

# 2022 AFSF Annual Report

Asia Fund Standardization Forum



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## I. Overview

Asian fund markets seem to be diluting its domestic-centric focus and slowly going “outwards” by engaging in more cross-border trading, as evidenced by the recent changes in investor appetite and the surge of regional passport schemes such as *Asia Region Funds Passport (ARFP)* of APEC, *ASEAN Collective Investment Scheme (ASEAN CIS)*, and *the mutual recognition of funds between China and Hong Kong (MRF)*. This comes with one caveat, however: connecting markets with little understanding about local differences would only lead to frictions in trade.

Are we truly frictionless in the post-trade space? To answer this question, the Asia Fund Standardization Forum (AFSF) has served as a multilateral consultative body for Asian CSDs since its inception in 2015 at the 19<sup>th</sup> ACG Annual General Meeting (ACG19). The Forum was conceptually proposed by KSD at ACG18 as part of the New Business Initiative Task Force of ACG. The Forum currently consists of 14 Asian CSDs and seven advisory members from the global fund service industry.

For the past seven years, the Forum has been well received among key players in the Asian securities services industry as a vital catalyst for the regional dialogue on post-trade harmonization, garnering an outpouring of support, enthusiasm, and participation from major Asian economies. This report intends to take the snapshots of the Forum’s journey in 2022.

### [Official Launch and Membership]



## II. The Lessons Learned from the Latest Survey

### 1. Pairing Soloists for a Symphony

A symphony is bound to be mired in a cacophony when the harmony is off among orchestra members. Such discord is only natural when the chief conductor and performers, however talented they are individually, lose sight of their common goals and fail to play in tune with each other. What music do you hear today in the Asian fund industry? Each economy in the region exhibits a great potential as a soloist. But it may be too early to expect a perfectly-coordinated group performance.

How can we go from fragmented solos to a well-orchestrated symphony? Harmony starts from mutual understanding while understanding is a process of knowing differences. The local differences of Asian CSDs are understandable in domestic settings, but obviously stands in the way of cross-border trading. To navigate the labyrinth of disparate systems and processes, there has to be a solid understanding of varied market practices in the first place. The Forum suggests “operational mapping” as a viable means to compare and contrast the market practices among our CSD members, identify operational gaps, and explore new avenues for harmonization.

## 2. The Gaps Among Us

The 2020/21 survey of the Forum revealed more similarities among Asian fund markets than expected, at least in terms of post-trade operations. Most of the respondent CSD members (including CSDC, CSDI, HKMA, JASDEC, KSD, KSEI, TDCC, TSD, and VSD) seem ready to:

- manage nominee accounts,
- automate the receipt and delivery of orders (e.g. via batch processing or real-time processing),
- reconcile balances on a daily basis,
- calculate and share net asset values (NAV) before 9am on trade date,
- provide reporting documents in a digital format,
- and open for common business days in the case of cross-border trading.

The remaining hurdles include the conformance to ISO messaging standards, cut-off time adjustment, decimalization and/or fractionalization, and the uncertainties over tax treatment. It certainly requires inter-governmental consultations to remove the question marks on tax withholding obligations, withholding agents, or other taxation issues. However, the other three hurdles can be tackled via the industry-wide cooperation under the lead of CSDs. The MRF experience of CSDC and HKMA implies that it may not be extremely challenging to adopt an ISO-compliant messaging scheme, extend the cut-off time, and breaking shares/units into multiple decimal places or fractions for the purpose of cross-border trading.

### [Inter-CSD Operational Mapping Results]

Economy		China	Hong Kong	Indonesia	Iran	Japan	Republic of Korea	Taiwan	Thailand	Vietnam
Account Management	Nominee	△	○	X	X	○	○	○	○	X
	Automation	△	○	△	X	○	○	○	○	△
Order Processing	Batch Processing	Mandatory Single batch	Optional Real-time	Optional One by one	Optional Single batch	Optional Depending on funds	Optional Real-time	Optional One by one	Optional Multiple batches	Mandatory Single batch & One by one
	Domestic	X	△	X	X	△	X	X	X	X
Messaging	Cross-border	△	△	X	X	△	○	X	△	X
Cut-off		3:00 PM	6:00 PM	4:00 PM	3:00 PM	-	6:00 PM	5:00 PM	3:30 PM	T-1
NAV Disclosure		By 8am (TD)	-	By 9am (TD)	By 8am (TD)	-	By 7am (TD)	-	By 9am (TD)	TD
Decimalization		Up to 8 decimals	Up to 6 decimals	Up to 4 decimals	X	-	X	Up to 6 decimals	Up to 4 decimals	Up to 2 decimals
Reporting	Paper	X	○	○	X	○	○	○	○	○
	Digital	○	○	○	○	○	○	○	○	○
Reconciliation	Responsible Institution	TAs Asset managers	TAs	Custodians	Asset managers	Distributors Asset managers Trustees CSD	Trustees	Distributors Asset managers	TAs	Asset managers
	Frequency	Daily	-	Daily	Daily	Daily	Daily	Daily	Daily	Each trading session of fund
Trading Days		Common BDs only	Common BDs only	Common BDs only	Undecided	Undecided	Common BDs only	Common BDs only	Common BDs only	Common BDs only
Business Hours	As-Is	9am-3pm	8:30am-6pm	8am-5pm	9am-5pm	9am-5pm	9am-6pm	8:30am-5:30pm	8am-3:30pm	8am-5pm
	Willing to change?	No	Yes	Undecided	Undecided	No	No	No	No	Undecided
Tax Treatment	Domestic	Listed companies, Bond issuers, Banks	TAs N/A	Custodians	Asset managers	Distributors	Trustees	N/A	Asset managers	Asset managers
	Cross-border			N/A	N/A	Distributors	Undecided	N/A	N/A	N/A





### III. The 5<sup>th</sup> AFSF Knowledge Sharing Workshop

The Forum's activities in 2022 mostly remained contactless with the grim specter of COVID-19 still hanging over the world. Amid social distancing and travel restrictions, the Forum remained resilient as the CSD members have demonstrated an unwavering passion for knowledge sharing and networking via emails, phone calls, and video conferences in a remote work environment.

Between June 14-15, 2022, the 5<sup>th</sup> AFSF Knowledge Sharing Workshop was virtually held by TDCC. The workshop gathered seasoned experts from ten Asian CSDs, five global securities service providers, the Association of Global Custodians, and the National Taipei University. Partnering with KSD for overall coordination, TDCC professionally curated four core sessions around the theme of “Cross-border Trade Barriers: From Silos to Symphonies” – AFSF Session, CSD Session, Advisory Session, and Local Market Session.

#### [Virtual Conferencing Experience for Workshop Participants]

	Participant	Snapshots from the Workshop
CSD	CDS and Clearing Limited (Nepal)	 
	Central Securities Depository of Iran	
	China Securities Depository and Clearing Corporation Limited	
	Digital Access Platform Company Limited (Thailand)	
	Hong Kong Monetary Authority	
	Korea Securities Depository	
	PT. Kustodian Sentral Efek Indonesia	
	Taiwan Depository & Clearing Corporation	
	Thailand Securities Depository Co., Ltd.	
	Vietnam Securities Depository	
Global Securities Service Provider	Calastone	
	Clearstream	
	DTCC	
	Euroclear	
	SWIFT	
Association	Association of Global Custodians	
Academic Institution	Nation Taipei University (NTPU)	

The event began with an opening speech of Mr. Sherman Lin (Chairman & CEO, TDCC) and a congratulatory speech of Mr. Byung-keun Go (Head of Global Business Department, KSD). Amid a welcoming atmosphere, during the AFSF Session, Mr. John Oh (Manager of Global Business Department, KSD) set the tone for the event by drawing insights from the latest survey on inter-CSD operational mapping. The following sessions covered a wide range of topics including the use of data analytics in market supervision, the transparency of privately-placed funds, the shortening of settlement cycle, the digitalization of regulatory reports, ESG funds and sustainable investing, fund processing platforms, cross-border trading, and new service updates.



**[5<sup>th</sup> AFSF Knowledge Sharing Workshop Program]**

Day 1. Tuesday, June 14, 2022			
Time (UTC+8)	Program	Topic	Speaker
14:00 - 14:02		Opening	
14:02 - 14:07	Opening Speech	Opening Speech	Mr. Sherman Lin Chairman & CEO TDCC
14:07 - 14:12	Congratulatory Speech	Congratulatory Speech	Mr. Byung-keun Go Director, Head of Global Business Dept. KSD
14:12 - 14:15		Program Briefing	
14:15 - 14:45	AFSF Session	2020/21 Survey Results	Mr. John Oh Manager, Global Business Department KSD
14:45 - 15:05	CSD Session 1	Data Analytics in Mutual Fund Market Supervision	Mr. Ching-Yuan Chen Associate, Fund & Global Services Dept. TDCC
15:05 - 15:25	CSD Session 2	Making Private Fund Market More Transparent and Safer: FundNet To Embrace Unregistered Private Assets	Mr. Wonseok Lee Assistant Manager, Offshore Fund Support Team KSD
15:25 - 15:45	Advisory Session 1	Accelerated Settlement: Key Challenges to Foreign Investors	Ms. Nellie C. Dagdag Managing Director, APAC Marketing & Communications and Regional Administrative Manager for Asia Pacific DTCC
15:45 - 16:05	Advisory Session 2	Digitalization of Regulatory Reports (AML/KYC, Sustainability Reports)	Mr. Mohamed M'Rabti Head of Product Management APAC Euroclear
16:05 - 16:10		Closing	

Day 2. Wednesday, June 15, 2022			
Time (UTC+8)	Program	Topic	Speaker
14:00 - 14:05		Opening & Program Briefing	
14:05 - 14:25	Local Market Session	ESG Funds and Sustainable Investment in Taiwan	Mr. Chi-Jui Huang Ph.D., Professor, Dept. of Finance and Cooperative Management National Taipei University
14:25 - 14:45	CSD Session 3	FundConnex Making Mutual Fund Distribution More Accessible to the Mass – FinVest Use Case	Ms. Nawaphan Luangpapaikit Assistant Manager, Strategic Initiatives Department DAP
14:45 - 15:05	CSD Session 4	Cross Border Transactions in Indonesia Mutual Fund Market	Ms. Lidya Ramadani Head of Investment Product Administration Unit KSEI
15:05 - 15:25	Advisory Session 3	Digital technology as an enabler for cross border distribution	Mr. Ross Fox Managing Director, Head of APAC Calastone
15:25 - 15:45	Advisory Session 4	What's new!	Mr. Stanley Poon Head of Sales - Asia, Middle East & Africa, Investment Funds Services Clearstream
15:45 - 16:00	Closing	Closing Remarks and Introduce the Host of the Next Workshop	Mr. John Oh Manager, Global Business Department KSD



## IV. CSD Milestones during 2020-2022

This section highlights the key developments of Asian CSDs where news, data, or other references are arranged in a chronological sequence, whereas names are listed in an alphabetical order.

### Central Depository Services India Limited [CDSL]

As for the most recent updates, CDSL opened 80 million active demat accounts in Feb 2023. And the year 2023 marks the 25<sup>th</sup> year of Operations of CDSL.

#### ① Provision of Redirection Facility for e-Voting of Listed Companies

CDSL introduced a facility that enables its depository participants (DPs) to redirect its beneficial owners (BOs) from their own websites to the CDSL BO Centre and provides them with a direct access to do e-voting. Individual shareholders having a demat account can log on to the online trading portals of their DPs/brokers and get redirected to CDSL's BO Centre. Upon redirection, an initial authentication will be done through the e-voting menu of the BO Centre using an OTP. Individual demat account holders will then be able to cast their vote on the e-voting portal of CDSL or any e-voting service provider (ESP) without any further authentication. 30 DPs are enabled to use e-voting API while 235 DPs can leverage a weblink on their websites.

#### ② Updates on CDSL's Services

##### a. Mandatory Updation of Six KYC Investor Attributes in Demat Account

It has been decided to make six KYC attributes mandatory in the demat account for all categories of investors. The six KYC attributes that shall be sought mandatorily by DPs are as follows:

- |                            |                        |
|----------------------------|------------------------|
| i. PAN (Income Tax Number) | iv. Valid Phone Number |
| ii. Name                   | v. Valid email id      |
| iii. Address               | vi. Income Range       |

##### b. Implementation Block Mechanism and Mandatory UCC Details for Pay-in Instructions:

Under the block mechanism, shares of a client intending to make a sale transaction will be blocked in the client's demat account in favor of the clearing corporation concerned. The facility of block mechanism shall be mandatory for all types of pay-in transactions. Unique Client Code (UCC) also has made mandatory for all types of pay-in transactions where CC obligation matching is mandatory.

##### c. T + 1 settlement cycle in capital market segment:

SEBI issued circular no. SEBI/HO/MRD2/DCAP/P/CIR/2021/628 dated September 07, 2021 regarding introduction of T+1 rolling settlement wherein new Market Type was introduced for the accelerated settlement cycle. According to the exchange notification, the transition of all securities from T+2 settlement cycle to T+1 settlement in equity segment has been implemented since January 27, 2023.



**③ Handling of Clients' Securities (Pay-out) by Trading Members (TM) / Clearing Members (CM) (Block Mechanism):**

As per the SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated November 11, 2022, all the securities received in pay-out, shall be transferred to the demat account of the respective clients directly from the pool account of the TM/CM within one working day of the pay-out.

With regard to the unpaid securities (i.e., the securities that have not been paid for in full by the clients), such securities shall be transferred to respective client's demat account followed by creation of an auto-pledge (i.e., without any specific instruction from the client) with the reason "unpaid", in favour of a separate account titled – "client unpaid securities pledgee account", which shall be opened by TM/CM. If the client does not fulfil its funds obligation, TM / CM shall dispose of such unpaid securities in the market within five trading days after the pay-out.

**④ Mandatory updation of Nomination in Existing Demat Accounts on or Before March 31, 2023:**

As per the SEBI circular no. SEBI/HO/MIRSD/MIRSD\_RTAMB/P/CIR/2022/23 dated February 24, 2022, regarding appointment of Nomination in Eligible Trading and Demat Accounts wherein all existing eligible demat account holders shall provide choice of nomination as per the option given in paragraph 2 of SEBI circular dated July 23, 2021, on or before March 31, 2023. In case the eligible BO/s neither provides nomination details nor the BO/s opt-out of nomination on or before March 31, 2023, the demat account shall be frozen for debits.

**⑤ Aadhaar Seeding (Linkage of Aadhaar with PAN) before March 31, 2023:**

As per Income-tax Act, 1961, it is mandatory for all PAN holders, who do not fall under the exempt category, to link their PAN with Aadhaar before March 31, 2023. In case PAN is not seeded with Aadhaar, on March 31, 2023 EOD the existing demat accounts wherein the PAN is not seeded with Aadhaar for the specified client categories by Government will be considered as invalid and the demat accounts will be frozen for debits.

**⑥ Blocking of Buyback / Tender offer Securities (Tender offer):**

In the existing mechanism, the shares tendered by the shareholders are required to be directly transferred to the account maintained by the Clearing Corporation and different tendering processes are being adopted by depositories. Such transfer involves systematic risk, substantial time, and cost. After the implementation of Block Mechanism, it has been decided that a lien shall be marked against the shares of the shareholders participating in the tender offers. Upon finalization of the entitlement, only accepted quantity of shares shall be debited from the demat account of the shareholders. The lien marked against unaccepted shares shall be released.





## **Korea Securities Depository [KSD]**

### **① Lowering Entry Barriers for Investors with Fractional Shares**

Investing is no longer a choice, but a necessity. And there needs to be a way to buy decent stocks regardless of a tight budget.

Stock investors must have welcomed the news on September 26, 2022, that KSD launched the operations for the fractionalization of listed shares in Korea. In celebration of the new service, KSD held a kick-start ceremony on October 26, 2022, which was bustling with the representatives from major partners including Hanhwa Securities, KB Securities, Kiwoom Securities, Mirae Asset Securities, NH Investment & Securities, Samsung Securities, and Shinhan Securities.

The idea of fractionalization has been around in the industry for long. However, the need for trading fractional shares was recognized and stressed in recent years by a number of retail investors wishing to invest in blue-chip stocks with small capital.

In response, on February 16, 2022, the Financial Services Commission (FSC) of Korea announced fractional shares as one of the innovative financial services and granted an approval to KSD as a designated institution processing fractional shares.

Fractionalization will empower the investing public to better access the capital market of Korea and ensure a more strategic, yet affordable portfolio management.

### **② Shedding Further Light on Unregistered Assets**

Private assets are often fraught with hidden risks and scams due to lacking oversight and information asymmetry. In the shadowy corners of private fund markets, investors may fall prey to devastating financial losses as witnessed in recent Ponzi-like schemes and the large-scale suspension of redemption. With proper safeguards in place, however, the investing public will be able to unlock ample opportunities with informed decisions.

Against such a backdrop, on May 30, 2022, KSD upgraded FundNet (the central processing platform for the Korean asset management industry) to make private fund investing safer by supporting the delivery and approval of management instructions.

This was the second big step of the service expansion for the private fund market in Korea. Earlier on June 28, 2021, FundNet was functionally bolstered to identify unregistered assets with standard codes and enable asset management companies and trustees to reconcile the balance of the assets under custody (matching & verification).

On the back of high expectations from industry stakeholders, KSD will continue to expand the post-trade processing coverage of FundNet in order to bolster transparency and investor confidence.

### ③ Offering Another Venue for Trading with Alternative Trading System (ATS)

Having multiple trading venues drives a healthy competition and eventually benefits the investing public with more choices and cost reduction.

The amendment of the Financial Investment Services and Capital Markets Act (FSCMA) in August 2013 leveled the playing field by opening up room for establishing alternative multilateral trading facilities in addition to the existing one, the Korea Exchange (KRX).

On November 11, 2022, the Korea Financial Investment Association (KOFIA), major broker-dealers, IT firms, and infrastructure institutions kickstarted “Nextrade” as the first entity designed for the launch of ATS in Korea. KSD is one of the 34 institutions financially contributing to the establishment of Nextrade.

Nextrade will apply for the approval on multilateral trading on March 2023. Once approved by the Korean financial authorities, Nextrade will become the first ATS in Korea offering a trading venue outside KRX. Despite the change in the trading landscape, KSD will be settling the trades from both KRX and Nextrade.

### ④ Patenting Ideas for Tokenization Business

If the future objective of capital market is to transpose the securities trading as we know it today to the blockchain space, tokenization could hold the key. In a world where securities are treated as underlying assets and traded in the form of digital tokens, there should be a solid DLT-powered infrastructure and straight-through operational processes to ensure the safe and efficient transfer of ownership and record-keeping.

KSD has pushed for a long-term plan to develop a DLT-based platform for securities tokenization. On January 21, 2022, KSD published and circulated an introductory handbook called “2021 Security Token: Understanding the Basics” to familiarize the employees with the key terms and fundamental concepts of tokenization, the latest trends in ST markets, and the best practices in the U.S. and Germany.

Based on the consulting project with the Korea Legislation Research Institute (KLRI), KSD held a mid-term report session on March 25, an academic conference on April 15, and a final report session on September 20. The series of research efforts were made to obtain sufficient knowledge for designing DLT platform models and proposing legislative directions and opinions to pertinent authorities with regard to the introduction of security tokens in the regulated market.

On September 7 and December 5, KSD filed for and obtained patents on several significant ideas and models on ST processing platform: node-and-gateway structure, centralized KYC protocols, total quantity management, non-repudiation of e-signatures, cross-platform compatibility, code standardization, DLT database management, recordkeeping, and cash token management. Under the protection of the patents, KSD will be able to explore the feasibility of ST platforms and proceed with a more in-depth development in a stable manner.

## **PT Kustodian Sentral Efek Indonesia [KSEI]**

KSEI successfully became the only non-bank member of BI-FAST Payment System Infrastructure from the Bank Indonesia, among 106 members at the end of January 2022. This infrastructure completes BI-RTGS which enables its members to provide 24/7 cash transfers service for up to 250 million Indonesia Rupiahs with lower fees. In August 2022, KSEI has also increased C-BEST capacity which enables the system to process up to 150,000 transactions per minute (tpm) compared to its previous performance of 20,000 tpm. This improvement also enables the participant to facilitate from 1.6 million sub-accounts (SRE) per member to 2 billion SREs per each account holder. Furthermore, KSEI carried out the development of S-INVEST, the core system for mutual funds, on its Net Switching Amount module in December 2022. Throughout the year, KSEI has also succeeded in implementing several additional features in AKSES, a system that enables investors to monitor all their capital market investments. Those features consist of tax information, daily reporting of asset under management of each mutual funds, and investors' mutual fund transaction stamp duty.

Besides its services, KSEI managed to maintain its compliance to international standards which consists of ISO 9001, 27001, and 37001 certification and CPMI-IOSCO PFMI. It also obtained the ISO 22301 regarding business continuity management system. KSEI also conducts assessments regarding ERM Maturity and GCG with external assessors every three years. The latest assessment in 2022 resulted in an ERM maturity increase from 3.46 to 3.86, in line with the improvement of the GCG assessment which grew from 70 to 78. There were new participants joining KSEI, consisting of one Investor Fund Account (RDN) administrator banks which amounted to 18 current RDN administrator banks, and 9 securities companies providing account opening simplification that amounted to 40 securities companies in total.

KSEI was awarded as the best CSD in Southeast Asia by Alpha Southeast Asia. This award has been given to KSEI for five times in seven years. Indonesian World Records Museum also awarded KSEI for the Most Capital Market Application Logins in Most Cities as the program was held in 99 cities with 11,371 logins. Most of all, Indonesian Corruption Eradication Commission formally acknowledged KSEI's efforts and support toward the implementation of Electronic Data and Information Exchange Application.

## **Philippine Depository & Trust Corp. (PDTC)**

### **① Harnessing Digital Technologies for the Next Generation of Services**

In collaboration with a fintech provider, PDTC embarked on a project—a proof of concept (POC)—to explore the adoption of distributed ledger technology (DLT) for PDTC's fixed income registry and depository systems with the aim of deploying viable DLT-powered Registry & Depository systems to support issuances, asset servicing (transfers and corporate actions), as well as secondary trading and settlement of a digital bond. The POC will run for 18 months which is essentially the tenor of the first digital bond issuance in the country issued on the chain. Since its launch in June 2022, the project has successfully processed two coupon payments on the DLT ecosystem, thus indicating the potential of technological adoption.



## ② Launch of Upgraded EQ Depository System

PDTC successfully launched its upgraded Equity Depository System called “EQ BaNCS v6” on 22 August 2022, as part of its continuous commitment to enhance the quality of its services and improve client experience. Among the benefits arising from the upgrade are better resiliency, customer experience, and higher system capacity to support a growing market.

## ③ Collateral Safekeeping Services

In response to the needs of some market participants to comply with Republic Act No. 11057 or the Personal Property Security Act (“PPSA”), under the ambit of its Collateral Management Business, PDTC has initiated carving out Collateral Safekeeping Services for entities in need of third-party collateral safekeeping provider. This Service is being crafted in accordance with the Implementing Rules and Regulation of PPSA.

## Taiwan Depository & Clearing Corporation [TDCC]

### ① Gear to ESG Sustainable Investment Trends

Sustainability has been a highly prioritized global issue, and in order to align with international standards and establish a robust ESG ecosystem, TDCC actively cooperates with regulatory policies to build an ESG fund zone in Fundclear website. It provides channels for disclosing the names of ESG funds and relevant issuer information to enable investors to gain a more comprehensive understanding of ESG investment trends and to incorporate ESG elements into their investment strategies. This encourages support for ESG-compliant companies and participation in their business operations, while simultaneously improving overall social, eco-friendly, and sustainable development in Taiwan.

By subscribing to ESG funds, investors can stimulate issuers or master agents to introduce ESG funds into the domestic market, further promoting greater attention to ESG issues in capital markets and businesses, hence achieving a virtuous cycle. TDCC's initiative not only benefits individual investors but also helps companies better understand the importance of ESG elements to promote corporate social responsibility and sustainable development.

### ② TDCC's eSMART Platform Streamlines Onshore Fund Account Opening Process

TDCC has launched an electronic service on its eSMART platform for securities investment trust enterprises to open accounts with custodian banks and securities firms on December 26, 2022.

The platform uses digital processing to transmit relevant account opening data to corresponding institutions, reducing the costs of manual document delivery and repetitive paperwork. The service also ensures data security, confirms the completion of relevant operations via electronic signature, and saves process tracks and documents electronically, fulfilling social responsibility towards green and sustainable practices.



TDCC aims to expand its services in various areas of the fund market, including onshore fund centralized settlement system, investment education, and inclusive finance practices, to create a comprehensive and efficient fund market service ecosystem.

## **Thailand Securities Depository [TSD]**

The Digital Access Platform (DAP), a subsidiary of the Stock Exchange of Thailand (SET), made the following efforts for the advancement of FundConnex:

### **① Rethinking ETF Distribution for Greater Accessibility**

Traditionally, Exchange Traded Funds (“ETFs”) are traded on the secondary market through securities brokers. Thus, the success of ETF heavily relied on security brokers. Mutual funds have a strong distribution channel through asset management firms, banks, and security brokers (“Selling Agents”), making it a more popular investment product compared to ETFs in terms of assets under management. Having worked closely with the Thai SEC, the regulation then allows ETFs to be distributed through Selling Agents as well, given the two channels must be transferrable. The challenge then lies in transferal of ETF units from investor’s mutual fund account to ETF shares in their securities broker account, and vice versa.

To address this challenge, FundConnex, a centralized mutual fund platform developed by DAP, proposed to link its own platform to the existing ETF Creation/Redemption platform. This enables investors to easily transfer ETF units between the two channels. This new distribution channel has attracted new ETF issuer, UOB Asset Management, to launch two thematic ETFs in 2022.

### **② Streamlining of the Onboarding Process for Online Account Opening**

Since the Covid-19 pandemic, online account opening for investment has grown continuously due to the new normal lifestyle. In Thailand, investors can verify their digital identity with the National Digital ID platform (NDID), launched in 2020. The NDID platform is an infrastructure which connects authorized members together to facilitate cross-institution digital identity verification and authentication based on the identity owner’s consent. It plays a crucial role in promoting digital transactions and online services for both public and private sectors with greater convenience and security in a timely manner.

To make the online account opening simpler, efficient and standardized for the industry, The Stock Exchange of Thailand (SET) has discussed with all stakeholders including related regulators to (1) Redesign user journey to shorten online account opening process (2) Streamline application form to cover all investment products i.e. equities, derivatives and mutual fund. This proposal was approved by the Thai SEC and came into effect in 2022.

### **③ Enhancement of Fund Data Dissemination for Efficient Fund Distribution**

FundConnex provides Fund Profile service that allows participants to access fund data such as fund rules, fund holiday, switching matrix, fund performance and corporate actions in machine readable format. Then, it is straightforward and efficient for distributors to use in term of operation and data dissemination since the service went live in 2017.

However, news and announcements information were still published separately by each asset management company. For investors to be kept informed for their better investment decision,

FundConnex collaborates with all asset management companies to connect and consolidate this information in 2022. Then, distributors and related participants can access all fund data at FundConnex.

#### ④ **Enhancement of Payment Service—Mutual Fund Subscription via QR Code Payment**

QR code payment are becoming a common form of payment all over the world including in Thailand. The widespread use of mobile banking and digital wallets facilitated the rise of QR code payment for daily spending and also investment

To make the mutual fund subscription via QR code payment, FundConnex enhance this payment service with FinNet, another SET's subsidiary, connecting to banks as a total solution for distributors. With this service, distributors are able to support large volume of small ticket size investments with less operational effort resulting in lower cost overall.

Since early 2022, investors can utilize QR code payment via Streaming Fund+, which is a fund distribution mobile application integrated with FundConnex.

### **Vietnam Securities Depository [VSD]**

#### ① **Gearing up for Vietnam Securities Depository and Clearing Corporation (VSDC)**

In 2022, VSD actively coordinated with related organizations to carry out works related to the transformation to VSDC in accordance with 2019 Securities Law — an important milestone in the development of VSD in particular and the securities market in general. On December 26, 2022, the Prime Minister signed Decision no.26/2022/QĐ-TTg on the establishment, organization and operation of VSDC. Accordingly, VSDC is to be established on the basis of transforming VSD with the charter capital of VND 1,000 billion. VSDC is a state-owned one-member limited liability company, 100% of charter capital held by the state with the head office in Hanoi and a branch in Ho Chi Minh City.

#### ② **Official Adjustment of the Time of Final Transfers of Securities and Cash on T+2**

Since August 29, 2022, VSD has successfully shortened the time of final transfers for securities transactions (including stocks, fund certificates and covered warrants) from 15:30-16:00 on T+2 to 11:00-11:30 on T+2. Accordingly, investors can sell securities purchased on T+0 in the afternoon of T+2 instead of waiting until T+3 as before. It can be said that these are great efforts of regulators, VSD, stock exchanges as well as market participants and the settlement bank.

#### ③ **Operating the Online System of Guarantee Measure Registration for Securities Centrally Registered at VSD**

VSD launched the online system of guarantee- measure-registration for securities centrally registered at VSD from early 2022. The system operation has contributed to improved market efficiency and utilities for investors, helping securities registrants and recipients conveniently follow as well as ensuring interests of parties in executing transactions, minimizing manual handling and risks, speeding up execution of business operations.





#### ④ Setting up the System of Registration, Depository and Settlement for Privately-placed Corporate Bonds

To make corporate bond market an important and effective capital mobilization channel and minimize investor risks, VSD has coordinated with Hanoi Stock Exchange (HNX) to develop a system of registration, depository and settlement for privately-placed corporate bonds under the direction of the Ministry of Finance and the State Securities Commission. In December 2022, VSD completed selection of vendors and developed a plan to deploy the software system to ensure launching the system in June 2023 as regulated.

## V. External Collaboration

### 1. ARFP Joint Committee

#### 1-1. Overview of ARFP Joint Committee

The Joint Committee on Asia Region Funds Passport (JC) is a working group established under the MoC signed in June 2016 by five ARFP members (state regulators from Australia, Japan, New Zealand, the Republic of Korea, and Thailand) for the purpose of the effective implementation of ARFP. Since 2016, JC has continued to hold biannual meetings called “ARFP JC Face-to-face Meeting (hereinafter “JC Meeting”)” as below (Refer to the [link](#) for more detailed information).

- The 1<sup>st</sup> JC Meeting in Kuala Lumpur, Malaysia (April 23-24, 2016)
- The 2<sup>nd</sup> JC Meeting in Tokyo, Japan (April 20-21, 2017)
- The 3<sup>rd</sup> JC Meeting in Bangkok, Thailand (October 4, 2017)
- The 4<sup>th</sup> JC Meeting in Sydney, Australia (April 25-27, 2018)
- The 5<sup>th</sup> JC Meeting in Auckland, New Zealand (September 19-21, 2018)
- The 6<sup>th</sup> JC Meeting in, Seoul, Republic of Korea (May 8-10, 2019)
- The 7<sup>th</sup> JC Meeting in, Singapore (October 21-22, 2019)
- The 8<sup>th</sup> JC Meeting in a virtual setting (May 28, 2020)
- The 9<sup>th</sup> JC Meeting in a virtual setting (April 22, 2021)
- The 10<sup>th</sup> JC Meeting in a virtual setting (October 29, 2021)
- The 11<sup>th</sup> JC Meeting in a virtual setting (July 21, 2022)
- The 12<sup>th</sup> JC Meeting in Tokyo, Japan (December 5-6, 2022)

#### 1-2. Participation in JC Meetings during 2020-2021

KSD joined the 8<sup>th</sup>, 9<sup>th</sup>, and 10<sup>th</sup> JC meetings between 2020 and 2021 alongside the key state regulators of Korea (the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS)) to voice opinions on post-trade processing and infrastructure and emphasize a possible synergy between ARFP and AFSF. All of the three JC meetings were held virtually due to the health and safety concerns related to COVID-19. The latter two of the meetings were presided over by FSC and moderated by KSD.



As for updates, on May 27, 2020, the Republic of Korea completed the amendment of laws and regulations for the implementation of the ARFP and became operationally ready to receive applications for fund passporting from the end of 2020.

On January 26, 2022, the first passport fund (Smartshares Limited) finally emerged under the ARFP regime as the New Zealand Financial Markets Authority (FMA) registered a regulated collective investment scheme based in New Zealand as a passport fund.

On July 1, 2022, the proposal of the Australian Treasury on corporate collective investment vehicle (CCIV) was enacted, hence effectively implementing the CCIV regime on July 1, 2022. CCIVs are a new type of CIV with a corporate structure. A CCIV may either be retail or wholesale and is required to have one or more sub-funds with their own Australian Registered Fund Number. CCIV sub-fund must be registered and operated as a separate business within the CCIV structure, to which assets and liabilities are allocated. CCIVs are taxed in Australia on a flow-through basis.



## VI. 2023 Plan

FMI across the world have weathered the worst of COVID-19 with robust adaptability, even in the face of the spike in trading volume during the March 2020 turmoil. Such experience clearly reminds us that the Asian financial services industry is more than capable of tackling current and forthcoming challenges in the post-trade space with much confidence and resilience.

### 1. The 6<sup>th</sup> Knowledge Sharing Workshop

The next workshop is slated for the second half of 2023 while the next host is soon to be determined based on the ongoing discussions and the ensuing consensus of CSD members. The next annual theme and survey will expand the depth and breadth of the inter-CSD operational mapping.

For the sake of engagement, it is strongly recommendable for the next host to curate workshop sessions in a way that the audience is split into several round tables and freely discuss their ideas and views on the survey results. Such feedback is becoming increasingly important in recalibrating the direction of future surveys, given the nature and maturity of the Forum's research.

### 2. The Future Path to Explore

The ultimate goal of the Forum is to build a complete map of an interoperable CSD world in



Asia by shedding further light on operational gaps and plugging those gaps with straight-through processing based on a regionally-accepted inter-CSD linkage model.

In this sense, the follow-up research should expand the scope of the Forum's current operational mapping. A feasible approach is to simulate the journey of a "mock" passport fund trade in a bilateral setting, progressing from order placement, to order routing, to settlement, and to other post-trade operations at the CSD level. If proven effective, the mock trade simulation may be programed in a trilateral or multilateral setting. If time permits, KSD will continue to facilitate a dialogue on research methodologies by collecting opinions from CSD members via emails, video calls, and/or study visits.

Still, be mindful that the objective, direction, content, or form of research are subject to future changes and will be further specified in due course.

### **3. External Collaboration**

KSD may not be able to attend ARFP JC meetings due to the end of FSC's chairmanship, but will continue to share updates on the latest developments of the passport regime based on reliable sources. With the advent of the first iconic passport fund, the Forum will closely watch the growth of ARFP in order to keep up with material market changes and trends that may impact the regional FMIs in the post-trade space and identify operational gaps among Asian economies that may adversely affect the custody, settlement, and/or other elements of post-trade processing. Any meaningful implications from such monitoring efforts will be further discussed with concerned market players in the next workshop and through other big and small gathering opportunities.

As mentioned earlier, the Asian fund market should not be simplified as domestic-centric as many key players in the regional markets are seemingly breaking out of "a siloed mentality" and going outwards proactively. What the Forum suggests is concise: let's plan and execute a rehearsal before the music starts, be it a duo, a trio, a quartet, or a quintet. A little bit of practice accumulated over time will become a solid stepping stone for transforming ourselves from individually-talented soloists to a full-scale orchestra working in harmony.

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