivity, create significant employment and/or export goods. Incentives are outlined in the Investment Priorities Plan (IPP). Contact the BOI for the most recent edition of the IPP.

Exchange rate mechanism

- The Philippines has a freely floating exchange rate policy. This policy was adopted in August 1992.

Fixing mechanism

- The PHP fix is a weighted average spot rate of that morning's trades in the onshore spot market done from 9:00am until to 11:30am Manila time, one day before value date as reported by the PDEX and published on Reuters page "PDSPESO".
- To trade off the fix value, orders must be passed before 9:00am (Manila time) on the prior day. For example to trade off the fix value 5 April, orders must be passed before 9.00am (Manila) on 4 April.
- The Manila cut-off is at 11:30am (Manila time).

Repatriation and other regulations

Regulations

Onshore-onshore

- For investment related transactions, a BSRD (Bangko Sentral Registration Document) is required to sell PHP spot onshore.
- Using PHP to buy foreign currency from the banking system to service trade and non-trade requirements will be subject to submission of proper documentation as mandated by the BSP.
- Residents may purchase up to USD60,000[10] or its equivalent in foreign currency every day without supporting documentation, except if the purpose is to service trade obligations, loan repayments or investments. Full supporting documentation is required for such transactions, regardless of the amount purchased. Moreover, FX forward and swap transactions require submission of supporting documents on the deal date as mandated by the BSP.
- As of 18 November 2011, foreign currency may be freely purchased from Authorised Agent Banks (AABs) and AAB-forex corps without prior BSP approval for:
  - Lease of foreign owned equipment
  - Refund of unused foreign grant/aid fees and foreign loan proceeds

10 The circular for this ruling was effective 25 November 2010. The ceiling was increased from USD30,000 to USD60,000 for OTC FX purchases by residents from authorized agent banks and AAB foreign exchange corporations without documentation for non-trade current account purposes. This measure is aimed at further inducting transactions to be coursed through the banking system and away from the unsupervised FX market.

- Payment of underwriting expenses / fees / commissions including brokers fees for IPOs involving Philippine shares
- Settlement by Philippine Deposit Insurance Corp of foreign currency deposit unit (FCDU) deposit claims against banks that have ceased operations

- AABs and AAB-forex corps may sell FX for advance payment of imports regardless of the amount without prior BSP approval, though standard documentation is required.
- Residents may hold foreign currency accounts onshore.

Offshore-onshore

- Non-residents are free to sell foreign currency for PHP onshore.
- Documentary proof is required by offshore counterparties as shown in Table 1.

Table 1. Documentary requirements for various transactions

Transaction	Supporting documents
1. Sale of Equity Investment	**Publicly listed:** broker's sales invoice, Bangko Sentral Registration Document (BSRD), duly signed application to purchase foreign exchange.
	Not publicly listed: deed of sale, Bangko Sentral Registration Document (BSRD), proof of tax payment, duly signed application to purchase foreign exchange, detailed computation using the central bank prescribed format, audited financial statements, and clearance from the BSP for banks; Insurance Commission for insurance companies; and Department of Energy for oil companies, proof of distribution of funds or assets (for liquidation).
2. Sale of Government Securities	Bangko Sentral Registration Document (BSRD), duly signed application to purchase foreign exchange and proof of divestment (confirmation of sale)
3. PHP Time Deposit Maturity	Bangko Sentral Registration Document (BSRD), deposit certificate, and duly signed application to purchase foreign exchange. Deposits shall have a maturity of at least 90 days.

Source: HSBC

- Generally, offshore counterparties are allowed to conduct FX swaps with onshore banks with prior BSP approval, and on a case-by-case basis. Further more, offshore counterparties must also secure BSP clearance for Sell/Buy FX swaps intended to generate funds for PHP lending to onshore entities.
- Non-residents who invest in the local stock or bond markets are required to finance their transactions either through an inward FX remittance or a withdrawal against foreign-currency accounts.
- Effective 25 November 2010 and subject to additional documentary requirements, excess PHP initially funded from an inward remittance of foreign exchange by an offshore entity intended for BSP-registered investment can be reconverted to the original currency. FX conversion particular to the above purpose may be conducted by the resident agent or registering/custody banks on behalf of the non-resident beneficiary.
- The BSP does regulate foreign currency denominated loans and some borrowing from overseas.
- Non-residents may hold local or foreign currency accounts onshore. However, credit to a local currency account of a non-resident should be funded by an inward remittance or from income generated from Philippine assets.
- Non-delivery and cancellations of deliverable FX forward and swap contracts are subject to justification such as appropriate support documents and acknowledgement from the transacting party.

Repatriation

- Exchange control regulations in the Philippines require all foreign investments to register with the BSP if repatriation of subsequent investment proceeds is to be sourced from the banking system.
- There is a minimum holding period of 90 days for foreign funds placed in PHP time deposits to be eligible for registration and eventual repatriation.
- Other forms of investment – e.g. foreign direct investment, government securities, other fixed-income investment and equities – are not subject to the lock-up period.
- Under the "fast track system", with shares purchased after 1 June 1991, registration is done by the custodian bank, which issues a BSRD on behalf of the BSP. Repatriation of related dividend income on sales of shares purchased before 1 June 1991 is subject to BSP approval.
- USD investments may be brought back and repatriated in full, provided the inward remittance was properly registered by the receiving bank in the Philippines, as evidenced by a BSRD.

Onshore-offshore

- Most public-sector and private-sector guaranteed obligations from foreign creditors, offshore banking units (OBUs) and foreign currency deposit units (FCDUs) require BSP approval and registration. However, foreign/FCDU loans that will finance infrastructure projects that are included in the Government's list of Public Private Partnership projects (provided these are subsequently registered with BSP) are exempt from prior BSP approval.

- Onshore entities can purchase FX for outward investment purposes with a limit of USD60m per investor per year subject to documentary requirements.

Offshore-offshore

- Offshore entities can engage in two-way trading on a non-deliverable basis.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	23 Jan	Chinese Lunar New Year's Day
	5 Feb	Maulid un-Nabi
	25 Feb	People Power Anniversary
	5 Apr	Maundy Thursday
	6 Apr	Good Friday
	9 Apr	Day of Valor
	1 May	Labour Day
	12 Jun	Independence Day
	21 Aug	Ninoy Aquino Day
	27 Aug	National Heroes Day
	1 Nov	All Saints Day
	30 Nov	Bonifacio Day
	25 Dec	Christmas Day
	30 Dec	Rizal Day
	31 Dec	Bank Holiday

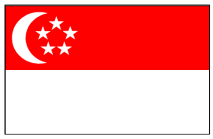
Source: Bloomberg, HSBC

Information sources

Central Bank of the Philippines	www.bsp.gov.ph
Board of Investment	www.boi.gov.ph
Department of Finance	www.dof.gov.ph
Reuters	PDEXPESO
Bloomberg	WCV PHP

HSBC

Singapore dollar (SGD)



- The Monetary Authority of Singapore (MAS) manages SGD against a trade-weighted basket of currencies in a crawling band
- The SGD is fully convertible with excellent liquidity in spot and forward markets
- The MAS executes monetary policy through adjustment of the width, midpoint and slope of the crawling band

The following products are available:

- Spot FX
- FX forwards out to 20 years
- FX options out to five years[11] and further tenors on a case-by-case basis
- Cross-currency swaps out to 20 years

Spot

SGD is a fully convertible currency with excellent liquidity in the spot and forward markets. Spot is tradable 24 hours a day without any restriction.

Forwards/FX swaps

Liquidity in the forward market is excellent. The most liquid tenors are one year or less. Outright forwards are not subject to any restrictions.

Options

SGD options are freely tradable, both onshore and offshore. A range of FX structured products are also available for risk management or investment purposes.

Normal market conditions

Normal market conditions

Average daily spot volume	USD4-5bn
Spot transaction	USD10m
Bid/ask spread	2-5 pips (0.0002-0.0005SGD)
Average daily forward volume	>1w USD5bn
Forward transaction	USD50m
Forward spread	1-4 pips (0.0001-0.0004SGD)
Implied option volatility spread	0.5 vol

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

Exchange rate mechanism

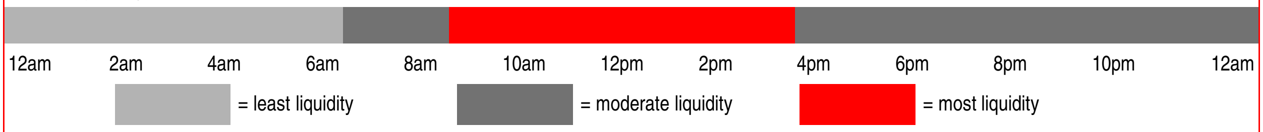
- SGD is a fully deliverable currency.
- The MAS functions as Singapore's central bank. Its primary function is to limit inflation (although it does not name a formal inflation target) through the use of the foreign exchange rate rather than interest rates. As a result, MAS manages SGD against a trade-weighted basket of currencies within an undisclosed crawling target band.
- The band central parity rate around which the Singapore dollar is allowed to float was last reset in April 2011 by the MAS. The width of the band was last adjusted in October 2010. The slope of the band was decreased (but remained in a modest and gradual upward trend) in October 2011.
- There is no officially disclosed band width. We estimate the MAS generally limits movements to 3.0% either side of the parity rate.
- Exchange rate policy is established at semi-annual meetings in April and October.

Background

- Before 1972, SGD was pegged to GBP. When the GBP was floated in 1972, the MAS pegged SGD to USD.
- In June 1973, following the USD devaluation earlier that year, the MAS decided to float SGD.
- Since 1981, Singapore's monetary policy has centred on management of the exchange rate. The primary monetary objective has been to promote price stability as a sound basis for economic growth.

11 Provided FX hedging is not done for financial assets denominated in local currency, including property

Liquidity at a glance



Notes: Times are based on Singapore local time = GMT + 8 hours
Source: HSBC

Repatriation and other regulations

Repatriation

- There are no foreign exchange controls in Singapore.
- There are no restrictions on the repatriation of capital.
- There are no restrictions on remitting profits or dividends, although documents should be readily available.

Regulations

- Singapore eliminated most controls on foreign exchange transactions in 1978. The only remaining restrictions pertain to non-residents financing offshore projects with SGD.
- Non-residents must convert proceeds from onshore financing activities to foreign currency if those funds are to be used offshore. Credit facilities extended to non-resident financial institutions are limited to SGD5m.
- Both residents and non-residents may borrow internationally.
- Non-residents may hold local or foreign currency accounts onshore.
- For residents, there are no restrictions on SGD spot, forward or currency options.

Provisions under MAS Notice 757 (released May 2004)

- SGD credit facilities include loans, contingent credit lines and FX swaps involving a spot sale of SGD to a non-resident in the first leg.
- Banks may lend SGD to non-resident financial institutions (NRFI) for any purpose, whether in Singapore or overseas, provided that the aggregate SGD credit facilities do not exceed SGD5m per entity[12]. The limit must not be circumvented by combining spot and forward transactions.
- Individuals and non-financial entities, including corporate treasury centres, are not subject to the restrictions under this Notice.
- For amounts exceeding SGD5m per entity, if the SGD proceeds are to be used outside Singapore, they must be swapped or converted into foreign currency upon drawdown.
- Banks may extend temporary SGD overdrafts of any amount to vostro accounts of NRFIs for the purpose of preventing settlement failures. However, banks must take reasonable steps to ensure that the overdrafts are covered within two business days.
- SGD credit facilities should not be extended to NRFI if there is reason to believe that the purpose is SGD currency speculation.
- There is no restriction on cross-currency swaps where the need arises from capital market, economic and financial activities. However, note that the SGD5m FX swaps restriction still applies.
- There are no restrictions on FX options, asset swaps, cross-currency swaps and repos.
- No other restrictions or guidelines will apply to the use of SGD, other than 'those explicitly stated'.

SGD securities – borrowing and lending activities

- Banks may lend any amount of SGD-denominated securities to NRFI in exchange for SGD or foreign currency-denominated collateral.

Equity and bond issuance

- SGD-denominated equity or bond issues for non-residents[13] may be arranged as long as the SGD proceeds raised, if not used in Singapore, are converted into foreign currency before remittance abroad.
- Where the bond issuer is an unrated foreign entity, banks may place or sell SGD only to sophisticated investors.

12 For NRFIs seeking to obtain SGD credit facilities, each subsidiary is considered a separate entity, while the head office and all overseas branches are collectively regarded as one entity.

13 Under MAS757, residents are companies that are 50%-owned by Singapore citizen or financial institutions in Singapore that are governed by MAS, all others are considered non-residents.

- Non-residents may hold any SGD or foreign currency accounts without authorisation.

Additional information

Holiday calendar

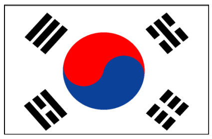
	Date	Event
2012	1 Jan	New Year's Day
	23-24 Jan	Chinese New Year
	6 Apr	Good Friday
	1 May	Labour Day
	5 May	Vesak Day
	9 Aug	National Day
	19-20 Aug	Hari Raya Pussa
	26 Oct	Hari Raya Haji
	13 Nov	Deepavali*
	25 Dec	Christmas Day

Source: Ministry of Manpower, Singapore;
*subject to change

Information sources

Monetary Authority of Singapore	www.mas.gov.sg
Ministry of Trade and Industry	www.mti.gov.sg
Ministry of Finance	app.mof.gov.sg

South Korean won (KRW)



- The Bank of Korea (BOK) oversees a floating exchange rate regime and will intervene to smooth excess volatility
- The KRW is fully convertible but only tradable on a non-deliverable basis in the offshore market
- The offshore NDF market is liquid with an estimated daily turnover of USD2bn, and the fixed income market is the largest in Asia ex-Japan

The following products are available:

- Spot FX[14]
- Non-deliverable forwards out to ten years
- Non-deliverable FX options out to five years and further on a case-by-case basis
- Non-deliverable cross currency swaps to ten years
- Onshore cross-currency and interest rate swaps to ten years
- Onshore and offshore structured derivative products
- KRW and hard currency bonds, onshore fixed income and money market products

Spot

KRW is fully convertible, however, it is only tradable on a non-deliverable basis in the offshore market.

Forwards/FX swaps

Onshore, there is an active conventional forward market. Offshore, KRW is actively traded in the form of dollar-settled non-deliverable forwards (NDFs). The best liquidity is found in tenors of one year or less.

Options

Currency options are available both onshore and offshore, though on a non-deliverable basis in the offshore market. Tenors extend out to five years, with longer tenors available on a case-by-case basis.

A range of FX structured products are also available for risk management or investment purposes.

14 Onshore only; offshore counterparties must have an underlying investment.

Normal market conditions

Normal market conditions	
Onshore average daily spot volume	USD10bn
Onshore spot transaction	USD3-5m
Onshore bid/ask spread	10 pips (0.10KRW)
Onshore average daily forward volume	<1m USD5bn
	>1m USD4bn
Onshore forward transaction	USD50m
Onshore forward spread	1M 10 pips (0.10KRW)
Offshore average daily NDF volume	USD2bn
NDF transaction	USD5m
NDF spread	1M 50 pips (0.50KRW)
Implied option volatility spread	0.5 vol

Note: Spreads are subject to change with market developments
Source: HSBC

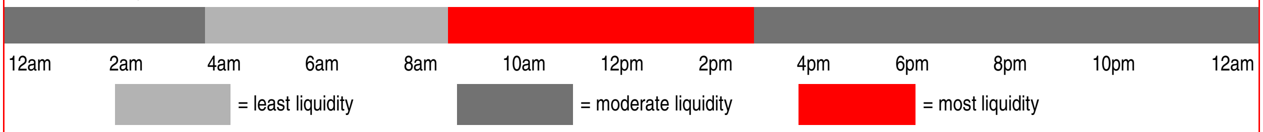
FX framework

Foreign exchange policy is principally determined by the Ministry of Strategy and Finance (MOSF), while the central bank, the BOK, oversees exchange movements according to this policy. According to the Bank of Korea Act, maintaining price stability is the primary objective of BOK monetary policy. The seven member Monetary Policy Committee within the BOK develops and implements monetary policy. The KRW is a floating currency, although the BOK will intervene to smooth excess volatility.

Since the Asian currency crisis in the late 1990s, South Korea has liberalised foreign exchange regulations significantly, although many rules remain in effect.

Along with the liberalisation of foreign currency transactions, South Korea has been moving towards a more open position on foreign direct investment. The government now offers several incentives to companies working in the technology sector or located in a free-trade zone.

Liquidity at a glance



Notes: Times based on Seoul local time = GMT + 9 hours
Source: HSBC

- The primary legislation governing foreign exchange transactions is the Foreign Exchange Transaction Act (FETA).
- The primary legislation governing foreign investment is the Foreign Investment Promotion Act (FIPA).
- South Korea has signed free trade agreements with Chile, the EU and most recently the US, which takes effect as of 1 January 2012.
- Non-residents may purchase property.

Exchange rate mechanism

- The KRW is a non-deliverable, floating currency.

Fixing mechanism

- The FX market is open from 9:00am to 3:00pm Seoul time, and does not close for lunch.
- The KRW fix is published 9:00am Seoul time one business day prior to settlement. It is calculated using a weighted average of the onshore spot market over the course of the day prior to the fix (known as the market average rate, or MAR). Market convention, however, uses the fix two days before the value date, e.g. value 28 April will fix 26 April.
- To trade off of the fix rate for a particular day, the order must be passed before the onshore market opens on the MAR date.
- Korean Options expire at 2:30pm HK time.
- The fixing rate is published on Reuters page "KFTC18".

Background

- 1965-1980: USD-KRW determined by a floating exchange rate mechanism.
- 1980-89: USD-KRW exchange rate fixed by the authorities.
- 1990-97: Exchange rate calculated using a trade-weighted, multi-currency basket.
- Since 1997: Floating exchange rate system, with intervention limited to smoothing market volatility.
- 1999-2002: During this period there were two main phases of FX liberalisation: the first phase started in April 1999; the second in January 2001.
- 2002-05: On 16 April 2002, the Korean government announced the "Plan for the Development of the Korean Foreign Exchange Market" as the third phase of FX liberalization. During this period the government eased regulations on FX transactions for individuals and companies.
- 2006-08: In 2006, the government announced its plans for further FX liberalization through two new stages. The first stage started in May 2006, with implementation completed on December 2007, whereby prior approval requirements for some capital account transactions were abolished. In October 2008, the government announced that due to worsening market conditions the second stage of the plan would be postponed for an indefinite period.

Repatriation and other regulations

Regulations

Onshore-onshore

- FX transactions and capital account transactions by individuals have been liberalised. In addition, theremaining restrictions on FX transactions by corporations and financial institutions are being streamlined.
- Financial institutional investors have access to the local forward market and can hedge their investment exposure without confirming the "existence" of the investment. Corporate investors and individual investors are required to confirm the existence of the investment.
- Individuals and corporate residents can hold unlimited amounts of foreign currency in foreign currency bank accounts. Korean firms can maintain foreign currency accounts abroad.

- On October 2010, the government set restrictions on forward positions for FX derivatives of foreign bank branches (FBBs) and local banks that are registered as a foreign exchange bank in Korea:
  - For FBBs, forward positions are capped at 200% of the previous month-end equity capital.
  - For local banks, forward positions are capped at 50% of the previous month-end equity capital.
  - Corporate client foreign currency hedging limits were reduced to 100% from 125% of clients' exposure or their transaction of underlying real assets.

Offshore-onshore

- Non-residents may hold KRW locally through bank accounts, although some restrictions regarding deposits and disposal of funds may apply.
- Foreign investors must open special investment purpose accounts, which consist of an exclusive external account for investment and an exclusive non-resident domestic currency account for investment, at a foreign exchange bank when investing in securities in Korea. Foreign investors are permitted to open these special accounts in multiple banks in Korea.
- The amendments to the "Foreign Exchange Transaction Regulation" (FETR) in December 2007 enable the following:
  - Foreign investors are allowed to freely convert foreign currency into KRW without any underlying securities purchases while the converted funds are being transferred within the exclusive external investment accounts.
  - However, the converted funds in exclusive external account for investment should still be used for the purpose of securities investment.
  - Foreign investors can convert KRW proceeds into foreign currency on the day of the sale of securities without the need to provide confirmation of the sales before the FX transaction. The confirmation can be provided after three business days from the date of the FX transaction.
- For foreign investors that have registered their personal details with the Financial Services Commission (FSC), also known as Investment Registration Certificates (IRC), sale proceeds from the investment in securities can be freely repatriated. Sale proceeds converted into foreign currency can be remitted overseas or held in onshore foreign currency accounts.

Onshore-offshore

- Foreign-owned companies incorporated in Korea are required to report any foreign long-term loan agreements concluded with a foreign parent company or affiliate company to the Ministry of Knowledge and Economy (MKE).
- Residents may hold foreign currency accounts domestically or abroad.
- In the case of current transactions, domestic residents can remit up to USD50,000 per year freely, but when remitting amounts greater than USD50,000, domestic residents will be required to notify the foreign exchange bank of the transaction amount and the purpose of the transaction for verification.
- With relation to capital transactions, domestic residents can remit up to USD50,000 per year freely without filing a report to the BOK. However, when investing in overseas real estate, while there are no limitations on the amount that can be invested, residents are required to report to the foreign exchange bank.

Offshore-offshore

- The offshore market is limited to NDFs.

Repatriation

- For foreign investors, there are no restrictions on remitting profits or dividends, although reporting requirements may apply.
- There are no restrictions on the repatriation of capital, although reporting requirements may apply.
- Under the Foreign Investment Promotion Law (formerly the Foreign Capital Inducement Act), remittance of the proceeds of the sale of shares must first be approved by a bank designated by the MKE.

Additional information

Holiday calendar

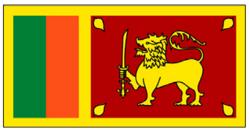
	Date	Event
2012	1 Jan	New Year's Day
	23-24 Jan	Lunar New Year
	1 Mar	Independence Day
	9 Apr	Election Day
	1 May	Labour Day
	28 May	Buddha's Birthday
	6 Jun	Memorial Day
	15 Aug	Liberation Day
	1 Oct	Chusok (Harvest Moon Day)
	3 Oct	National Foundation Day
	19 Dec	Election Day
	25 Dec	Christmas Day

Source: Bloomberg, HSBC

Information sources

Bank of Korea	www.bok.or.kr
Ministry of Strategy and Finance	www.mosf.go.kr
Reuters	KFTC18
Bloomberg	APF<go>

Sri Lankan rupee (LKR)



- The Central Bank of Sri Lanka (CBSL) operates a managed floating exchange rate regime
- The LKR is only partially convertible on the capital account
- The CBSL sets its foreign exchange and monetary policies through its governing body, the Monetary Board

The following products are available:

- Spot FX
- LKR forwards
- LKR options

Spot

The spot market opens at 8:30am local time and closes at 4:30pm on weekdays. There are 22 commercial banks that participate in the spot market, with only eight active participants offering two-way quotes, while others participate occasionally. The majority of the turnover is recorded through the Reuters Dealing System while the rest is dealt through nine registered brokers. The average deal size in the spot market is USD1.0-1.5m and the average turnover is USD50m per day.

Forwards

According to CBSL regulations, forwards are permitted up to the tenor of the underlying trade or capital related exposure. The interbank market quotes up to one year; however, liquidity beyond six months is limited.

No offshore/NDF market is available.

Options

LKR FX options are predominantly used as a hedging platform for client trades. There is no active interbank market.

Hedging through foreign exchange is allowed for the following transactions:

- Trade-related transactions
- Investments in debt securities and cash flows arising from equity market transactions
- Enterprises approved by the Board of Investment Sri Lanka
- Any party approved under the Exchange Control Act by the Controller of Exchange

LKR options are offered up to two years and further tenors are offered on a case-by-case basis.

A range of FX structured products are also available for risk management or investment purposes

Normal market conditions

Normal market conditions	
Onshore average daily spot volume	USD50m
Onshore spot transaction	USD1-1.5m
Onshore bid/ask spread	8 pips (0.08LKR)
Onshore average daily forward volume	USD50m
Onshore forward transaction	USD1-1.5m
Onshore forward spread	20-35 pips (0.20-0.35LKR)

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

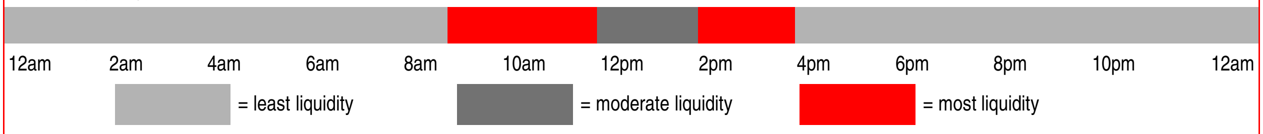
The CBSL has a unique legal structure in which it is not an incorporated body. In terms of the Monetary Law Act, the corporate status is conferred on the Monetary Board, which is vested with all powers, functions and duties. As the governing body, the Monetary Board is responsible for making all policy decisions related to the management, operation and administration of the central bank, including monetary and foreign exchange policy.

Background

- In November 1977, a hitherto fixed rate LKR was devalued by 85%. From then until 2001, it depreciated at an average annual rate of approximately 8% (in line with the inflation differential) against USD and other major trading currencies.

HSBC

Liquidity at a glance



Notes: Times are based on local Sri Lanka time = GMT + 5.5 hours
Source: HSBC

- In January 2001, the CBSL ended the managed-float regime that had been in place since 1980 by allowing the LKR to float freely, in an attempt to stabilise interest rates and protect foreign currency reserves.
- In mid-2009 as Sri Lanka saw an end to its three-decade civil war, which was followed by the IMF granting a standby facility of USD2.6bn.
- The Government of Sri Lanka issued USD500m of sovereign bonds in October 2009 for the first time. The Government issued has since issued three other sovereign bonds.

Repatriation and other regulations

Repatriation

- All share-related transfers routed through Securities Investment Accounts (SIA) may be conducted without Exchange Control approval.
- For the remittance of dividends, tax clearance must be obtained, confirming that withholding tax has been paid.
- A special scheme – Rupee Accounts for Non-Resident Sri Lankan Investments (RANSI) – exists to enable non-resident Sri Lankans to remit money for investment in Sri Lanka.
  - Non-resident Sri Lankan citizens are exempt from such restrictions provided that they remit their foreign exchange earnings for investment through RANSI accounts held at commercial banks appointed as authorised dealers under the Exchange Control Act.
  - Income from such investments and interest income from funds remitted may also be repatriated without exchange control restrictions.
- All proceeds received by the sale, transfer or maturing of treasury bills and bonds and interest income from such investments by offshore investors can be repatriated when routed through a Securities Investment Account (SIA).
- All maturity proceeds on Foreign Investment Deposit Accounts (FIDA) can be repatriated.
- Any other type of capital transfer requires exchange control approval.

Regulations

- As a signatory of IMF Article 8, Sri Lanka has relaxed all current account transactions and removed exchange controls for current account transactions (trade and service related). Further, the issuing of USD denominated sovereign bonds, the opening of the LKR bond market to foreigners and regular comments from Governor of the Central Bank illustrate the government's desire to further liberalise the capital account.
- Foreign investors and corporations have access to FX spot and forward market.
- Export proceeds can be maintained in Export Foreign Currency (EFC) accounts.
- FX forwards are allowed for hedging against stock market-related transactions up to the settlement date of the purchase or sale of shares, for settlements that must be routed through SIAs.
- Local subsidiaries are allowed to cover foreign exchange up to the extent of the underlying exposure, backed by documents confirming the underlying exposure (i.e. import cover).
- Investments in the Colombo Stock Exchange do not require approval provided the transactions are routed through SIAs.
- Foreign investors are eligible to purchase government securities (treasury bills and bonds) with a cap of 10% of the total amount issued. The eligible investors are offshore country funds, mutual funds or regional funds approved by the Securities and Exchange Commission in Sri Lanka, and corporate bodies incorporated outside Sri Lanka and citizens of foreign states. All investments and repatriation of proceeds should be routed through SIAs.

- Offshore investors are permitted to invest in deposits in Domestic Banking Units as Foreign Investment Deposit Accounts (FIDA). Deposits can be made in the form of a time deposit or a savings deposit in any designated foreign currency or LKR. Eligible investors are similar to those eligible for SIAs.
- Overdraft facilities: local subsidiaries of foreign corporations are allowed to overdraw local currency, but not USD, in onshore operations. An overdraft facility on SIAs is prohibited as per current Central Bank regulations.
- Foreign Currency Banking Unit (FCBU) accounts are allowed to be overdrawn in USD.

Additional information

Holiday calendar

	Date	Event
2012	8 Jan	Duruthu Full Moon Poya Day
	15 Jan	Tamil Thai Pongal Day
	16 Jan	Holiday in lieu of Thai Pongal Day
	3 Feb	Half holiday in lieu of National Day
	4 Feb	National Day
	5 Feb	Milad-Ul-Nabi
	7 Feb	Nawam Full Moon Poya Day
	10 Feb	Holiday in lieu of Milad-Ul-Nabi
	20 Feb	Mahasivarathri Day
	7 Mar	Medin Full Moon Poya Day
	6 Apr	Bak Full Moon Poya Day/Good Friday
	12-13 Apr	Sinhala and Tamil New Year Day
	1 May	May Day
	5-7 May	Vesak Full Moon Poya Day
	4 Jun	Poson Full Moon Poya Day
	3 Jul	Esala Full Moon Poya Day
	1 Aug	Nikini Full Moon Poya Day
	19 Aug	Id-Ul-Fitr
	31 Aug	Adhi Binara Full Moon Poya Day
	29 Sep	Binara Full Moon Poya Day
	26 Oct	Id-Ul-Alha
	29 Oct	Vap Full Moon Poya Day
	13 Nov	Deepvali Festival
	27 Nov	Il Full Moon Poya Day
	25 Dec	Christmas Day
	27 Dec	Unduvap Full Moon Poya Day

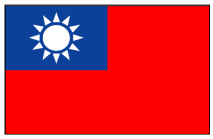
Source: Bloomberg, HSBC

Information sources

Central Bank of Sri Lanka	www.cbsl.gov.lk
Ministry of Finance and Planning	www.treasury.gov.lk

HSBC

Taiwan dollar (TWD)



- The Central Bank of China (CBC) operates a managed floating currency regime and regularly intervenes to smooth volatility
- The TWD is not fully convertible, and any onshore spot transaction must be declared to the CBC
- The offshore NDF market is generally liquid, with an estimated daily turnover of USD2bn

Taiwanese markets are actively traded in Taipei, Hong Kong, London and New York, with the following products available:

- Spot FX[15]
- Offshore non-deliverable forwards out to ten years
- FX options out to five years and further on a case-by-case basis
- Cross currency swaps out to seven years[16]
- Interest rate swaps and local fixed income
- Domestic money market products

Spot

The onshore market opens at 9:00am, closes for lunch between 12:00pm and 2:00pm, and closes at 4:00pm Taipei time.

Forwards/FX swaps

TWD trades in the offshore market as USD settled non-deliverable forwards (NDFs). The offshore NDF market is generally liquid with an estimated daily turnover of USD2bn.

Options

Offshore USD-settled non-deliverable options (NDOs) are available out to five years and further on a case-by-case basis. A range of FX structured products are also available for risk management or investment purposes.

15 *Offshore can only sell the currency. Detailed information about the recipient is necessary*

16 *Offshore swaps are non-deliverable. Fully deliverable swaps are available onshore*

Normal market conditions

Normal market conditions	
Onshore average daily spot volume	USD1.2-1.5bn
Onshore spot transaction	USD3-5m
Onshore bid/ask spread	5 pips (0.005TWD)
Onshore average daily forward volume	USD1.8-2.2bn
Onshore forward transaction	USD20-30m
Onshore forward spread	20 pips (0.020TWD)
Offshore average daily NDF volume	USD2bn
NDF transaction	USD10m
NDF spreads	10 pips (0.010TWD)
Implied option volatility spread	0.5 vol for all dates

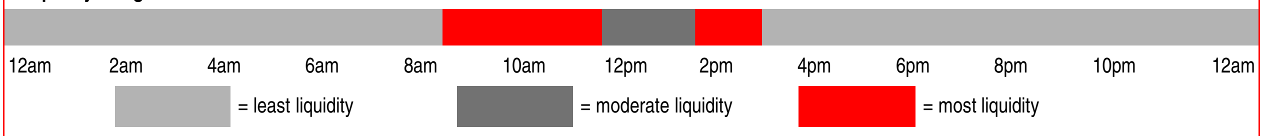
Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

The CBC is responsible for establishing Taiwan's monetary policy. Although it is dependent on the Executive Yuan, it maintains independence in setting monetary policy. At present, the TWD is a managed floating currency with the CBC regularly intervening to smooth volatility. Since the TWD is not fully convertible, any onshore spot transactions must be declared to the CBC, and in some cases require supporting documentation. Offshore, the TWD trades on a non-deliverable forward basis.

Taiwan maintains numerous restrictions on foreign investment, although there have been recent moves towards easing some of these restrictions. The Statute for Investment by Foreign Nationals and Overseas Chinese outlines which industries are open to investment and the requirements for investing in them. In general, the sectors that are off limits to foreign investors are those related to national security or businesses that may compromise the well-being of the Taiwanese people, either physically or morally. Otherwise, foreigners and Taiwanese nationals receive equal treatment.

Liquidity at a glance



Notes: Times based on Taipei local time = GMT + 8 hours
Source: HSBC

Taiwan does offer some investment incentives, which are granted under the Statute for Upgrading Industries. Eligible investors must apply to the Investment Commission of the Ministry of Economic Activities if they wish to enrol in any of the incentive programs. Foreign entities may acquire 100% of a local enterprise.

Exchange rate mechanism

- TWD is a managed floating currency, but with significant intervention to limit volatility.

Fixing mechanism

- The TWD fix is a snapshot of the onshore market price at 11:00am Taipei time two business days prior to value date e.g. value 28 April, fix 26 April.
- Taipei cut expires 11:00am, Hong Kong time.

Background

- Before 1978, TWD was pegged to USD.
- From 1978 to 1989, a managed floating rate regime with fluctuation limits was in place.
- From 1989, the CBC abolished the mid-rate system and planned liberalisation.
- QFII requirements were abolished in October 2003.

Repatriation and other regulations

The Executive Yuan has eased restrictions on remitting and repatriating capital, but most currency controls remain in effect.

Since 2003, foreign investors have been classified as "foreign institutional investors" (FINIs) and "foreign individual investors" (FIDIs). Both are required to register with the Taiwan Stock Exchange (TSE). FINIs have unlimited investment quotas, while FIDIs are restricted to a maximum USD5m quota.

Most FX swap transactions do not require documentation or CBC approval. The swaps for inter-company loans and forwards, however, do need supporting documents. Spot deals above TWD500,000 plus all forwards and swaps require the completion of an original "Declaration Statement of Foreign Exchange Receipts and Disbursements or Transactions" form bearing the company seal. Banks are required to confirm that the required supporting documents comply with the Declaration Statement for amounts greater than TWD1m.

Regulations

Onshore-onshore

- There are no limits on TWD's trading range, but there are convertibility limits on the capital account.
- Only FINIs, FIDIs and local registered entities (with support documents) can deal FX onshore.
- Only residents with clarification documents have access to the local forward market.
- Access to foreign exchange is divided into three categories:
  - import and export
  - cost of trade-related services
  - investments, capital repatriation, and dividends
- Currency options are permitted.
- The TWD is a regulated market with documentary proof required for FX transactions onshore where the amount is equal to or greater than USD1m. For FINIs/FIDIs, all transactions must be documented regardless of the amount.

Offshore-onshore

- Only onshore entities have access to onshore markets.

Onshore-offshore

- Foreign-owned companies must apply to the Foreign Exchange Department of the CBC and the Investment Commission at the Ministry of Economic Affairs simultaneously in order to secure approval for borrowing from abroad.

Offshore-offshore

- The offshore market is limited to NDFs.

Repatriation

Interest and principal

- There are no restrictions on remittances of interest and principal if the original loan has been approved.

Dividends and profits

- For investments conducted pursuant to the Statute for Investment by Foreign Nationals (SIFN), 100% of dividends and net profits may be remitted without restriction.

Capital

- With proper supporting documents, investment income, including capital gains and interest/dividend income can be repatriated after the appointment and subsequent concurrence of a tax guarantor.

For FINIs/FIDIs

- For outward remittances in Taiwan not all cash balances can be repatriated automatically. Currently FINIs/FIDIs are allowed to repatriate their "principal" amount freely (principal amount is the difference between the total accumulated inward remittance and outward remittance).
- However if the balance consists of "earnings" (investment income, including capital gains, dividend income, interest and other income), it can only be effected after a tax guarantor in Taiwan has been appointed by the FINI/FIDI and the repatriation amount has been approved by the tax guarantor/agent.

Additional information

Holiday calendar

	Date	Event
2012	23-27 Jan	Chinese New Year
	27-28 Feb	Peace Memorial Day
	4 Apr	Ching Ming Festival
	1 May	Labour Day
	3 Sep	Mid-Autumn Festival
	10 Oct	National Day
	31 Dec	New Year

Source: Bloomberg, HSBC

Information sources

Central Bank of China	www.cbc.gov.tw
Bureau of Foreign Trade	www.trade.gov.tw
MOEA Investment Commission	www.moeaic.gov.tw
Ministry of Finance	www.mof.gov.tw
Financial Supervisory Commission	www.sfcey.gov.tw
Reuters	TAIFX1
Bloomberg	APF<go>

Thai baht (THB)

- The Bank of Thailand (BoT) operates a managed floating currency regime and intervenes regularly to reduce volatility
- The THB is deliverable and largely convertible
- Regulatory changes by authorities are frequent to maintain economic stability, so participants should monitor developments closely

The following products are available:

- Spot FX
- Forwards out to five years[17] and further tenors on a case-by-case basis
- Onshore and offshore FX options out to three years and further tenors on a case-by-case basis
- Cross currency swaps out to ten years and further tenors on a case-by-case basis
- Interest rate swaps and a full line of domestic fixed income and money market products

Spot

The FX market is the most competitive market in Thailand with full participation by all onshore banks and at times offshore banks as well. Daily turnover is around USD700m with the BoT playing an important role in influencing the size and liquidity of this market due to onshore-offshore dealing regulations.

Forwards/FX swaps

There is good liquidity in the FX forward market out to one year, with the best liquidity in tenors up to three months. The estimated daily turnover in the forward market for forward tenors of one week to three months is around USD450m, and for forward tenors of six months to one year is around USD250m. Since there is no effective interbank cash market in Thailand, the foreign exchange forward market is widely used in determining THB interest rate benchmarks among banks.

Restrictions preventing forward USD purchases onshore without underlying assets result in an ongoing offshore deliverable forward market.

Options

Currency options are available out to three years and further on a case-by-case basis both onshore and offshore, with most liquidity during Asian trading. A range of FX structured products are also available for risk management or investment purposes.

Currency swaps and bonds

Cross-currency and interest rate swaps are available both onshore and offshore out to ten years, although the onshore market is more liquid.

Normal market conditions

Normal market conditions

Average daily spot volume	USD700m
Spot transaction	USD5m
Bid/ask spread	1 pip (0.010THB)
Average daily forward volume (onshore)	USD900m
Forward transaction	USD20-50m
Forward spread	Up to 3M, 0.7-1.0 pips (0.003-.005THB)
	6M to 12M, 1-3 pips (0.010-0.020THB)
Onshore implied volatility spread	0.5-1.0 vol
Offshore implied volatility spread	0.5-2.0 vol

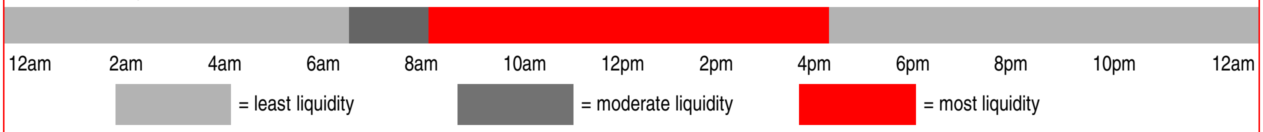
Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

THB is a managed floating currency within the regime of the BoT, the Kingdom's central bank. The BoT is also responsible for establishing and implementing monetary policy (through inflation targeting and a policy interest rate). Although it does not set a specific exchange rate target, the BoT does intervene in the FX market to smooth excessive short-term volatility.

17 Non-residents may only access the local forward market with underlying trade/investment business.

Liquidity at a glance



Notes: Times are based on Bangkok local time = GMT + 7 hours
Source: HSBC

THB is fully convertible and has a relatively liquid spot market. Foreign exchange forward transactions executed with onshore banks must have legitimate underlying business in Thailand with supporting documentary evidence (e.g. an invoice or loan agreement).

The Ministry of Finance has entrusted the BoT with the responsibility of administering foreign exchange regulations.

The Thai government has long maintained an open environment for foreign investment, though there are restrictions on foreigners investing in a few industries that are considered vital to the security of Thai culture.

Exchange rate mechanism

- THB is under a managed floating regime. The BoT closely monitors and intervenes, as it deems appropriate, through both spot and forward transactions in both onshore and offshore markets.

Background

- 1945-1978: Fixed parity system to USD.
- 1978-1984: Trade-weighted basket before fixing to USD parity in 1981.
- 1985-1997: THB closely managed against a basket of currencies with the USD making up an estimated 80%.
- 15 May 1997-30 January 1998: Non-residents were not allowed to deal THB spot with onshore banks, resulting in a two-tier FX rate system.
- July 1997: THB floated after speculative attacks on the currency basket peg forced the central bank to use up most of its foreign reserves.
- 18 December 2006-29 February 2008: The BoT issued capital control directives imposing a 30% reserve requirement on non-resident entities selling foreign currency for THB, in order to curb speculative capital inflows. This was lifted in February 2008.
- 13 October 2010: The authorities reinstated the 15% withholding tax on capital gains and interest income received from the investment in Thai Government Bonds (including those issued by BoT and State Enterprises) by non-residents.

Repatriation and other regulations

- Projection hedging by non-residents is generally not allowed onshore, except with BoT approval.
- All non-cash FX transactions must be conducted through authorised banks.
- Non-residents may hold THB accounts onshore such as NRBA and/or NRBS (see below).
- Hedging by offshore non-residents with onshore institutions must comply with BoT guidelines, some of which may require supporting documents and/or direct BoT approval.

Non-resident THB accounts

- From 3 March 2008, the BoT segregated non-resident THB accounts into two types:
  - Non-resident Baht Account (NRBA) – this account is used for general transactions in accordance with exchange control regulations such as trade, services, direct investment, properties, loans and other transactions.
  - Non-resident Baht Account for Securities (NRBS) – this account is used for investment in securities and financial instruments, debt instruments, unit trusts, financial derivatives transactions traded on TFEX or AFET, including sales proceeds, returns and related payments for such investments.
- Deposits and withdrawals from NRBS and NRBA require the submission of supporting documents, except the transfer of funds between NRBS to NRBS and NRBA to NRBA, and withdrawals of amounts less than THB5m.
- Fund transfers between NRBS and NRBA are not allowed.

- Interest is prohibited from being paid to both NRBA and NRBS accounts (saving and current). The exception is for NRBA fixed deposits with a tenor of at least six months.
- The outstanding balance (at end of day) of NRBS and NRBA opened by a non-resident with all onshore banks must not exceed the total sum of THB300m for each type of account. (For the purpose of this regulation, unlike the interpretation of other BoT regulations, each branch of the same legal entity, or related parties, is considered as an individual non-resident). Prior BoT approval is required for having outstanding amounts in excess of THB300m. In this regard, onshore banks are also required to report the outstanding balance of non-resident THB accounts maintained with them to the BoT.

Transactions in which non-residents buy THB and sell applicable foreign currencies (FCY)

- Non-residents are freely allowed to buy THB and sell foreign currency for value spot (T+2), and BoT approval is not required.
- For transactions with underlying trade or investment in Thailand (requiring evidence), a non-resident is allowed to sell foreign currency against THB for value same day or tomorrow without requiring prior permission from the BoT.
- For transactions without underlying, the outstanding balance (inclusive of all transactions regardless of maturities which result in providing THB liquidity to non-residents without underlying) executed with each financial institution shall not exceed THB300m per group of non-residents.
- For FX forward transactions, there is no restriction on non-residents selling foreign currency forward with underlying trade or investments in Thailand.

Transactions in which non-residents sell THB and buy FCY

- Non-residents are freely allowed to sell THB and buy foreign currency for value spot, and BoT approval is not required.
- For transactions without underlying, the outstanding balance (inclusive of all transactions regardless of maturities which result in taking THB liquidity from non-residents without underlying) executed with each local financial institution must not exceed THB10m per group of non-residents.
- Non-residents are allowed to sell THB, derived from securities transactions, held in NRBS accounts with spot value or less than spot value without any restriction, provided that the transaction is conducted on the securities settlement date. However, transactions conducted on any date, other than the securities settlement date, must be conducted on a spot basis.
- Non-resident clients may enter into forward transactions to buy foreign currency with onshore banks, but the amount of such forward transactions shall not exceed the value of the underlying trade or investment in Thailand. The forward transaction is required to be regularly marked to market, and if the value of the underlying trade or investment falls below the value of the forward, the position must be adjusted accordingly.

Repatriation

- Repatriation of capital, repayment of loans and interest, inward/outward remittance of funds for equity investment are permitted subject to the presentation of relevant supporting documents.

Other regulations

Transactions classified as non-resident lending THB to onshore banks include:

- Direct lending
- Short-term THB instruments sold to non-residents
- Non-residents selling USD or buying THB value forward with onshore banks
- Non-residents lending THB through the swap market
- Derivatives transactions that result in non-residents lending THB
- Non-residents buying USD-THB at less than the spot value date

Resident FCY deposit account

- A resident corporation may place unlimited funds in an onshore foreign currency deposit account if the funds are sourced/received from offshore, and a maximum of USD100m if the funds are sourced locally (i.e. borrowing or buying from an onshore bank), according to its total obligations or its subsidiary's obligations. The interest received from such a deposit is also subject to a 1% withholding tax as is the case for a local currency deposit.

- In the case where foreign currency is sourced locally and future foreign currency obligations can not be demonstrated, a resident corporate is still allowed to place foreign currency in a special separate deposit account but the balance must not exceed USD0.5m.

Outward fund transfer from Thai corporates in order to lend or invest in offshore corporate

- Thai corporates are allowed to lend an unlimited amount to offshore affiliates (having at least 10% direct shareholding relationship). The lending must be in foreign currency. Lending THB to offshore corporates is not allowed.
- Thai corporates can also lend to offshore non-affiliates, but the lending must not exceed USD50m per calendar year. The lending must be in foreign currency. Lending THB to offshore corporates is not allowed.
- Thai corporates can make an unlimited amount of direct investment (i.e. resulting in such Thai corporates holding at least 10% of total paid up shares of an offshore corporate) in offshore corporates. Such investment must only be done in foreign currency.

Outward fund transfer from Thai corporate in order to invest in overseas securities

- Thai corporates having total assets from THB5bn are classified as institutional investors, and are allowed to invest in overseas securities and to execute derivatives not related to THB with offshore institutes. Outstanding investment amount, at any time, is limited to not exceed USD50m.
- Other types of institutional investors who are allowed to invest in overseas securities include government pension funds, social security funds, provident funds, mutual funds (not including private fund), securities companies, insurance companies (both life and accident), specialized financial institutions. The permitted investment amount is subject to the regulator's approval of each type of institutional investor.

Additional information

Holiday calendar

	Date	Event
2012	2 Jan	Substitution for New Year's Day (1 Jan)
	7 Mar	Makha Bucha Day
	6 Apr	Chakri Day
	13-16 Apr	Songkran Festival
	1 May	National Labour Day
	7 May	Substitution for Coronation Day (5 May)
	4 June	Wisakha Bucha Day
	2 Aug	Asarnha Bucha Day
	13 Aug	Substitution for H.M. the Queen's Birthday (12 Aug)
	23 Oct	King Chulalongkorn Memorial Day
	5 Dec	H.M. the King's Birthday
	10 Dec	Constitution Day
	31 Dec	New Year's Eve

Source: BoT

Information sources

Bank of Thailand	www.BoT.or.th
Ministry of Finance	www.mof.go.th
Board of Investment	www.boi.go.th
Securities and Exchange Commission	www.sec.or.th
Joint Foreign Chambers of Commerce in Thailand	www.jfcct.org

Procedural guideline for authorised banks in undertaking FX transactions according to Thailand measures to prevent THB speculation

1. Non-derivatives transactions

Transactions		Underlying	No underlying	Exception / Condition
1.	**Lending THB to NR**			
1.1	Bank lends THB directly	X	X	**Except** ▸ Personal consumption loan for NR having a valid work permit longer than one year. The amount must not exceed THB5m. The loan must be fully collateralized ▸ Loan to NR residing in neighbour countries, in which BoT approval must be sought on a case-by-case basis ▸ Issuance of credit cards to NR
1.2	Bank provides THB O/D	[Lend 300]		
1.3	Bank lends through Repurchase Agreement [Repo] or sell and buy back transactions	X	X	
1.4	Bank buys THB debt instruments issued by NR	X	X	**Except** ▸ The purchase of THB bond issued by NR who has obtained the approval from MOF to issue such bonds
1.5	Bank issues THB Guarantee for NR	X	X	**Except** ▸ Issuance of bid bonds, performance bonds or letter of guarantee for NR who contracts with Thai residents, provided that NR's offshore bank must also provide back-to-back guarantee having conditions according to BoT's requirements ▸ Guarantee of THB bonds issued by NR residing in neighbour countries who has obtained the approval from MOF to issue such THB bonds
2.	**Borrowing THB from NR**			
2.1	Bank borrows THB	[U]	[Borrow 10]	**Except** ▸ Offshore bank who obtains approval from MOF to issue THB bonds ▸ Underlying in this case shall include banks' lending to residents
2.2	Bank borrows THB through Repurchase Agreement [Repo] or sell and buy back transactions	X	X	
2.3	Bank issues THB Debt Instruments and sell to NR (excluding B/E [Bill of Exchange])	[Borrow 10]		▸ Including THB Negotiable Certificate of Deposit issued to NR
2.4	Bank issues THB B/E to borrow from NR	X	X	▸ Issuance of THB B/E to NR is not allowed regardless of its maturity
3.	**Buying and Selling FX/THB with NR**			
3.1	Bank buys FX sells THB for Value spot (T+2)	/	/	
3.2	Bank buys FX sells THB for Value same day/Value tomorrow	[U]	[Lend 300]	
3.3	Bank sells FX buys THB for Value same day/Value tomorrow	[U]	[Borrow 10]	
4.	**NR THB accounts**			
4.1	**NRBA (general purpose)**	@	**Outstanding balance at the end of day must not exceed THB300m**	▸ In case the outstanding THB balance at end of day is in excess of THB300m, BoT's approval can be obtained provided that there is proper underlying investment in Thailand
4.2	**NRBS (securities investment)**	@	**Outstanding balance at the end of day must not exceed THB 300m**	

Note: for any other kinds of transactions, please consult the BoT Anti-THB speculation team at 02 283 5326 7, 02 356 7639 prior to undertaking such transaction. Unofficial English translation.
Source: BoT, HSBC

HSBC

2. Derivatives transactions

Transactions		Underlying	No underlying	Exception / Condition
1.	**Derivatives linked to FX rate and index**			
1.1	Plain vanilla and structured derivatives according to BoT's Notification			▸ If bank wants to do derivatives transactions outside the scope of the said BoT notification (e.g. digital option) with NR, prior BoT approval must be sought
	(1) Bank's transaction that is equivalent to buying FX in the future, such as buy FX/THB outright forward, sell/buy swap, FX option	[U]	[Borrow 10]	**Underlying in this case shall include** ▸ Transactions that bank sells FX outright forward to residents ▸ FX option transaction which may result in selling FX to residents in the future ▸ Sell/Buy FX swap with forward started is not allowed.
	(2) Bank's transaction that is equivalent to selling FX in the future, such as sell FX/THB outright forward, buy/sell swap, FX option	[U]	[Lend 300]	▸ Buy/sell FX swap with forward started for transactions with underlying must seek BoT prior approval. Transactions without underlying are not allowed.
1.2	Structured derivatives beyond the scope of BoT's Notification	@	@	
2.	**Derivatives linked to Interest Rates and Index**			
2.1	Plain vanilla and structured derivatives according to BoT's Notification	/	/	**Conditions:** ▸ Bank must not receive negative interest from NR ▸ Bank must pay to NR in FCY equivalent
2.2	Structured derivatives beyond the scope of BoT's Notification	@	@	
3.	**Debt Instrument Derivatives**			
	(1) Bank buys or sells bond forward with NR	X	X	
	(2) Bank buys or sells bond option with NR	X	X	
4.	**Equity Derivatives according to BoT's Notification**			
	(1) Physical settlement	/	/	
	(2) No physical settlement	/	/	**Condition:** ▸ Bank must pay to NR in FCY equivalent
5.	**Credit Derivatives according to BoT's Notification**			
	(1) Swap transactions, such as credit default swap	/	/	**Condition:** ▸ Banks must pay to NR in FCY equivalent
	(2) Bank lends to/deposits THB with NR in the form of notes or deposits such as CLN, CLD	X	X	
	(3) Bank borrows in THB from NR in the form of notes	[Borrow 10]		
6.	**Derivatives linked to other kinds of asset and variable**			
		@	@	
7.	**FX/THB Non-Deliverable Forward: NDF**			
		X	X	**Except** ▸ Rollover or Unwind existing transactions due to the failure of clients/ counterparty to deliver/settle the full amount of contract

Note: for any other kinds of transactions, please consult the BoT Anti-THB Speculation Team at Tel. 02-283-5326-7, 02-356-7639 prior to undertaking such transaction Unofficial English translation
Source: BoT, HSBC

Notes and table key

Scope

Transaction having THB related with non-resident counterparty

R

Residents

NR

Non-residents

Underlying

Trade and investment in Thailand done by NR

/

Permitted without prior BoT approval required

X

Not permitted

@

Require BoT approval

[U]

Allowed but must not exceed underlying value

[Lend 300]

Allowed but total outstanding balance undertaken by each onshore bank (in aggregate of all kind of lending activities) must not exceed THB300m per group of NR.

[Borrow10]

Allowed but total outstanding balance undertaken by each onshore bank (in aggregate of all kinds of borrowing activities) must not exceed THB10m per group of NR.

Vietnamese dong (VND)

- The State Bank of Vietnam (SBV) maintains strict currency controls and manages the VND tightly using a daily fixing and trading band
- Most FX transactions must be conducted onshore
- The trading band was narrowed to +/-1%, from +/-3%, in February 2011

The following products are available:

- Spot and forward FX
- Cross currency swaps (including VND)
- Structured deposits/investments
- Offshore FX options out to five years and further tenors on a case-by-case basis. Onshore option enquiries will be considered on a case-by-case basis

All transactions may be done onshore except for NDFs. Although an offshore NDF market exists, it is illiquid. NDF deals can be done offshore on request, out to five years maximum.

Spot

At present, three foreign banks, two local state-owned banks and six local joint stock banks are seen as the major players in the market. The market's volume has increased since the end of 2006 when Vietnam joined the WTO. However, banks' trading activities are still constrained by FX position limits regulated by the central bank. Currently, banks are allowed to keep the total VND position against other foreign currencies at 30% of their registered capital.

VND has been trading at the weak side of the band for a long period of time, and due to depreciation pressure on the currency, there is little liquidity in the market for those wishing to sell VND. While the VND is not permitted to be traded outside the band against the USD, the offshore NDFs often imply market clearing rates which may differ from the band.

Forwards/FX swaps

Vietnam does not have a genuine forwards/FX swap market at this stage. Some participants are willing to quote two-way swap points for amounts up to USD5m with a maximum tenor up to three months. However, we expect the forward market to develop as volatility in spot increases.

Options

In 2005, the SBV allowed some local banks to offer onshore VND currency options on a trial basis. This trial ceased after the SBV banned all onshore VND FX options on 23 March 2009 because some banks used this product to trade USD-VND spot outside the trading band. Hence, the local currency option market does not exist at this stage in VND. FX options in non-VND currencies are permitted (vanilla and structured) but are only offered by large foreign banks on a case-by-case basis. Only residents may trade options in foreign currencies. Offshore NDF options are available out to five years and further on a case-by-case basis.

A range of FX structured products are also available for risk management or investment purposes.

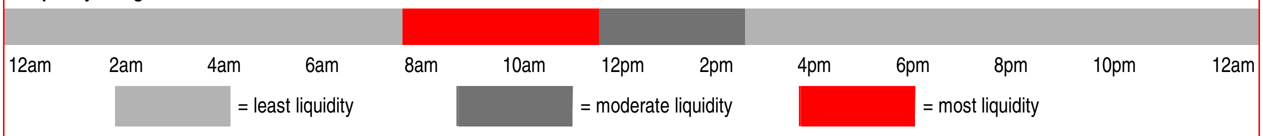
Normal market conditions

Normal market conditions

Onshore interbank average daily spot volume	USD150m
Onshore spot transaction	USD2m
Onshore bid/ask spread	10-50 pips (10-50VND)
Onshore average daily forward volume	USD30m
Onshore forward transaction	USD1m
Onshore forward spread	30-80 pips (30-80VND)
Offshore average daily NDF volume	USD5m
Offshore implied option volatility spread	5 vol for all dates

Note: Spreads are subject to change with market developments
Source: HSBC

Liquidity at a glance



Notes: Times are based on Hanoi local time = GMT +7 hours
Source: HSBC

FX framework

Exchange rate mechanism

- The SBV functions as the central bank, supervising monetary policy, setting interest rates and managing the exchange rate. The SBV prefers slow adjustments of VND to minimise disruption to business.
  - Decree 160 dated 28 December 2006 is the main regulatory guideline governing foreign exchange transactions in Vietnam.
  - In accordance with the Foreign Exchange Ordinance effective June 2006, all current account transactions may be freely conducted in line with prevailing regulations. Resident individuals and organisations are permitted to invest offshore subject to the approval of relevant authorities.
- The SBV announces a daily USD-VND official exchange rate. This is partly based on the average rate of interbank transactions the previous day.
- The SBV regulations set a trading band for USD-VND transactions in the spot market. This trading band was last narrowed on 11 February 2011 from +/-3% down to +/-1% around the official rate.
- The maximum forward rate is set by spot rate plus the interest rate differential between the Fed Funds rate and the VND base rate of the forward tenor.
- NDFs fix at 11am against a rate published by the Association of Banks in Singapore (ABS).

Background

- After the unification of the official and market exchange rates in March 1989, the SBV maintained a "managed float" but sharply depreciated the VND in 1991 as a result of inflationary expectations.
- The currency was subject to large, one-off devaluations annually up to late 1999, when a "creeping depreciation" policy for foreign exchange was put in place to coincide with a narrowing of the trading band over the official SBV rate.
- From 1999 until late 2006 VND traced a low volatility path of gradual depreciation at around a 1% pace.
- Since 2007, following Vietnam's entry into the WTO and increased interest in the country as an FDI destination and in Vietnam's capital market, the VND has seen increasing volatility. This has led to changes in the spot trading band. It was gradually widened from +/- 0.5% at the end of 2006, to +/-5 % in 2009. The band has since been narrowed, first to +/-3% and then to +/-1% in February 2011, where it is at present.

Repatriation and other regulations

Repatriation

- Foreign investors may remit in foreign currency and convert into VND for payment to a local third party at the day's conversion rate.
- Foreign investors are entitled to repatriate their investment funds and profits when tax obligations are finalised and supporting documentation is in place.
- Foreign investors are required to buy VND or use legitimate VND funds to buy securities on stock exchanges and/ or the OTC market. They are also able to sell VND to repatriate sale proceeds and income if taxes have been paid according to the SBV's regulations on securities-related transactions. Investors are subject to the amended tax regulations issued by the Finance Ministry.
- Foreign investors are required to open securities cash accounts to buy listed companies' securities after obtaining the Securities Trading Code, and capital contribution and share purchase accounts (CCA) to buy non-listed companies' securities.
- All inward and outward securities transactions by foreign investors must be conducted via these types of accounts.

Regulations

Spot

- The VND is a restricted, non-deliverable currency. Only the SBV, state-owned banks, joint-stock banks, joint-venture banks, branches of foreign banks and foreign bank subsidiaries may participate directly in the foreign exchange market.
- When foreign currency is purchased against the VND, supporting documents stating legal purposes are required.
- All payments made in Vietnam must be in VND except for a limited number of transactions.
- The foreign exchange regulations strictly control the use of foreign currency in normal cash transactions.
- Resident organisations must seek the SBV's approval before opening offshore accounts. However, rules were eased under the Foreign Exchange Ordinance introduced in June 2006. For example, domestic investors were permitted to transfer money overseas and the private sector was allowed to borrow from aboard. However, this is still awaiting further implementation guidelines.
- Foreign-invested enterprises are required to open a 'special use capital account' at a bank. This account is to be used exclusively for the receipt of equity contributed by the foreign party, the receipt of loan proceeds from offshore creditors, and the receipt of funds that will be used to repay offshore loans, repatriate dividends or divestment proceeds.
- The SBV set the ceiling USD deposit rate at 0.5% for corporate clients and 2% for individual clients.
- From May 2003, resident companies with *vang lai*, or overseas income, were no longer required to immediately convert a portion of their foreign currency income into VND except for selected state-owned corporations.

Forwards, FX swaps and options

- The forward market is accessible to residents with a genuine need. The SBV restricts the tenors of forward contracts between VND and foreign currency to a minimum of three days and a maximum of 365 days. No other forward tenors are allowed. The tenor of forward and swap transactions for non-VND currencies will be decided by banks and their customers.
- The SBV sets the ceiling rates for USD-VND foreign exchange forward tenors. The maximum rate for forwards are set by the SBV using interest rate differentials based on the US Fed Funds Rate and the SBV's base rate. The forward premium is then added to the USD-VND spot ceiling/floor rate to obtain the forward/floor ceiling rate. Currently, same-day transactions are the most popular, but next-day and two-day spot transactions are also possible.
- Only residents (central bank, commercial banks, economic entities and individuals) are allowed to transact FX forwards and non-VND options. Branches, affiliates of offshore banks, and corporates legally operating in Vietnam that are considered as residents are allowed to deal FX forwards and non-VND options. Branches or affiliates of offshore banks and corporates legally investing in Vietnam that are considered non-residents are not allowed to deal FX forwards and options. Non-residents are only allowed to deal in spot markets. Please refer to Article No.3, Chapter No.1 of Decree 160 for the definition of resident and non-resident.
- The SBV introduced overdrafts in 2002. In 2005, it allowed some banks to offer VND currency options, cross currency swaps, structured deposits and interest rate options on a trial basis. Since 23 March 2009 VND options were no longer permitted, though options in other currencies are still tradable. The central bank has also issued regulations allowing certain qualified banks to deal in interest rate swaps.
- Non-resident offshore companies are allowed to open VND and foreign currency accounts.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	23-27 Jan	Tet (Lunar New Year)
	2 Apr	Hung Kings
	30 Apr	Victory Day
	1 May	Labour Day
	3 Sep	National Day

Source: Bloomberg, HSBC

Information sources

Vietnam Chamber of Commerce	www.vcci.com.vn
State Bank of Vietnam	www.sbv.gov.vn
Reuters SBV Fixing	VND=SBVN
Bloomberg NDF Fix	VNDDFIX Index

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Latin America

HSBC

Argentine peso (ARS)

- Banco Central de la República Argentina (BCRA), Argentina's central bank, manages its currency in a managed floating regime
- The ARS is not convertible and is most commonly traded as a non-deliverable forward, both onshore and offshore
- The Argentine government has implemented numerous currency controls to smooth currency volatility

The following products are available:

- Spot FX[18]
- Non-deliverable forwards out to two years
- Non-deliverable options on a case-by-case basis
- Domestic money markets

Spot

The spot exchange rate is traded locally in two markets, the MAE (Mercado Abierto Electrónico) and the MEC (Mercado Electrónico de Cambios). The MAE is a pure bank to bank market, while the MEC is intermediated by brokers. For most of 2011 the combined average daily volume was approximately USD500m (USD300m MAE and USD200m MEC). The monetary authority, and to a lesser extent the Treasury, intervene in both markets. The central bank intervention is discretionary and takes place both in onshore spot and forward markets. The central bank undertakes both purchases and sales of USDs depending on prevailing market conditions.

Forwards/FX swaps

The offshore market consists exclusively of non-deliverable forwards (NDFs) with an estimated daily turnover of about USD250m. Onshore, ARS is also most commonly traded as an NDF.

Options

The currency options market for the ARS is small and illiquid. Prices will be made on a case-by-case basis, depending on prevailing conditions.

Normal market conditions

Normal market conditions	
Onshore average daily spot volume	USD500m
Onshore spot transaction	USD5m
Onshore bid/ask spread	20 pips (0.0020ARS)
Onshore average daily forward volume	USD175m
Onshore forward transaction	USD5m
Onshore forward bid/ask spread	25 pips (0.0025ARS)
Offshore average daily volume	USD250m
NDF average transaction	USD5m
NDF bid/ask spreads	1M 25 pips (0.0025ARS)
Implied option volatility spread	6M 3.0-5.0% vols

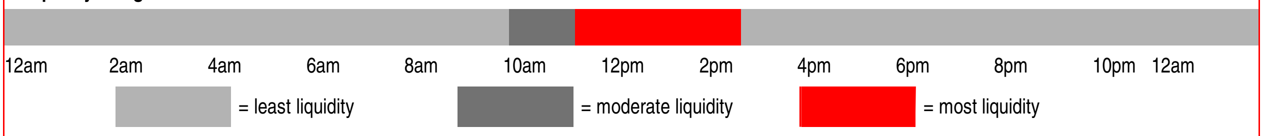
Note: Spreads are subject to change with market developments.
Source: HSBC, MAE, MEC

FX framework

- The central bank has been pursuing a managed floating regime for the exchange rate since convertibility was abandoned in December 2001.
- The monetary authority intervenes in the onshore FX market (spot and futures) in order to maintain a stable, but relatively weak, real exchange rate. The trade-weighted FX rate is assumed to be used by the central bank as a benchmark.
- In recent years, the authorities have been keen on avoiding both real and nominal strengthening of the ARS. During certain periods of excess supply of USD in the market, controls have been put in place to hinder short-term capital inflows. In that regard, the 30% deposit mandatory for foreign investors (see "Offshore-onshore" below) was introduced in June 2005.

18 Spot available onshore only

Liquidity at a glance



Notes: Times are Buenos Aires local time = GMT – 3 hours
Source: HSBC

- Nevertheless, from 1Q08 onwards, the tendency for stronger USD demand forced the central bank to start selling foreign exchange in the FX market, so as to induce a smooth depreciation of the ARS.
- This behaviour has episodic recurrence, due to global risk aversion, but also due to domestic developments. The local private sector increased its demand for USD assets starting in 2Q11. It was initially offset by the seasonality of the harvest season, which typically increases the supply of FX by exporters in 2Q. In 2H11 the central bank began to sell more USD in the market to prevent the ARS from depreciating too fast.
- An implied FX rate known as the "Blue chip swap rate" results from the ability to buy foreign currency through the purchase of domestic securities in ARS and then redeem them offshore for USD. At the time of writing in late 2011, this implied FX rate currently was trading at a premium for USD, reflecting dollarization pressures.

Fixing mechanism for offshore NDFs

- The fixing is two business days prior to the value date of the forward.
- The fixing rate is determined by the Emerging Market Traders Association (EMTA) based on the arithmetic mean of quotes submitted by at least five, but no more than fourteen, randomly selected banks. EMTA calculates the rate based on the midpoint of the quotes at approximately 12 noon in Buenos Aires.

Fixing mechanism for onshore forwards

- The fixing is on the last working day of each month.
- The fixing rate is determined by the central bank reference rate, which is an average of the pricing in the MAE throughout the day.

Repatriation and other regulations

Regulations

The regulatory framework is subject to change. The latest available regulatory framework is usually available at BCRA's Web site[19].

Onshore spot

- Starting in November 2011, individuals require approval from the local tax agency (AFIP) to buy USD. Approvals are based on means, tax compliance and ability to prove the source of the funds.
- It is mandatory to convert 100% of the foreign exchange receipts from goods and services exports to local currency through the FX market.
- Exporters have a range of 60 to 360 consecutive days to convert foreign exchange receipts from goods exports depending on the product type.
- The BCRA provides an additional 120 business days to settle foreign exchange receipts in the FX market. The term is extended to 180 business days if the purchaser fails to pay the transaction and the foreign exchange receipts result from export credit insurance.
- Services export receipts, on the other hand, have 15 business days to be converted into local currency.
- FX conversion is not required for export receipts under the local currency payment system for the MERCOSUR[20] countries.

Onshore forwards, FX swaps and options

- Futures transactions in regulated markets, forwards, options and other derivatives transactions that are settled in the country and cleared in domestic currency are not subject to any foreign exchange requirements.
- The central bank allows FX transactions for the purposes of futures settlements, guarantees, forwards, options and other derivatives, as long as they are traded onshore and settle in ARS.

19 The latest summary is available at http://www.bcra.gov.ar/pdfs/resumencambios/ultimocomunicado2010i.pdf
20 Argentina, Brazil, Paraguay and Uruguay

- However a local account must be opened for the settlement of any trades in the onshore market.

Onshore-offshore

- For tourists leaving the country and family remittances, the purchase of foreign exchange to be transferred abroad by non-residents is permitted if the amount does not exceed the equivalent of USD5,000 per calendar month. This must be done through authorised institutions.

Offshore-onshore

- Foreign exchange inflows into the FX market are allowed as long as they are converted in the FX market. However, investors are required to make a deposit in a non-remunerative account in a local financial institution for the equivalent of 30% of the total amount for 365 days. Exemptions from this regulation include funds targeting primary issues and foreign direct investment.

Repatriation

- Foreign direct investments may be remitted only if they are settled in the local FX market.
- Individuals are limited to purchase USD2m per calendar month without specific BCRA authorisation, although these flows are still subject to approval from the Administración Federal de Ingresos Públicos (AFIP) and require an affidavit regarding the origin of the funds.
- In terms of repatriation of portfolio investment liquidation, non-resident investors are allowed to remit foreign exchange overseas as long as it does not exceed the equivalent of USD500,000 per calendar month per individual or legal entity and must be done through authorized institutions so as to be exempt from specific BCRA authorisations.

Additional information

Holiday calendar

	Date	Event
2012	20 Feb	Carnival
	21 Feb	Carnival
	27 Feb	Bicentennial Flag Day
	2 Apr	Veteran's day
	5 Apr	Holy Thursday
	6 Apr	Good Friday
	30 Apr	Labour day (tourism holiday)
	1 May	Labour day
	25 May	May Revolution Day
	20 Jun	Flag Day
	9 Jul	Independence Day
	20 Aug	Memory of San Martin
	8 Oct	Columbus Day
	8 Dec	Immaculate Conception
	24 Dec	Christmas (tourism holiday)
	25 Dec	Christmas

Source: Ministry of Interior

Information sources

Central Bank of Argentina	www.bcra.gov.ar
Ministry of Economy and Production	www.mecon.gov.ar
AFIP	www.afip.gov.ar
Fixing Page	www.emta.org

HSBC

Brazilian real (BRL)

- Banco Central do Brasil (BCB) is Brazil's central bank and manages the BRL in a free-floating regime with occasional intervention
- The BRL is fully deliverable onshore, but offshore trades are all non-deliverable
- Most liquidity is traded through the first futures onshore contract with a daily average volume of up to USD25bn

The following products are available:

- Spot FX[21]
- Non-deliverable forwards
- FX options
- Interest rate and cross-currency swaps
- Money market and fixed income products
- TRS, Access Notes and BRL linked notes

Spot

The onshore market is liquid, with daily spot turnover of about USD6.5bn, including commercial, financial, and interbank trades. Most spot volume is traded via the first futures contract on the Brazilian Mercantile and Futures Exchange (BM&F Bovespa) which sees an average of USD20-25bn turnover per day. The market in Brazil is officially open from 9:00am to 6:00pm, local time. Spot can only be traded onshore.

Forwards/FX swaps

Offshore

In the offshore markets, the most common forward products are USD-settled non-deliverable forwards (NDFs). The offshore market is generally liquid, with the best liquidity in tenors of two years or less and USD3bn daily average traded volume.

The most common interest rate swap is a fixed rate USD vs. the interbank deposit certificate (or CDI, the overnight interbank rate published by the main securities depository, CETIP), net settled in USD offshore. This allows offshore clients to access a proxy of the local interest rate swap market.

21 Spot FX transactions can only be carried out onshore.

Onshore

The following products are available onshore: deliverable forwards, NDFs and currency swaps, net settled in BRL or indexed to BRL against any convertible currency.

Options

In both onshore and offshore markets, USD-BRL non-deliverable options (NDOs) and interest rate options (IDI) are traded. NDOs can be traded as vanilla or exotic options, with liquidity going up to two years.

Normal market conditions

Normal market conditions

Onshore average daily spot volume	Up to USD25bn
Onshore spot transaction	USD5m
Onshore bid/ask spread	2 pips (0.0002BRL)
Onshore average daily NDF volume	USD1bn
Onshore forward transaction average	USD5m
Onshore forward spread	5 pips (0.0005BRL)
Offshore average daily NDF volume	USD3bn
NDF transaction average	USD10m
Offshore NDF spreads	1 month 5 pips (0.0005 BRL)
Implied option volatility	6M 0.4% vol

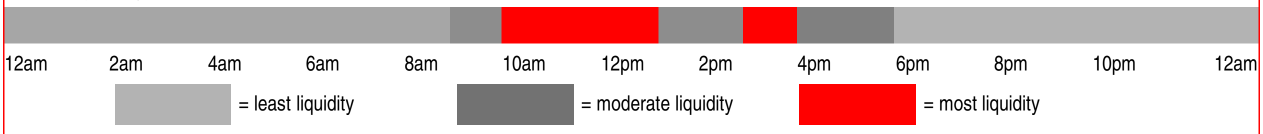
Source: HSBC

FX framework

The BCB is Brazil's central bank and is responsible for managing currency intervention and setting short-term interest rates. The BCB monitors foreign investments and currency exchange, although it is the National Monetary Council (CMN) that actually sets FX regulations. The Monetary Policy Committee (COPOM) sets the target for the SELIC rate, which is the overnight government bond repo rate.

Over the last decade, the CMN and the BCB have been gradually lifting restrictions from the Brazilian foreign

Liquidity at a glance



Notes: Times are Sao Paulo local time = GMT – 2 hours
Source: HSBC

exchange markets. However, in periods of strong BRL appreciation, the authorities have implemented measures to limit portfolio inflows and/or reduce USD selling pressures. These include:

- In October 2010, the authorities re-introduced a 2% financial transactions tax (IOF) on equities portfolio investments and IPO acquisitions, and raised the tax to 6% for fixed income investments However, the tax on equity investments and IPOs was reduced to zero in December 2011 in an effort to boost investment.
- In January 2011, the central bank required that local financial institutions make a non-interest bearing deposit with the central bank equivalent to 60% of their short USD positions exceeding USD3bn. This measure was amended in July 2011 for any positions exceeding USD1bn.
- In September 2011, the authorities introduced a 1% IOF tax on trades that increase long BRL positions via the onshore derivatives market (see "Onshore forwards and options" regulations section).

It should be noted that these regulatory measures are highly likely to change, if the BRL either strengthens or weakens notably.

Exchange rate mechanism

- The BCB can intervene through the spot, swaps and/or futures markets.
- USD-BRL is the only currency pair regularly traded in the domestic interbank spot foreign exchange market. Interbank spot FX transactions with other convertible currencies are regularly booked on international FX markets between domestic and foreign financial institutions (e.g. EUR-USD, USD-JPY).
- The reference rate for the interbank spot USD-BRL market is the PTAX average rate, calculated as the arithmetic average of four daily snapshots, where authorized foreign exchange dealers must inform the BCB of bid/offer rates. The snapshot windows for the PTAX calculations are: 10:00-10:10am, 11:00-11:10am, 12:00-12:10pm, and 1:00-1:10pm.

NDF fixing mechanism

- Onshore BRL-settled NDFs are typically fixed one day prior to settlement based on the PTAX offer rate.
- Offshore Brazilian NDFs are fixed two days prior to settlement through the PTAX offer rate.
- Exchange-traded USD-BRL futures are available in both Chicago and São Paulo.

Repatriation and other regulations

Regulations

- In March 2005, the foreign exchange normative framework was renewed in the form of the Exchange and Foreign Capitals Market Regulation (RMCCI). This was a significant step towards a less regulated FX environment.

Spot

- FX transactions must be registered with the BCB and booked against a financial institution authorised to deal FX by the BCB.
- Interbank transactions between Brazilian financial institutions can be booked over the counter (OTC) or through the BM&F Bovespa Foreign Exchange Clearinghouse (BMC), in operation since April 2002. The vast majority of the gross volume of the interbank spot FX market is settled through the BMC.
- Non-interbank spot FX is available for any currency pair formed by BRL and a convertible currency. The FX transaction must be linked to an authorised underlying transaction by way of documents filed with, or at least readily available to, the authorised financial institution with which the FX transaction is booked.

Onshore forwards and options

- Onshore deliverable FX forwards are available in the non-interbank market comprised of BRL and any other convertible currencies. Tenors are generally limited to 360 days and only certain combinations of split value dates are permitted. Deliverable forwards related to Brazilian exports are allowed for tenors up to 750 days and interbank transactions up to 1,500 days.
- In order to avoid backdated deals, all OTC non-deliverable derivatives must be registered at CETIP or BM&F Bovespa, who also monitor pricing appropriateness. In addition, BCB and CVM (the Brazilian Securities Commission) have access to all deals registered at CETIP and BM&F Bovespa, which ensures full transparency to regulators.
- As of September 2011, increases in net short USD positions via onshore derivatives of more than USD10m per day, by any institution, are subject to a 1% tax. This tax is collected by the BM&F Bovespa and CETIP clearing houses, and can be increased up to 25%, if deemed necessary.

Offshore derivatives

- The most tradable instruments offshore are NDFs and cross-currency swaps (CDI versus USD fixed).

Cross-border derivatives

- Cross-border derivatives are allowed in several circumstances.

Foreign investment into Brazil

- According to the National Monetary Council (CMN) Resolution 2689, foreign investors can access the Brazilian derivatives markets via a portfolio investment account. However, the foreign investor must have custodian, legal and tax representatives in Brazil. In addition, a foreign investor interested in trading derivatives through the BM&F Bovespa must open a brokerage account in a Brazilian brokerage house.
- Foreign capital in Brazil is governed by law # 4131 (The Foreign Capital Law). All incoming investments must be registered with the Central Bank Foreign Capital Registration and Supervision Office (FIRCE). As of April 2011, all foreign capital inflows to Brazil under Resolution 4131 that have an average tenor less than 720 days are subject to a 6% IOF tax.
- In October 2010, the authorities raised the IOF tax on margin deposits for future positions held by foreign investors, registered under Resolution 2689, to 6% from 0.38%.

Repatriation

- With the proper documentation, profits may be freely remitted to foreign shareholders or portfolio investors.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Years Day
	20 Feb	Carnival
	21 Feb	Carnival
	6 Apr	Good Friday
	21 Apr	Tiradentes Day
	1 May	Labor Day
	7 Jun	Corpus Christi
	7 Sep	Independence Day
	12 Oct	Our Lady of Aparecida
	2 Nov	All Souls' Day
	15 Nov	Proclamation of Republic
	25 Dec	Christmas Day

Source: ANDIMA

Information sources

Banco Central do Brasil	www.bcb.gov.br
Ministry of Finance	www.fazenda.gov.br
CETIP	www.cetip.com.br
BM&FBovespa	www.bmfbovespa.com.br
Securities and Exchange Commission of Brazil (CVM)	www.cvm.gov.br
Reuters Fixing Page	BRFR

Chilean peso (CLP)

- The CLP has been a free-floating currency since 1999, although the central bank, Banco Central de Chile (BCCH), intervenes occasionally
- In the offshore market, the CLP trades on a non-deliverable basis, while onshore there are active spot and forward markets
- Through 2011, BCCH purchased USD50m per day as part of a new intervention mechanism to buy USD12bn during the year

The following products are available:

- Spot FX and FX forwards
- Non-deliverable forwards out to five years
- FX options
- Cross-currency swaps, interest rate swaps and money market products

Spot

Spot transactions can only be done onshore. The onshore spot market is one of Latin America's most liquid, with an average daily turnover volume of USD1.8-2.3bn.

Forwards/FX swaps/Money markets

In the offshore market, CLP can only be traded via non-deliverable forwards (NDFs). A conventional onshore forward market also exists, but is only available to residents.

A range of products are available such as CDs, time deposits, repos, CLP and UF[22] interest rate swaps and FRAs against the Camara[23] floating index, USD-CLP and USD-UF cross currency and basis swaps, Chilean Inflation Index Forwards (over UF index) and bond forwards (FRAs over BCUs and BCPs[24]), as well as central bank and local government bonds in CLP and UF. Cross currency swaps are available offshore on a non-deliverable basis.

Options

Deliverable options are available onshore as well as non-deliverable options offshore.

22 Unidad de Formento (UF), an inflation-linked unit of account
23 Camara is the average of interbank peso interest rates (Act/360)
24 BCU are BCC bonds denominated in UF. BCP are BCC bonds denominated in CLP

Normal market conditions

Normal market conditions

Onshore average daily spot volume	USD1.8-2.3bn
Onshore spot transaction	USD5m
Onshore bid/ask spread	10-20 pips (0.10-0.20CLP)
Onshore average daily forward volume	USD3bn
Onshore forward transaction	USD20-40m
Onshore forward spread	30 pips (0.30CLP)
Offshore average daily NDF volume	USD0.5-1.0bn
NDF transaction	USD5m
NDF spreads	1M 20 pips (0.20CLP)
	12M 30-50 pips (0.30-0.50CLP)
Implied option volatility spread	6M 1.0 vol

Note: Spreads are subject to change with market developments.
Source: HSBC

FX framework

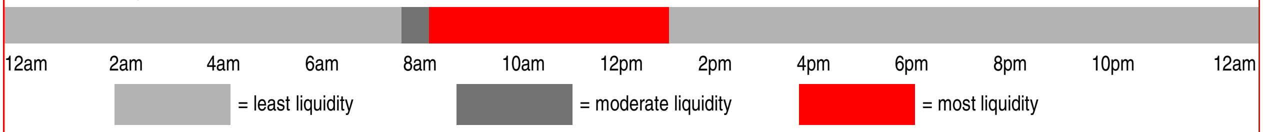
Exchange rate mechanism

- CLP is a floating non-deliverable currency.
- The exchange rate is determined in the interbank foreign exchange market, through two systems, OTC and Datatec, and also through phone trades.
- BCCH will intervene occasionally in the market in order to limit excessive over- or under-valuation of the CLP. BCCH generally focuses on the currency's real effective exchange rate (REER) when considering CLP valuation. BCCH intervened throughout 2011 to prevent CLP over-valuation and also to build FX reserves, buying USD50m per day for a total of USD12bn. This program ended on 16 December 2011.

Background

- Restrictions on capital mobility have been gradually lifted in Chile over the last two decades. CLP is now fully convertible, but is not deliverable offshore.

Liquidity at a glance



Notes: Times are Santiago local time = GMT – 3 hours. Some onshore prices can be available until 6pm.
Source: HSBC

- During the 1990s, the CLP was regulated using a floating band regime. In order to reduce speculative inflows and the impact on FX and monetary policies, the BCCH used FX restrictions in the form of unremunerated reserve requirements (URR, or "encaje") on foreign loans.
- In 1998, a sudden stop in capital inflows led the BCCH to rethink currency and capital control policy. It reduced the URR to 10%, and later to 0%, and widened the band on a daily basis.
- The gradual loosening of restrictions extended into 1999. A requirement to procure BCCH's approval to sell USD sourced from foreign loans was scrapped. As such, this increased the flexibility for local banks to invest abroad.
- In 2000, banks were allowed to trade interest rate derivatives. Requirements to issue bonds in the offshore market were also reduced.
- In 2001, the majority of the remaining FX restrictions were eliminated.
- Since 2006, local banks have been allowed to trade FX and interest rate options.

Fixing mechanism

- The fixing rate ("observado") is an average of all spot transactions between 9:00am and 1:30pm local time, two days prior to the value date of the contract. This rate is published daily by the BCCH.

Repatriation and other regulations

Regulations

- Foreign exchange regulations are outlined in the central bank's Compendium of Foreign Exchange Regulations. Chapter 14 details regulations applicable to loans, deposits, investments and capital contributions from abroad.
- There are basically two foreign exchange markets, the "formal" and the "informal" market. Transactions, such as settlements of derivatives with non-resident counterparties or remittance of interest or capital of external loans, are required to be done through an entity forming part of the formal market, such as an authorized bank. Other transactions can be freely made in the informal market.
- The Chilean constitution mandates that no arbitrary discrimination shall occur in economic matters. Decree Law 600 (DL600) reinforces this, stating that foreign investors under its regulations shall receive the same treatment as resident investors.
- Foreign investment may enter Chile either under Decree Law 600 (DL600) or under Chapter XIV of the Central Bank Foreign Exchange Regulations. In practice, the majority of investments are carried out under DL600.
- To invest in Chile under DL600, authorization from the Foreign Investment Committee is required.
- There are some restrictions on foreign ownership of certain industries, most notably in the media sector.
- Chile does offer some incentives to investors, most of which are related to job creation in undeveloped areas.
- The BCCH removed almost all remaining exchange controls in April 2001.
- There are no restrictions on residents borrowing internationally.
- The observado rate is used for NDF fixings as well as for tax and accounting purposes.

Repatriation

- There are no restrictions on the repatriation of capital, and profits may be remitted internationally.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	6 Apr	Good Friday
	1 May	Labour Day
	2 Jul	St. Peter and Paul Day
	16 Jul	Virgen del Carmen
	15 Aug	Assumption Day
	17 Sep	National Day
	18 Sep	Independence Day
	19 Sep	Armed Forces Day
	15 Oct	Columbus Day
	1 Nov	All Saints Day
	2 Nov	National Evangelical Day
	25 Dec	Christmas Day

Source: Bloomberg, HSBC

Information sources

Central Bank of Chile	www.bcentral.cl
Ministry of Finance	www.minhda.cl
Chile Banks Association	www.abif.cl
Bloomberg Fixing Page	PCRCDOOB <index>
Reuters Fixing Page	CLPOB=

Colombian peso (COP)

- Banco de la Republica (BanRep) is Colombia's central bank and operates a managed floating currency regime
- In the offshore market, the COP trades on a strictly non-deliverable basis
- The central bank can intervene either to accumulate reserves or to control volatility and uses various mechanisms to do so

The following products are available:

- Spot FX and FX forwards
- Non deliverable forwards out to three years
- FX options
- Local government bonds
- Cross currency swaps, interest rate swaps and money market products

Spot

There is a liquid spot market onshore. Spot settles on a T+0 basis. Trading hours are from 8:00am to 1:00pm, local time, and the market is quoted mainly through an electronic system called Set FX.

Forwards/FX swaps

There is good liquidity in the FX onshore forward market out to 18 months, with best liquidity in tenors up to three months. Forward rates are available for delivery or cash settlement onshore. Non-deliverable forwards (NDFs) are traded both onshore and offshore.

Options

Non-deliverable options on COP are available in the offshore market, and deliverable options in the onshore market.

Swaps and bonds

The Colombian swaps markets are developing and offer good liquidity. The currency swaps market and local sovereign debt markets are active. Interest rate swaps and CCS are also offered.

Normal market conditions

Normal market conditions	
Onshore average daily spot volume	USD1.5bn
Onshore spot transaction	USD0.75-1.25m
Onshore bid/ask spread	1.5 pips (1.5COP)
Onshore average daily forward volume	USD500-800m
Onshore forward transaction	USD5m
Onshore forward spread	3 pips (3COP)
Offshore average daily NDF volume	USD350-500m
NDF transaction	USD5m
NDF spreads	3 pips (3COP)
Implied option volatility spread	6M 1 vol

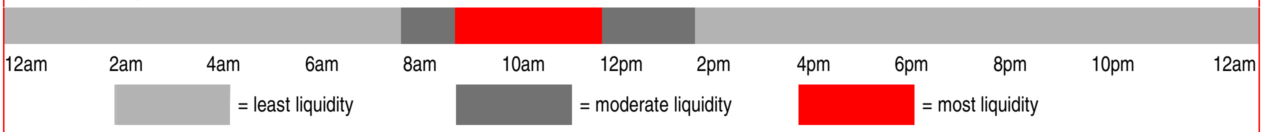
Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

Exchange rate mechanism

- Monetary policy is implemented within a flexible exchange rate regime that is governed by intervention rules to maintain an adequate level of international reserves, to limit excessive volatility of the exchange rate in the short term, and to moderate excessive appreciation or depreciation of the nominal exchange rate.
- Mechanisms for intervention include discretionary direct spot purchases/sales of USD. In addition, if COP moves more than +/-4% from the 20-day moving average, the central bank will call for an auction of USD200m worth of options (USD puts if USD-COP is falling, and USD calls if USD-COP is rising). If prevalent conditions persist the central bank can call for additional auctions.
- In October 2011, the Colombian Finance Ministry introduced new limits on FX transactions for local pension funds, barring them from trading more than 2.5% of assets under management (AUM) within a

Liquidity at a glance



Notes: Times are Bogota local time = GMT – 5 hours
Source: HSBC

five-day period. The rule applies to FX spot and derivative transactions. Its purpose is to limit speculative FX trading by local pension funds.

Background

- Foreign exchange regulations were established by Law 9 of 1991 as well as by central bank resolutions 21 of 1993 and 8 of 2000. The central bank monitors all incoming and outgoing capital flows.
- The best market liquidity is between 9:00am and 12:00pm local time.

Fixing mechanism

- The fixing rate is a weighted average of morning spot trades the day of maturity with settlement one day after. This rate is reported by Superintendencia Financiera.
- The Reuters page for the NDF fixing rate is CO/COL03.

Repatriation and other regulations

- It is required that all residents (Colombian or foreign) submit an Exchange Declaration when making a foreign exchange transaction.
- Exchange Declarations of transactions made through intermediaries should be presented to that specific entity.
- The following FX transactions must be channelled through the Regulated Exchange Market:
  - Merchandise trade related transactions
  - External fund raising
  - Inward and outward FDI and investment income
  - Derivatives operations
  - Financial investments, including securities
  - Bonds issued by Colombian companies outside Colombia
- Exports can be financed through anticipated buyer's payments or financial debt in foreign currency with market intermediaries or foreign financial entities registered with BanRep.
- External financing can also be made through securities placement in foreign capital markets.
- External financing sourced from overseas banks is subject to a withholding tax of 33%.
- Currency transfers between foreign companies and their branch offices in Colombia can only be made for assigned or supplementary capital transfers, profit reimbursements, external commerce, reimbursement operations of goods and service payments within tax laws.
- Exchange agents and other residents can transact FX derivatives operations with other local and foreign professional agents that have the authority to do so by BanRep. Authorized operations are forwards, swaps, options, caps, floors and collars.
- Colombian residents can hold foreign currency deposit accounts provided that the currency was acquired in the open FX market (as opposed to the Regulated Exchange Market).
- Foreign exchange acquired through the Regulated Exchange Market must be held in deposit accounts registered in BanRep under the name of Compensation Current Accounts.
- Foreign exchange intended to fund foreign capital investment in Colombia must be funnelled through foreign exchange market intermediaries or through current clearing accounts.
- Local exchange agents face three different types of regulatory positions: (1) total position (total open currency position), (2) cash position (total spot position) and (3) gross leverage position (nominal amount of FX derivatives transactions).

- For a transaction to qualify as a foreign capital investment in Colombia:
  - The investor must meet the condition of not being a resident by the investment date
  - The investment must be of a type authorized by law, and the resources must be submitted to the proper control and supervision agencies upon request
  - Foreign capital investment may be FDI or portfolio investment, including convertible bonds, and other securities registered in the national securities record

Additional information

Holiday calendar

	Date	Event
2012	9 Jan	Epiphany Day (observed)
	19 Mar	St. Joseph's Day (observed)
	5 Apr	Holy Thursday
	6 Apr	Good Friday
	21 May	Ascension Day (observed)
	11 Jun	Corpus Christi (observed)
	18 Jun	Sacred Heart of Jesus (observed)
	20 Jul	Independence Day
	20 Aug	Assumption Day (observed)
	15 Oct	Columbus Day
	5 Nov	All Saints Day
	12 Nov	Ind. Of Cartagena
	8 Dec	Immaculate conception (observed)
	25 Dec	Christmas Day

Source: HSBC, Bloomberg

Information sources

Banco de la República de Colombia	www.banrep.gov.co
Colombian Trade Bureau	www.coltrade.org
Reuters Fixing Page	CO/COL03
Finance Superintendence	www.superfinanciera.gov.co
Colombian Stock Exchange	www.bvc.com.co
Ministry of Finance	www.minhacienda.gov.co

HSBC

Costa Rican colón (CRC)

- Costa Rica's central bank, Banco Central de Costa Rica (BCCR), operates a managed band currency regime
- The CRC is convertible and deliverable onshore, but trades offshore as a non-deliverable forward
- There is a fixed floor in USD-CRC at 500, while the top of the band rises by 0.2CRC each day

The following products are available:

- Spot FX and FX forwards
- Non-deliverable forwards up to one year
- Cross-currency swaps, interest rate swaps and money market products

Spot

The spot market trades under a managed band regime. The floor is fixed at USD-CRC=500, and the offer side of the band rises at a rate of 0.2CRC daily. At the time of publication, this side of the band was above 700CRC per USD. Only parties authorized by the BCCR are allowed to participate in the market. These include all commercial banks, a number of private brokerage houses and some currency exchange firms. The interbank electronic system is called MONEX and is used by all market participants. MONEX's relative weight increased from 12% of the wholesale market in 2010 to 14% in 2011.

Forwards/FX swaps

Onshore forwards

This market has not developed yet but the BCCR issued a regulatory framework for the further development of the derivatives market. This included regulations on forwards and futures.

Offshore forwards

Although the onshore forward market has not developed, these products are available offshore in the form of non-deliverable forwards (NDFs) in tenors of up to one year. Currency and interest rates swaps are available via structured notes.

Options

There is no FX options market either onshore or offshore.

FX framework

The BCCR determines monetary and FX policy.

Exchange rate mechanism

The exchange rate trades in a band, which the central bank defends on both bid and offer sides. The BCCR intervened on the bid side of the band twice in 2010 and an average of about three times per month in 2011.

Normal market conditions

Normal market conditions

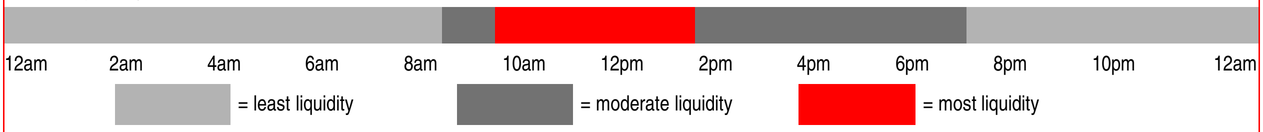
Onshore spot average daily volume	USD120m
Onshore spot transaction	USD100k
Onshore bid/ask spread	5-10CRC

Note: Spreads are subject to change with market developments
Source: HSBC

Background

- The BCCR abandoned the crawling peg regime it had administered since the 1980s, in favour of a managed band in October 2006. Thus, the bank determines a range where all institutions set their buying and selling prices against the USD.
- The central bank buys or sells USD in the interbank market (MONEX) to maintain the band.
- It has expressed intentions to move towards a fully liberalized and free floating FX regime.
- The current FX regime is part of an effort by the central bank to move towards an inflation targeting monetary policy.

Liquidity at a glance



Notes: Times are San Jose local time = GMT – 6 hours; Note interbank market works weekdays between 8.00am-4.30pm
Source: HSBC

- Currently, the exchange rate remains the sole nominal anchor for price stability, making the transition to a free-floating regime uncertain.

Repatriation & other regulations

Regulations

- The country has not imposed any restriction on capital transfers associated with investment since 1992, regardless of the currency.
- There are no restrictions on reinvestment or repatriation of profits or capital.
- Foreign exchange regulations are outlined by the central bank.
- There is no restriction on foreign ownership of any industry for companies or individuals.
- Costa Rica does offer some incentives to investors, mostly related to free trade zones.
- There are no restrictions on residents borrowing internationally, but such activity might be subject to taxes.

Repatriation

- There are no restrictions on repatriation of capital, and profits may be remitted internationally.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	5-6 Apr	Easter Thursday and Friday
	11 Apr	Juan Santamaria's Day
	1 May	Labour Day
	25 Jun	Guanacaste Day
	2 Aug	Holy Virgin Day
	15 Aug	Mother's Day
	15 Sep	Independence Day
	12 Oct	Columbus Day
	25 Dec	Christmas Day

Source: Ministry of Labour and Social Security of Costa Rica

Information sources

Central Bank of Costa Rica	www.bccr.fi.cr
Ministry of Finance Web site	www.hacienda.go.cr
HSBC Bloomberg Pages	HSCO
International Monetary Fund	http://www.imf.org
Ministry of Labour and Social Security of Costa Rica	http://www.mtss.go.cr

HSBC

Guatemalan quetzal (GTQ)

- Guatemala's central bank, Banco de Guatemala (Banguat), maintains a freely floating currency with occasional intervention to reduce volatility
- The GTQ is fully convertible, while an incipient forward market with both deliverable and non-deliverable forwards is developing
- Banguat intervenes through auctions when the exchange rate deviates from the five-day moving average by more than 0.6%

Spot

The onshore market is liquid, with a daily spot turnover of USD100m which includes commercial and interbank trades. Most spot volume is traded on SPID (Sistema de Pagos Interbancario para Divisas) which is an interbank system for FX trading. The market is open from 9:00am to 5:00pm.

Forwards

There is an incipient market for FX forwards in Guatemala. Both non-deliverable and fully deliverable forwards are available. Tenors usually do not exceed one year, with longer tenors determined on a case-by-case basis. Average daily volume does not exceed USD2.5m.

Normal market conditions

Normal market conditions

Onshore average daily spot volume	USD100m
Onshore normal spot transaction size	USD0.5m
Onshore spot bid/ask spread	150 pips (0.0150GTQ)
Average daily forward volume	USD2.5m
Average forward transaction size	USD0.75m
Onshore forward spread	1200 pips (0.1200GTQ)

Note: Spreads are subject to change with market developments
Source: HSBC

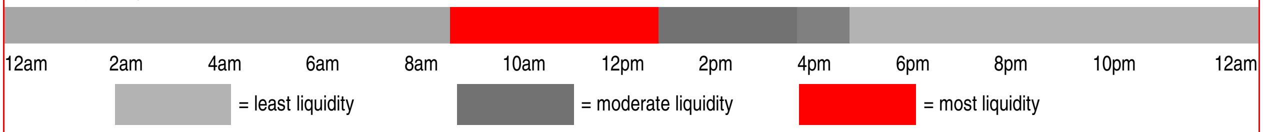
FX framework

Exchange rate mechanism

- The GTQ is a fully convertible currency.
- Guatemala's central bank executes monetary, currency and credit policy set forth by the Monetary Board.
- Banguat's main mandate is to create and maintain favourable macroeconomic conditions to promote stability. In order to achieve its goal it uses monetary policy instruments including, but not limited to, setting short-term interest rates.
- Banguat can intervene through auctions in the interbank market. Guatemala has a "dirty float" currency system where the FX rate is set by the market but Banguat can intervene only to decrease the volatility of the USD-GTQ exchange rate. However the trend of the rate cannot be modified by these interventions.
- To curb volatility, Banguat intervenes through auctions when GTQ breaches a band which is 0.6% either side of the last five trading days' moving average.
- The GTQ is traded only against the USD. Transactions to trade the GTQ against other currencies (e.g. EUR, GBP) must be crossed through the USD.
- Banguat publishes the average rate on a daily basis and that is the mandatory rate to register accounting books. This rate is published on Banguat's Web site.
- The Monetary Board meets almost on a monthly basis to set the Leading Rate (Tasa Líder), which is the main monetary policy tool.

HSBC

Liquidity at a glance



Notes: Times are Guatemala City local time = GMT – 6 hours
Source: HSBC

Regulations

General regulations

- In 2001, the Free Currency Circulation Law (Ley de Libre Negociación de Divisas) was approved. The law states that all currencies can be used in Guatemala to settle transactions as long as both parties agree to it. The central bank is not the owner of the currencies in Guatemala and the GTQ is fully convertible.
- There are no restrictions on capital repatriation but it is necessary to comply with anti-money laundering controls. This includes filling out the IVE (Intendencia de Verificación Especial) forms which are provided by a financial institution.
- There is a 3% stamp tax on dividends to foreign companies.
- There are no restrictions on inward investments and no special reporting requirements.
- Overseas financing is an option to Guatemalan incorporated companies. Interest payments are subject to a 10% withholding tax unless the following three conditions are met: (1) the financing is provided by a first order financial institution in its incorporated country; (2) the financing is used to produce cash flows in Guatemala and (3) the currency exchange is done through one of the authorized financial institutions in the country.

Spot regulations

- FX transactions must be reported to the Banguat.
- No specific taxes are in place for currency trading in Guatemala.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	5 Apr	Easter
	6 Apr	Holy Week
	1 May	Labor Day
	30 Jun	Army Day
	15 Aug	Virgin Mary Day
	15 Sep	Independence Day
	12 Oct	Columbus Day
	20 Oct	1944 Revolution Day
	1 Nov	All Saints' Day
	25 Dec	Christmas Day

Source: HSBC

Information sources

Banco de Guatemala	www.banguat.gob.gt
Ministry of Finance	www.minfin.gob.gt
Bolsa de Valores Nacional	www.bvnsa.co.gt

Honduran lempira (HNL)

- The Honduran central bank, Banco Central de Honduras (BCH), maintains control of the HNL through a daily USD auction
- Pricing for the USD auction consists of a base price and a 7% band above and below the base price, with additional limitations on volatility
- The USD auction is only available to Honduran residents and locally domiciled companies

Spot

USD purchases are undertaken on a daily basis through the central bank's USD auction. Commercial banks act as intermediaries delivering customer bids to the auction. HNL funding is requested on the day of the auction and the dollars are delivered the following day.

USD sales are also controlled by the Banco Central de Honduras (BCH). On a daily basis the central bank establishes a bid rate for the entire financial system. At the end of each business day, all USD purchased by commercial banks have to be delivered to the central bank. In this way, banks do not maintain any FX positions overnight.

Average daily volumes traded are USD65-70m.

Forwards/FX swaps

There is no market for forwards, FX swaps or options.

Normal market conditions

Normal market conditions	
Onshore average daily spot volume	USD65-70m
Onshore bid/ask spread	1330 pips (0.1330HNL)

Note: Spreads are subject to change with market developments.
Source: HSBC

FX framework

- All transactions related to the purchase or sale of USD in Honduras are regulated by the Central Bank of Honduras.
- Pricing for the USD auction consists of a base price and a 7% band, above and below the base price. Additionally bids cannot exceed the average of the previous seven days by more than 0.075%. The base price is modified by the BCH every five auctions. After six years of having a fixed rate, the currency started fluctuating in July 2011.
- The USD-HNL bid rate is set by the central bank on a daily basis.
- Retail sales up to USD10,000 are priced at the bid rate plus a 0.7% fee. Purchases exceeding the USD10,000 threshold must be transacted through the FX auction.
- Legal entities can purchase from USD10,000 up to USD1.2m per auction. Individuals can only purchase up to USD0.3m per auction. Banks are allowed to sell daily to each customer up to a maximum of USD10,000 through their branches.
- The mechanism for purchasing USD is available only to Honduran residents and locally domiciled entities.

Repatriation and other regulations

Repatriation

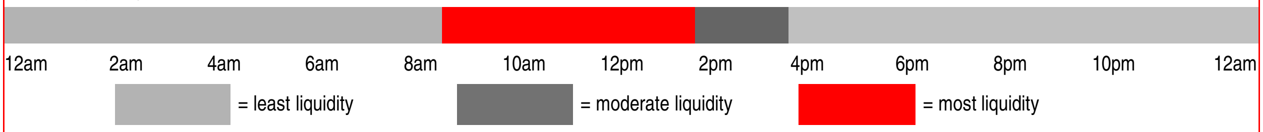
Dividends and profits

- Banks can remit dividends and profits periodically with prior authorization from the BCH. Corporate institutions have no restrictions on dividend payments.

Capital

- Corporate institutions have minimum capital requirements. Banks have minimum capital requirements and must comply with applicable capital adequacy ratios as well. There are no restrictions on capital repatriations as long as minimum requirements are met. Banks do require prior approval from the BCH regulating entity for changes in capital.

Liquidity at a glance



Notes: Time are based on Tegucigalpa local time = GMT – 6 hours
Source: HSBC

Regulations

- Honduras maintains strict controls on its currency. Despite this, local corporations and individuals are allowed to maintain foreign currency denominated accounts in the local banking system (most are in USD and to a lesser extent in EUR).
- All USD generated by exports must be reported and sold back to the BCH. This is performed through the commercial banks in the country.
- Companies and individuals are allowed to keep USD accounts abroad. However, foreign financial institutions are not allowed to take deposits from Honduran customers within Honduran territory.
- No foreign entities are allowed to purchase USDs through the daily FX auction. Foreign companies and citizens are allowed to sell USD at central bank bid rates through the commercial banks or exchange houses.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	4-6 Apr	Easter Holidays
	14 Apr	Day of the Americas
	15 Sep	Independence Day
	8 Oct	Morazan Day
	15Oct	Columbus Day
	21 Oct	Armed Forces Day
	25 Dec	Christmas Day

Source: Honduran Banking Association (subject to changes from the Central Bank)

Information sources

Central Bank Web site	www.bch.hn
Regulator Web site	www.cnbs.gov.hn
Ministry of Finance Web site	www.sefin.gob.hn

Mexican peso (MXN)

- The Foreign Exchange Commission (made up of officials from the Ministry of Finance and Central Bank) upholds a freely floating regime
- The MXN offers the only fully deliverable spot and forward market offshore in Latin America
- The MXN remains one of the more liquid EM currencies

The following products are available:

- Spot FX
- MXN futures
- Forwards out to five years
- Currency options out to five years
- Cross currency swaps out to 20 years
- Money market products

Spot

Following the global financial crisis in 2008, daily trading volumes were estimated to have dropped to around USD5-10bn. However, daily volumes have since increased considerably, back to around USD10-15bn[25]. Significant flows are also transacted in the FX swaps and forwards markets. Normal spot transactions are USD5m.

Forwards/FX swaps

The liquidity of hedging instruments has increased steadily over the last few years as Mexico's trade relationship with the international community has grown. There is a wide array of exchange-traded and over-the-counter MXN derivatives. Mexico is also the only Latin American country that operates a deliverable forward market open to non-resident investors. Liquidity in the forward market is generally good.

The most common Mexican swaps are plain vanilla interest rate swaps that exchange a fixed rate for a 28-day floating rate, normally based on the Interbank Interest Rate Average (Tasa de Interés Interbancaria de Equilibrio, "TIIE"). The TIIE is calculated daily by Banxico using quotes submitted by at least six credit institutions. Volumes have decreased from pre-2008 levels. Previously liquidity could be found up to 20 years; however, currently there is liquidity only in the 2, 5 and 10-year tenors. Currency swaps were also liquid up to 20 years before the crisis, but now liquidity is concentrated in shorter tenors.

Options

MXN options trade on a deliverable basis, with expiration at 12:30pm New York time. Similar to spot and forward markets, the option market is also quite liquid, with a normal transaction size of USD25-50m. The most liquid maturities are two years or less.

Normal market conditions

Normal market conditions

Average daily spot volume	USD10-15bn
Spot transaction	USD5-10m
Bid/ask spread	30-50 pips (0.0030-0.0050 MXN)
Average daily forward volume	USD8bn
Forward transaction	1M USD50m
Forward spread	1M 30 pips (0.0030 MXN)
	12M 100 pips (0.0100 MXN)
Implied option volatility spread	6M 0.4 vol

Note: Spreads are subject to change with market developments
Source: HSBC

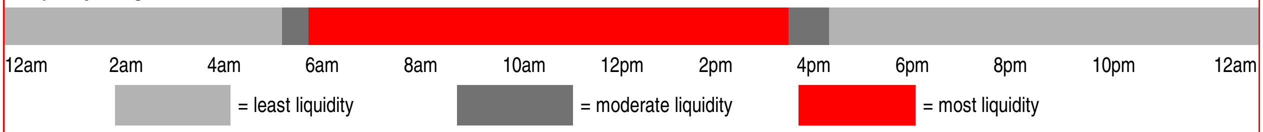
FX framework

Exchange rate mechanism

- Mexico's central bank, Banxico, was granted formal independence in 1994 and since 2001 monetary policy has been conducted under an inflation targeting regime.
- The Foreign Exchange Commission (FEC), made up of officials from the Ministry of Finance and Banxico, is responsible for foreign exchange policy in Mexico. Since late 1994, the FEC had maintained

25 HSBC estimates. The 2010 BIS survey estimates daily average turnover at USD17.0bn, compared to USD15.3bn in 2007.

Liquidity at a glance



Notes: Times are Mexico City local time = GMT – 6 hours
Source: HSBC

a freely floating FX regime. However, the FEC has implemented several measures to preserve market stability when deemed necessary, as in 1998 and 2008, at the height of global financial crises. At these times, the FEC announced new FX intervention tools due to the sharp decline in global liquidity and heightened uncertainty. However, by April 2010, when market liquidity normalized, all intervention tools were suspended.

- Until July 2008, the FEC was selling excess USD revenues from the state-owned oil company (Pemex) on a daily basis at predetermined amounts that were announced every three months. This mechanism was designed to reduce the rate of FX reserves accumulation. The mechanism was suspended to offset a reserve decline of USD8bn associated with a sale of FX to the Finance Ministry ("Hacienda").
- The authorities introduced a monthly auction of USD put options in February 2010 specifically designed to accumulate reserves and improve Mexico's credit profile. However this was suspended in late November 2011 in the wake of the MXN's significant depreciation against the USD.
- From 30 November 2011, the FEC announced it would auction USD400m per day at a USD-MXN rate that is 2% higher (i.e. a weaker MXN) than the previous day's fixing rate. In other words, the auction will only result in placements of USD to the market when the MXN has weakened by 2% or more from the previous day's central bank fix.

Repatriation and other regulations

Regulations

Currency regulations are relatively liberal with Banxico having the key responsibility for FX regulations.

Onshore-onshore

Spot

- Local regulation allows only entities registered in Mexico to trade MXN onshore.
- Local entities cannot charge fees for currency transactions when profit is earned through foreign exchange intermediation.
- Foreign residents are allowed to open MXN accounts in local banks to make transactions.

Forward, FX swaps and options

- Regulation covering derivatives is more extensive.
- All entities require the central bank's authorization to transact derivatives products.
- Local entities must satisfy the 31 requirements established in *Circular 4/2006* with regard to derivatives operations.

Offshore-onshore

Spot

- Foreign institutions are allowed to participate in spot trading of MXN.

Forward, FX swaps and options

- The Mexican Law of Ancillary Credit Activities states that only authorized Mexican foreign exchange houses and Mexican banks authorised to do so by their own regulations, are allowed to conduct FX operations such as the purchase, sale and exchange of foreign currency, including the transfer or delivery of funds. As such, this limits the ability of a foreign bank to offer or enter into MXN related derivatives with Mexican counterparties within Mexico that involves a foreign exchange transaction.
- The only exception to this is when the counterparty is a Mexican bank since the foreign bank would be considered a client of the Mexican bank.
- Foreign entities are allowed to offer onshore financing to Mexican residents, including MXN loans, FX denominated loans, and derivatives. However, funding has to come from offshore as Mexican law prohibits foreign banks from taking deposits in Mexico.

- Forwards, FX swaps, and options are regulated by ISDA (International Swaps and Derivatives Association) and a Local Master Derivatives Agreement (based on ISDA's Master Agreement).
- Foreign investors are required to sign a general contract in accordance with ISDA regulations – either the Local Master Agreement or the ISDA Agreement – when transacting derivatives. Furthermore, depending on the type of derivative (forward, swaps or options), a specific contract plus annexes/schedules to such contracts will need to be closed in addition to the general agreement.

Onshore-offshore

Spot

- Local entities are allowed to buy and sell foreign currency offshore.

Forward, FX swaps and options

- Local entities can hedge risks with foreign institutions offshore through forwards, swaps or options.
- Local entities are allowed to fund offshore through debt issuance or borrowing from abroad.

Offshore-offshore

- There are no restrictions for foreign entities to operate MXN instruments offshore.
- The market is open to spot, forward, swaps and options operations.

Repatriation

Exchange rate policy is determined by the Exchange Rate Commission, which consists of three representatives from Banxico and three from the Secretariat of Finance.

- Mexico allows for the free flow of capital across its borders.
- Export proceeds may be held in MXN or foreign currency for an indefinite amount of time.
- There are no restrictions on international borrowing for non-resident companies.
- There are no restrictions on non-residents borrowing locally.
- There are no restrictions on the repatriation of capital, although financial institutions are required to submit reports pursuant to Mexico's anti-money laundering laws.

Additional information

Holiday calendar

	Date	Event
2012	6 Feb	Constitution Day
	19 Mar	Juarez Birthday
	5 Apr	Holy Thursday
	6 Apr	Good Friday
	1 May	Labor Day
	16 Sep	Independence Day
	2 Nov	All Souls Day
	19 Nov	Mexican Revolution
	12 Dec	Our Lady of Guadalupe
	25 Dec	Christmas Day

Source: Comision Nacional Bancaria y de Valores

Information sources

Banco de Mexico	www.banxico.org.mx
Ministry of Finance	www.shcp.gob.mx
National Statistics, Geography and Informatics Institute	www.inegi.gob.mx
Banking and Securities Commission	www.cnbv.gob.mx
Bloomberg Fixing Page	MXFT Index
HSBC Pricing Pages, Reuters	HSMX01, HSMX02
HSBC Pricing Pages, Bloomberg	HSMX1, HSMX2
HSBC Dealing Reuters Code	HSMX

Peruvian nuevo soles (PEN)

- Peru has a free-floating FX rate, although the central bank, Banco Central de Reserva del Peru (BCRP), intervenes to smooth excess volatility
- A significant portion of the economy is still dollarized but this is declining
- Deliverable and non-deliverable forwards are available in both the onshore and offshore markets

The following products are available:

- Spot FX
- Deliverable and non-deliverable forwards (NDFs) out to one year, and longer tenors on a case-by-case basis
- Peruvian sovereign bonds in USD and local currency
- Cross-currency swaps (CCS) up to five years on a case-by-case basis

Spot

The local FX market is open between 9:00am and 1:30pm (local time), but quoting starts at 8:30am with very limited liquidity. Average spot daily traded volume has increased to USD1.3bn, although the market is not particularly deep due to a limited number of participants and high level of dollarization of the economy.

Forwards

In Peru, the onshore market consists of deliverable forwards and NDFs. While the offshore market is mainly traded via NDFs, deliverable forwards are negotiable. The most liquid maturities are those with tenors of up to one year, especially the shorter maturities up to three months. Forwards between one and two years are negotiable on a case-by-case basis depending on the liquidity of the market, which is usually low. Total forward volume has increased to about USD250-350m per day.

Options

Non-deliverable options are available in New York.

Normal market conditions

Normal market conditions

Onshore average daily spot volume	USD1.3bn
Onshore spot transaction	USD5m
Onshore bid/ask spread	30 pips (0.0030 PEN)
Onshore average daily forward volume	USD175m
Onshore forward transaction	USD5m
Onshore forward spread	1M 50 pips (0.0050 PEN)
Offshore average daily NDF volume	USD175m
NDF transaction	USD5m
NDF spreads	1M 10 pips (0.0010 PEN)
Implied option volatility spread	2.5 vol (USD10m)

Note: Spreads are subject to change with market developments
Source: HSBC

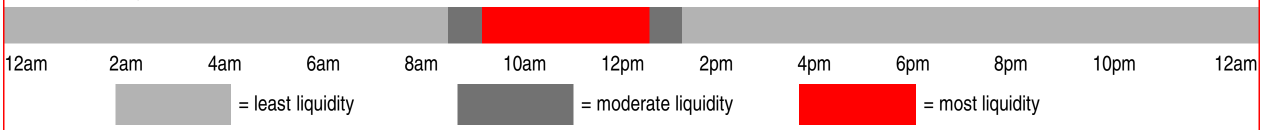
FX framework

The BCRP intervenes in the FX market to prevent any excess volatility in the PEN FX rate by buying/selling USD and/or selling short-term central bank CDs linked to the FX rate (CDRs/CDLD). The main objective of the intervention is to reduce FX volatility. Given the still high degree of financial dollarization in the economy, heightened FX volatility can negatively impact economic activity through balance sheet effects. The BCRP does not specifically target any particular USD-PEN level, as this would be inconsistent with its inflation targeting regime, and could encourage the use of foreign currency assets or liabilities.

Fixing mechanism

The fixing rate (the mid point between the bid and offer) is published on Reuters page PDSC at 11.00am local time. However, offshore counterparties use the fixing rate published by the local regulator on its Web site at the end of the day. Contracts are settled two working days after the fixing.

Liquidity at a glance



Notes: Times are based on Lima local time = GMT – 5 hours
Source: HSBC

Repatriation and other regulations

There is full convertibility with no restrictions on trading FX. Non-national investors can hold either PEN or USD-denominated accounts onshore.

- When faced with strong appreciation pressures in the past, the BCRP has introduced measures to contain capital inflows. The primary objective, however, remains volatility management.
- The BCRP has increased the marginal reserve requirement on PEN deposits by foreigners to as high as 120% and for USD deposits as high as 60%. Both measures are aimed at tightening liquidity, a reversal of the loosening seen during the global financial crisis.
- The regulatory limit for FX holdings among local banks is long USD 60% of net equity and short USD 15% of net equity. The measure seeks to maintain low volatility in times of market distress.
- Any settlement of any derivative contracted between a local bank and an offshore counterparty with a maturity of 60 days or less, carries a 30% tax. This tax is withheld by the local bank and delivered to the local tax authority. This measure applies to any offshore counterparty from a country without a double taxation treaty with Peru.

Additional information

Holiday calendar

	Date	Event
2012	5 Apr	Holy Thursday
	6 Apr	Good Friday
	1 May	Labour Day
	29 Jun	St. Peter and Paul
	30 Aug	St. Rose of Lima
	8 Oct	Combat of Angamos
	1 Nov	All Saints' Day
	25 Dec	Christmas Day

Source: HSBC

Information sources

Banco Central de Reserva del Peru	www.bcrp.gob.pe
Ministry of Economy and Finance	www.mef.gob.pe
Reuters Fixing Page	PDSC
Bloomberg Fixing Page	PEN Curncy DES <GO>
Superintendencia de Banca y Seguros	www.sbs.gob.pe

HSBC

Uruguayan peso (UYU)

- Banco Central del Uruguay (BCU) allows the UYU to trade freely; however, BCU maintains the right to intervene when necessary
- Offshore, UYU forwards generally trade on a non-deliverable basis, but deliverable forwards can also be traded on a case-by-case basis
- BCU manages monetary policy by managing liquidity via the FX repo markets, money markets or through Monetary Regulatory Bills issuance

The following products are available onshore and offshore:

- Spot FX
- Deliverable and non-deliverable forwards
- Sovereign and corporate bonds (domestic and global), issued in multiple currencies

Spot

The interbank market in USD-UYU generally trades with a minimum bid-ask spread of UYU0.05 and the standard minimum transaction size is USD100,000. The interbank market is open from 10:00am to 4:00pm.

Most interbank deals are done via the Electronic Market, but the over-the-counter (OTC) market still exists with limited liquidity.

Forwards/FX swaps

Offshore, UYU generally trades on a non-deliverable forward (NDF) basis, although deliverable forwards can also be traded on a case-by-case basis. Locally, NDF and OTC forwards are also traded on a case-by-case basis.

From November 2009, BCU implemented a new formal (through an electronic exchange) USD-UYU onshore forward market. Maturities from one month to one year are traded, and the exchange will help to generate a transparent forward curve. Normal quotes are in tranches of USD0.25m, but smaller amounts can be traded.

Normal market conditions

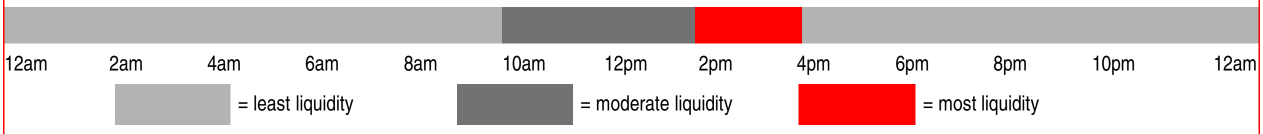
Normal market conditions	
Onshore average daily spot volume	USD20m
Onshore spot transaction	USD0.3m
Onshore bid/ask spread	5 pips (0.05UYU)
Onshore average daily forward volume	USD5m
Onshore forward transaction	USD0.25m
Onshore forward spread	10 pips (0.10UYU)
NDF transaction	USD0.1m
NDF spreads	15 pips (0.15UYU)

Note: Spreads are subject to change with market developments.
Source: HSBC

FX framework

- The BCU is responsible for monetary policy with the objective of preserving the value of the local currency.
- BCU applies an inflation targeting regime. The short-term reference rate is then the main tool of monetary policy. COPOM (Comité de Política Monetaria) determines the official rate level at its regular meetings, which are held once every three months (usually March, June, September and December).
- The FX market operates a flexible exchange rate regime (since June 2002) with occasional interventions by BCU to reduce the volatility of the exchange rate and to maintain an adequate level of international reserves.
- BCU manages intraday UYU liquidity by daily auctions of monetary regulation bills (MRBs) and short-term CDs.
- There are no restrictions for quoting USD-UYU.
- Normally, spot UYU settles T+0 onshore and T+2 offshore.

Liquidity at a glance



Notes: Times are based on Montevideo local time = GMT – 2 hours
Source: HSBC

Repatriation and other regulations

- There are no restrictions on buying or selling foreign exchange by residents or non residents.
- There are no bid-ask spread limits for quotes to clients.
- The UYU rate is set daily by BCU at the close of business, as a weighted average of daily trades in the Electronic Exchange Market.
- No FX options are available for UYU.
- There are no currency controls or legal restrictions on capital flows.
- There are no restrictions on the repatriation of capital and earnings. However, there is still a strict bank secrecy regulation. Banks are not allowed to give information about their depositors, except by court order.
- Visitors and residents are required to complete a customs form on entry to the country detailing incoming cash over USD10,000 in value.
- There are no limits for wire transfers in foreign currency.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year´s Day
	6 Jan	Epiphany
	20 Feb	Carnival
	21 Feb	Carnival
	5 Apr	Holy Thursday
	6 Apr	Good Friday
	23 April	Landing of 33 Orientales
	1 May	Labour Day
	21 May	Battle of Las Piedras
	19 Jun	José Artigas Birthday
	18 Jul	Constitution Day
	25 Aug	Independence Day
	15 Oct	Columbus Day
	2 Nov	All Souls´ Day
	25 Dec	Christmas Day

Source: HSBC

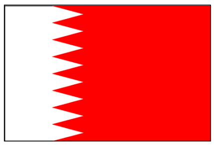
Information sources

Banco Central del Uruguay	www.bcu.gub.uy
Ministry of Economics and Finance	www.mef.gub.uy

Europe, Middle East and Africa

HSBC

Bahraini dinar (BHD)



- The Central Bank of Bahrain (CBB) maintains a USD peg
- The BHD is fully convertible and deliverable
- The BHD has been pegged to the USD since 1980

The following products are available:

- Spot FX onshore
- Spot FX offshore
- FX forwards quoted out to five years; liquid out to one year

Spot

The market for the BHD is sufficiently liquid to meet the demand for commercially driven transactions, which form the majority of trades in the currency.

Forwards

Forwards are quoted out to five years, but are only liquid out to one year.

Normal market conditions

Normal market conditions

Onshore average daily spot volume	USD300m
Onshore spot transaction	USD15m
Onshore bid/ask spread	5 pips (0.00005BHD)
Onshore average daily forward volume	USD100m
Onshore forward spread	1M 1 pip (0.00001BHD) 12M 15pips (0.00015BHD)
Offshore average daily volume	USD200m

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

- The Central Bank of Bahrain is responsible for maintaining the value of the BHD, and endeavours to ensure monetary stability.
- The BHD has been pegged to the dollar since 1980 at BHD0.37700:USD1. The CBB buys USD at BHD0.37500 and sells USD at BHD0.37700.
- There is no clearing on Friday and Saturday.

Repatriation and other regulations

The BHD is fully convertible, with no restrictions on foreign exchange.

Additional information

Holiday calendar

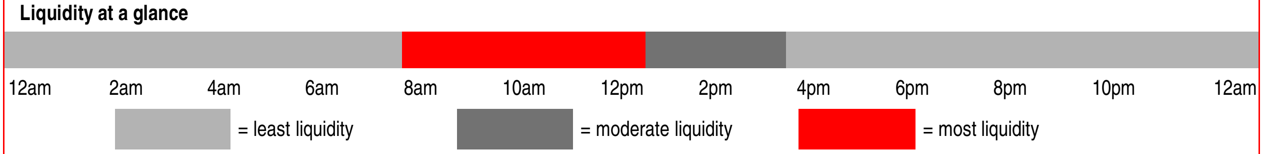
	Date	Event
2012	1 Jan	New Year's Day
	4 Feb	The Prophet's Birthday
	1 May	Labour Day
	19 Aug	Eid al-Fitr
	26 Oct	Eid al-Adha
	15 Nov	Islamic New Year
	24 Nov	Ashoura
	16-17 Dec	National Day

Notes: Some holidays are dependent on Lunar sightings and may differ slightly from the date given. Certain holidays may last for more than one day. Weekends are Fridays and Saturdays
Source: www.ameinfo.com, Bloomberg

Information sources

Bahrain Monetary Agency	www.bma.gov.bh
Bahrain Economic Development Board	www.bahrainedb.com

Liquidity at a glance



Notes: Times are based on Bahrain local time = GMT + 3 hours
Source: HSBC

Croatian kuna (HRK)

- The Croatian National Bank (CNB) maintains a managed floating exchange rate regime
- The HRK is fully convertible and deliverable
- The HRK has generally traded in a narrow band against the EUR

Spot and forwards out to one year are largely available.

Spot FX

The HRK is freely convertible and trades mostly against the EUR. Liquidity is relatively good when the local market is open.

Forwards

The forward market is fairly liquid, although liquidity and rates are very dependent on local conditions. Central bank operations in the local market have a big effect on these factors.

Normal market conditions

Normal market conditions

Average daily spot volume	EUR150m
Spot transaction	EUR2-3m
Bid/ask spread	20-30 pips (0.0020-0.0030HRK)
Average daily forward volume	EUR150-350m
Forward transaction	EUR2-3m
Forward spread	3M 300pips (0.0300HRK) 12M 1500pips (0.1500HRK)

Note: Spreads are subject to change with market developments.
Source: HSBC

FX framework

- The CNB is responsible for defining and implementing monetary and foreign exchange policies, managing foreign reserves, issuing banknotes and regulating the banking system. Its main objective is to maintain price stability.
- The CNB intervenes occasionally in an attempt to maintain relative stability of EUR-HRK. The latter is of critical importance for financial and economic stability as the country is highly "euro-ised" and prices are very sensitive to exchange rate fluctuations.
- EU accession is one of the main strategic priorities. Croatia has been a candidate country for European Union (EU) membership since June 2004 and is expected to join in July 2013.

Repatriation and other regulations

- There are no restrictions on repatriating profits.
- Local corporates are prevented from trading offshore.

Additional information

Holiday calendar

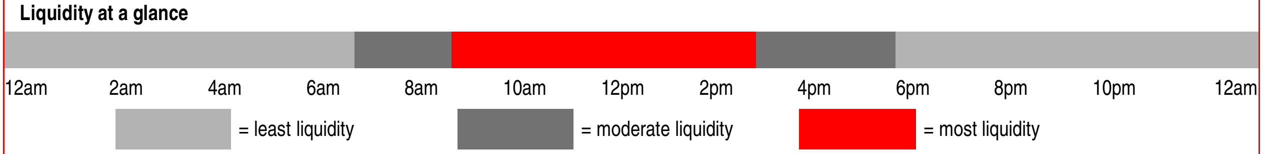
	Date	Event
2012	1 Jan	New Year's Day
	6 Jan	Epiphany
	9 Apr	Easter Monday
	1 May	Labour Day
	22 Jun	Anti-Fascism Day
	25 Jun	Statehood Day
	5 Aug	Thanksgiving
	15 Aug	Assumption Day
	8 Oct	Independence Day
	1 Nov	All Saint's Day
	25 Dec	Christmas Day
	26 Dec	St Stephen's Day

Source: HSBC

Information sources

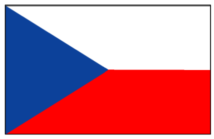
Croatian National Bank	www.hnb.hr
Ministry of Finance	www.mfin.hr/en

Liquidity at a glance



Notes: Times are based on Zagreb local time = GMT + 1 hour
Source: HSBC

Czech koruna (CZK)



- The Czech National Bank (CNB) maintains a freely floating exchange rate
- The CZK is fully convertible
- The Czech Republic joined the EU in 2004, although there is currently no official target date set for entering the Eurozone

The following products are available:

- Spot FX
- Forwards out to ten years
- Options out to five years

Spot FX

Daily spot turnover is estimated at around EUR1.5bn, and there is good liquidity during the day in EUR-CZK. The market is open from 7.30am to 5:00pm, and there are a few major local market makers. CZK is mainly traded against the EUR and USD, a range of crosses including against the GBP, CHF and PLN are also traded.

Forwards/FX swaps

Daily swaps turnover is estimated at USD6bn, with the best liquidity in tenors of two years or less. Swap prices may be quoted to ten years, including caps, floors and swaptions. The fixing rate is either the 3m or 6m Prague Interbank Offered Rate (PRIBOR). CZK forwards can be priced as far out as ten years. Forward rate agreements (FRAs) out to two years are also available.

Options

The options market is generally liquid, with the best liquidity in EUR-CZK options of one year or less. Liquidity in USD-CZK options is lower. Options expire at 10am, New York time. Both vanilla and exotic options are offered. The maximum tenor offered is five years and the average daily turnover is around EUR350m.

Normal market conditions

Normal market conditions

Average daily spot volume	EUR1.5bn
Spot transaction	EUR5-10m
Bid/ask spread	10 pips (0.010CZK)
Average daily forward volume	USD6bn
Forward transaction	USD30m
Forward spread	3M 15 pips (0.015CZK)
	12M 50 pips (0.050CZK)
Average daily option volume	EUR350m
Option transaction	EUR6-7.5m
Implied option volatility spread	1M 1.0%

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

The CNB is responsible for maintaining exchange rate stability and bank supervision. The Ministry of Finance also has jurisdiction over foreign exchange policy and financial markets.

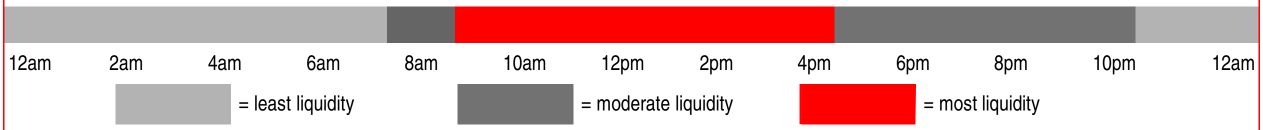
The CNB is an independent body whose governor is appointed by the president for a six-year term. The CNB maintains the right to intervene in the currency market. In the event of a monetary emergency, the power to implement a rapid response is turned over to the cabinet.

The Czech government has enacted several pieces of legislation geared towards encouraging foreign investment into the country. Incentives are offered to firms on a case-by-case basis.

Repatriation and other regulations

- The currency is fully convertible and there are no restrictions on remitting capital abroad, once all applicable taxes have been paid.
- There are no restrictions on firms borrowing locally or internationally.
- Firms are not required to exchange foreign currency earned on exports.

Liquidity at a glance



Notes: Times are based on Prague local time = GMT + 1 hours
Source: HSBC

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	9 Apr	Easter Monday
	1 May	Labour Day
	8 May	Liberation Day
	5 Jul	Saints Cyril and Methodius
	6 Jul	Jan Hus
	28 Sep	Day of Czech Statehood
	28 Oct	Independence Day
	17 Nov	Day of Fight for Freedom
	24 Dec	Christmas Eve
	25 Dec	Christmas Day
	26 Dec	Second Day of Christmas

Source: Bloomberg, HSBC

Information sources

Czech National Bank	www.cnb.cz
Ministry of Finance	www.mfcr.cz

HSBC

Egyptian pound (EGP)

- The Central Bank of Egypt (CBE) operates a managed floating currency regime
- Foreign exchange transactions may only be conducted through authorised banks and currency dealers
- Banks are the only entities allowed to transfer currency out of the country

Spot FX

A reasonably liquid onshore market exists which can support commercial transactions.

Forwards/FX swaps

Forwards are only available for up to one year to cover documentary credits and letters of credit opened with the bank and for fixed date profit repatriation. The EGP trades offshore, most usually as a USD-settled non-deliverable forward (NDF). Liquidity used to be up to USD50m per day but this has fallen with increasing concerns about the onshore political situation.

Normal market conditions

Normal market conditions

Onshore average daily spot volume	USD450m
Onshore spot transaction	USD20m
Onshore bid/ask spread	20 pips (0.0020EGP)
Onshore average daily forward volume	USD50m
Onshore forward transaction	USD10m
Onshore forward spread	1M 200 pips (0.0200EGP) 12M 1800 pips (0.1800EGP)
Offshore average daily NDF volume	USD5-20m
Offshore NDF transaction	USD5-10m
Offshore NDF spread	1M 300 pips (0.0300EGP) 12M 3000 pips (0.3000EGP)

Note: Spreads are subject to change with market developments. Source: HSBC

FX framework

In January 2003, the CBE removed the managed currency pegging system and replaced it with a managed floating currency regime. Since late 2010, it appears that the CBE has been prepared to tolerate higher levels of market-driven volatility than previously. There is no FX clearing on Friday or Saturday.

Repatriation and other regulations

- The EGP is partially convertible and deliverable.
- EGP transactions with local banks are permitted for underlying commercial transactions only.
- Offshore banks can place EGP funds in current accounts with local banks with no withholding tax, provided that they have sold foreign currency through that bank.
- Offshore banks may only buy/sell EGP through their nostro agents.

Additional information

Holiday calendar

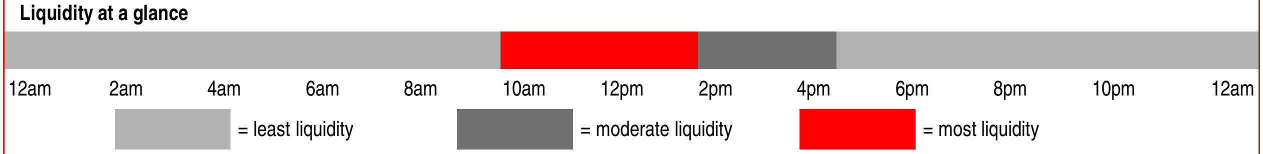
	Date	Event
2012	9 Jan	Coptic Christmas
	4 Feb	The Prophet's Birthday
	16 Apr	Sham el Nessim – Coptic Easter
	25 Apr	Sinai Liberation Day
	1 May	Labour Day
	23 Jul	Revolution/ National Day
	19 Aug	Bairam Feast (Eid al Fitr)
	6 Oct	Armed Forces Day
	26 Oct	Eid al Adha
	15 Nov	Islamic New Year

Note: Some holidays are dependent on Lunar sightings and may differ slightly from the date given. Certain holidays may last for more than one day. Weekend is Friday and Saturday. Source: Bloomberg, HSBC

Information sources

Ministry of Foreign Trade	www.mfti.gov.eg
Central Bank of Egypt	www.cbe.org.eg

Liquidity at a glance



Notes: Times are based on Cairo local time = GMT + 2 hours. Source: HSBC

Hungarian forint (HUF)

- National Bank of Hungary (MNB) maintains a freely floating currency
- The HUF is fully convertible, most commonly trading against the EUR
- Hungary joined the EU in 2004 but accession into the EMU is yet to be decided

The following products are available:

- Spot FX
- Forwards out to five years
- FX options

Spot FX

With its capital account having become fully convertible in 2001, the Hungarian market enjoys improved liquidity. Estimated average daily spot turnover is between EUR1.5bn and EUR2bn.

Forwards/FX swaps

Since 2001, HUF has traded on a deliverable basis, having previously traded offshore via NDFs. The forward market is commonly quoted against both the USD and EUR, with tenors available out to five years. Tenors of one year or less provide the best liquidity. Exchange-traded futures are available in Budapest.

Options

The best liquidity is in options of one year or less, but options can be traded out to seven years. Vanilla and exotic options are available, mostly against EUR. The standard ticket size is around EUR50m, and average daily turnover is estimated at EUR800m.

Normal market conditions

Normal market conditions

Average daily spot volume	EUR1.5-2.0bn
Spot transaction	EUR5-10m
Bid/ask spread	20 pips (0.20HUF)
Average daily forward volume	<1m EUR3.5-4bn >1m EUR0.75bn
Forward transaction	EUR30m
Forward spread	3M 10pips (0.10HUF) 12M 30pips (0.30HUF)
Average daily options volume	EUR800m
Option transaction	EUR50m
Implied option volatility spread	1M 0.7%

Note: Spreads are subject to change with market developments. Source: HSBC

FX framework

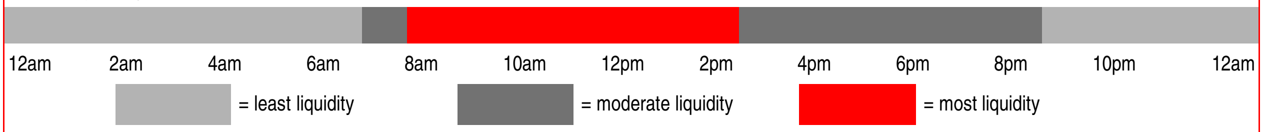
Exchange rate mechanism

- Hungary scrapped its currency trading bands on 25 February 2008 and now maintains a freely floating currency.
- The HUF is fully convertible, most commonly trading against the EUR but also against the USD.
- Monetary policy is established by the MNB and, within the MNB, the Monetary Council is responsible for implementing policy.
- Hungary joined the EU in 2004.

Repatriation and other regulations

- The MNB and the Ministry of Finance removed all restrictions on foreign exchange transactions for both residents and non-residents in 2001.
- All entities capable of establishment under Hungarian law may freely use Hungarian and foreign currency in their legal transactions or activities. In other words, local firms may hold the HUF in overseas accounts and foreign currency in local accounts.
- There are no restrictions on remitting profits, capitals or dividends, or on international borrowing.

Liquidity at a glance



Notes: Times are based on Budapest local time = GMT + 1 hours
Source: HSBC

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	15 Mar	National Holiday
	9 Apr	Easter Monday
	1 May	Labour Day
	28 May	Whit Monday
	20 Aug	St Stephen's Day
	23 Oct	National Holiday
	1 Nov	All Saints' Day
	25 Dec	Christmas Day
	26 Dec	Christmas Holiday

Source: Bloomberg, HSBC

Information sources

National Bank of Hungary	english.mnb.hu
Ministry of Finance	www2.pm.gov.hu

Israeli shekel (ILS)

- The Bank of Israel (BOI) oversees a freely floating currency with sporadic intervention at times of disorderly market conditions
- Local banks must hold 10% reserve requirements for all ILS FX linked derivatives conducted with offshore counterparties, creating separate onshore and offshore FX Forward curves
- New reporting requirements to the BOI have been imposed on offshore investors for ILS FX linked transactions and local debt

The following products are available:

- Spot FX
- Forwards and cross currency swaps out to five years
- FX options out to five years, including both vanilla and complex products
- Bonds, T-bills and ILS based interest rate derivatives out to ten years

Spot FX

The spot market is fairly liquid with transactions of USD50m now common. Liquidity decreases on Fridays when banks in the country close early for the Sabbath.

Forwards/FX swaps

Deliverable forwards are available out to five years. Liquidity is good with an estimated daily volume of USD2bn.

A fairly liquid interest rate swaps market exists and these generally pay a fixed rate against the floating 3m Tel Aviv Inter-Bank Offered Rate (TELBOR).

Options

Options out to five years are available. Liquidity is good with an estimated daily volume of USD350m. The average size of a typical transaction is USD20-50m.

Bonds, T-bills and IR derivatives

A full range of interest rates products is available, including trading in Israeli government bonds, central bank T-bills, interest rate swaps (IRS) and forward rate agreement (FRA). However new taxation rules have been imposed on offshore transaction in short-term debt instruments (BOI T-bills and Government IL-T-Bills) issued with less than 13 months to maturity.

Normal market conditions

Normal market conditions	
Onshore average daily spot volume	USD1.5-2bn
Onshore spot transaction	USD10-50m
Onshore bid/ask spread	30-60 pips (0.0030-0.0060ILS)
Onshore average daily forward volume	USD2bn
Onshore forward transaction	USD25-50m
Onshore forward spread	5-25 pips (0.0005-0.0025ILS)
Offshore average daily volume	USD600m
NDF transaction	USD10-USD100m
NDF spreads	10-30 pips (0.0010-0.0030ILS)
Average daily option volume	USD350m
Option transaction	USD20-50m
Implied option volatility spread	0.40% for all dates

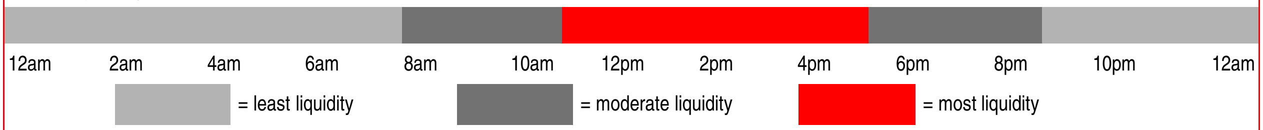
Note: Spreads are subject to change with market developments
Source: BOI and HSBC

FX framework

There are currently no exchange controls in Israel. Daily spot turnover is estimated at USD1.5-2bn between onshore and offshore.

The BOI is responsible for monetary policy and currency management. In 2005, the BOI ended the use of an exchange rate band and freely floated the ILS. This shift in the currency regime rescinded the BOI's authority to intervene in the market. In March 2008, however, the BOI announced a daily FX purchase scheme to boost reserves by up to USD10bn, to USD35-40bn in total. This target was later revised and finally removed in August 2009 when BOI moved to a sporadic method of intervention when fluctuations in the exchange rate "do not match the fundamental

Liquidity at a glance



Notes: Tel Aviv local time = GMT + 2 hours;
Source: HSBC

underlying economic forces". Foreign exchange reserves surged from August 2009 to August 2011 by nearly USD30bn. BOI intervention is now generally quite sporadic.

The BOI also moved to slow short-term FX flows by imposing two macro-prudential measures in early 2011: a 10% reserve requirement on FX derivative transactions by non-residents and requiring non-residents to fill out a 20-page form reporting FX activity above USD10m. Complementary to the above, the MOF has introduced a capital gains and withholding tax on transactions on local short term debt.

Repatriation and other regulations

Other than these recent macro-prudential measures, Israel is fairly open to investment inflows. In general, there are no distinctions made between resident and non-resident investors. Firms seeking to make capital investments in industry or tourism in Israel can apply for the status of "Approved Enterprise" through the Israel Investment Centre (IIC), which is a part of the Ministry of Industry, Trade and Labor. This status qualifies a firm for grants and tax exemptions. Israel has free trade area agreements with several markets, including the US and EU.

- There are no restrictions on Israeli citizens investing abroad.
- There are no restrictions on local residents or firms borrowing internationally.
- There are no restrictions on holding foreign currency in onshore accounts or on holding ILS in offshore accounts.
- Public sector contracts may require local content provision.
- Companies must establish a local subsidiary to receive 'Approved Status'; a branch will not qualify.
- International investors are required to report daily activity in ILS FX markets and debt transactions to the BOI.

Additional information

Holiday calendar

Holiday calendar

	Date	Event
2012	8 Mar	Purim
	6 Apr	Passover (begins)
	8-12 Apr	Hol Hamoed Passover
	13 Apr	Passover (ends)
	25 April	Memorial Day
	26 April	Independence Day
	27 May	Shavuot
	29 Jul	Fast of Tishah-B'Av
	16-18 Sep	Rosh Hashanah
	26 Sep	Yom Kippur
	1-6 Oct	Sukkot

Source: HSBC

Information sources

Bank of Israel	www.bankisrael.gov.il
Ministry of Finance	www.mof.gov.il
Ministry of Industry: Trade and Labor	www.moital.gov.il
Tel Aviv Stock Exchange	www.tase.co.il

Jordanian dinar (JOD)

- Officially, the Central Bank of Jordan (CBJ) pegs the JOD against a basket of currencies, but in reality appears to operate a USD peg
- The JOD is convertible and deliverable
- There is no clearing on Friday and Saturday

The following products are available:

- Spot FX onshore and offshore
- FX forwards out to six months
- Forward trades to one year are available on request

Spot

The JOD is fully convertible in the spot market. Although onshore banks cannot lend JOD to offshore banks, offshore banks can lend JOD deposits to onshore banks without paying withholding tax. JOD is relatively illiquid and transactions tend to be commercially based.

Forwards

The JOD forward market is thin and illiquid and rarely trades. However, forwards can be quoted out to three years, with the largest transactions up to USD10m.

Swaps

Onshore banks can trade FX swaps on both sides within Jordan and with offshore banks.

Normal market conditions

Normal market conditions

Onshore average daily spot volume	USD180m
Onshore spot transaction	USD10m
Onshore bid/ask spread	20 pips (0.0020JOD)
Onshore average daily forward volume	USD20m
Onshore forward transaction	USD10m
Onshore bid/ask forward spread	20 pips (0.0020JOD)
Offshore average daily volume	USD20m

Note: Spreads are subject to change with market developments.
Source: HSBC

FX framework and regulations

The CBJ was established in 1959. It was given the responsibility of maintaining monetary stability, ensuring the convertibility of the JOD, and promoting sustained economic growth. The JOD has been officially pegged to a basket of currencies since May 1989, although since 1996 it has been stable at JOD0.7090:USD1. Onshore banks can sell and buy USD with the CBJ at its official rates of JOD0.7080 and JOD0.7100 (minimum amount of JOD1m). There is no clearing on Friday and Saturday.

Repatriation and other regulations

- JOD is a fully deliverable currency and there are no regulations on repatriation.

Additional information

Holiday calendar

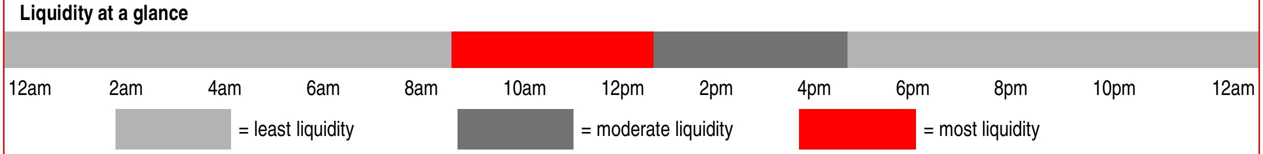
	Date	Event
2012	1 Jan	New Year's Day
	4 Feb	Prophet's Birthday
	6 Apr	Good Friday
	9 Apr	Easter Monday
	1 May	Labour Day
	25 May	Independence Day
	17 Jul	Prophet's Ascension
	19 Aug	Eid al-Fitr
	26 Oct	Eid al-Adha
	15 Nov	Islamic New Year
	25 Dec	Christmas

Note: Some holidays are dependent on Lunar sightings and may differ slightly from the date given. Certain holidays may last for more than one day. Weekends are Fridays and Saturdays.
Source: HSBC, http://www.ameinfo.com

Information sources

Central Bank of Jordan	www.cbj.gov.jo
Ministry of Finance	www.mof.gov.jo

Liquidity at a glance



Notes: Times are Jordan local time = GMT + 3 hours. Source: HSBC

HSBC

Kazakh tenge (KZT)

- The National Bank of Kazakhstan (NBK) keeps the KZT tightly pegged to the USD despite the abolition of the formal band of USD-KZT127.5–165.0
- However, the NBK may allow more KZT flexibility in the future
- The domestic FX market trades mainly in spot, while offshore forwards are quite liquid out to two years

The following products are available:

- Spot FX
- FX forwards (deliverable/NDF)
- FX options (plain vanilla)[26]
- Interest rate swaps
- Cross currency swaps[27]
- Term deposits

Spot FX

The domestic KZT FX market mainly trades spot, with settlements dates T+0, T+1 and T+2. Traditionally, spot has traded mainly with value today and value tomorrow settlements. Volume is split approximately in half between OTC (including non-residents) and exchange-traded deals.

Forwards/FX swaps

Onshore forwards and swaps are generally short-term with liquidity up to one week, while the offshore market, which trades mainly via non-deliverable forwards (NDF), is fairly liquid up to two years, with some occasional trades being observed out to five years.

FX Options

The FX Options market is under developed, but can be priced on request. Due to the increased volatility of USD-KZT the product demand is expected to grow.

Normal market conditions

Normal market conditions	
Onshore average daily spot volume	USD300-500m
Onshore spot transaction	USD5-10m
Onshore bid/ask spread	3-5 pips (0.03KZT)
Onshore forward transaction	USD5-10m
Offshore average daily volume	USD100-200m
NDF transaction	USD10-20m
NDF spread	14-40 pips (0.15-0.40KZT)
Implied option volatility spread	2%

Note: Spreads are subject to change with market developments. Source: HSBC

FX framework

There is a two-tier banking system in Kazakhstan consisting of the NBK and commercial banks. The Development Bank of Kazakhstan has a special legal status and is an exception. The NBK is accountable to the President of the Republic of Kazakhstan. The primary goal of the NBK is to ensure price stability in Kazakhstan.

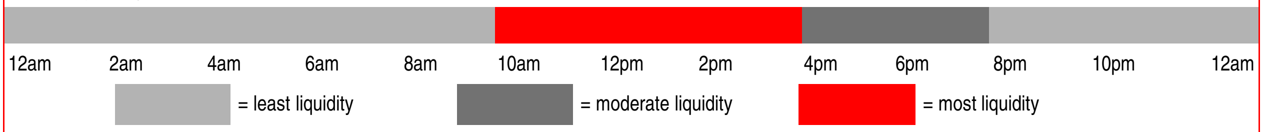
At the start of 2004, the NBK handed over the financial market regulation function to the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial organizations (FSA). However, that decision was overturned and in April 2011 FSA was disbanded and responsibilities were transferred back to the NBK.

The NBK also monitors KZT-RUB and the real effective exchange rate for its exchange rate policy actions. On 28 February 2011 the USD-KZT band was removed. Yet in practice, the NBK has been supporting an almost fixed exchange rate in the range of KZT144-150.

26 Will be available soon.

27 Cross-border liquidity in cross currency swaps has been thin prior to publication, but we expect this activity to pick up in time.

Liquidity at a glance



Notes: Time is based on Astana local time = GMT + 6 hours
Source: HSBC

Repatriation and other regulations

- There are no restrictions on KZT convertibility; however, local legal entities must state their aim for buying foreign currency, for statistical purposes.
- Non-resident legal entities must state their aim for conducting FX transactions that involve the KZT, however those funds may be used for other purposes.
- All legal entities can conduct FX transactions, but only with authorised banks.

Additional information

Holiday calendar

	Date	Event
2012	1-2 Jan	New Year
	7-8 Jan	Orthodox Christmas
	9-10 Jan	No settlement
	8 Mar	Women's Day
	21-23 Mar	Nauryz Holiday
	1 May	Unity Day
	2 May	No settlement
	9 May	Victory Day
	6 Jul	Capital Day
	30 Aug	Constitution Day
	16-17 Dec	Independence Day
	19 Dec	No settlement

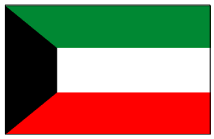
Source: Bloomberg, HSBC

Information sources

National Bank of Kazakhstan	www.nationalbank.kz
Ministry of Finance	www.minfin.kz
Kazakhstan Stock Exchange	www.kase.kz
Government of Kazakhstan	www.egov.kz
FSA	www.afn.kz

HSBC

Kuwaiti dinar (KWD)



- The Central Bank of Kuwait (CBK) maintains the KWD against a basket of currencies
- The KWD is fully convertible in the spot market
- There is no clearing on Fridays or Saturdays

The following products are available:

- Spot FX onshore and offshore
- FX forwards out to seven years

Spot

KWD is fully convertible in the spot market although the CBK has imposed restrictions on onshore banks seeking to cover spot trades with offshore banks at their daily fix.

Forwards

The onshore forward market is thin and trades out to six months. There is a liquid offshore market out to one year. Maturities of up to seven years are available on request.

Options

Trade in KWD options is rare. Options are usually traded versus the USD, with a standard transaction size of USD10m and a maximum tenor of two years.

Normal market conditions

Normal market conditions

Onshore average daily spot volume	USD200m
Onshore spot transaction	USD10m
Onshore bid/ask spread	20 pips (0.00020KWD)
Onshore average daily forward volume	USD300m
Onshore forward transaction	6m USD25m
Onshore forward spread	1M 5 pips (0.00005KWD) 12M 30 pips (0.00030KWD)
Offshore average daily volume	USD300m

Note: Spreads are subject to change with market developments.
Source: HSBC

FX framework

The CBK is responsible for monetary policy, including the management of the exchange rate. Following its formation in 1969, the CBK set the value of the KWD against a basket of currencies. At the start of 2003 it switched to a USD peg at KWD0.29963:USD1 with a ±3.5% band (KWD0.28914-0.31011), to align Kuwait with the other Gulf States, in preparation for the planned introduction of a single currency in 2010. However, this deadline has now passed without the project coming to fruition. There is no clarity on a new timeframe for the plans.

In May 2007, the CBK reverted to a currency basket regime, which began trading at a rate of KWD0.28806. The composition of the basket has not been disclosed but it is USD-heavy and officials report that it reflects Kuwait's trade and capital account flows. CBK typically sets the value of USD-KWD at the start of the day (8am local time) although there are occasional intra-day adjustments.

There is no clearing on Friday and Saturday.

Repatriation and other regulations

- KWD is a deliverable currency.
- There are no restrictions on foreign exchange and repatriation for offshore trades.
- Onshore banks cannot trade KWD FX swaps or outright forwards with offshore banks.

Additional information

Holiday calendar

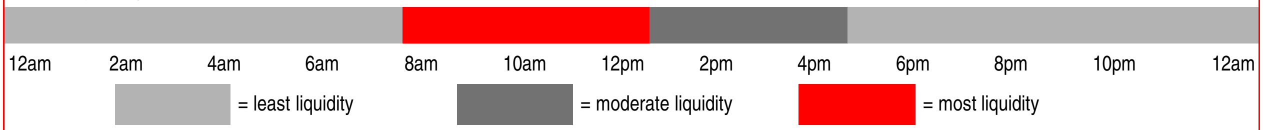
	Date	Event
2012	1 Jan	New Year's Day
	4 Feb	The Prophet's Birthday
	25 Feb	National Day
	26 Feb	Liberation Day
	17 Jun	The Prophet's Ascension
	19 Aug	Eid al-Fitr
	26 Oct	Eid al-Adha
	15 Nov	Islamic New Year

Note: Some holidays are dependent on Lunar sightings and may differ slightly from the date given. Certain holidays may last for more than one day. Weekends are Fridays and Saturdays
Source: www.ameinfo.com

Information sources

Central Bank of Kuwait	www.cbk.gov.kw
Ministry of Finance	www.mof.gov.kw

Liquidity at a glance



Notes: Times are based on Kuwait local time = GMT + 3 hours
Source: HSBC

Lebanese pound (LBP)

- The Central Bank of Lebanon (Banque du Liban or BDL) operates a currency band buying USD at LBP1,501 and selling at LBP1,514
- The onshore market regularly trades within the full range of the band
- Offshore banks cannot sell or buy LBP, unless purchasing T-bills or CDs

The following products are available:

- Spot FX onshore
- Deliverable currencies

Spot

LBP is managed within a band and is regulated by the BDL. Offshore banks cannot sell or buy LBP unless purchasing T-bills or certificates of deposit (CDs). At maturity, these offshore banks will either receive USD in their accounts, or may reinvest the same in LBP T-bills or CDs.

Normal market conditions

Normal market conditions

Onshore average daily volume	USD150m
Onshore spot transaction	USD0.25m
Onshore bid/ask spread	1LBP

Note: Spreads are subject to change with market developments

FX framework

- The BDL was established by the Code of Money and Credit promulgated in 1963.
- The BDL is charged with safeguarding the national currency in order to ensure a basis for sustained social and economic growth.
- Currently, the BDL holds an intervention band; buying dollars at LBP1,501 and selling at LBP1,514. All commercial requirements are covered at these levels. The rate has been stable for a decade.
- The onshore market trades at the upper and lower ends of the intervention band on a regular basis.
- There is no clearing on Sunday.

Repatriation and other regulations

- Offshore trading by either individuals or institutions is not permitted.
- Non-residents may not hold LBP abroad except in the form of T-bills.

Additional information

Holiday calendar

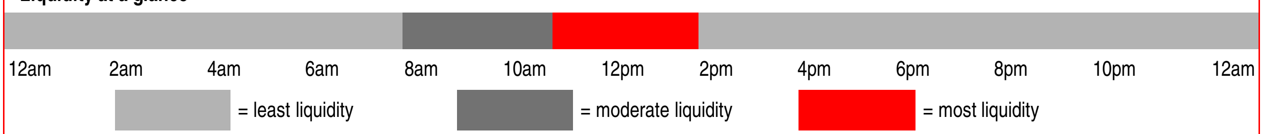
	Date	Event
2012	1 Jan	New Year's day
	6 Jan	Armenian Christmas Day
	4 Feb	The Prophet's Birthday*
	9 Feb	St. Maroun's Day
	6 Apr	Good Friday
	8 Apr	Easter Sunday
	1 May	Labour Day
	6 May	Martyrs' Day
	25 May	Resistance and Liberation Day
	15 Aug	Assumption of the Virgin Mary
	19 Aug	Eid al-Fitr
	26 Oct	Eid al-Adha
	1 Nov	All Saints' Day
	15 Nov	Islamic New Year
	22 Nov	Independence Day
	24 Nov	Ashoura
	25 Dec	Christmas Day

Note: Some holidays are dependent on Lunar sightings and may differ slightly from the date given. Certain holidays may last for more than one day. Weekends are on Sunday;
Source: www.ameinfo.com

Information sources

Central Bank of Lebanon	www.bdl.gov.lb
Ministry of Finance	www.finance.gov.lb

Liquidity at a glance



Notes: Times are Beirut local time = GMT + 2 hours
Source: HSBC

Omani rial (OMR)

- The Central Bank of Oman (CBO) pegs the rial at OMR0.3850:USD1
- The OMR is fully convertible
- Onshore banks cannot lend OMR offshore

The following products are available:

- Spot FX onshore and offshore
- FX forwards out to seven years

Spot

The OMR market is driven by commercial transactions. Liquidity is limited but sufficient to support commercial activity.

Offshore banks can place OMR funds with onshore banks. Certificates of deposit are available for commercial banks only. Treasury bills are available for commercial banks and local customers. Government of Oman Development Bonds can be purchased by overseas investors.

Forwards/FX swaps

There is a reasonably active offshore forward market with tenors going out to one year for trade-related commercial transactions.

Options

Trade in options is in its infancy and the market is currently illiquid. However, trade in instruments out to two years has begun, with standard ticket sizes of around USD20m.

Normal market conditions

Normal market conditions

Onshore average daily spot volume	USD300m
Onshore spot transaction	USD10m
Onshore bid/ask spread	5 pips (0.00005OMR)
Onshore average daily forward volume	USD100m
Onshore forward transaction	USD25m
Onshore forward spread	1M 8 pips (0.00008OMR)
	12M 40 pips (0.00040OMR)
Offshore average daily volume	USD200m

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

- OMR is fully convertible and pegged to USD.
- OMR has been pegged at OMR0.3850:USD1 since January 1986.
- The central bank buys USD at OMR0.38400 and sells USD at OMR0.38500.
- There is no clearing on Friday and Saturday.

Repatriation and other regulations

- Banks' FX exposure is restricted to 40% of their net worth.
- The CBO requires onshore forward FX and swap transactions to have a direct underlying commercial foundation.
- There is a forward market for local customers but onshore banks may only quote forward rates for trade-related transactions.
- Banks may not lend OMR overseas or to offshore institutions.

Additional information

Holiday calendar

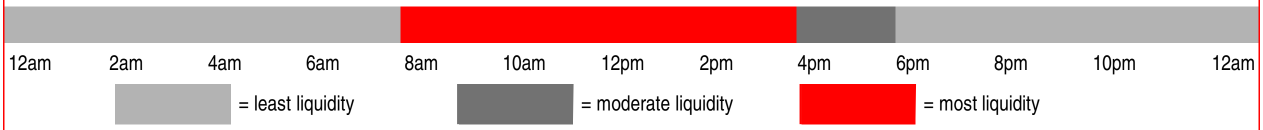
	Date	Event
2012	1 Jan	New Year's Day
	4 Feb	The Prophet's Birthday
	17 Jun	The Prophet's Ascension
	23 Jul	Renaissance Day
	19 Aug	Eid al-Fitr
	26 Oct	Eid al-Adha
	15 Nov	Islamic New Year
	18 Nov	National Day

Note: Some holidays are dependent on Lunar sightings and may differ slightly from the date given. Certain holidays may last for more than one day. Weekends are on Fridays and Saturdays
Source: www.ameinfo.com

Information sources

Central Bank of Oman	www.cbo.gov.om
Ministry of Finance	www.finance.gov.om

Liquidity at a glance



Notes: Times are based on Oman local time = GMT + 4 hours
Source: HSBC

Polish zloty (PLN)

- The National Bank of Poland (NBP) oversees a freely floating currency
- The PLN is freely convertible and most commonly traded versus the EUR
- Poland joined the EU in 2004, but there is no official target date to join the Eurozone

The following products are available:

- Spot FX
- FX forwards out to two years
- FX options out to two years

Spot FX

Liquidity in the spot market is very good, with a normal bid/offer spread of 20 pips (0.0020 PLN). The standard market transaction size is EUR3-10m.

Forwards/FX swaps

Forwards are traded on a deliverable basis. Forwards are quoted out to two years, although the best liquidity is found in tenors of one year or less.

Cross-currency swaps and interest rate swaps out to ten years are available. Plain vanilla fixed rate for floating 1-, 3- and 6-month Warsaw Interbank Offered Rate (WIBOR) swaps are common.

Options

Notwithstanding the retreat in liquidity over the course of 2009 due to the global financial crisis, the market for PLN FX options continues to develop rapidly. PLN options are commonly issued against both the USD and EUR. All PLN options expire at 11:00am Warsaw time (9:00am GMT). Options are available out to two years, with both vanilla and exotic options offered, while the majority of deals have shifted to the USD following the global crisis.

Normal market conditions

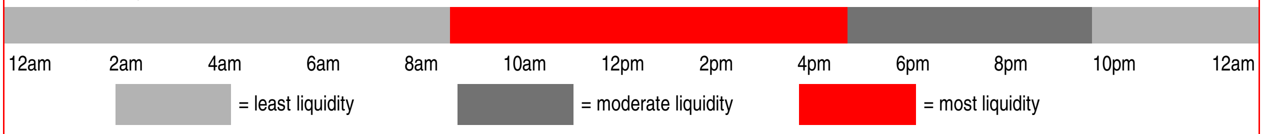
Normal market conditions	
Average daily spot volume	EUR2-3bn
Spot transaction	EUR10m
Bid/ask spread	20 pips (0.0020PLN)
Average daily forward volume	EUR3.0-3.5bn
Forward transaction	3M EUR100m 12M EUR50m
Forward spread	3M 5 pips (0.0005PLN) 12M 30 pips (0.0030PLN)
Implied option volatility spread	3M 0.5%

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

- The PLN is freely convertible and has reasonable liquidity; it is commonly quoted against both the EUR and USD.
- Poland joined the EU in 2004. The official plan to join the Eurozone in 2012 had to be shelved when the country did not opt for entering the ERM-II mechanism in the second quarter of 2009, which was needed to keep to the adoption schedule. There is no new target date.
- The NBP determines monetary and foreign exchange policy. In 2002, the Polish government passed a new FX law bringing Polish regulations into compliance with EU standards. The same law also removed all restrictions on capital flows between Poland and EU member states.
- The Ministry of Finance is responsible for monitoring the foreign exchange activities of companies and individuals.
- The central bank publishes fixing rates for crosses against PLN every day a few minutes after 11.00am Warsaw time. These rates are used for settlement purposes.

Liquidity at a glance



Notes: Times are based on Warsaw local time = GMT + 1 hour
Source: HSBC

- Both the central bank and the Ministry of Finance are allowed to intervene in the FX spot market and can be seen both buying and selling PLN at different times.

Repatriation and other regulations

- Repatriation of capital is unrestricted but must be reported.
- The 2002 Foreign Exchange Act outlines regulations pertaining to foreign exchange turnover and transactions.[28]
- Borrowing from outside the EU requires a permit from the NBP. Members of the European Economic Area (EEA) and the OECD are treated on equal terms as EU members.
- Those in countries not outlined above require a relevant foreign exchange permit from the NBP for the following:
  - Transfer of funds designated to finance economic activity including real estate purchases
  - Transactions in securities with a maturity out to one year
  - Transactions in debt claims
  - Opening of bank accounts
- International transfers and foreign exchange domestic settlements must be made via authorised banks for transactions exceeding EUR15,000.
- General foreign exchange permits which allow the above to be carried out freely may be obtained from the Minister for Public Finance.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	9 Apr	Easter Monday
	1 May	Labour Day
	3 May	National Day
	7 Jun	Corpus Christi
	15 Aug	Assumption
	1 Nov	All Saints Day
	11 Nov	Independence Day
	25 Dec	Christmas Day
	26 Dec	Boxing Day

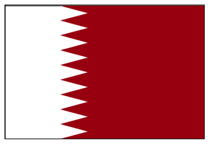
Source: Bloomberg, HSBC

Information sources

National Bank of Poland	www.nbp.pl
Ministry of Finance	www.mofnet.gov.pl

28 Please see the NBP Web site for full details: http://www.nbp.pl/homen.aspx?f=/en/aktyprawne/prawo_dewizowe_en.html

Qatari riyal (QAR)



- The Qatar Central Bank (QCB) maintains a peg against the USD
- The QAR is fully convertible
- Both the spot and forwards market are relatively liquid

The following products are available:

- Spot FX onshore and offshore
- FX forwards out to seven years

Spot

The QAR is fully convertible. Market transactions are commercially driven, the market is generally liquid and can easily handle the volume of commercial transactions.

Forwards

The onshore forward and deposit markets are very thin and quotes only out to six months. The offshore forward market routinely quotes out to three years with maturities of up to seven years available on request.

Options

Trade in the options market is rare, with a standard ticket size of USD10m and a maximum tenor of one year.

Normal market conditions

Normal market conditions

Onshore average daily spot volume	USD1bn
Onshore spot transaction	USD25m
Onshore bid/ask spread	5 pips (0.0005QAR)
Onshore average daily forward volume	USD1bn
Onshore forward transaction	USD30m
Onshore forward spread	1M 5 pips (0.0005QAR)
	12M 25 pips (0.0025QAR)
Offshore average daily volume	USD500m

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

- QCB introduced the QAR in 1973 and has pegged it against the USD since 1980 at QAR3.6400:USD1.
- The QCB buys USD at QAR3.6385 and sells at QAR3.6415.
- There is no clearing on Fridays and Saturdays.

Repatriation and other regulations

- QAR is fully convertible and deliverable.
- No controls are enforced on currency exchange or repatriation although QCB monitors the market.

Additional information

Holiday calendar

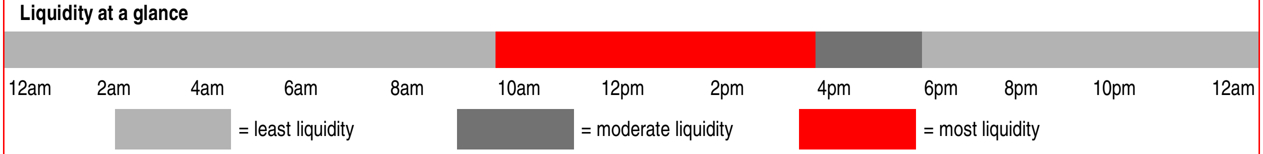
	Date	Event
2012	1 Jan	New Year's Day
	19 Aug	Eid al-Fitr
	3 Sep	Independence Day
	26 Oct	Eid al-Adha
	18 Dec	National Day

Note: Some holidays are dependent on Lunar sightings and may differ slightly from the date given. Certain holidays may last for more than one day. Weekends are on Fridays and Saturdays.
Source: www.ameinfo.com

Information sources

Central Bank of Qatar	www.qcb.gov.qa
State Planning Council	www.planning.gov.qa

Liquidity at a glance



Notes: Times are based on Qatar local time = GMT + 3 hours.
Source: HSBC

Romanian leu (RON)

- The National Bank of Romania (NBR) maintains a managed floating exchange rate regime
- The RON is fully convertible and deliverable
- Romania became an official member of the EU on 1 January 2007 and plans to join the Eurozone in 2015

The following products are available:

- Spot FX
- Forwards out to three years
- Options out to two years

Spot FX

The RON is freely convertible and trades mostly against the EUR. There is good liquidity when the local market is open.

Forwards

The forward market is fairly liquid, though liquidity and rates are very dependent on local conditions.

Options

The options market is hardly liquid, with the best liquidity in EUR-RON options of one year or less. Liquidity in USD-RON options is lower. Options expire at 11am London time. Both vanilla and exotic options are offered. The standard ticket size is EUR20m, the maximum tenor offered is two years and the average daily turnover is around EUR50m.

Normal market conditions

Normal market conditions

Average daily spot volume	EUR750m
Spot transaction	EUR5m
Bid/ask spread	20 pips (0.0020RON)
Average daily forward volume	EUR1-3bn
Forward transaction	EUR5m
Forward spread	3M 50pips (0.0050RON) 12M 200pips (0.0200RON)
Average daily options volume	EUR50m
Options transaction	EUR20m
Implied option volatility spread	1M 2.0%

Note: Spreads are subject to change with market developments
Source: HSBC

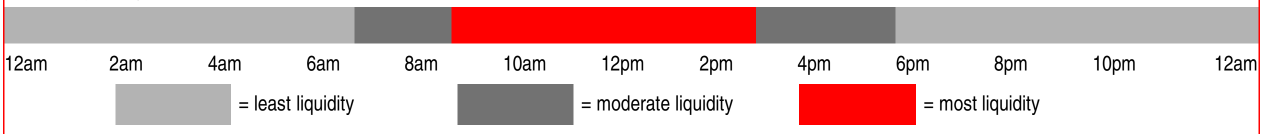
FX framework

- The NBR is responsible for defining and implementing monetary and exchange rate policies, managing foreign reserves, issuing banknotes and regulating the banking system. Its main objective is to ensure and maintain price stability.
- The explicit managed floating regime was adopted in 2005 when the NBR switched to inflation targeting.
- Romania became an official member of the EU on 1 January 2007.

Repatriation and other regulations

- Romania liberalized its capital account fully in 2006 prior to its entry to the EU.
- There are no restrictions on repatriating profits or remitting capital abroad.
- Firms can borrow in foreign currency locally and internationally.
- Firms are not required to exchange foreign currency earned on exports.

Liquidity at a glance



Notes: Romania local time = GMT + 2 hours;
Source: HSBC

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	2 Jan	New Year's Holiday
	16 Apr	Easter Monday
	1 May	Labour Day
	1 Dec	National Day
	25 Dec	Christmas Day
	26 Dec	Second Day of Christmas

Source: Bloomberg, HSBC

Information sources

National Bank of Romania	www.bnro.ro
Ministry of Finance	www.mfinante.ro/engl

Russian ruble (RUB)

- The Central Bank of the Russian Federation (CBR) operates a managed floating currency regime
- The RUB is freely convertible, and pegged to a EUR-USD basket with a gradually widening band
- The CBR is to complete transition to an inflation targeting regime by 2015 with a shift to a quasi-floating currency regime

The following products are available:

- FX spot (value today, tomorrow, spot)
- FX forwards (deliverable and NDF)
- Currency options (vanilla and exotic)
- Interest rate and cross currency swaps
- RUB interest rate options (caps, floors, swaptions)
- Term and structured deposits
- Money market short-term RUB loans
- Access to RUB-nominated fixed income (sovereign and corporate) through different solutions

Spot FX

The RUB FX market mainly trades spot with T+1 convention, short-term FX swaps and FX forwards. Spot with value today is possible in the early hours. Most of the volume (around 70-75%) is traded over the counter; however, there are regular trading sessions at MICEX (Moscow Interbank Currency Exchange).

Forwards/FX swaps

Before the 1998 Russian financial crisis, forward markets were developing onshore. However, many Russian banks suffered losses due to the devaluation of the RUB and, subsequently, Russian courts ruled that forward contracts were not legally enforceable. The forward market switched to offshore where USD-settled non-deliverable forwards (NDF) were the primary means by which the RUB was traded until mid-2006. Then, the abolition of certain capital controls made the RUB fully convertible. In recent years, FX term trading has been switching from NDFs to the deliverable FX market, driven by demand from corporates. Deliverable FX forwards and NDFs are still available, at virtually no basis for NDF to delivery. The best RUB liquidity is up to five years. The longer-term rates market is fairly liquid out to 7-10 years. Most liquidity comes from the international market, while large Russian banks are gaining bigger access in tenors of up to three years.

RUB futures are traded on the Chicago Mercantile Exchange (CME), Moscow Interbank Currency Exchange (MICEX) and RTS FORTS, but the volumes nowadays are very low.

Options

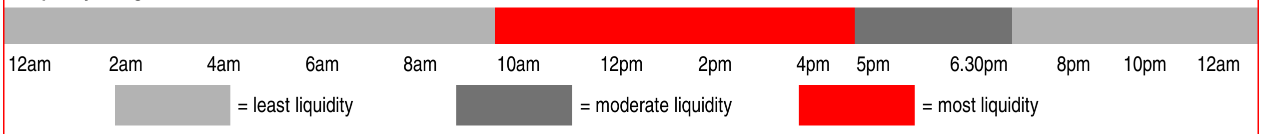
In February 2007, the Russian legal framework provided for enforceability of derivative transactions. Option trading activity increased substantially. The standard ticket size is USD50m and the average daily turnover is USD750m. Options are offered out to three years and both vanilla and exotic options are available.

Normal market conditions

Normal market conditions	
Onshore average daily spot volume	USD20-30bn
Onshore spot transaction	USD 50-100m
Onshore bid/ask spread	100-150 pips (0.0100-0.0150RUB)
Onshore average daily forward volume	USD4-6bn
Onshore forward transaction	USD25-50m
Onshore forward spread	100-300 pips (0.0100-0.0300RUB)
Offshore average daily volume	USD50m
NDF transaction	USD25-50m
NDF spreads	100-300 pips (0.0100-0.0300RUB)
Average daily options volume	USD750m
Option transaction	USD50m
Implied option volatility spread	3m 1.0%

Note: Spreads are subject to change with market developments
Source: HSBC

Liquidity at a glance



Notes: Times are based on Moscow local time = GMT + 4 hours
Source: HSBC

FX framework

The CBR is responsible for carrying out monetary policy and regulating banks. Its key mandate is to preserve currency stability. The Federal Service for Financial Markets and the Ministry of Finance regulate the non-banking sector of capital markets.

Russia substantially liberalised its currency regime in August 2004, when the current account restrictions that had been introduced in the aftermath of the 1998 financial crisis were removed. At the same time, Russia introduced new restrictions on capital account transactions. These restrictions were removed on 1 July 2006, so that now capital account transactions can be carried out without restrictions, making the RUB convertible.

The CBR manages the RUB FX rate according to the guidelines in the Main Directions of Monetary Policy which are set on an annual basis. The RUB officially exists under a managed floating currency regime, being pegged to a EUR-USD basket within a certain band. In the medium term, the CBR plans to carry out an inflation targeting policy and employ a quasi-floating exchange rate regime, under which only occasional FX interventions would take place. On the road to the quasi-floating, the CBR has been liberalizing current FX regime, allowing for increased RUB volatility. In that respect, widening the basket band is the key policy tool to shift to a quasi-floating exchange rate and proper inflation targeting.

The CBR does not target any particular FX level to defend, yet it intervenes in the FX market in order to reduce excessive volatility and ease speculative pressure. The CBR uses a simplified EUR-USD currency basket (EUR45/USD55) as the RUB performance benchmark in its day-to-day activity. Since May 2011, the CBR has kept the rate versus the basket inside a wider floating band (5-rubles wide, c14%). The CBR starts intervening when the RUB moves closer to band boundaries. The boundaries can shift upward or downward depending on the cumulative amount of the CBR's "sell" or "buy" FX interventions.

Earlier, explicit and implicit restrictions existed for foreign investors interested in entering strategically important sectors in Russia. A law was approved in 2008 to lend greater transparency to regulations and procedures on this front.

Repatriation and other regulations

- There are no restrictions on RUB transactions for either resident or non-resident companies alike. Deliverable and non-deliverable spot and forward deals can be performed without restrictions.
- For local and multinational corporates, registered in Russia, FX can be traded only through accounts with authorized banks.
- Currency control regulations are primarily focused only on the monitoring of cash flows (payment transactions) between residents and non-residents.
- There are no reserve requirements for non-residents investing into RUB instruments. There are no reserve requirements for residents receiving or giving hard-currency loans from or to non residents and investing overseas.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	2-5 Jan	New Year's Holiday
	7 Jan	Christmas Day
	23 Feb	Day of the Defenders of the Motherland
	8 Mar	International Women's Day
	1 May	Labour Day
	9 May	Victory Day
	12 Jun	Day of Russia
	5 Nov	National Unity Day

Notes: *Due to Government regulation
Source: Bloomberg, HSBC

Information sources

Central Bank of the Russian Federation	www.cbr.ru
Ministry of Finance	www.minfin.ru
MICEX	www.micex.com

Saudi riyal (SAR)

- The Saudi Arabian Monetary Agency (SAMA) operates a currency peg to the USD at SAR3.75:USD1
- The SAR is fully convertible and very liquid
- The market is closed on Friday

Saudi Arabia has the most active and most liquid FX market in MENA. Products offered include:

- Spot FX
- Forwards quoted out to seven years (liquid to two years)
- Cross currency swaps and interest rate swaps
- Options out to three years
- Asset liability Islamic hedges
- Islamic options
- Islamic FX (outright and forwards)
- Islamic money market instruments

Spot

Liquidity in the spot market is good with a normal bid/offer spread of 2 pips (0.0002 SAR).

Forwards

The forwards market is the most liquid in the region. The minimum size of a forward transaction is USD25m.

Swaps

Interest rate swaps (IRS) are actively used from a corporate hedging perspective. The average size of an IRS is USD25m.

Options

The market for SAR FX options is starting to develop. Transactions occur in a sporadic fashion, although good size can be transacted at times. The standard size of transactions is USD5m with a maximum tenor of three years. Options liquidity will increase as the market develops and more banks provide continuity of pricing.

Normal market conditions

Normal market conditions	
Onshore average daily spot volume	USD4bn
Onshore spot transaction	USD25m
Onshore bid/ask spread	2 pips (0.0002SAR)
Onshore average daily forward volume	USD2bn
Onshore forward transaction	USD30m
Onshore forward spread	1M 2 pips (0.0002SAR)
	12M 8 pips (0.0008SAR)

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

The Saudi Arabian Monetary Agency (SAMA) is the Saudi central bank and is responsible for monetary policy and currency management. Since 1986, the SAR has been pegged to the USD at SAR3.75:USD1, although it is fully convertible and very liquid. The onshore market is closed only on Fridays but as the Saudi working week runs from Saturday to Wednesday, liquidity is usually weak on Thursdays.

Repatriation and other regulations

- There are no restrictions on foreign exchange; however, SAMA closely monitors all transactions.

Additional information

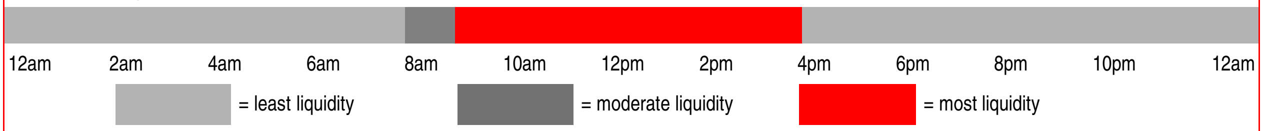
Holiday calendar

	Date	Event
2012	19 Aug	Eid al-Fitr
	23 Sep	National Day
	26 Oct	Eid al-Adha

Note: Some holidays are dependent on Lunar sightings and may differ slightly from the date given. Certain holidays may last for more than one day. Weekends are on Thursdays and Fridays.
Source: www.ameinfo.com

Information sources	
Saudi Arabian, Monetary Authority	www.sama.gov.sa
Ministry of Finance	www.the-saudi.net/saudi-arabia.htm

Liquidity at a glance



Notes: Times are based on Saudi Arabia local time = GMT + 3 hours
Source: HSBC

South African rand (ZAR)

- The South African Reserve Bank (SARB) operates a managed floating exchange rate system
- Although the ZAR is not yet fully convertible, the SARB is taking steps to gradually relax exchange rate controls
- The ZAR is one of the most liquid emerging market currencies

The following products are available:

- Spot and forward FX
- FX options and structured forwards
- Cross currency and interest rate swaps
- Interest rate derivatives
- Government bonds of up to 30 years
- Cash equities, equity finance and derivatives

Spot FX

The ZAR is one of the most liquid emerging market currencies. The SARB still maintains the ability to intervene in the ZAR market as it sees fit, though much of their activity in the last few years (under normal market conditions) has centred on building foreign reserves.

Forwards/FX swaps/Options

Spot, forward and FX derivatives are available and regularly traded. There is a well-developed forward market for ZAR. The currency is deliverable and traded out to ten years, though the best liquidity is in tenors of two years or less.

Exchange controls are still in place, but have been eased over the years. Although there has been much talk of removing them; no time frame has been set yet.

The Johannesburg Stock Exchange (JSE) offers currency derivatives.

Normal market conditions

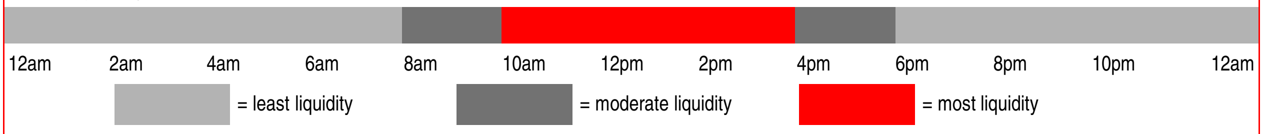
Normal market conditions	
Onshore average daily spot volume	USD2-3bn
Onshore spot transaction	USD10m
Onshore bid/ask spread	50 pips (0.0050ZAR)
Onshore forward transaction	USD20m
Onshore forward spread	3M 25 pips (0.0025ZAR)
	12M 120 pips (0.0120ZAR)
Implied option volatility spread	3M ATM for 1.0%

Note: Spreads are subject to change with market developments
Source: HSBC and South African Reserve Bank

FX framework

- The ZAR switched from a dual exchange rate system to a single freely floating currency in 1995.
- The SARB reports to the Minister of Finance and is accountable to the Parliament, but it has an important degree of autonomy in the execution of its duties. It has a mandate to maintain price stability through inflation targeting. Currently, the inflation target range is 3-6%. In January 2009, a reclassification of the inflation basket shifted the inflation target from CPIX to CPI, and reduced the headline rate by an estimated 2%.
- Since 1994, South Africa has gradually eased exchange controls. More recently, the Medium Term Budget Policy Statement, unveiled in October 2009, incorporated further relaxation in foreign exchange controls. The measures include increasing the current ZAR50m limit on company applications to undertake offshore investments to ZAR500m, removing the 180-day rule requiring export companies to convert their foreign exchange proceeds into ZAR, allowing South African companies to open foreign bank accounts without

Liquidity at a glance



Notes: Times are based on Johannesburg local time = GMT + 2 hours
Source: HSBC

prior approval, doubling the amount resident individuals may invest abroad to ZAR4m from ZAR2m and doing away with the ZAR250,000 limit on advance payments for imports.

Repatriation and other regulations

- In most cases, there are no restrictions on capital inflows, and incentives exist for companies investing in certain industries or regions.
- Institutions' overseas investments are restricted to 25% of retail assets for retirement funds and long-term insurers. For CIS and the investment-linked business of long-term insurers, foreign portfolio investment is restricted to 35%.
- In the 2010 medium-term budget policy framework, exchange control limits for individuals were increased to ZAR4m per year from a previous ZAR4m per lifetime.
- There will be more active reserve management, whereby the Treasury will transfer funds to SARB (potentially from revenue overruns) to be used for reserve build-up.
- Qualifying international headquarter companies have been allowed to raise and deploy capital offshore without exchange control approval as of 1 January 2011.
- Previously South African companies required permission from the SARB to invest overseas, and borrowings from offshore banks and loan repayments were subject to the SARB's approval. However, as of the last medium-term budget policy framework, exchange controls on domestic companies will be reformed to remove barriers to their international expansion from a domestic base.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	2 Jan	Public Holiday
	21 Mar	Human Rights Day
	6 Apr	Good Friday
	9 Apr	Family Day
	27 Apr	Freedom Day
	1 May	Workers Day
	16 Jun	Youth Day
	9 Aug	Women's Day
	24 Sep	Heritage Day
	16 Dec	Day of Reconciliation
	25 Dec	Christmas Day
	26 Dec	Day of Goodwill

Source: www.info.gov.za/aboutsa/holidays.htm

Information sources

South African Reserve Bank	www.reservebank.co.za
Ministry of Finance	www.finance.gov.za
Southern African Development Community	www.sadc.int
South African Government Portal	www.gov.za
South African Revenue Service	www.sars.co.za

Turkish lira (TRY)

- The Central Bank of the Republic of Turkey (CBRT) operates a managed freely floating regime with the right to intervene in the currency market
- The TRY is freely convertible
- Turkey is seeking EU membership, although a target date is yet to be established

The following products are available:

- Spot FX
- FX forwards and swaps
- FX options

Spot FX

The TRY spot market is one of the most liquid in the EM world. The local market has deepened with the abolition of the 0.1% flat tax rate. While the minimum ticket size for interbank deals is USD1m, there is no restriction for real and legal entities.

Forwards/FX swaps

TRY forwards, which offer liquidity, trade on a deliverable basis with non-residents granted unrestricted access to the local market. The best liquidity is in forwards of three years or less. Exchange traded USD-TRY futures are also available on the Turkish Derivatives Exchange (TurkDEX).

Options

The TRY options market is deep, and quotes can be made for up to ten years. Exotic options are offered alongside plain vanilla options, and the standard ticket size is USD10m. The average daily turnover of the market is around USD1bn.

Normal market conditions

Normal market conditions

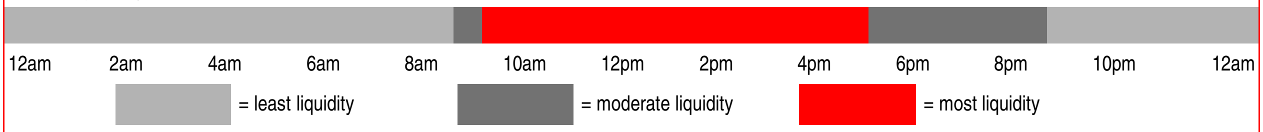
Average daily spot volume	USD6.5-8.5bn
Spot transaction	USD5-15m
Spot bid/ask spread	5 pips (TRY0.0005)
Average daily forward volume	USD0.75-1.25bn
Forward transaction	USD1m
Forward spread	3M 5 pips (TRY0.0005)
	1yr 25 pips (TRY0.0025)
	5yr 250 pips (TRY0.0250)
Average daily options volume	USD1bn
Option transaction	USD10m
Implied option volatility spread	1M 0.5%

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

- The CBRT's objective is to achieve and maintain price stability. The Bank also unofficially aims to ensure the health of the financial system.
- The CBRT was granted autonomy in 2001 in terms of functions and operations. The CBRT and the Turkish government are jointly responsible for exchange rate policy and medium-term (three-year) inflation targets. The former is also responsible for implementing the government's monetary policy.
- The CBRT maintains the right to intervene in the currency market if it deems such action appropriate. Other motives behind the Bank's interventions are to stimulate FX reserves, in an attempt to immunise against external shocks.
- Turkey is seeking EU membership, although a target date is yet to be established.
- In 2001, Turkey abandoned its crawling peg system and allowed the TRY to float freely with occasional intervention by the CBRT.

Liquidity at a glance



Notes: Time is based on Istanbul local time = GMT + 2 hours
Source: HSBC

- Turkey is relatively liberal in its regulation of cross border capital flows compared to other emerging markets. Decree 32 (1989) relaxed the rules on the flow of capital internationally.

Repatriation and other regulations

- The TRY is freely convertible.
- Companies and individuals may hold foreign currency accounts.
- Transfers greater than or equal to USD50,000 must be reported to the CBRT within 30 days.
- Residents and non-residents may borrow both locally and abroad.
- There are no restrictions on the repatriation of capital.
- There are no restrictions on remitting profits or dividends once all applicable taxes have been paid.

Additional information

Holiday calendar

	Date	Event
2012	1 Jan	New Year's Day
	23 Apr	National Sovereignty Day
	1 May	Labour Day
	19 May	Ataturk Memorial Day
	19-21 Aug	Religious Day.
	30 Aug	Victory Day
	25-28 Oct	Religious Day*
	29 Oct	Republic Day

Notes: *Half-days with holiday starting from 1pm but banks try to minimise settlements on these dates; weekend includes Saturday and Sunday
Source: HSBC Bank A.S.

Information sources

The Central Bank of the Republic of Turkey	www.tcmb.gov.tr
Turkish Treasury	www.treasury.gov.tr

UAE dirham (AED)

- The Central Bank of the United Arab Emirates pegs the AED to the USD
- The AED is fully convertible in the spot market
- Onshore banks can lend AED deposits to offshore banks, but are subject to a 30% reserve maintained at the central bank

The UAE has the most liquid and developed FX market in the Gulf after Saudi Arabia. The following products are available:

- Spot FX onshore and offshore
- Forwards out to seven years

Spot

The AED is fully convertible in the spot market.

Forwards

The forward market extends to two years, with maturities of up to seven years available on request. Onshore banks can lend AED deposits to offshore banks, but are subject to a 30% reserve that needs to be maintained at the central bank. They can sell or buy AED in swaps.

Swaps

Onshore banks can lend AED via swaps to offshore banks.

Options

Transactions in the options market occur in a sporadic fashion, and options are offered mainly against the USD. The standard size of a transaction is around USD3m with options offered out to three years.

Normal market conditions

Normal market conditions

Onshore average daily spot volume	USD2bn
Onshore spot transaction	USD25m
Onshore bid/ask spread	2 pips (0.0002AED)
Onshore average daily forward volume	USD4bn
Onshore forward transaction	12M USD25m
Onshore forward spread	1M 2 pips (0.0002AED) 12M 8 pip (0.0008AED)

Note: Spreads are subject to change with market developments
Source: HSBC

FX framework

- The Central Bank of the UAE formulates and implements the country's banking, credit and monetary policy. Its policy anchor is the AED peg to the USD, which has been maintained at the same rate since 1980.
- The central bank sells USD against AED at AED3.6730 and buys USD at AED3.6720.
- There are no restrictions on foreign exchange, although the central bank closely monitors the market.
- There is no clearing on Fridays.

Repatriation and other regulations

- The AED is fully convertible, and there are no restrictions on exchange or repatriation.

Additional information

Holiday calendar

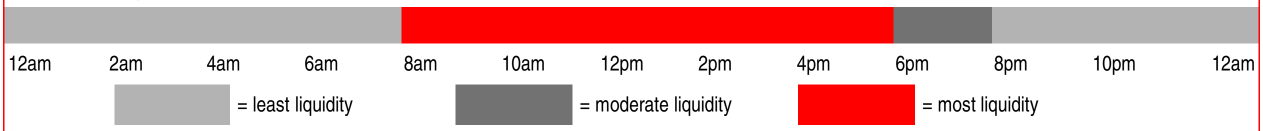
	Date	Event
2012	1 Jan	New Year's Day
	4 Feb	The Prophet's Birthday
	17 Jun	The Prophet's Ascension
	19 Aug	Eid al-Fitr
	26 Oct	Eid al Adha
	15 Nov	Islamic New Year
	2 Dec	National Day

Notes: Some holidays are dependent on Lunar sightings and may differ slightly from the date given. Certain holidays may last for more than one day. Weekends are Fridays and Saturdays
Source: www.ameinfo.com

Information sources

Central Bank of the United Arab Emirates	www.cbuae.gov.ae
Ministry of Finance and Industry	www.uae.gov.ae/mofi
Ministry of Economy and Commerce	www.uae.gov.ae/moec

Liquidity at a glance



Notes: Times are based on Dubai local time = GMT + 4 hours
Source: HSBC

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Source: HSBC

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