ASIA-PACIFIC CSD GROUP

JULY 2022

11th Edition

Asia-Pacific CSD Group E-NEWSLETTER

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MESSAGE FROM ACG CHAIRMAN

Dr. Wenhua DAI

ACG Chairman
China Securities Depository and Clearing Corporation

Dear ACG family

I'm glad to present the 11th Edition of ACG Newsletter in July, 2022. Here, I'd like to extend my heartfelt appreciation to the contributors to the publication this time.

July marks the beginning of the second half of a year, and it is also a time of midyear outlook that we review what have been achieved so far. From a macro perspective, the best laid plans seem go awry in the first 6 months of, but the market always remain the "beyond COVID"mood to combat inflation. Looking ahead, the murky global macro market outlook will continue to be determined by this ever-changing world under uncertainties, however, the past-2-year pandemic time has reshaped global market fundamentals such as the accelerations in digitalization and global decarbonization transition. I believe that market participants, including FMIs, can find opportunities among these transformations.

Despite the global travel restrictions among APAC countries, ACG community once again impressed the world of CSDs with our activeness in online events such as WFC 2022 Online Events and AFSF in the first half of 2022. From May 30th to June 1st, we have 6 speakers participating 5 sessions on WFC panel in the topics of CSDs and sustainable development, DLT infrastructures, cyber resilience, and settlement cycle. The Asia Fund Standardization Forum (AFSF) Knowledge Sharing Workshop was held from June 14th to 15th, featuring the theme of "Cross Border Trade Barriers: From Silos to Symphonies" together with 111 attendees from 25 institutions. The near future is also exciting with two upcoming ACG major events, the online CTS 22 in September and physical ACG 24 in November. I wish TDCC and KSD a great success in hosting these events respectively.

I'm also pleased to share a great news from ACG community that our Vice Chairman, Mr. Sherman Lin, has been appointed by the Taiwan Stock Exchange's (TWSE) board members as the new Chairman of TWSE, and Lin would be the youngest TWSE head in 60 years. The ACG community appreciates his efforts in all our communication and support to the ACG Secretariat. We all wish him a prosperous future in TWSE.

The 11th edition of ACG Newsletter once again bring your focus on Recent events, Market Updated, Task Force Contributions. Moreover, the Secretariat once again invited SWIFT as our Guest Column contributor with the article "Is Asia ready for international post-trade evolution?", and Shenzhen Stock Exchange has also shared their recent update on SZSE and CSDC Announced and Successfully Implemented Detailed Rules on the Trading, Registration and Settlement of Bonds for Overseas Institutional Investors.

Being optimistic about 2022 and fighting for a better future in the years beyond should be our common goal, since by the time you are reading this edition of Newsletter, the world is still changing. Therefore, let's get spiritually prepared for these challenges!

戴文华

MARKET UPDATES

China Central Depository & Clearing Co. Ltd.

中央国债登记结算有限责任公司
CHINA CENTRAL DEPOSITORY & CLEARING CO., LTD.

CCDC was Invited as the First FMI Member to the Partnership of Biodiversity and Finance

13 founding member

30+ supporting members

CCDC was invited, as the first FMI (financial market infrastructure), to join the Partnership of Biodiversity and Finance (PBF), where members pledge to take actions in capacity building, knowledge and data sharing, resource exchange, etc. in pursuit of the UN's biodiversity goals.

The World Resource Institute and the International Finance Forum (IFF), along with global partners, launched the joint initiative on the PBF. The PBF aims to call on financial institutions to carry out multilateral cooperation with environmental and social development organizations to formulate coordinated development plans related to climate change mitigation and biodiversity protection. So far, thirteen founding member and over thirty important supporting members have joined the partnership.

IFF is an independent, non-profit, non-governmental international organization founded in Beijing in October 2003. It is established by financial leaders from more than 20 countries, regions and international organizations including China, the United States, the European Union and the United Nations. As a long-standing, high-level platform for dialogue and communication, as well as a research network in the financial realm, IFF has also been upgraded to F20 (Finance 20) status.

CCDC PFMI Information Disclosure and Self-Assessment Report Released

Based on the CPSS-IOSCO Principles for Financial Market Infrastructures, the CCDC PFMI report assesses the business of CCDC related to its CSD and SSS functions in the China's inter-bank bond market. CCDC's self-assessment report on PFMI was first completed and disclosed in 2016, and a long-term working mechanism has been established to update the report on an annual basis. The assessment was conducted in January 2022.

CCDC Supported the Issuance of Several Shanghai FTZ Offshore Bonds, including the First SBLC-Backed FTZ Offshore Bond

RMB **670** million

Since 2022, CCDC successfully supported the issuance of several FTZ offshore bonds, including the first FTZ ABS, the first SBLC-Backed FTZ offshore bond and offshore USD bonds. In January, the first offshore Standby Letter of Credit (SBLC) model RMB bond was successfully issued in Hong Kong, totaling RMB 670 million. Besides, the offshore trust structure was introduced into the offshore bond business for the first time, with CCDC providing registration, custody, settlement and interest payment services and CCB Asia supporting the issuance as a trustee in credit enhancement with a standby letter of credit and providing investors with rights and interests protection. The cooperation has further enriched the FTZ offshore bond business scenario and facilitated the participation of foreign investors in China's bond market.

CCDC Supported the Issuance of Several Shanghai FTZ Offshore Bonds, including the First SBLC-Backed FTZ Offshore Bond

Recently, CCDC and CFETS jointly launched FX repo business with domestic US dollar bonds as collateral for the market.
Since July, 2021, CFETS and CCDC have successively cooperated to launch FX repo in automatic bond selection model and designated bond model, setting up diversified foreign currency financing channels for investors at all levels.

CCDC was Invited as the First FMI Member to the Partnership of Biodiversity and Finance

7.25 trillion RMB

In the first half of 2022, ChinaBond Pricing Center Co., Ltd., a wholly-owned subsidiary of CCDC, jointly released ESG indexes with Ping An Life Insurance and Shanghai Pudong Development Bank. ChinaBond ESG Index includes ChinaBond ESG Select Credit Bond Index and ChinaBond customized ESG index series. ChinaBond ESG Select Credit Bond Index is the first ESG factor index of broad-based RMB credit bond in the world with the covering scale of 7.25 trillion RMB. ChinaBond customized ESG index services combine Chinabond ESG Ratings and various index methodologies into more flexible ESG index solutions.

Having issued the first batch of ChinaBond Green Bond Index Series, ChinaBond Carbon-Neutral Green Bond Index, and ChinaBond CEA Price Index Series, CCDC has long been practicing green development concept. ChinaBond ESG Rating Score has achieved full coverage of more than 8000 domestic public offering bond issuers and A-share listed companies, and is committed to meeting the investment and research needs of domestic and foreign market institutions for China's capital market ESG Rating Score, and guiding domestic and foreign funds to support green and sustainable development.

Central Securities Depository of Iran (CSDI)

CSDI Sets a New Record in Dividend Distribution Once Again in Less than 3 Months

Central Securities Depository of Iran has once again broken records in dividend distribution services after it managed to pay the share dividends of Mehr Ayandegan Financial Development Group within 24 hours after the company held its annual general meeting in early June 2022.

Mehr Ayandegan Financial Development Group, an asset management company based in capital Tehran, successfully deposited the cash dividends of 94,446 real shareholders, 79 legal shareholders, 150 portfolio management companies, and 17 investment funds after all its shareholders registered in CSDI's e-KYC platform known as Comprehensive Information Gathering System (CIGS).

79 legal shareholders

150 portfolio management companies

94,446 real shareholders

This came less than three months after CSDI's dividend distribution team managed to pay cash share dividends of Polymer Arya Sasol Company, a major petrochemical company, only seven days after the company held its annual general meeting in April.
As a measure to streamline the payment of cash dividends to shareholders, the Polymer Arya Sasol has also mandated all its shareholders to register in CIGS.

CIGS is the infrastructure service platform for identifying all potential investors or those have already entered the Iranian capital market.
All market participants and stakeholders, including investors, customers and legal entities, are supposed to register their information only once and for all on the platform, and since then, they will be able to receive services from all capital market service providers based on the verified data they provided to the CIGS platform.

To register in CIGS, all investors in the Iranian capital market can refer in person to 11,325 centers (including 4,466 selected government service offices, 1,993 brokerage firms, and 2,866 branches of selected banks) or use 53 "electronic" service platforms to authenticate their ID documents and enjoy unique benefits exclusively up for grab for CIGS-registered investors, including receiving dividends of their conventional

shares, their Justice Shares, even attending general meetings, etc.
Once investors registered in the CIGS platform, have their ID information and other details, including their bank account number, mobile number, e-mail address, and their residence address, registered in the platform, no market service entity in the Iranian capital market needs to authenticate the investor again and receive other documents form the CIGS-registered shareholders in future references.

Number of CIGS-Registered Investors Surpasses 40 Million

The number of shareholders registered in CSDI's e-KYC platform, Comprehensive Information Gathering System (CIGS), exceeded 40 million people; a unique milestone in the history of the Iranian capital market, the latest figure released by Central Securities Depository of Iran revealed.
The new data suggests the number of CIGS-registered shareholders is now higher than the population of many countries, including Poland and Canada, according to the facts reflected in worldometers website which provides the live status of the world population. In other words if CIGS were a country, it would be among the 36 most populated countries in the world. (The information regarding the current population of countries is shown on https://www.worldometers.info/)

However, the number seems not planning to stop here even in the short term, as the CSDI report unveiled that the one-year goal ahead of the Iranian capital market is to reach 58 million registered investors in the CIGS platform.

58 million registered investors

CIGS is the infrastructure service platform for identifying all entities planning to enter or have already entered the Iranian capital market.

All market participants and stakeholders, including investors, customers, and legal entities, are supposed to register their information only once and for all on the platform, and afterward, they will be able to receive services from all capital market service providers based on verified data they provided to the CIGS platform.

To register in CIGS, all investors in the Iranian capital market can refer in person to 11,325 centers (including 4,466 selected government service offices, 1,993 brokerage firms, and 2,866 branches of selected banks) or use 53 "electronic" service platforms to authenticate their ID documents and enjoy unique benefits exclusively up for grab for CIGS-registered investors, including receiving dividends of their conventional shares, their Justice Shares, even attending general meetings, etc.

Once investors have their ID information and other details, including their bank account number, mobile number, e-mail address, and their residence address registered in the CIGS platform,, no pillar entity in the capital market needs to authenticate the investor again and receive other documents form the CIGS-registered shareholders in their future references.

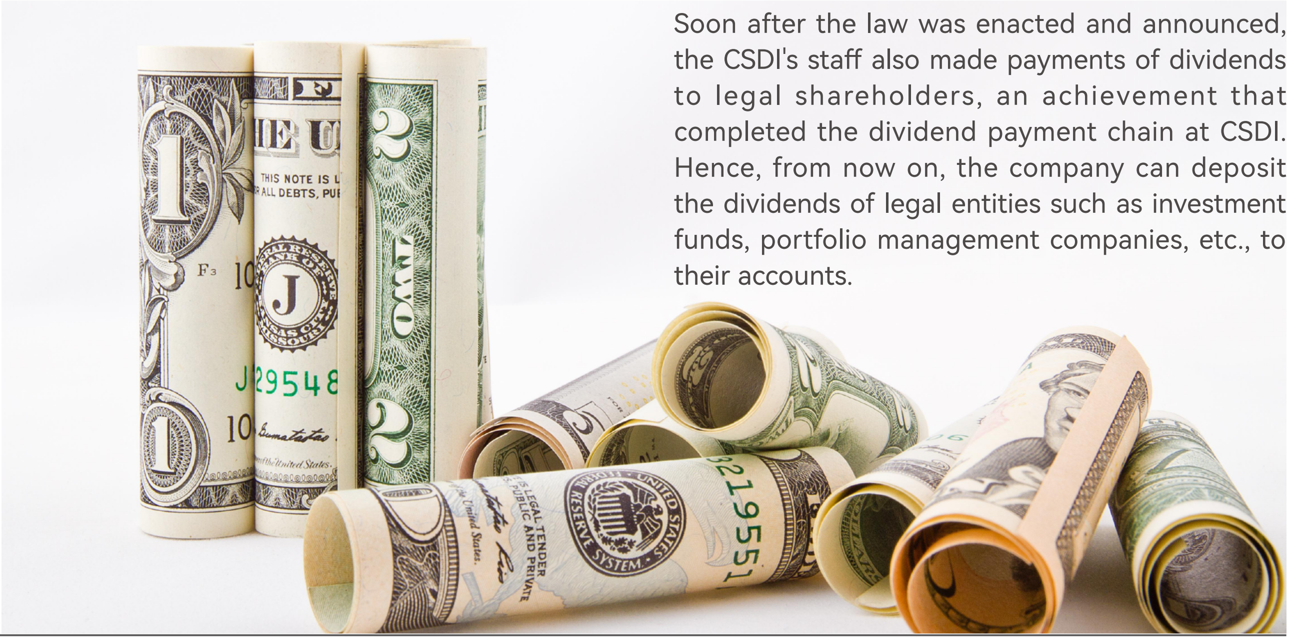
Market Regulator Obligates Issuing Companies to Distribute Dividends via CSDI

The Iranian capital market regulatory body has obligated all issuing companies to pay dividends of shares via Central Securities Depository of Iran as stipulated in the Budget Act of the current Persian calendar year (21 March 2022 – 20 March 2023).

Iran Securities and Exchange Organization (SEO) said in a communique to all market entities: "in line with the ongoing efforts to facilitate services to investors, all registered issuers are obliged to pay all dividends approved by their annual general meeting through Central Securities Depository of Iran."

Accordingly, managers who violate the implementation of this official communique can face dismissal from service in the executive bodies and PLC companies from six months to two years upon the complaint of the SEO.

While the payment of dividends via CSDI was not mandatory in previous years, 123 companies in 2020 and 292 companies in 2021 have respectively paid share dividends of their real shareholders via CSDI.



Generally, soon after the per-share dividends have been agreed upon at the annual general meetings, the dividends are considered the company's liability toward shareholders and must be paid within an eight-month moratorium.

Therefore, all companies are obliged to pay the dividends of all shares according to the available resources to the company and inform the shareholders about the payment schedule according to the company's liquidity situation. Generally, cash dividends will be deposited to the shareholders' accounts by CSDI two days after the resources become available by the paying companies.

According to the SEO's communique, all issuers who have not managed to pay the dividends of shares in the previous years for various reasons, such as no bank account number being provided by shareholders, no reference to the bank taking place by shareholders, or shareholders not being registered in CSDI's e-KYC platform i.e. CIGS among others, are supposed to pay all due dividends and inform the public about the results.

Soon after the law was enacted and announced, the CSDI's staff also made payments of dividends to legal shareholders, an achievement that completed the dividend payment chain at CSDI. Hence, from now on, the company can deposit the dividends of legal entities such as investment funds, portfolio management companies, etc., to their accounts.

RECENT EVENTS

WFC 2022 Online Conference

The 2022 conference of the world forum of central securities depository, or WFC 2022, was held from 30 may to 1 June. WFC conference is the largest event of CSD community teeming with industry insights and inspirations. The conference is well organized and smooth.

Senior industry speakers shared their valuable experience and respective market progress in 12 panel discussions covering topics like CSD engagement in sustainable development, facilitating cross-border investment flows, technology vision for FMIs like DLT application and digital currency, CSD's business optimization and settlement cycle reform, etc. Among them, it's proud to say that ACG community contribute a lot to this conference. we have 6 speakers from 4 members engaging in 5 sessions as panelists.

ACG Contributions to WFC 2022

Sessions	Speakers from ACG
Session 1: Capital markets and CSD engagement in Sustainable Development	Ms. Julie Wang, Senior Vice President, TDCC
Session 4: Market infrastructures developments in the regions (Asia-Pacific)	Ms. Jasmine MA, ACG Secretariat
Session 6: Challenges of creating a DLT market infrastructure	Tomothy Hogben, Group Executive, ASX
Session 8: Cyber Resilience	Manoj Sarangi, Senior Vice President & CISO, NSDL
Session 11: Settlement cycle and market efficiency	Wenhua DAI, ACG Chairman Prashant Vagal, Executive Vice President, NSDL

key takeaways of this event:

1. DLT utilization

All the participants believe that DLT, as a technology, can be used to improve the efficiency of their services, yet we should also be pay close attetion to the problems of fragmentation between the existing system and the DIT systems as well as the privacy issues.

Deutsche bank launched a DLT-based post-trading platform called D7. D7 is expected to realize issuance, central register, clearing and settlement of bonds, funds and other securities on DLT platform. **Australian Securities Exchange (ASX)** plans to replace its CHESS system with DLT-based clearing system since 2017. They shared the view that CSD, instead of being disrupted, will take up new roles on DLT platform, such as the administrator of nodes, special supervisory node on the chain, and problem solver when something goes wrong on the chain.

2. Settlement cycle

- DTCC share its T+1 settlement reform. DTCC together with SEC and SIFMA, market participants make the Industry roadmap to achieving T+1 in 2024 & Accelerating the U.S. Securities Settlement Cycle to T+1. At least 9-month testing period will be provided
- NSDL is Moving to the T+1 stock settlement mechanism in a phased manner from 25th February and is to be completed by January 2023. The 100 bottom stocks were added to the T+1 settlement period list on 25th February 2022. From March 2022, the next bottom 500 stocks will be introduced on the last trading Friday of every month in a total of 12 phases.
- Dr. DAI Wenhua introduced China's market practice of t+0 securties settlement and t+1 money settlement. Chinese market serves as a perfect example of T+1 settlement.
  To further improve the settlement safety and effieciency, CSDC is pushing forward DVP reform. The program is progressing very well.

3. Business optimization

CSDs, apart from its traditional business, is expanding their business scope from exchange market to OTC market, to value-added services.

- Nasdaq Nordic group provide IPO subscription services, pension registrar services and LEI account opening services for 4 Nordic markets.
- DCV, provide tax agent services and other new businesses for international customers, including tax agent services for international custodian banks, forward contract service platform, and DLT-based AGM and e-voting system. New businesses contribute to over 50% of DCV's revenue growth.

The AFSF 2022 ends on a high note

The Asia Fund Standardization Forum (AFSF) Knowledge Sharing Workshop was held virtually by the Taiwan Depository & Clearing Corporation (TDCC) from June 14th to June 15th, 2022. 111 attendees representing 25 institutions, including ACG members, central securities depositories (CSD) from other regions, international central securities depositories (ICSD) and Fund service providers, all participated in this event.

Given the increase in the digitalization and globalization of the major capital markets' infrastructure around the world, the theme of AFSF 2022 was "Cross Border Trade Barriers: From Silos to Symphonies." ACG members, including TDCC, KSD, KSEI and TSD's related company Digital Access Platform Co. Ltd. (DAP) presented a variety of topics, including cross-border trades, fund data analytics, platform service for private funds and fund distributions. In addition, AFSF's advisory members, such as DTCC, Euroclear, Clearstream and Calastone, were also invited to share their insights on market trends and observations on market needs.

Here are some key takeaways from the sessions:

- The result of the latest AFSF survey was presented by KSD. This survey captured a snapshot of the market compared to 2018 and shed lights on possible post-trade barriers in Asia via operational mapping and gap analysis.

- An overview of the ESG funds development and sustainable Investment in Taiwan was given during the Local Market Session. Facilitators such as the ESG section on TDCC's FundClear Website and the Taiwan Sustainability Ratings system were also introduced.

- TDCC shared how they explored the value of fund data for supervision, and collaborated with the Financial Supervisory Commission (FSC) in developing SupTech. The interactive dashboard provided by TDCC allows the FSC to obtain valuable insights by visualized data analytics and change the parameter setting flexibly based on their needs.

- KSD introduced the background of the private fund market in Korea and how they use FundNet to make it more transparent and secure. The major FundNet services for private funds include an industry-wide code issuance, reconciliation and instruction delivery.

- KSEI offered an overview of the cross-border transactions in Indonesia, and pointed out challenges they faced. KSEI also introduced its S-MULTIVEST platform, which interconnects with various investment management parties and is used for the management of the Public Housing Saving Program (TAPERA).

- DAP introduced how their FinVest App makes offshore mutual funds more accessible to the mass. Key features of the FinVest include fund information, straightforward subscription process with built-in foreign exchange conversion, redemptions and subscriptions at any time, and real-time holding information.

- Euroclear gave a presentation on sustainable finance development in Europe and how to manage the challenges of AML and KYC regulations. The Global Fund Watch, a compliance service platform of MFEX by Euroclear, provides a digitalized AML and KYC due diligence process for stakeholders in the fund industry.

- Clearstream shared their latest developments and observations in four aspects, which are execution, distribution, innovation and data. Clearstream illustrated key points in better operation, and insights in stakeholders needs, such as agreement management for distributors and fund data/information for banks.

- DTCC presented the key challenges of accelerated settlement cycle for foreign investors. When accelerating settlements, it is important to balance the needs of different investor types and conduct a thorough cost/risk-benefit analysis, so that unintended consequences can be minimized.

Calastone introduced challenges for cross border distribution and shared a shift perspective on digitalization in cross-organizational collaboration. For better data integration and liquidity management, if no legacy barriers are in place, a shared record of holding via API or a single source of truth via DLT can be configured.

To better promote post trade operational standardization of cross border fund trading, the AFSF was established by the ACG New Business Initiatives Task Force Convener KSD back in 2015. The Knowledge Sharing Workshop event of this Forum has been held ever since 2016 and has served as a communication platform for fund services within the ACG community. With the tremendous support of AFSF coordinator KSD and AFSF members, the AFSF 2022 ended on a high note.

To view the materials related to this event, please visit the Event section of the ACG website **(https://www.acgcsd.org/acg_04_s.aspx?id=64).**

TASK FORCE CONTRIBUTIONS

Task Force Contribution

The Investor Services task Force (ISTF) was officially established at the 22nd ACG General meeting in 2018. As the convener of the ISTF, Taiwan Depository & Clearing Corporation (TDCC) has been committed to building an integrated platform where ACG members can exchange investor service information and explore potential opportunities. Due to the pandemic, the ISTF sessions at ACG General Meetings and Cross Training Seminars have been kept on hold for the past two years, however, ISTF's operations never stop. In the first half of 2022, we have been working hard to organize the following activities:

01 ISTF Online Bulletin

Since 2020, the ISTF has been collecting investor service news from CSDs and relevant organizations' websites, as well as publishing quarterly online bulletins for members. As of today, eight bulletins have been released, facilitating investor service information exchange among members. This collected news is classified into four categories: account services, corporate action services, information services and investor identification services. These are the four main areas in which CSDs have been providing investor services.

02 ISTF Survey

To maintain best practices and help members roll out new services, the ISTF conducted two surveys over the past few years. The latest survey was circulated in 2020 with the topic of "Investor e-Access Services". Its key findings were published in the 9th Edition of ACG Newsletter in 2021. As digital services progressed at a greater pace during the pandemic than ever before, the Investor e-Access Services survey was circulated amongst members to make updates and include the new investor services launched last year.

03 Preparation for the task force session of the 22nd Cross Training Seminar (CTS 22)

As the CTS 22 was postponed until this September, the ISTF has been working tirelessly on preparing for the task force sessions. In order to leverage the latest survey results and provide more investor service insights for ACG members, the ISTF will invite organizations who were seen as innovative investor service providers in the survey's responses to share more details and experiences. Make sure that you do not miss the exciting ISTF session at the upcoming CTS 22!

Technical Task Force (NSDL)

Artificial intelligence (AI) and machine learning (ML) are at different stages of maturity in the finance industry, but there is widespread agreement that the adoptions are trending upward.

- NSDL on behalf of Technical Task Force (TTF) initiated a survey during the third quarter of 2021-22 to understand the adoption of AI/ML by CSDs, the apprehensions in adopting such technologies and the practical challenges.
- Several Central Security Depositories and Clearing Corporations from India, China, Taiwan, Korea, Thailand and Singapore participated in the survey. During the survey, all respondents expressed interest in participating in a workshop on this subject by TTF.
- NSDL, as Convener of TTF, plans to conduct workshop for members to on the following areas during the second half of 2022:

A AI/ML – The Technology

B Survey outcomes and analysis

C Possible use cases for CSDs

Distributed Ledger Technology (DLT) provides numerous avenues for CSDs including strengthened identity measures, improvements in information preservation and data integrity, processing efficiencies, increased operational capacity and compliance effectiveness. However, there are certain standards that are still evolving. NSDL will conduct a webinar for the Technical Task force members to help them understand.

A DLT – The Technology

B Possible use cases for CSDs

C Current challenges and

D Risks and possible mitigation measures

CISO Forum

NSDL conducted webinar on theme covering “Managing Cybersecurity Risk with 3rd parties”. The session covered various cyber security risks covering 3rd party vendors and the best practices to be followed to manage cyber security risks arising from 3rd party vendors.

In view of the emergence of newer cyber threats, organisations have adopted several technologies viz. Firewalls, Intrusion Prevention Systems, Web Application Firewalls (WAF), AntiMalware protection, Anti-bot, honeypots etc. to thwart cyber threats. For effective use of the same, most organizations use a Security Operation Centre (SOC) for monitoring such infrastructure. SOC performs log monitoring, analysis and co-relation of logs from abovementioned network and security devices and infrastructure servers, Security Information and Event Management (SIEM) technology is central to a SOC and processes like threat analysis, threat hunting, and building of playbooks form core to such operations. NSDL on behalf of Technical Task Force (TTF) shall be conducting a survey on the tools, practices, frameworks adopted by CSD’s for SOC. The survey results shall be further shared with CSD’s.

GUEST COLUMN

Shenzhen Stock Exchange

SZSE and CSDC Announced and Successfully Implemented Detailed Rules on the Trading, Registration and Settlement of Bonds for Overseas Institutional Investors

In order to improve the regulations and mechanism for overseas institutional investors to participate in domestic bond trading and further open up the bond market of Shenzhen Stock Exchange (SZSE), based on the requirements laid out in the Announcement [2022] No. 4 of the People's Bank of China, the China Securities Regulatory Commission and the State Administration of Foreign Exchange (on relevant matters concerning further facilitating overseas institutional investors' investment in China's bond market) ("Announcement"), SZSE and China Securities Depository and Clearing Co., Ltd. (CSDC) jointly issued the Detailed Implementing Rules on the Trading, Registration and Settlement of Bonds for Overseas Institutional Investors ("Detailed Rule") on June 29, 2022, effective on June 30, 2022 together with the Announcement.

The Detailed Rules contain detailed provisions on the investment in the SZSE bond market by overseas institutional investors who are allowed access to the inter-bank bond market. Overseas institutional investors may, as brokerage clients, appoint domestic securities companies with SZSE membership to participate in bond trading on their behalf, and appoint domestic securities companies with the status of clearing participants to carry out settlement under the brokerage model.

SZSE, together with CSDC, SZSE members, custodians and other market players, has steadily and orderly promoted the implementation. On the first day of implementation, Bank of China (Hong Kong) Limited and Bank of China Macau Branch successfully completed the first batch of trading and settlement deals according to the Detailed Rules, and the market operated smoothly, producing a good demonstration and leading effect. Market institutions said that attracting inter-bank overseas institutional investors to the market, on the one hand, helped diversify bond investment groups on the exchange, and on the other hand, it also improved the liquidity of the exchange bond market, optimized the market price discovery function and the asset pricing ability of market institutions.

Next, SZSE will continue to work with CSDC and other market players to promote the construction of a bond market system with complete infrastructure, efficient market operation, good price discovery and effective risk control mechanism, guide diversified investors in participating in SZSE bond market continuously and steadily, and attract overseas medium and long term funds to the market, so as to further give play to the strategic role of the bond market in serving the real economy and the construction of Guangdong-Hong Kong-Macao Greater Bay Area.

SWIFT

Is Asia ready for international post-trade evolution?

Whikie Liu
Director, Capital Markets Strategy SWIFT

Whikie Liu is Director, Capital Markets Strategy at SWIFT. She is responsible for defining capital markets related strategy and new initiatives in SWIFT. Prior to this role, Whikie was Head of Capital Market and Standards, China at SWIFT, responsible for SWIFT's business development for capital market development and provide ISO Standards expertise in China. Before joining SWIFT, Whikie worked at Citibank for 12 years where she was responsible for product development of securities services.

About SWIFT

SWIFT is a global member-owned cooperative and the world's leading provider of secure financial messaging services.

We provide our community with a platform for messaging and standards for communicating, and we offer products and services to facilitate access and integration, identification, analysis and financial crime compliance.

Our messaging platform, products and services connect more than 11,000 banking and securities organisations, market infrastructures and corporate customers in more than 200 countries and territories, enabling them to communicate securely and exchange standardised financial messages in a reliable way.

As their trusted provider, we facilitate global and local financial flows, support trade and commerce all around the world; we relentlessly pursue operational excellence and continually

Asia's cross-border securities transactions are predominantly exchanged with advanced economies such as those in North America and Europe. However, there have been several major industry developments, such as CSDR's settlement discipline regime in Europe and shortened settlement cycles in the US, which have put pressure on Asian securities players to improve their settlement efficiency. Meanwhile, Asian CSDs are actively revisiting their post-trade operating models to fix settlement inefficiency and facilitate more instant international investment flows.

International securities flows in Asia are growing

80%
Daily average securities traffic sent

Since 2017, the daily average securities traffic sent by the Asian community over SWIFTNet has grown by around 80%, and it shows no sign of slowing down.

Asia's cross-border securities transactions, both inbound and outbound, largely take place in corridors with advanced economies, such as North America and Europe. According to SWIFT Watch data, global investors based in the US and Europe have been the largest inbound investors to Asian markets, contributing more than 75% of the cross-border securities transaction traffic to the region. For outbound investment by Asian players, more than 77% of traffic outside the region is to North America and Europe.

This has created opportunities for Asia to be further integrated into international markets, but not without risk. By playing more heavily outside the domestic region, their vulnerability increases too, making settlement efficiency all the more important.

Is the Asian community ready to handle CSDR?

There have been several major industry developments, such as CSDR's settlement discipline regime in Europe and shortened settlement cycles in the US, which have put pressure on Asian securities players to improve their settlement efficiency.

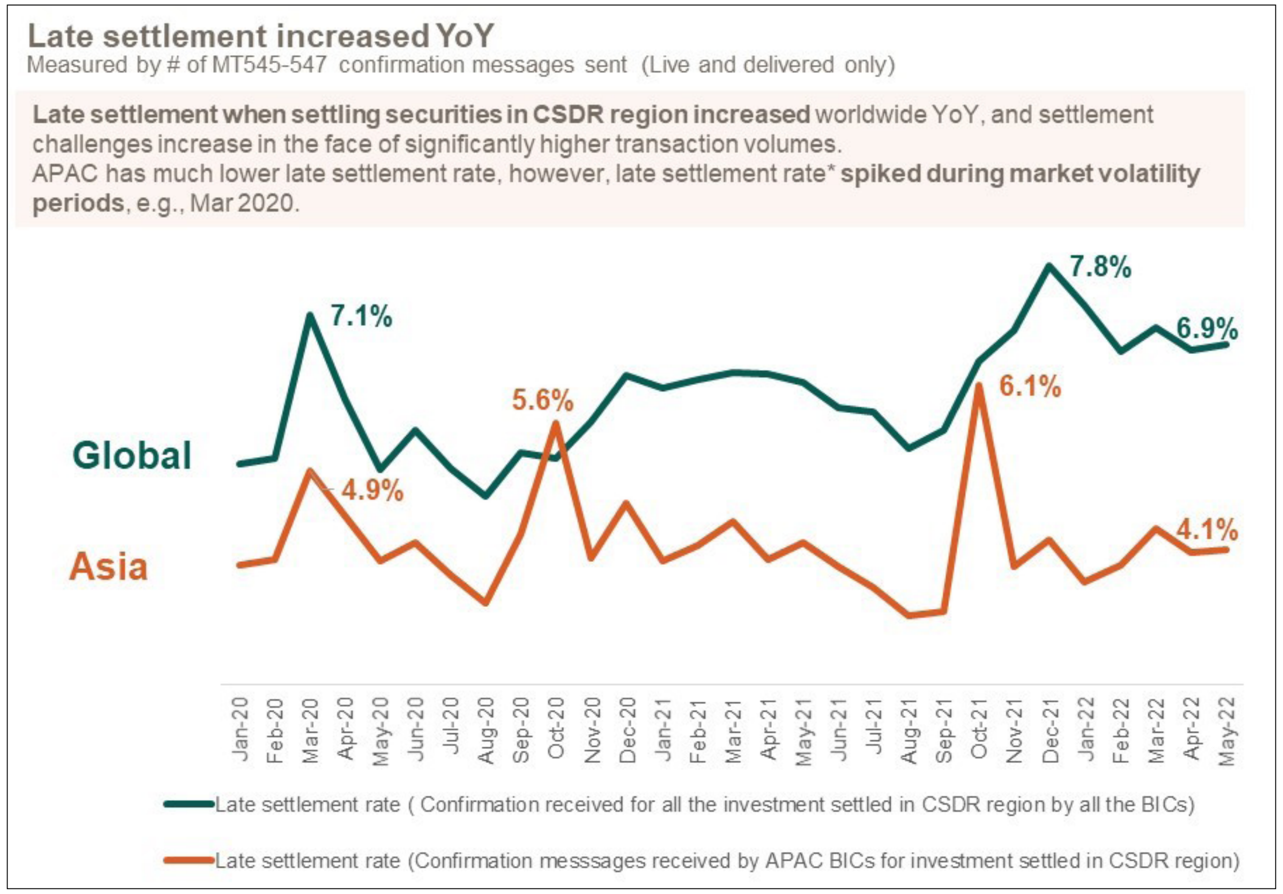
Although CSDR is an EU directive, it affects all actors globally. Under the framework, CSDs can impose penalties for settlement fails on trading counterparties ranging from half to one basis point (bp) depending on the assets involved. For instance, settlement fails involving instruments traded in the most liquid markets will incur the highest cash penalties under the new rules. It means any settlement fail will be penalised, adding extra costs to failing, on top of the costs of identifying the root cause and resolving the issue.

The regulation affects all actors in the securities lifecycle, from investors to CSDs. The most direct impact on Asia is the penalty costs imposed and the required reporting. Indirectly, the knock-on effects of fails can also cascade into the securities lending world, especially if settlement and collateral movements are affected by a large trade failure. All of this ultimately eats into firms' already tight margins.

Fluctuating settlement efficiency rates

Late settlement rate refers to the amount of settlement done after the expected settlement date. It can be a good indicator to measure the settlement efficiency of a market. The higher the rate is, the more inefficiency it indicates.

According to SWIFT Watch analysis, in European jurisdictions an average of 5% of securities settlements were late in 2020. In 2021 the figure rose further to 5.5%, due to increasing fails on fixed income and equities. Compared to global peers, Asian players settling in the same European jurisdictions perform very well. The rate of late settlement was only 3.6% on average from 2020 to Q1 2022. However, whilst such low late settlement rates imply the overall settlement process is manged in an efficient way by the Asian community, the rate is not stable and spiked to more than 6% during periods of market volatility.



Source: SWIFT Watch

Shortened settlement cycles pose challenges for Asian securities players

Market volatility caused by Covid-19 and an increase of investments by retail investors have brought the discussion around shortened settlement cycles and instant settlement to the forefront globally. India has confirmed it will phase in T+1 for equities over the course of 2022, while the US and Canada have both indicated they will introduce T+1 from 2024.

Shorter settlement cycles bring many benefits, including reduced operational and counterparty risk. But they also create many challenges – most notably market fragmentation and constraints around liquidity management, especially for Asian players investing in North American markets, where time zones are vastly different.

Shortened settlement cycles with the US mean that Asian players need to complete intraday matching and send out settlement instructions on 'T' date, and they need to fix all the settlement issues in a very short time window to avoid fails. More so than other regions, this heaps pressure on Asian players to ensure their post-trade processes are in good shape.

SWIFT Watch data analysis shows that Asian players may not be ready for it:

- **Late settlement rates could increase more than three times thanks to T+1.** According to a SWIFT Watch analysis in 2021, when Asian players settle securities in North America with a settlement cycle of T+2, the average late settlement rate is only at ~2%. When the settlement cycle is reduced to T+1, the rate significantly increases more than three times to 7%.

- **More than 90% of Asian players are not ready to release settlement instructions on 'T' Day.** According to SWIFT Watch analysis in 2021, only 8% of settlement instructions were released by Asian players on T date to settle securities in North America.

Shortened settlement cycles pose challenges for Asian securities players

Time for Asian CSDs to rethink their processes, infrastructure and technology to increase efficiency

Although CSDR (EU) and T+1 (US) are currently the most visible changes in the industry that highlight the importance of settlement efficiency, Asian markets are also taking an active approach to reducing settlement failures.

Asian CSDs have experienced an inordinate amount of change in the last decade with post-trade system refreshes, new technologies, focus on operational risk and costs and more sophisticated investor requirements.

Now, domestic CSDs in Asia are on a transformative journey and most of the domestic markets in Asia are becoming much more integrated. All of this is leading to enhanced efficiency within the region. However, challenges have been felt in opening to cross-border transactions, since this domestic model might not translate well into international best practices.

To succeed, Asian CSDs should further embrace cross-border collaboration and think about the ecosystem beyond domestic and beyond today. To build a frictionless and inclusive securities industry will require collective action, bringing together different actors in the ecosystem, from domestic CSDs to overseas investors.

Transparency is the key and CSDs can be the enabler

Whilst the securities industry has succeeded in improving automation and straight-through processing rates over the past decades, transparency, and end-to-end visibility on the status of transactions along the settlement and reconciliation value chain continues to be a challenge.

That's why, in collaboration with market participants, SWIFT is developing an end-to-end securities tracking solution that will provide full visibility and greater control on settlement transactions. The Unique Transaction Identifier (UTI) will serve as the basis for achieving this.

The UTI is an existing, industry-recognised standard – the ISO 23897:2020. Industry-wide adoption of it would help to reduce risk and improve client experience across the full trade lifecycle, regardless of the technology platform a firm is using. Although implementing the UTI will require an upfront investment on the part of market participants, it is a key enabler to reduce cost and risk in the short and long-term. The business case for UTI adoption is there, but it takes more than just creating a standard to make it successful. Success is predicated on industry adoption, agreement on the principles of the standard, and the process through which it is generated and implemented

CSDs play a key role in enabling the industry to adopt new market practices, including data standards. By acting as champions for the adoption of the standard and leading the way in identifying common approaches to system changes across industry practitioners, these bodies can become a market neutral, central resource for all firms.

UTI adoption could also be a good starting point for CSDs to embrace cross-border collaboration. As key players in the ecosystem, CSDs can use the UTI to propagate transaction information much quicker across systems in the processing chain to increase settlement efficiency through early visibility. In addition, the UTI can greatly improve cross-CSD settlement and cross-market interoperability.

Asian CSDs and their participants must be prepared to look beyond today's available technology and consider the potential of new solutions in a collaborative and value-generating environment. They should look to leverage co-creation initiatives among participants, service providers, and trusted collective community platforms. As a trusted partner for over 6,000 securities players globally, SWIFT is committed to helping CSDs increase value to their customers, work more efficiently, comply with fast-evolving regulations, and reduce costs.

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