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SUB-CUSTODY GUIDE 2016

**Handbook of
market trends and
sub-custodian
performance
in every major
market**

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METHODOLOGY

All users of the services of sub-custodians, from broker-dealers to global custodians, were asked to rate their performance.

Respondents were asked to rate sub-custodians in all countries in which they operate across 12 service categories (see list below).

The performance of sub-custodians was rated separately in each country.

Respondents were permitted to rate up to ten sub-custodians in each country.

For each country there are two tables: unweighted and weighted. The weighted table allows for assets under custody as well as how important the respondents consider each category to be.

UNWEIGHTED TABLES

All valid responses for each sub-custodian in a particular country were averaged to calculate an unweighted score.

WEIGHTED TABLES

Step one: Weighting by assets under custody

First, an allowance was made so that a greater weight is given to the views of larger respondents, defined by their assets under custody (AuC).

Respondents were asked to choose a band that reflects the size of their AuC in billions of US dollars. The boundaries of each band were determined by the AuC of respondents to last year's survey. They are chosen so an approximately equal amount of respondents fit into each band. A weighting is attached to each band as follows:

<\$100bn	0.6
\$100bn – \$200bn	0.8
\$200bn – \$500bn	1.0
\$500bn – \$1000bn	1.2
>\$1000bn	1.4

Each respondent's unweighted rating of a sub-custodian was then multiplied by the appropriate weighting. For example, if a global custodian with AuC of \$567bn gave a sub-custodian an average score of 6.7, its contribution to the weighted score was $6.7 \times 1.2 = 8.04$. This weighted rating was then averaged with all other respondents' weighted ratings. Where a figure for AuC was not disclosed a default weighting of 1 is assigned.

Step two: weighting by category importance

Respondents were asked to rank the importance of each of the service categories. These respondent rankings were then averaged. These average rankings were then used to create a weighting for each service category, which theoretically could range between zero and two but will depend on the actual responses. The average weighting is one to preserve comparability with unweighted scores.

For clarity, if on average respondents considered relationship management to be the most important category, it was given the greatest weighting when calculating scores.

QUALIFICATION

Qualification was on a country-by-country (rather than regional) basis. To qualify in a country, a sub-custodian needed to receive a minimum of four responses in developed markets and three in emerging, frontier and unclassified markets (according to the MSCI classifications).

If a sub-custodian was rated multiple times by the same respondent firm in the same country the ratings were averaged and only counted as a single response for the purposes of qualification.

CATEGORIES

Sub-custodians were rated across 12 main categories, of which some were divided into sub-categories.

The 12 main categories had equal weight. Where a main category is split into sub-categories, an average of the sub-categories was taken to produce the score for the main category.

The categories are as follows:

1. Settlement

- Efficiency of pre-settlement matching and reporting
- Failed trade management
- Timeliness, accuracy and completeness of reporting
- Competitiveness of cut off times

2. Safekeeping

3. Income collection

- Timeliness, accuracy and completeness of notifications
- Timeliness, accuracy and completeness of confirmations

4. Corporate actions

- Timeliness, accuracy and completeness of notifications
- Timeliness, accuracy and completeness of confirmations
- Competitiveness of response cut off times

5. Client service

- Quality of subject matter expertise
- Responsiveness and effectiveness of enquiry management
- Availability and calling frequency

6. Reporting capability

- Flexibility of delivery channels
- Quality and timeliness of SWIFT and other reporting

7. Tax reclaim services

- Solicitation of timely tax documentation
- Quality of reporting

8. Market information

- Relevance of market information
- Timeliness of market information

9. Relationship management

- Understanding of your business needs
- Ability to set up new products when requested
- Quality of subject matter expertise
- Responsiveness and effectiveness of enquiry management
- Availability and calling frequency

10. Securities lending fail coverage

11. Regulatory expertise and capability

12. Product development and innovation

EUROPE

Regional overview

With the first wave of TARGET2-Securities (T2S) implementation complete and the second wave rapidly approaching, the European market is slowly adopting the new unified settlement system that was first proposed in 2006.

Switzerland, Italy, Romania, Greece and Malta have already joined the system, completing the on-boarding process around 31 August 2015. In 2016, waves 2 and 3 will join, with Portugal and the National Bank of Belgium joining first on 28 March, and Luxembourg, Denmark, and the Euroclear CSDs in Belgium, France and the Netherlands joining on 12 September.

While preparation for the switchover has been ongoing since 2008, delays continue to crop up, with Euroclear announcing in October 2015 that its French, Dutch and Belgian operations would delay joining until the third wave. Euroclear's successful migration to the T2S system is especially important as it is one of the world's largest CSDs.

Outside of the T2S migration, new EU directives and regulations are also buffeting the market with UCITS V in particular to be introduced this year, along with extra European Market Infrastructure Regulation (EMIR) requirements for large institutions. While the bulk of EMIR requirements have already been introduced, on 1 September 2016, variation margin requirements for the largest institutions will be implemented, with smaller institutions applying the requirements in tiered groups over the next four years.

UCITS V guidelines, including the requirement for a single depository for each UCITS, must be incorporated into national laws by 18 March 2016.

Survey highlights

BNP Paribas Securities Services won both weighted and unweighted rankings in Cyprus, Germany, Greece and Italy, while winning the weighed rankings in Belgium, the Netherlands, Portugal, and Spain. It won unweighted in Hungary, Poland and Turkey.

SEB managed to win Estonia, Latvia, Lithuania and Sweden outright in both weighted and unweighted categories. It also won unweighted in Denmark, Finland and Norway. The weighted winner in those three countries was SEB's direct competitor Nordea.

UniCredit won Slovakia in both categories and won weighted in Austria, Bosnia & Herzegovina, Croatia, Czech Republic, Poland, Serbia and Slovenia.

Societe Generale picked up eight wins. It secured France in both unweighted and weighted, along with Croatia, Czech Republic, Romania, Russia, Serbia and Slovenia unweighted.

Under the weighted methodology Citi came first in six countries: Bulgaria, Hungary, Romania, Russia, Turkey and Ukraine.

Austria's Raiffeisen Bank International achieved four top unweighted results in Austria, Bosnia & Herzegovina, Bulgaria and Ukraine. Deutsche Bank also won in four countries under the unweighted results, with Belgium, the Netherlands, Portugal and Spain.

HSBC and Islandsbanki won both categories in a single country, the former securing the UK, and the latter winning its home turf in Iceland. Switzerland's winners were Credit Suisse and UBS, weighted and unweighted respectively.

Austria

UNWEIGHTED		
RANK		SCORE
1	Raiffeisen Bank International	5.96
2	UniCredit	5.46
3	Deutsche Bank AG	5.31
WEIGHTED		
RANK		SCORE
1	UniCredit	6.74
2	Deutsche Bank AG	5.47
3	Raiffeisen Bank International	4.00

Following the decision by Euroclear to postpone its T2S migration to the third wave, the Austrian CSD announced that it would postpone until the fourth T2S wave, set for 6 February 2017.

While this delays the eventual implementation of the T2S framework, preparations for the switchover have been proceeding apace.

Due to CSDR requirements, 2015 saw OeKB CSD spun out of the Central Securities Depository in Austria, splitting the CSD's services away from its non-core banking services. The divide occurred on 14 September 2015 with the new entity wholly-owned by the parent bank, OeKB AG. The group has now achieved the segregation necessary for CSD and non CSD functions.

Working toward T2S implementation, the Austrian market introduced the

record date on 16 November 2015, making record dating essential in determining beneficiary entitlements regarding distributions and mandatory reorganisations such as splits and mergers.

As the market prepares for EMIR, AiFMD and UCITS V regulations, widespread change in both account structure and due diligence will be implemented. Trading, clearing and settlement fees have been unbundled as of 1 January 2016, and now trading fees must be paid to the Vienna Stock Exchange, where clearing and settlement fees are routed through Central Counterparty Austria.

According to Commerzbank's Robert Scott, thanks to the move to T+2 settlement introduced in late 2014 Austria has seen increased activity over the last 12 months in both assets under custody and transactions.

Balkans

Bosnia & Herzegovina

UNWEIGHTED		
RANK		SCORE
1	Raiffeisen Bank International	6.05
2	UniCredit	5.26
WEIGHTED		
RANK		SCORE
1	UniCredit	4.63
2	Raiffeisen Bank International	4.03

Croatia

UNWEIGHTED		
RANK		SCORE
1	Société Générale Securities Services	6.33
2	UniCredit	5.38
WEIGHTED		
RANK		SCORE
1	UniCredit	4.81
2	Société Générale Securities Services	4.29

Serbia

UNWEIGHTED		
RANK		SCORE
1	Société Générale Securities Services	6.52
2	Raiffeisen Bank International	6.06
3	UniCredit	5.66
WEIGHTED		
RANK		SCORE
1	UniCredit	5.85
2	Société Générale Securities Services	4.13
3	Raiffeisen Bank International	3.69

In keeping with the move across Europe towards a T+2 settlement cycle for all securities the CSD in Bosnia and Herzegovina, RVP FBH, has announced the implementation of T+2 settlements from 1 January 2016. Alongside this change, several new laws impacting the securities market have been introduced in the country.

According to Lejla Sabljica, UniCredit's head of global securities services, Bosnia and Herzegovina, one of the changes refers to a new Law on Companies in Federation of BiH with notable changes, such as intro-

ductions of obligations for significant and controlling shareholders, definition of the provisions concerning the minimum nominal value of shares as well as requirements for shareholders meeting announcements and introduction of corporate split-off.

New tax laws abolished the 10% tax on dividend payments in September 2015, while introducing a lower 5% tax for non-residents from the beginning of 2016.

Elsewhere in the Balkan Peninsula, the Zagreb Stock Exchange in Croatia took over the Slovenian Ljubljana Exchange, binding the two countries' financial systems closer together. The Croatian CSD, the Central Depository and Clearing Company, founded a subsidiary company, CDCC-CCP Smart Clear, which will take over as a clearing agent for contractual settlement on net basis. The CDCC will remain as the Croatian central depository, sole manager for securities accounts, sole settlement agent and clearing agent for FOP and Trade for Trade (TFT) DVP gross settlement.

In Serbia, as preparations for EU accession negotiations proceed, EU market harmonisation effort also continue apace. The Belgrade Stock Exchange operated a T+3 trade settlement cycle, but migrated to T+2 on 1 January 2016 to comply with EU CSD regulations.

Baltics

Estonia

UNWEIGHTED		
RANK		SCORE
1	SEB	5.66
WEIGHTED		
RANK		SCORE
1	SEB	4.86

Latvia

UNWEIGHTED		
RANK		SCORE
1	SEB	5.78
WEIGHTED		
RANK		SCORE
1	SEB	4.98

Lithuania

UNWEIGHTED		
RANK		SCORE
1	SEB	5.85
WEIGHTED		
RANK		SCORE
1	SEB	5.01

Swedbank and SEB both count the Baltic States – Estonia, Latvia and Lithuania – as home markets and have witnessed an appreciable rise in asset flows into each state in recent years.

This trend is mirrored across the sub-custody services that Swedbank and SEB extend to international clients. As economic stabilisation measures have taken effect and investor confidence has gradually started to return, assets under custody have increased.

Both can support any buyer that wishes



to buy their asset servicing requirements directly, but choose to access T2S directly for settlement.

In each market there is one central depository responsible for the accounting and safe custody of public securities registered, and providing delivery-versus-payment (DVP) services for all trades executed on the market's stock exchange.

Estonian trades on the Nasdaq Tallinn are cleared and settled by the Estonian Central Securities Depository, the Latvian Central Depository handles trades on the Nasdaq Riga while Lithuanian trades on the Nasdaq Vilnius are cleared and settled by the Central Securities Depository of Lithuania.

These CSDs are expected to join T2S in the final wave in September 2017.

To facilitate pan-Baltic cross-border trading, the Estonian, Latvian and Lithuanian CSDs have had a long-established pan-Baltic free-of-payment (FOP) link for cross-border deliveries and a delivery-versus-payment (DVP) settlement link for stock exchange transactions.

It means members of the Baltic stock exchanges and their customers do not need to open securities and cash accounts in each and every Baltic country to settle local stock exchange transactions. All they need is a single securities and cash account in one Baltic country to settle cross-border

securities transactions between Estonia, Latvia and Lithuania.

In practice, it allows that members can trade and settle securities listed in one of the Baltic countries via their own securities and cash account opened in another of the Baltic countries.

Belgium

UNWEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	5.48
2	Euroclear	5.44
3	BNP Paribas Securities Services	5.37
WEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	6.31
2	Euroclear	5.32
3	Deutsche Bank AG	5.03

With Belgium sitting in the wave 2 migration wave for T2S, its implementation is rapidly approaching. On 29 March 2016, the outsourcing of settlement to T2S will be complete, necessitating industry-wide changes.

In preparation for the move, the H2D HDR project, or harmonisation of corporate actions stream 5 completed in early 2015 for mandatory events, a necessary step in T2S implementation. Stream 6, covering voluntary events, is planned for 2017.

Euroclear's Belgium based CSD, unlike the National Bank of Belgium Securities Settlement System, has pushed its T2S

migration to the third wave, alongside its French and Dutch depositories. In a statement the group said that it would “work closely with the ECB, the central securities depository community and our clients to evaluate possible alternative migration scenarios, in order to minimise the impact of this delay.”

Despite ongoing preparations for T2S, Nathalie Prunier, BNP Paribas’s head of sales and relationship management, banks and brokers, noted that the group saw a strong increase of assets under custody for BNP Paribas Securities Services in France for all Euronext markets.

Bulgaria

UNWEIGHTED		
RANK		SCORE
1	Raiffeisen Bank International	6.17
2	Citi	5.38
3	UniCredit	5.16
WEIGHTED		
RANK		SCORE
1	Citi	7.04
2	UniCredit	5.68
3	Raiffeisen Bank International	3.88

Bulgaria’s capital markets and broader economic performance over the last year has been stable, recovering from political and banking turbulence in 2014. Measures to encourage financial stability have since been introduced over the last 12 months.

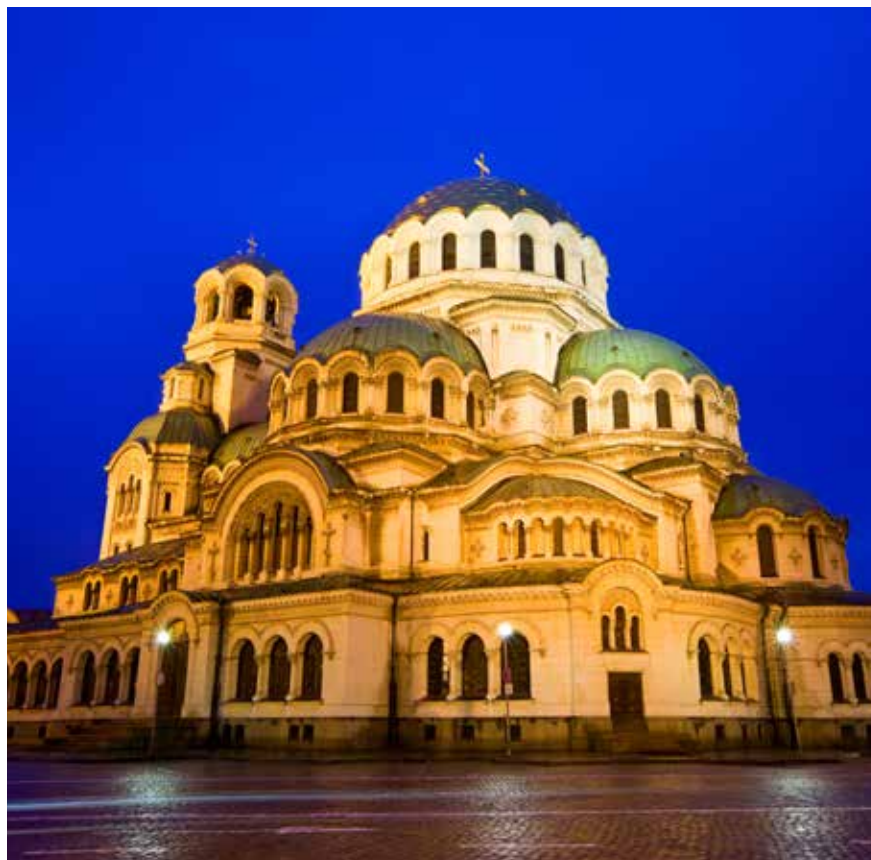
New regulatory developments included increased protection for investors, and alterations to the local MIFID law aligning local legislation with the new CRD IV package. Bulgaria was also invited to join the EBRD project aiming to establish a regional CCP, a missing element in the Bulgarian market. According Maria Lazova, Raiffeisen Bank International’s head of GSS in Bulgaria, from a regulatory point of view, CCP availability will be a precondition for future trading in specific instruments.

Market infrastructure improvements are lined up in 2016, with the Bulgarian Central Depository AD implementing a new IT system from 1 Feb 2016. The new system will support SWIFT communication and buy-in procedure, as well as a shorter DVP cycle for OTC securities transactions, easing market access significantly.

Cyprus

UNWEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	5.71
WEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	7.21

Cyprus has a single CSD for corporate and government bonds, warrants, rights and equities listed at the Cypriot Stock Exchange (CSE) called the Central Depository and Central Registry (CDCR).



The CDCR acts as the central registry in Cyprus, and also administrates the dematerialised securities system known as Sistima Ailon Titlon (SAT) alongside its usual responsibilities for clearing and settling CSE transactions.

The Cyprus Securities and Exchange Commission, stylised as CySEC, was appointed as the competent authority responsible for licencing and supervision of the CDCR by the minister of finance in June 2015. Simultaneously, the Central Bank of Cyprus is responsible for authorisation and supervision of the CSD in banking-type ancillary services.

Settlement cycles in Cyprus are T+2 for both stock exchange and OTC trades. Cyprus will not be joining the T2S system as the Greek Helix system that it uses will not be joining either, and therefore will not be updated for T2S.

Czech Republic

UNWEIGHTED		
RANK		SCORE
1	Société Générale Securities Services	6.62
2	Raiffeisen Bank International	5.94
3	UniCredit	5.52
WEIGHTED		
RANK		SCORE
1	UniCredit	5.98
2	Société Générale Securities Services	5.27
3	Raiffeisen Bank International	3.98

The Czech Republic’s securities market

is struggling under unclear and missing regulations, according to UniCredit’s Thomas Vacha. Clear legislation is missing, especially for corporate actions, with no central source of Corporate Action information available. It is only mandatory for Prague Stock Exchange-listed companies to notify the exchange about corporate actions. The PSE then disseminates the information to shareholders and custodians through its own CSD, CDCP.

However, efforts to remedy this problem are taking shape, with the CDCP planning to improve corporate action information provision, with the eventual aim of becoming the central source. In order to do so however, local legislative changes would be required, which the CSD, alongside its participants, is already lobbying for.

The Czech market is covered by two CSDs, the PSE’s CDCP, which is a depository for all book-entry securities excluding T-Bills, and the SKD, which only covers T-Bills, owned by the Czech National Bank, which acts as central bank and market regulator.

No significant regulatory changes are expected in 2016, as the CDCP is instead preparing internal documentation and technical standards for submission to the CNB for CSDR authorisation. CCPA introduction will continue, with imple-

mentation planned to take place after late 2017.

Denmark

UNWEIGHTED		
RANK		SCORE
1	SEB	5.98
2	Nordea Bank	5.37
WEIGHTED		
RANK		SCORE
1	Nordea Bank	5.85
2	SEB	5.08

As T2S preparation weighs heavy on Europe, Denmark continues to work towards migration readiness. A new redemption model was introduced in Q3 2015 after market testing, along with expanded CCP clearing services for mid-sized companies, slowly enacting T2S developments. The local CSD, VP, is developing its platform in preparation for joining T2S in September 2016, while also working towards DKK settlement for late 2018.

A move to digital systems is occurring across the country as current administrative systems must adapt to stricter regulatory requirements governing the reporting of scheme investments, funding levels and solvency positions.

The market also saw the introduction of interoperability between EuroCCP and LCH Clearnet in November 2015, as well as a reduction in interest rates by the national bank, resulting in negative coupon rates on floating rate mortgage bonds for the first time in the Danish market.

Finland

UNWEIGHTED		
RANK		SCORE
1	SEB	5.82
2	Nordea Bank	5.55
WEIGHTED		
RANK		SCORE
1	Nordea Bank	6.01
2	SEB	5.04

Finland's progress during 2015 has been hampered by delays, with Euroclear Finland moving its T2S implementation to wave 5, and UCITS V introduction in March 2016 possibly being postponed. According to Ulf Noren of SEB, the UCITS V rollout postponement is unconfirmed, but widely speculated.

Simultaneously, T2S preparation has continued with the local CSD, Euroclear Finland, launching a new platform called Infinity to replace its core systems. It has completed one step of its three-phase launch, with a rollout of money market instruments completed in February 2016. Subsequent releases will occur in October 2016 and September 2017 when T2S goes live in the market. Interoperability between EuroCCP and LCH Clearnet also launched in November 2015.

According to Nordea, which holds an approximate 60% market share of the

Finnish sub-custody business, an increasing number of custodians are focussing on their global custody offering, many of them doing so through partnership with another global custodian, due to infrastructural changes. Some of these banks are subsequently reducing their focus on their sub-custody business.

France

UNWEIGHTED		
RANK		SCORE
1	Société Générale Securities Services	6.27
2	BNP Paribas Securities Services	5.45
3	Deutsche Bank AG	5.31
WEIGHTED		
RANK		SCORE
1	Société Générale Securities Services	6.18
2	BNP Paribas Securities Services	5.89
3	Deutsche Bank AG	4.45

Euroclear France, the domestic CSD for French securities and funds, will now migrate to T2S in wave three in September 2016 – a delay of six months to ensure a “safe and stable” migration. The postponement introduced confusion, with uncertainty lingering over whether France will actually migrate to the platform on the said date.

It does mean however that custodians in the country, notably BNP Paribas and Societe Generale, have a little more time to adapt their settlement and asset servicing models to the pan-European T2S platform.

Broadly, custodians have focused on making sure they can shield clients from the complexities of the project, the migration and from most of the costs to adapt systems and processes. BNP Paribas, for example, proposes different settlement and custody solutions tailored to the clients' needs, including an unbundled custody solution. It has also been assisting in the selection of an appropriate cash solution, a major part in the move to T2S.

T2S means changes for account set-up and connectivity, new settlement day schedule, matching and settlement reporting, standard settlement instructions market specific changes and corporate action standards. The main benefits, meanwhile, for all market participants are the reduction of cross-border transaction costs, optimisation of liquidity and collateral needs and the opportunity to maximise settlement safety and efficiency.

“BNP Securities Services will provide clients with all the benefits of the new T2S functionalities and even better by outperforming the standard T2S offer,” says Nathalie Prunier, head of sales and relationship management, banks and brokers, for the company. “In our continuous attempt to improve our services, we are now offering clearing and settlement agent services on EuroGC+, new financing services and are ready to launch new range

of tax solutions in order to maximise clients' tax refund while facilitating further the management of tax reclaim procedures for the Euronext zone.”

Germany

UNWEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	6.33
2	Deutsche Bank AG	5.68
3	Commerzbank	5.53
WEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	6.96
2	Deutsche Bank AG	5.01
3	Commerzbank	3.86

Germany continues in its strong market position, offering investor protection and asset security in a turbulent global system. As a point of safety on the world stage, the overall volume of assets under custody and the volume of transactions have risen by 10% and 5% respectively year-on-year. However, transparency and benchmarking issues still remain concerns that regulation is yet to resolve.

Within the context of T2S, numerous CSDs have begun establishing interoperability via direct links with each other, allowing market participants to regain margin and cut costs by holding assets with a single CSD rather than across several, and pool liquidity across several markets.

According to Dieter Bernhard, head of investor services, custody and clearing, Western Europe for Deutsche Bank, these direct links are viewed favourably in the market, helping market participants meet the requirements of both AIFMD and forthcoming UCITS V regulations. Centralisation of CSD interactions and settlement systems will help reduce the regulatory burden on asset owners.

However, implementation delays in other markets are putting challenges on maintaining the delivery schedule for T2S. Because of these postponements, the planned introduction of record dates for dividend payments has been set back to early 2017.

Greece

UNWEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	5.79
WEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	5.85

Despite its political turbulence during 2015, Greece saw T2S go live within its borders, making the Bank of Greece government debt CSD one of the first to join. While the equities CSD, ATHEXCSD, has yet to migrate, the framework for joining is already in place. This puts Greece ahead of the curve in Europe as one of the first wave of T2S members, despite battling adverse market conditions during the

migration period.

Hellenic Exchanges also began introducing changes into the securities market from 16 February 2015 in an effort to encourage EMIR compliance, resulting in the release of an EMIR-compliant CCP model at the same time.

Going forward, market authorities are reviewing both the provisions and mandates of CSD regulation to ensure compliance. According to Menelaos Demetriou, securities country manager, DCC, markets & securities services, Citi Greece, they are expected to introduce more provisions to align with other European markets in compliance with CSD Regulation.

However, while ahead of the regulatory wave, Greece has suffered under its current economic conditions, with capital flow restrictions in effect since 28 June 2015. While certain restrictions have been eased since then, free movement of capital is still curtailed.

Hungary

UNWEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	6.55
2	Deutsche Bank AG	5.92
3	Raiffeisen Bank International	5.81
4	UniCredit	5.58
5	Citi	5.45
WEIGHTED		
RANK		SCORE
1	Citi	6.72
2	UniCredit	5.65
3	BNP Paribas Securities Services	5.57
4	Deutsche Bank AG	4.07
5	Raiffeisen Bank International	3.64

Over the course of 2015 the Central Bank of Hungary decided to introduce more extensive reporting requirements for custodians in response to a major brokerage bankruptcy scandal that broke in March 2015.

While these measures have put regulatory pressure on market participants, they have been instrumental in strengthening investor protection and regaining investor confidence. Internal audit departments of all investment service providers are now required to audit the reconciliation process on a quarterly basis, with the results going straight to the Central Bank of Hungary.

In response to these regulatory changes, and in preparation for the planned T2S migration in 2017, the central securities depository, KELER, has introduced BaNCS, a T2S compliant settlement engine developed by TATA to replace its legacy systems, as part of its wider System Modernisation Project.

As part of the same project, the CSD is expected to change its corporate action and income payment process in 2016 in order to fall in line with T2S standardisation requirements. 2016 should also see the implementation of MIFID II leading

to a greater impact on client services.

Iceland

UNWEIGHTED		
RANK		SCORE
1	Islandsbanki	4.81
WEIGHTED		
RANK		SCORE
1	Islandsbanki	5.80

The Icelandic Securities Depository (ISD) is the local CSD, fulfilling the role of registry, depository and clearing house for securities settlement in the Icelandic market. All trades via NASDAQ OMX Iceland that are bond and equity trades have a settlement cycle of T+2. OTC trades also use a T+2 period.

Recent market developments include a new Intergovernmental Agreement under Model I with the United States, intended to improve international tax compliance with respect to the US Foreign Account Tax Compliance Act (FATCA).

Italy

UNWEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	5.82
2	Deutsche Bank AG	5.65
WEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	5.67
2	Deutsche Bank AG	4.59

The most important event for the Italian custody market over the last year has been the migration to T2S. Italy was the largest market to make the transition in wave 1, consisting of over 90% of wave 1 by volume. While the migration was delayed from 22 June until 31 August, the implementation was carried out ahead of schedule thanks to the extra time offered. However several T2S functionalities were delayed by the Italian CSD, and are still to be implemented.

As such, the Italian market will undergo significant regulatory changes over 2016, both in aligning with standard T2S procedures, and in responding to the EU Bank Recovery and Resolution Directive. Domestic reforms are also looming, with the transformation of the banche popolari, or people's banks, into limited liability companies, which is expected to lead to consolidations in the Italian banking sector.

Netherlands

UNWEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	5.67
2	BNP Paribas Securities Services	5.51
WEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	6.15
2	Deutsche Bank AG	4.68

Euroclear Nederland, the Dutch CSD, announced in October 2015 that it, alongside Euroclear Belgium and France, would push back their T2S migration date from

the second wave to the third, aiming for 12 September 2016. Euroclear Nederland settles transactions made via the Euronext Amsterdam stock exchange as the primary settlement system, as well as OTC transactions.

LCH.Clearnet Amsterdam acts as the designated clearing system for Euronext Amsterdam. An ancillary CSD called the Nederlands Interprofessioneel Effecten-centrum (NIEC) exists, providing CSD services covering those securities not eligible for custody in Euroclear Nederland.

Since the introduction of significant changes to the Dutch Securities Giro and Transfer Act in January 2011, the owners of deposited securities have been afforded the highest legal protections. Once securities have been credited to a collective deposit, the owner of the securities is joint owner of all the securities in the collective deposit, proportional to the number of securities deposited by the individual owner.

The settlement cycle for equities, bonds and OTC transactions is T+2, with shorter settlement processes open to mutual negotiation.

Norway

UNWEIGHTED		
RANK		SCORE
1	SEB	5.90
2	DNB	5.72
3	Nordea Bank	5.44
WEIGHTED		
RANK		SCORE
1	Nordea Bank	6.06
2	DNB	5.88
3	SEB	5.03

Norway's local CSD, VPS, has delayed the implementation of its ongoing project to modernise its core systems moving the rollout date from 18 April 2017 to March 2018. The postponement is due to the customisation work being more comprehensive than both VPS and the vendor anticipated, necessitating a longer development cycle.

Since the system is necessary for any plan to join the T2S system, this delay also postpones any likelihood of Norway joining the Europe-wide initiative. Of course, joining is still a matter up for debate, with the T2S National User Group Norway recently re-established so market participants can discuss the possibility of joining the scheme.

The Oslo Børs announced the opening of a new market during the year named the Merkur Market, which will offer listing and electronic trading of shares and equity certificates for both small and large companies as a supplement to the regulated Oslo Børs market. This new market opened in January 2016 without usage of a CCP, instead relying on bilateral settlement practices.

Time to change



Graham Ray, Director, Product Management, Global Transaction Banking at Deutsche Bank, explains why T2S affects so much more than settlement

Deutsche Bank is hoping to work with numerous different types of institution as first port of call for T2S. Can you say some more about which types of institution?

We are working with a diverse range of institutions, from global custodians, investment banks, broker-dealers and asset managers to Central Securities Depositories (CSDs) themselves.

We are helping many institutions who acknowledge the complexity and change in the flow of their business. The new infrastructure developments and regulatory framework is allowing them to reconsider the implications of such and ask themselves whether and where changes need to be made to their business model.

We are working with some institutions that want segregated accounts and others that prefer to be in omnibus accounts, institutions which focus on collateral and/or liquidity solutions. But Deutsche Bank's offering takes the form of components so clients can mix and match in any case.

Across the range of institutions we have seen different paces of movement. Among larger buy & sell-side players there is an ongoing rationalisation of their network. For that you are seeing that depth of product functionality is important. T2S has prompted a rethink of the best way to access Europe as a region.

Can you give some examples of how T2S is changing the buy-side's agent bank relationships?

We can use a live client example to tangibly answer this question: a large Global Custodian recently appointed Deutsche Bank as its sub-custodian for the entire

European region. As a global custodian, they took a two-pronged approach. The first prong was a rationalisation of its agent banks required for access to the T2S platform so that they now only have to deal directly with us. The second prong was to analyse the infrastructure and regulatory landscape prevailing on an Account Operator model to meet regulatory obligations.

Regarding the first point, Deutsche Bank has been pre-eminent in European sub-custody for many years, so why not leverage our agent bank network?

Regarding the second point, many of our client organisations such as global custodians have underlying clients. So they have to ask themselves what the view looks like for those clients. They have to demonstrate to clients that they have done due

diligence. In the grand scheme of things beyond T2S, all of us have been on a journey since the Financial Crisis and this kind of transparency is an aspect of the new

obligations. Larger organisations such as Deutsche Bank can help because we have the resource capability to not simply offer a product solution but to analyse the impact of regulatory obligations on our clients' behalf.

Can you evidence Deutsche Bank's resource capability regarding T2S?

We have been at the forefront of the T2S programme since its inception and a primary driver in its progress in the form of senior engagement and participation on many governance bodies and the Directly Connected Participants working group. We have acted not only in the service of our clients but the sub-custody industry in general.

"T2S is causing significant change, which creates many diverse opportunities for all institutions"



For clients assessing us as a strategic partner, they can see that we have already delivered against complimentary market initiatives, such as the Single Euro Payments Area. And more generally, there is an increasing reliance nowadays on the Deutsche Banks of this world by clients to shield them from adverse changes and steer them towards market opportunities. In the market place we have a dedicated T2S client-facing team and can advise with subject matter expertise and insights into the greater changing landscape encompassing regulatory dimensions.

Can you tell us something about your selection by Northern Trust?

We have an asset servicing agreement with Northern Trust in place since 2014 where we service the assets while they reside at the CSD. This is a result of the collaborative partnership model at Deutsche Bank where we are also thinking towards liquidity optimisation and what benefits our clients can leverage from an agent bank, CSD and central bank model including



collateral mobilisation.

For Northern Trust we are providing domestic subject matter experience. We are partnering with Euroclear to demonstrate the value of our asset servicing expertise with cash liquidity and asset mobility. Northern Trust is also a good example of how our component products can be utilised.

Other clients will take a different combination of components from our range. We compete on some levels with the CSDs and sometimes we collaborate. It's a fresh way of changing the business model.

We talked to clients about how the changing regulatory landscape in Europe is impacting them, from investor protection to collateral mobility requirements. There appears to be a shift in the direction of greater asset segregation as a means of investor protection. And there is serious

discussion among regulators and market participants about greater segregation as a potential contributor to enhanced safety for investors.

This is where we have helped clients – by collaborating with market infrastructures – to provide a solution which meets their collateral requirements as well as their

investor protection mandate and asset servicing needs.

"Institutions have been assessing how benefits can be gained and when they need to execute to gain those benefits"

Why is T2S so much more than settlement?

As the Northern Trust initiative

shows, T2S is causing significant change, which creates opportunities for all institutions. This is because, while T2S requires settlement to move to a standardised platform, Europe does not (yet) have standardised asset servicing. So that puts more demand on subject matter expertise across the platform.

Now when you consider that deci-

sion-making process for providers, not just evidenced in the mandates already announced in the market place, the competitive landscape is changing – witness for example the collaboration/competition between banks and CSDs. Settlement is a commodity service but has demonstrated its importance through different account structures and operating models as we move further down the process chain.

But there is a world of difference between a service and a value-add. Deutsche Bank offers the kind of leverage that brings clients the latter.

Is this just a service for the very largest of your clients, 'the institutions of scale'?

Deutsche Bank offers segregated and omnibus accounts to many institutions, so we service organisations of all sizes. Because our product range is available in components, diverse clients by market share can choose what they need. The products that work for one client might work in a different combination for another. They have the facility to unbundle different components and this has to be supported from the client perspective.

We know this because the way we have built up our service around T2S through a collaborative approach. We have taken a consultative approach, listening to clients. Having said, I would add that there have been different levels of recognition regarding T2S. Institutions have been assessing how benefits can be gained and when they need to execute to gain those benefits.

Can you give more examples of benefits to be gained?

T2S has created opportunities to optimise cash and securities as well as the settlement benefits. Deutsche Bank's leverage finds how to create a harmonised platform for all these cash operations: intraday and overnight activity. Now collateral can be used in different ways and we deliver contemporary collateral products ourselves. What we aim to achieve is the efficiencies to reduce clients' liquidity demands.

The sell-side community is a sector that is always interested in optimising its funding obligations. Thanks to T2S, a buy in one Eurozone market can match the value of sells in another in the Eurozone, it is the net effect of a single currency across many securities markets in T2S.

The magnitude of this post-trade settlement is vast. The business opportunities to gain efficiencies are already there. I think we have reached the tipping-point between considering T2S in terms of negative impact and positively leveraging the products available. ■

Poland

UNWEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	6.60
2	Société Générale Securities Services	6.17
3	Raiffeisen Bank International	5.65
4	UniCredit	5.50
5	ING	5.18
WEIGHTED		
RANK		SCORE
1	UniCredit	6.07
2	BNP Paribas Securities Services	4.65
3	Société Générale Securities Services	4.61
4	ING	4.54
5	Raiffeisen Bank International	4.50

Poland's presidential and general elections in 2015 resulted in a substantial political shift within the country, with the new governing party, Law and Justice (PiS), expected to enact broad changes to the Polish economy.

In terms of new developments, 2015 saw a standardisation of tax relief processes in the country, as responsibility for calculating and withholding tax on interest and dividend payments was reassigned from issuers to custodians. According to BNP Paribas's head of sales and relationship management in the region, Zbigniew Scislowski, this will result in a reduced number of full tax reclaim processes required by clients.

The Polish Custodian Banks Council has begun automating the pre-matching process, instituting a standard format for final beneficiary identification in settlement instructions sent to CSDs. The rollout began on 16 November 2015, initially applying to fixed income OTC settlement instructions, and allows CSDs to pre-match fixed income settlement instructions on a fully automated basis. The second phase, which will extend the initiative to cover cash equity settlement is expected in 2016. Clients will benefit from fewer failed trades and lower settlement fees as the programme expands.

In the coming year, both UCITS V and AIFMD will finish integration with local legislation, potentially bringing new workload to local depository banks as they adapt to new requirements. Alongside regulatory integrations, the Polish CSD has also announced early 2017 as its target for gaining CSDR certification.

Portugal

UNWEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	5.66
2	BNP Paribas Securities Services	5.39
WEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	6.15
2	Deutsche Bank AG	4.33

While the ESES Markets of Belgium, France and the Netherlands have postponed their T2S implementation to the third wave in September this year, Portugal remains on track in the second wave.

Intending to join the framework by 28 March 2016, there have been no indications that InterBolsa, the Portuguese CSD, will miss this target date.

With market preparation complete, and involvement from local banks throughout the transition process, the switchover should proceed smoothly and successfully during March.

In Portugal, standard settlement period for secondary market trades is Trade Date plus two local business days (T+2) for equities, debt and OTC transactions. The switchover to T+2 occurred on 6 October 2014 alongside more than 20 other markets.

Trades are placed in Portugal though the NSC order platform with counterparty anonymity. LCH.Clearnet SA acts as the central counterparty for these trades and the clearing is done through a netting per security. When securities are registered or deposited with Interbolsa, trades are settled through SLrt, the CSD's real-time gross settlement system.

Revenues for InterBolsa, Euronext's CSD in Portugal, for 2015 were down 7.3% to €19.7m, due to a reduction in settlement instructions, corporate actions and private debt assets under custody in the country.

Romania

UNWEIGHTED		
RANK		SCORE
1	Société Générale Securities Services	6.33
2	Citi	5.74
3	UniCredit	5.16
WEIGHTED		
RANK		SCORE
1	Citi	7.74
2	Société Générale Securities Services	5.11
3	UniCredit	4.23

Romania's Bucharest Stock Exchange (BSE) celebrated 20 years of trading on 23 November 2015, and now looks to upgrade its MSCI frontier market classification to that of an emerging market. The Financial Supervision Authority, with the backing of market participants, approved the STEAM project in 2014, intending to provide a roadmap towards emerging market status. While a number of outlined steps have already been completed, progress has continued apace during 2015.

On 22 June, Romania's local CSD, Depozitarul Central SA, migrated to T2S with the first wave, facilitating simplified settlement services in euros, and implementing international practices at the local CSD level. Meanwhile, capital market investment should be stimulated by the introduction of a new fiscal code stipulating a lower tax rate for dividends at 5% instead of 16%. This should aid foreign investors by negating the need for tax relief processes. However, Romania still struggles without a CCP. While efforts to

create a regional CCP are ongoing, they are not predicted to reach completion in 2016.

Russia

UNWEIGHTED		
RANK		SCORE
1	Société Générale Securities Services	6.39
2	Citi	5.81
3	Raiffeisen Bank International	5.49
4	Deutsche Bank AG	5.02
WEIGHTED		
RANK		SCORE
1	Citi	7.17
2	Deutsche Bank AG	5.94
3	Société Générale Securities Services	4.22
4	Raiffeisen Bank International	3.65

Throughout 2015 the National Settlement Depository, Russia's local CSD, continued to develop its market infrastructure in support of the custody market. In December, the NSD launched an automated matching service, which, upon completion in February 2016 is planned to unify all matching and settlement procedures for both free of payment (FoP) and delivery versus payment (DvP) transactions.

The NSD also introduced a back-to-back settlement upgrade for OTC securities transactions on a DVP basis in RUB, USD, euro and CNY into its clearing system, reducing the risk of the non-execution of trades. When there are no or insufficient assets available at the time of clearing, trades can be settled by netting parties' liabilities within a general pool of settlement instructions.

The Russian securities market continues its progress towards implementation of international best practices, working towards T+2 trading, electronic pre-matching at the CSD level, and clearing law enhancements. Deutsche Bank's decision to discontinue its Russian sub-custody operation will have knock-on effects over the next year, prompting a market reshuffle as competitors compete for its business.

Slovakia

UNWEIGHTED		
RANK		SCORE
1	UniCredit	5.09
WEIGHTED		
RANK		SCORE
1	UniCredit	5.92

As a member of T2S migration wave 4, intended to join on 6 February 2017, Slovakia's CSD has been working throughout 2015 to bring its services in line with T2S requirements. New legislation enabled the outsourcing of certain CSD functions to its members, and also introduced an improved legal framework for the issuance of investment certificates. The local CSD signed a value-added network (VAN) contract with SWIFT, allowing secure information exchange between T2S participants and the T2S platform.



CEE starts in Vienna

and continues with RBI in Belgrade, Bratislava, Bucharest, Budapest, Kiev, Maribor, Minsk, Moscow, Prague, Sarajevo, Sofia, Tirana, Warsaw and Zagreb.

Raiffeisen Bank International AG (RBI), a member of the largest banking group within the AAA-rated Austria, welcomes you to Central and Eastern Europe. Its **Group Securities Services** extends beyond borders and provides global custodians, broker-dealers, ICSD's and institutional investors with the most extensive network coverage and state-of-the-art execution throughout this region. We are now open for business, welcome to our world!



Alongside T2S, Slovakia is working to transpose all EU directives into local legislation and market practice, including AIFMD, CSDR, UCITS V and MIFID II. A second CSD, the NCDSP, is being opened, with operations intended to start in 2Q 2015 after licencing from the National Bank.

Slovenia

UNWEIGHTED		
RANK		SCORE
1	Société Générale Securities Services	6.40
2	UniCredit	5.65
WEIGHTED		
RANK		SCORE
1	UniCredit	6.15
2	Société Générale Securities Services	4.34

As with most European markets, the most important project facing Slovenia is its implementation of T2S. Intending to migrate in the fourth wave by 6 February 2017, Slovenia has made rapid progress in preparing for the switchover. In April 2015, new matching and settlement standards were released detailing the changes required for T2S compliance.

The Slovenian parliament also approved the Book Entry Securities Act and alterations to the Takeover Act, both of which support the T2S migration process and a new corporate action process. While these legislative changes came into effect on 23 October 2015, more changes are planned in 2016 with the local CSD, the KDD, expected to release new rules on corporate actions in the second half of 2016, and new changes to the Financial Instruments Market Act and the Companies Act, required for T2S migration, predicted for the first half of 2016.

Slovenia completed its implementation of both AIFMD and UCITS2 in May, and is continuing with efforts to introduce Common Reporting Standards.

Spain

UNWEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	5.86
2	BBVA	5.74
3	Société Générale Securities Services	5.72
4	BNP Paribas Securities Services	5.58
WEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	5.72
2	Deutsche Bank AG	5.71
3	BBVA	5.55
4	Société Générale Securities Services	5.45

The Spanish market is preparing for its entry into the T2S scheme with regulatory and legislative changes going live in February 2016. As a member of the last T2S migration wave, joining in late 2017, Spain has more time than most markets to prepare.

The National Securities Market Commission (CNMV) published a report in September 2014 detailing the Spanish roadmap to T2S integration, splitting the



approach into two waves. The first wave, finalising in February 2016, will include a new system for equities and integration of the CCP within the post-trade process in a T2S compatible format. The second wave will integrate fixed income securities into the new system, coinciding with Iberclear's migration to T2S.

Sweden

UNWEIGHTED		
RANK		SCORE
1	SEB	5.81
WEIGHTED		
RANK		SCORE
1	SEB	5.14

Euroclear Sweden, the local Swedish CSD, has begun replacing its legacy systems with a new platform called Infinity. The new platform, already partially implemented in Finland, is intended to help the CSD comply with both local regulation and the T2S requirements. The new system should be in use by the second half of 2017.

The CSD has also, in the interests of market transparency, begun publishing regular CCP transaction efficiency reports, with the first released on 1 February 2016. According to Ulf Noren of SEB, the settlement efficiency ratio for equity transactions in the Swedish market has been declining for some time, leading to efforts to curtail this deterioration. Euroclear Sweden intends to circulate two reports a month revealing the settle-

ment efficiency ratios of individual market participants, based on the volume and value for failed transactions with one of the three Swedish CCPs, EuroCCP, LCH. Clearnet and SIX X-clear.

In a move to unite the Nordic CCP network, the introduction of interoperability between EuroCCP and LCH. Clearnet was completed in November 2015.

Switzerland

UNWEIGHTED		
RANK		SCORE
1	UBS AG	5.58
2	Credit Suisse	5.36
WEIGHTED		
RANK		SCORE
1	Credit Suisse	6.29
2	UBS AG	5.69

Over the last year, Switzerland joined the T2S scheme as one of its early adopters. According to Robert Scott of Commerzbank, the migration proceeded remarkably smoothly in the Swiss market. However, the system hasn't had to deal with the large volumes of cross border activities that have caused problems for other migrating markets.

The standard settlement cycle for rights and shareholder options was reduced from T+2 to T+1 from late October 2015. SIX SIS also set up a derivative trade repository in response to the Swiss Financial Market Infrastructures Act. This new piece of legislation is intended to increase both transparency and traceability in the OTC securities market.

In the coming year, with T2S out of the way, Switzerland will be implementing the Regulatory Technical Standards that accompany CSDR. Three additional legislations, FinfraG, FIDLEG and FINIG, designed to bring Swiss financial practices in line with international practice, are currently under debate by the Swiss government.

Ralf Schwesinger from UBS reports that the bank has seen a large degree of consolidation in the market, with smaller private banks looking expand their books through acquisitions or risking their own business being acquired. Small and mid-sized banks are also looking to outsource their custody operations to larger providers in an effort to reduce costs.

Turkey

UNWEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	6.01
2	Deutsche Bank AG	5.69
3	Citi	5.35
WEIGHTED		
RANK		SCORE
1	Citi	6.69
2	BNP Paribas Securities Services	5.52
3	Deutsche Bank AG	5.46

2015 has been a challenging year for those operating in Turkish capital markets. On 30 November the local exchange, Borsa Istanbul, and clearinghouse, Takasbank, switched from decades-old execution and clearing systems to BISTECH systems developed via the NasdaqOMX partnership.

While entirely successful, it created new problems. "The simultaneous introduction of previously-announced fees for off-exchange cash equity trades was an unfortunate coincidence," says Geraud de Saint Vincent, head of securities services, head of TEB Securities Services.

The appointment of Takasbank as CCP for cash equities has been delayed to mid-2016. The extent to which this change will impact sub-custodians will depend on the new collateral requirements imposed on local brokers.

The second phase of the BISTECH project includes the introduction of a proper give-up mechanism for listed derivatives, "which market participants had been awaiting for some time", says de Saint Vincent.

Turkey's 2012 Capital Markets Law, and related legislative changes, was rolled out in 2015. The Capital Markets Board of Turkey granted 'general custody' authorisation to the sub-custody activities of applicant local banks and brokers and 'portfolio custodian' authorisation to those planning to act as depository for investment funds.

"With the responsibility to issue funds



now assigned to asset management companies, and with open distribution developing through the local fund platform TEFAS, the Turkish fund industry is entering 2016 with a fresh outlook," says de Saint Vincent

Back in 2014, Turkey authorised an IPO for up to 42.75% of Borsa Istanbul. This was initially scheduled to happen in 2015 and then 2016 but adverse market conditions, especially for emerging markets, meant that this has now been delayed further until the second quarter of 2017.

United Kingdom

UNWEIGHTED		
RANK		SCORE
1	HSBC	5.46
2	Deutsche Bank AG	5.38
WEIGHTED		
RANK		SCORE
1	HSBC	5.05
2	Deutsche Bank AG	4.88

On 1 September 2015, Euroclear UK & Ireland introduced a service allowing clients access to electronic settlement in certain securities that are exempt from US registration requirements under the US Securities Act of 1933. This is to address a CSDR rule which requires, that where a transaction in transferable securities takes place on a trading venue, the relevant securities shall be recorded in book-entry form in a Central Securities Depository on or before the intended settlement date.

CHAPS Co and Euroclear were asked by the Bank of England in November 2014 to consult their users on a possible extension of the settlement hours of the Real Time Gross Settlement infrastructure. As a result of this consultation, and an accompanying policy proposal from the BoE, the CHAPS and CREST settlement day will be extended from 20 June 2016.

During 2015, the London Stock Exchange received regulatory approval from Hong Kong's Securities and Futures Commission to permit Hong Kong firms to become members of the LSE. The con-

nection allows Hong Kong trading firms to trade central counterparty cleared securities via the LSE. It also provides access to the London Stock Exchange Derivatives Market, which offers trades in derivative contracts in UK securities and global depositary receipts.

Ukraine

UNWEIGHTED		
RANK		SCORE
1	Raiffeisen Bank International	5.69
2	Citi	5.64
WEIGHTED		
RANK		SCORE
1	Citi	7.28
2	Raiffeisen Bank International	3.76

Ukraine has taken several steps to align its financial system with the global economy, hoping to build an investor-friendly environment and stimulate investment inflows. It joined IOSCO during 2015, bringing its efforts at integration into line with international standards.

Ukraine's National Council of Reforms approved the Comprehensive Programme for the Development of Ukraine's Financial Market until 2020, which has been produced jointly by the representatives of the financial market regulators. The objective behind the programme is to build up Ukraine's financial infrastructure and grow all market segments in a sustainable manner, beginning with a three-phase road map.

According to Katherine Yevtushenko from UniCredit's Ukrainian Securities Services arm, the proposed steps focus on three sequential tasks: addressing the problems of the past and cleaning up the financial sector, laying down the foundation for the system development and putting in place measures to drive the development itself.

The programme specifically addresses consolidation efforts in the depository, clearing and exchange systems, which will be finalised and executed within the next few years.

MIDDLE EAST & AFRICA Regional overview

In the Middle East and Africa, efforts to improve regulation and foreign investor access continue apace, as both markets attempt to compensate for falling oil and commodity prices.

Saudi Arabia completed the opening of its capital markets through the Qualified Foreign Investor (QFI) Scheme in June 2015. By allowing equities access to non-GCC foreign institutional investors, and also by implementing a new independent custody model, the Saudi Stock Exchange, or Tadawul, intends to encourage foreign direct investment and thereby encourage more listings, greater market stability and reduced volatility in prices.

As the largest market in the Middle East, Saudi Arabia's efforts are being followed by similar moves from other GCC countries. Over the course of 2015 Bahrain introduced initiatives facilitating cross-border investment, while Qatar began promoting investor transparency through daily disclosures of listed companies' major shareholders.

Meanwhile, in Africa, efforts remain focus on regulatory and market infrastructure improvements. In South Africa, depository rules and financial services laws have seen on-going refinements, while the Johannesburg Stock Exchange continues its multi-year implementation of a T+3 equities settlement cycle.

In turn, Botswana has been preparing for the transition of the Botswana Stock Exchange (BSE) from a statutory body to a commercial entity, in line with international trends, while Ghana has opened up its two-year government debt instruments to foreign investors. African markets continue to develop their offering towards investors, while moving towards international standards.

Survey Write-up

In the Middle East and Africa, Standard Bank stands out with outstanding African coverage. Racking up 20 wins, the bank won both weighted and unweighted in nine African nations: Kenya, Malawi, Namibia, Nigeria, South Africa, Swaziland, Tanzania, Uganda and Zimbabwe. Elsewhere, it came first in the unweighted category in both Botswana and Zambia.

HSBC's results, with 16 wins, reflect a more Middle Eastern focus. It won both categories in seven Middle Eastern countries including: Bahrain, Kuwait, Lebanon, Mauritius, Oman, Qatar and Saudi Arabia. HSBC also won unweighted in Egypt, and weighted in the UAE against Deutsche Bank. Both Standard Bank and HSBC did not submit entries outside of their respective areas of focus.

Standard Chartered took first place in four countries, Botswana, Jordan, Zambia and Ghana, while also winning the unweighted category in Ghana, directly competing with Standard Bank.

Citi won twice under the weighted methodology, once in Egypt against HSBC, and again in Morocco against BNP Paribas and Societe Generale Securities Services.

Societe Generale and Bank Hapoalim both won in a single country across both categories. Societe Generale did so in Tunisia, while Bank Hapoalim won on its home turf of Israel.

Finally, several banks won in individual unweighted categories. The Bank of Jordan won unweighted within Jordan, BNP Paribas picked up first place in Morocco, and Deutsche Bank secured the top spot unweighted in the United Arab Emirates.

Bahrain

UNWEIGHTED		
RANK		SCORE
1	HSBC	5.43
WEIGHTED		
RANK		SCORE
1	HSBC	6.55

In 2015 the regulators introduced staggered initiatives to facilitate cross-border investment into the capital markets.

In January the Central Bank of Bahrain (CBB) and the Bahrain Bourse (BHB) announced the launch of a mechanism that allows investors, both retail and institutional, to have direct ownership in government bonds and sukuk (Islamic bonds) issued by the CBB in the primary market through the BHB mechanism. Further, with the listing of these securities on the BHB investors are now able to trade through the BHB mechanism similarly to equities.

In April the BHB rolled out the Real Estate Investment Trust (REIT) Listing Rules. "This provides investors with an alternative investment class and access to ownership of large, high value real estate projects at low entry ticket sizes and a trading model very similar to that for equities," says Francis Dassou, head of HSBC Securities Services, Bahrain. Subsequently, the

BHB approved the Trading Guidelines for REITs and the Treasury Bills issued by the CBB.

In November the Bahrain Bourse amended the listing requirements of the listed shareholding companies on the main board of the BHB, including both companies already listed and ones intending to list in the future. The changes includes raising of the minimum capital of the listed company from Bahraini Dinars 500,000 to BD1,000,000, or its equivalent in other currencies, and increasing the minimum company's shareholders number to 100 (excluding company's employees, staff, key persons and their directly-related people).

Beyond the domestic regulatory changes, in March 2015 Bahrain was accepted/recognised as an affiliate member of the International Organisation of Securities Commission (IOSCO). Also, in September 2015, the Bahrain Bourse launched the Bahrain Islamic Index. Bahrain Islamic Index includes stocks of listed companies that comply with Sharia principles.

In 2016 more changes are expected and new products are anticipated: depository rules will be amended; the Bahrain Investment Market (BIM) will be introduced; and a securities lending and borrowing

programme will be launched.

Botswana

UNWEIGHTED		
RANK		SCORE
1	Standard Bank	5.35
2	Standard Chartered	4.05
WEIGHTED		
RANK		SCORE
1	Standard Chartered	5.27
2	Standard Bank	4.15

There was only a moderate level of a capital market development in Botswana in 2015, with the market awaiting the commencement of the Securities Act 2014.

"This legislation is meant to consolidate and amend the laws relating to the regulation and supervision of the securities industry and is likely to have an impact on sub-custodians and the securities industry at large," says Vincent Baituti, head of investor services, Stanbic Bank Botswana.

The commencement of the Botswana Stock Exchange Transition Act will see the bourse transformed from a statutory body into a commercial entity, in line with international trends. It will now have an opportunity to enter into strategic alliances and fully explore opportunities that exist for capital market development.

"The Botswana market is fairly small and is challenged with low liquidity as investa-



ble assets available on the BSE are limited,” says Baituti.

The market is predominantly in the hands of local pension funds and institutions that typically have a long term perspective. In order to mitigate liquidity constraints, over the years the BSE has come up with initiatives to help boost liquidity and improve overall market efficiency. These included the introduction of a CSD, the introduction of an automated trading system (ATS), the reduction of trade settlement cycle to T+3 and the listing of ETFs.

The various initiatives have collectively helped to stimulate liquidity but it remains comparatively low. The next endeavour under consideration by the BSE’s is the introduction of market making. It has already come up with rules, which have been framed in order to regulate market makers whose purpose on the BSE is to provide liquidity in listed securities by submitting both bids and offers for a designated security during the designated market making session. The rules are currently awaiting regulatory approval.

The BSE and the CSDB are further considering the introduction of securities borrowing and lending (SBL), contracts for difference and central counterparty – but these are all still at conceptual stages. The Non-Bank Financial Institutions Regulatory Authority has issued a directive for all listed securities to be dematerialised

and subsequently the CSDB is currently working on this project to ensure full compliance.

The sub-custody market is dominated by two regional providers; most global intermediaries have had the Botswana market opened for a while. A third provider largely centres on domestic clients.

Egypt

UNWEIGHTED		
RANK		SCORE
1	HSBC	5.55
2	Citi	5.12
WEIGHTED		
RANK		SCORE
1	Citi	6.53
2	HSBC	6.03

Following the Egyptian revolution in early 2011 and as a result of the deterioration in the market value of shares, a number of financial amendments have and are being introduced. For now at least, the country’s financial market has rallied around elected president Abdel Fattah el-Sisi who has demonstrated a willingness to make difficult economic decisions, including cutting fuel subsidies by 30% and devaluing the Egyptian pound.

Upcoming planned investment reforms include the introduction of a VAT tax, simplified bankruptcy proceedings, a companies law, amendments to the capital markets law, a new insurance law, and a land management framework. His reform programme’s aim to jump-start and strengthening the economy largely

hinge on keeping domestic security under control, providing sufficient assurance to investors wanting to stay, enter or return to the country.

Foreign firms require sub-custodian banks to open foreign and local currency accounts in the country. The accounts serve as a channel through which foreign investors process their sales, purchases, dividend collections, and profit repatriation transactions using the bank’s posted daily exchange rates. The system is designed to allow for settlement of transactions in fewer than two days, though in practice some firms have reported significant delays in repatriating profits due to ongoing currency controls.

Listed shares are held in dematerialised form and are managed by Misr for Central Clearing Depository and Registry (the MCDR), which is the sole central depository company in Egypt. Clearing and settlement is done on a delivery versus payment basis, whereby MCDR acts as the clearinghouse between the buying and selling member firms.

Societe Generale Securities Services (SGSS) has been making further progress in the country and last year signed a cooperation agreement with Qatar National Bank ALAHLI (QNB ALAHLI) to provide securities services to international institutional investors and corporates.

As a result of this agreement, both domestic and international investors in Egypt can make use of a full range of post-trade services, including local and global custody, clearing and settlement services across all asset classes, depository bank, transfer agent and issuer services, as well as cash management, foreign exchange and securities lending.

“Egypt is one of the largest economies in the Middle East and North Africa (MENA) region and foreign players are increasingly interested in accessing this and other markets in the area,” said Philippe Huerre, head of SGSS’ International Department at the time.

Ghana

UNWEIGHTED		
RANK		SCORE
1	Standard Chartered	5.07
2	Standard Bank	4.92
WEIGHTED		
RANK		SCORE
1	Standard Chartered	5.59
2	Standard Bank	3.95

There have been some interesting developments in Ghanaian securities markets during 2015. The opening up of two-year government debt instruments to foreign investors was met with positive sentiment from portfolio investors, which has been reflected in vibrant secondary market trading activity since.

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The Central Securities Depository (CSD) project to deploy a single depository system has seen significant progress. The project involves the migration of all depository accounts for both debt and equity onto a new platform. The new depository system will also integrate with the Automated Trading System of the Ghana Stock Exchange (GSE) and the Ghana Interbank Settlement System (GIS) of Bank of Ghana. The new platform deploys sophisticated depository architecture developed by Millennium Information Technologies (MIT) of the London Stock Exchange Group. Go-live date is scheduled for 8 March 2016.

During the year, the bonds settlement cycle has moved from T+0 to T+2, in response to funding challenges experienced by non-resident clients.

The Ghana Fixed Income Market (GFIM) was launched in August 2015 with the objective of providing a fair, orderly, transparent and efficient market for all such securities and align secondary trading to international best practice standards. All government debt instruments and Bank of Ghana money market instruments are now available on the GFIM platform for secondary trading. In addition, quasi-state institutions' money market instruments, notes and bonds, corporate notes and bonds, municipal and/or metropolitan bonds, supra-national bonds, repos, other fixed income or money market instruments may be admitted and traded on the GFIM. Secondary trading on GFIM is electronic with market surveillance sourced from Bloomberg. Cash settles via the Bank of Ghana while securities settle through the CSD.

Ghana Commodities Exchange Project, a private and public partnership deal between the government and a private sector financing consortium, was launched in 2015. The project is expected to be fully operational during the first half of 2016.

William Sowah, head of investor services, Stanbic Bank Ghana, says: "The developments that occurred in 2015 and the outlook for 2016 are extremely positive for investment and therefore the sub-custody business. The sub-custody business continues to be dominated by two major banks."

Israel

UNWEIGHTED		
RANK		SCORE
1	Bank Hapoalim	4.57
WEIGHTED		
RANK		SCORE
1	Bank Hapoalim	5.48

A small country surrounded by hostile neighbours and facing constant geopolitical uncertainties means Israel, on the face of it, isn't the most obvious invest-



ment proposition. However, the country was upgraded to developed market status by MSCI in 2010, has a well-capitalised banking sector and a well-diversified economy with a focus on healthcare, high-tech, bio-tech, defence-tech and agri-tech.

BlackRock, the world's largest money manager, said in January it had launched an exchange-traded fund (ETF) for European investors to invest directly in Israel's blue-chip share index, the Tel Aviv 25. The London Stock Exchange (LSE) said the iShares TA-25 ETF would be listed on the bourse, becoming the first Israeli ETF to list in London. It will be traded in pounds and dollars and will have an international settlement structure with Euroclear Bank.

Domestically, the Tel Aviv Stock Exchange Clearing House (SECH) clears securities all securities transactions through the real time gross settlement system by debiting/crediting the members' accounts at the Bank of Israel. Derivatives Clearing House (MAOF) is responsible for clearing options and futures traded on TASE.

The recent implementation of Israel's Electronic Check Clearing Law was introduced in February, seen by many as a key step towards aligning Israel's post-trade processes with common practice around the world.

The law will enable a transition from physical clearing of checks to electronic clearance. Beyond digitisation and

improving the speed of settlement, it will streamline the check clearing process between clearinghouse members and improve investor convenience.

Jordan

UNWEIGHTED		
RANK		SCORE
1	Bank of Jordan	5.98
2	Standard Chartered	5.03
WEIGHTED		
RANK		SCORE
1	Standard Chartered	6.75
2	Bank of Jordan	4.54

The Jordan Securities Commission (JSC) Board of Commissioners has announced that the Centralised Customers Risk System (CCRS) is available for brokers. The CCRS is an electronic system that allows brokers enquire about the debt status of investors wishing to deal with these brokers. Brokers will have to obtain written authorisation from those investors.

This decision is a continuation of the JSC's efforts towards organising and developing the Jordanian capital market. JSC, has approved the amendments of its trading directives to simplify the local requirements on local brokers when receiving orders from international brokers and fund managers.

Currently, by signing a trading agreement with the local brokers, international brokers and fund managers can start trading on behalf of their clients that have custody accounts with custodians in Jordan.

South African Securities Finance Masterclass II

Belmond Mount Nelson Hotel, Cape Town, 7th April 2016

8am: Registration

8.40am: Welcome address

Will Browne,
Publisher, **Global Investor/ISF**

8.45am: Securities lending ABC

James Burgess, Treasurer, **Macquarie Securities South Africa**

9.10am: Keynote address

FSB/Deloitte

9.40am: T+3 update

Brett Kotze, Head of Operations – Clearing & Settlement, **JSE**

10.00am: Regulation Panel

- Basel III and pressure on balance sheets
- International perspective: South African stock loan market
- Twin Peaks

Moderator: James Burgess, Treasurer, **Macquarie Securities South Africa**
Jeannine Lehman, Head of EMEA Global Collateral Management and Segregation, **BNY Mellon**

Jonathan Maphosa, Deputy General Counsel, **South African Reserve Bank**

Anne Clayton, Head of Public Policy, **JSE**

Francois Henrion, Head: Equity Finance Trading (South Africa), **Barclays Africa**

Brett Kotze, Head of Operations – Clearing & Settlement, **JSE**

10.50am: Coffee break

11.35am: Risk Panel

- Integrated clearing
- OTC clearing
- CCPs
- Collateral overview

Terence Saayman, Head of Risk, **JSE**

Anthony Van Eden, Head of Collateral Management Services, **Strate**

Broker

Custodian

Asset manager

12.30pm: Lunch

1.50pm: Hedge fund Panel

- Driving liquidity – the hedge fund view
- Supply
- Regulation

Moderator:

Josh Govender, Senior Equity Finance Trader, Equity Finance and Delta One, **HSBC Africa**

Brett Thornton-Dibb, Head of Prime Finance South Africa, **Deutsche Bank**

Ryan Proudfoot, Head of Prime Services, **RMB**

Gyongyi King, CIO, **Caveo**
Hedge fund

2.45pm: Securities Lending Panel

- Issues around demand
- Price discovery
- Is stock loan worth it
- What are the risks vs rewards?

Simon Tomlinson, Managing Director, Regional Head of Equity Finance, **BNY Mellon**

Jacques le Roux, Funding and Structuring, **Liberty Group South Africa**

Juanita Taylor, Head: Securities Lending, **Standard Bank**

Beneficial Owner

Broker

3.40pm: Chairman's closing remarks

3.45pm: Drinks reception

5.00pm: Conference close

5.00-7pm: SASLA drinks reception

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The Central Bank of Jordan (CBJ) launched the new real time gross settlement system (RTGS) on the 15 March 2015. Settlement is in real time (no waiting period for payment). The transactions are settled as soon as they are processed, thus enhancing the automation of processes.

CBJ migration to the new ISO 20022 standard/ MX Messages is a landmark move. It will be the first time that ISO 20022 will be used in the Middle East and Africa, and only the second implementation of a real time gross settlement system on SWIFTNet in the world.

The Council of Ministers in its session on the 17 June 2015 has approved in-principle the decision to transfer the Amman Stock Exchange (ASE) in to a public share holding company. ASE is keen to be transformed; the first step is for it to become a for-profit public shareholding company totally owned by the government; the second is an IPO.

Mohammad Aburoub, head of securities services at Bank of Jordan/ Jordan and Palestine, says: "This would realise further benefits for the ASE, the shareholders and the national economy. Changing the legal status will provide for more flexibility and help the ASE to diversify services and products as well as concluding agreements with the regional and international exchanges. Thus, the ASE competence will be enhanced – its liquidity and capacity to attract new investments will be increased."

The Securities Depository Center (SDC) completed the requirements to become a direct member for the real time gross settlement systems (RTGS). The SDC is now able to send and process payments instructions directly with same-day value with local banks. Previously, the SDC was an indirect RTGS member and the CBJ processed payments to local brokers manually.

The settlement account which is held at the CBJ will be automatically operated (debit/credit) by the SDC via swift RTGS, as per any local bank in Jordan.

Bank of Jordan is a well-established custodian in the region. "Building on such success, Bank of Jordan is now ambitious to expand to other countries in the region. Palestine is our first station outside Jordan and we will be fully operational very soon," says Aburoub.

Kenya

UNWEIGHTED		
RANK		SCORE
1	Standard Bank	5.65
WEIGHTED		
RANK		SCORE
1	Standard Bank	4.01

2015 started with uncertainty with the market left waiting for clarification on the implementation and application of



the capital gains tax (CGT) by the tax authority. In January there was a slump on the Nairobi Securities Exchange (NSE) in terms of volume (35%) and turnover (39%). In September 2015 the tax was rescinded under the Finance Act 2015, effective 1 January 2016, so the tax remained in force for the year 2015.

The Capital Markets Authority (CMA) continues to achieve milestones under the initiatives provided in its 10-year Capital Markets Master Plan including settlement through central bank money, development of a new Corporate Governance Code for Public Listed Companies and a Stewardship Code for institutional investors; removal of the 75% limit for foreign ownership of listed companies; licensing the Nairobi Securities Exchange (NSE) to set up a derivatives exchange – to name but a few.

Some of the key initiatives under consideration by the CMA include expediting the publishing of the draft consolidated Capital Markets (Derivatives Market) Regulations (2015) and determination of the policy roadmap for the consolidation of the country's central securities depositories.

In the drive towards creating efficiencies through initiatives such as automation of its capital markets, the Kenya SWIFT for Securities working group was created with participation from stock brokers, exchange, CSD and custodian banks.

Janet Waiguru, head of investor services, Standard Bank East Africa, says: "We are a key participant, with the current man-

date being the review current processes in addition to creating awareness. With the impending rollout of a new system by the listed equities CSD, it is our expectation that SWIFT will be an integral platform."

Additionally, in a bid to widen shareholders participation in the listed companies AGMS, the CSD is in discussion with AfriClear with a view to enter into an arrangement to support e-AGMs in the market.

Though the market's performance in 2014 was not as expected, the outlook for the Kenyan market in the period ahead remains positive.

Kuwait

UNWEIGHTED		
RANK		SCORE
1	HSBC	5.44
WEIGHTED		
RANK		SCORE
1	HSBC	6.48

Kuwait Clearing Company, KCC, is the central clearing, settlement and depository entity for the Kuwaiti securities market. It provides clearing, settlement; depository services to all KSE traded securities, and derivatives. It also offers depository services for unlisted equity securities and debt instruments.

The organisation has worked with IT consultancy TCS BaNCS over the past two years to modernise its depository platform and to implement a single integrated application system for all key business operations.

Previously, KCC was still using in-house



“Should I be speaking
to a bank with local or
regional capabilities?”
“We excel at both.”



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applications for sub-systems, such as registrar services, bank reconciliation/liquidity management, bond and mutual fund services and fund trustee management services.

But these were cumbersome and expensive to maintain so an upgrade was necessary. Now the business has automated payments and funds transfer using SWIFT network. The result is that flexibility and reach have improved for all market participants.

Lebanon

UNWEIGHTED		
RANK		SCORE
1	HSBC	5.45
WEIGHTED		
RANK		SCORE
1	HSBC	6.40

Midclear performs clearing and settlement for local Lebanese and internationally traded securities. Its main functions are the safekeeping of securities, the immobilisation of physical securities and the book-entry clearing and settlement of transactions. Members include the central bank, local and foreign banks and financial institutions, foreign central securities depositories, clearinghouses and issuers.

At present, participation in Midclear is voluntary. However, the central bank is planning to issue a draft law obligating all institutions dealing in physical shares to maintain an account at the central depository so as to operate in an immobilised environment.

This law is awaiting approval from parliament and there is no set date at this time. The Central Bank of Lebanon owns 99% of Midclear's capital.

BLOM Bank was the first to launch a Lebanese fund using a global custodian and shifted to Midclear for fund administration. It also launched the first Lebanese fund investing in Jordan in cooperation with Midclear and a local custodian bank.

The financial results of the three largest Lebanese banks – BLOM Bank, Bank Audi, and Byblos Bank – for 2015 reveal steady growth and financial strength, despite the political and economic instability in Lebanon and the region.

Malawi

UNWEIGHTED		
RANK		SCORE
1	Standard Bank	5.01
WEIGHTED		
RANK		SCORE
1	Standard Bank	3.64

The custody market is dominated by two local providers; a local operator and Standard Bank Limited, which has the lion's share of the domestic and sub-custody business and has done so for years.



Global custodians have had the Malawi market opened for a while with limited investor activity.

The bulk of Standard Bank's business is in the domestic market, pension and unit trusts specifically. Standard Bank's business has grown significantly in the past two years, with growth from the pension and unit trust segments predominantly, as Wilson Kuyokwa, manager investor services, Standard Bank Limited explains.

"In terms of the market we have seen moderate activity relating to capital markets development in Malawi in 2015. The market is dominated by local pension funds and institutions that are typically long term focused. There is limited foreign investor activity."

The Malawi market is fairly small and is challenged with low liquidity as investable assets available on the Malawi Stock Exchange (MSE) are limited. The MSE has 14 listed counters and no listed corporate bonds. The market was marginally bearish in 2015 as it registered a negative return on investment of -2.17% compared to 18.79% registered in 2014. It however, recorded an increase in both traded volume and value. Indications are that the market will rebound in 2016.

In terms of future plans, the MSE and RBM are championing the establishment of the CSD for listed equities and corporate bonds. The MSE also has plans to modernise its trading platform from the current

semi-automated call over system. Exact timelines for implementation of these changes are not known.

Mauritius

UNWEIGHTED		
RANK		SCORE
1	HSBC	5.11
WEIGHTED		
RANK		SCORE
1	HSBC	7.07

The key near term objective of the Stock Exchange of Mauritius (SEM) was to move away from an equity-based domestic exchange to a multi-product, internationally-focused exchange. In recent years it has introduced several initiatives. The SEM has entered new assets classes and diversified its product offerings by moving up in the value chain products. It has sought to improve the international visibility of the SEM and consolidate its links to international exchanges.

The listing rules have been reviewed with the aim of positioning the SEM as an attractive venue for the listing of global funds. The Official Market has been opened up to attract the listing of a wide spectrum of fund structures.

There has also been a collaboration with the Central Depository, Bank of Mauritius and other market players (including HSBC) as the first exchange in Africa to list, trade and settle in USD, EUR and GBP.

Rajiv Bali, head of HSBC Securities Services, Mauritius, says: "HSBC was one of

the first banks to introduce sub-custody services in Mauritius and is a recognised market leader for foreign institutional investors on the Official Market of the SEM. HSBC Mauritius is the first custodian bank to introduce daily reconciliation of securities with CDS and has fully automated the process since 1 October 2014.”

Morocco

UNWEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	5.58
2	Citi	5.36
3	Société Générale Securities Services	5.02
WEIGHTED		
RANK		SCORE
1	Citi	7.40
2	BNP Paribas Securities Services	5.47
3	Société Générale Securities Services	5.34

The Moroccan market has continued its reforms in order to reach international standards and to position Casablanca (through the Casablanca Finance City project) as a financial hub in Africa. The CSD and Stock Exchange have extended partnerships with LSGE and have both obtained ISO27001 certification. The CSD has moved to a new platform and ISO15002 certification has been achieved.

In addition, according to Sylvie Nouri, Head of Morocco, BNCI Security Services (BNP Paribas SS): “The opening-up of the stock exchange capital to the main market players should help the development of the market.”

At regulator level, discussions regarding

the amendment of securities lending rules have taken place and major progress has been made regarding the introduction of a derivatives market. The regulator’s power will be extended in 2016 for better regulation of the market.

Namibia

UNWEIGHTED		
RANK		SCORE
1	Standard Bank	4.95
WEIGHTED		
RANK		SCORE
1	Standard Bank	4.81

Perhaps the key development in the Namibia in 2015 was progress around the establishment of a national Central Securities Depository (NCSD). Also on the agenda is a possible move for equities to T+3 and the finalisation of the Financial Markets Bill (FIM Bill).

The CSD project in Namibia is picking up momentum and is now managed by the Namibian Stock Exchange (NSX) and assisted by an industry working committee. The Namibian market has reached a mature stage in the CSD planning initiative. The Namibian Financial Supervisory Authority (NAMFISA) provided enabling draft conditions proposing amendments to the Stock Exchanges Act 22 July 2015 for consideration in line with market operations. The committee was working on a response to these conditions with the aim to submit this to the regulator at the turn of 2015/2016.

A structure for the CSD’s operating model is envisaged. It will be a stand-alone entity; the company is already registered by the Namibian Stock Exchange (NSX) and currently wholly-owned by the NSX. There are ongoing discussions to determine the final ownership structure in line with the requirements of the Companies Act. Some market participants have been invited to express interest in holding shares of the CSD company; positive interest has been expressed by the custodian community, which is currently awaiting a response to this effect from the board of the NCSD.

While an implementation date for the CSD has not yet been set, the regulatory framework that would enable its operations is being finalised. In parallel, the working committee (chaired by the NSX) is working hard to put most of the implementation requirements/mechanics in place, such as securing systems vendors.

“The aim is to be ready when the regulations are approved in parliament,” says Corny Zaaruka, head of investor services, Standard Bank Namibia. “As implementation of the CSD depends on changes in regulation, drafting and approval of enabling CSD rules.”

The change in the South African equities settlement cycle to T+3 will have an impact on the settlement cycle for dual/secondary listed securities (primary on JSE, secondary on the NSX) bought by Namibian domestic clients. Such securities will still be settled at the South African CSD (Strate Ltd) after implementation, set for July 2016.

Work is ongoing to ensure a smooth transition to T+3 for dual listed securities. As Zaaruka says: “There is a strong likelihood that the Namibian market will move to T+3 Equities at the same time as South Africa. The NSX advised that it is in the process of inviting the JSE to assist the Namibian market with a smooth transition in this regard. The JSE scheduled an industry workshop on this subject for mid-January 2016.”

Various acts are being consolidated into the FIM Bill, under the supervision of the Namibia Financial Institutions Supervisory Authority (NAMFISA). The legislation is meant to consolidate and amend the laws relating to the regulation and supervision of the securities industry. It is now being finalised and is earmarked for implementation in 2017. It is envisaged to have a significant impact on sub-custodians (licensing requirements etc.) and the operations of the securities industry.

The resulting act will also bring about various changes ranging from credit risk to securities administration. It will broaden the legislation surrounding compliance



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regarding Collective Investment Schemes; it will bring about the overarching regulations governing the establishment of a CSD as well as changes to the Stock Exchange Act, etc. The drafting of the Bill and its supporting regulations are to be completed between 2014 and 2017.

Nigeria

UNWEIGHTED		
RANK		SCORE
1	Standard Bank	5.51
WEIGHTED		
RANK		SCORE
1	Standard Bank	5.97

2014 saw a number of changes in the Nigeria custody market. The launch of FMDQ and NASD OTC trading platform led to a more efficient platform for trading in unlisted equities. The number of depositories also increased with the Central Bank of Nigeria assuming a depository role and the Securities and Exchange Commission (SEC) launched a ten-year master plan for capital markets in Nigeria.

In terms of technological advancement, the Nigerian Stock Exchange (NSE) deployed the NASDAQ OMX (X-GEN) to replace its automated trading system – Horizon. The NSE now boasts the fastest trading platform in Africa and has become a member of the World Federation of Exchanges. In Q4 we saw the implementation of VAT exemptions on Nigerian Stock Exchange (NSE) transactions.

The downward slide in oil prices during 2015 has affected FX markets – crude oil is the country's main source of foreign exchange. The Central Bank of Nigeria's (CBN) administrative controls and interventions in the FX market kicked in at different levels, and saw the devaluation of USD/NGN from N185 to N198 in the early 2015, following the postponement of elections in the first quarter. More restrictions were introduced into the FX market by the CBN with the ban on 41 items announced. JPMorgan excluded Nigerian bonds from its EM Global Bond Index in the second half of the year.

At the Annual Investor Day in London on 7 May 2015 the CBN also showed its support for the custody industry by re-emphasising its directives to banks and discount houses in Nigeria to ensure that all non-proprietary investments in fixed income securities are kept with custodial institutions such as Stanbic IBTC Bank.

2015 saw Nigeria's first transition from a ruling party to the opposition, following the electoral victory of the All Progressives Congress (APC). The NSX All Share Index fell 20% between January and November 2015 as the market reacted to the slower than expected start by the new administration, after a brief hiatus of a rally following



the peaceful elections. Stanbic IBTC worked with other market participants and the Central Bank of Nigeria towards the introduction of the Electronic Certificate of Capital Importation (e-CCI). The Electronic CCI is expected to go-live by Q2 2016.

The soft launch of the securities lending services by Stanbic IBTC Bank took place in Q4 2015; regulators and market participants look forward to enhanced liquidity. The SEC also set up a Committee for the implementation of the 10 year Master Plan for the Capital Market.

Nigerian economy – the largest in Africa – continues to show resilience. The media remains positive about the new government and its expansionary policies so there is optimism that 2016 will be an eventful year for the capital market and the economy. Akeem Oyewale, Deputy Head: Investor Service, Stanbic IBTC: “Already, there have been tremendous strides achieved in the first two of the government's three focal areas of security and anti-corruption. The third is the economy, for which expectations are high for 2016. Major areas of focus for the economy include the construction, insurance and oil & gas.”

Oman

UNWEIGHTED		
RANK		SCORE
1	HSBC	5.62
WEIGHTED		
RANK		SCORE
1	HSBC	6.98

Oman's Capital Market Authority (CMA) oversees securities activity in the country – monitoring, regulating and taking corrective action in the market. The CMA has

issued several administrative decisions and regulations aimed at improving transparency and boosting investor confidence. These include regulations for licensed companies, capital adequacy requirements and disclosure requirements for listed companies.

The Muscat Clearing & Depository (MCD) company provides custody for the records of shareholders in joint stock companies, investment funds, bondholders, bearers of any other securities issued by the said companies, and the government as well as public authorities listed with the Muscat Securities Market. It is also responsible for the deposit, registering and provision of custody for share and bond selling/buying contracts and the other securities.

Foreign investors wishing to invest in the market will require that an account be opened at the MCD, which will be used for trading and securities holdings. Foreign investment is limited to 70% of the equity of Omani joint stock companies. There is no fixed pay date in Oman or specific announcement regarding the date on which dividend cheques are paid. The settlement cycle for securities ends on the T+2 for bonds and T+3 for shares.

Qatar

UNWEIGHTED		
RANK		SCORE
1	HSBC	5.48
WEIGHTED		
RANK		SCORE
1	HSBC	6.41

Following the index upgrade for Qatar to emerging market status by MSCI and S&P in May 2014 and September 2014 respectively, FTSE also announced that

Qatar is to be upgraded from frontier to secondary emerging market within the FTSE Global Equity Index Series (GEIS). The upgrade will be implemented over two equal tranches in September 2016 and March 2017.

Bazal George Samuel, client services manager, HSBC Securities Services, Qatar, says: "HSBC has also been involved in sharing of best practices on International know your customer (KYC) standards with the Qatar regulator. As part of our efforts to make the Qatari market more attractive for sovereign wealth funds and large funds with multiple investment managers, HSBC is working with the Qatar Central Securities Depository (QCSD) to introduce new account structures to enable multiple trading accounts for investment managers under one National Investor Number (NIN).

In line with what was advised in 2014, QCSD amended its records in March 2015 to reflect Gulf Cooperation Council (GCC) citizens holding shares in Qatar Stock Exchange (QSE) listed companies as Qatari citizens in terms of ownership and hence freed up more stock available to foreign investors.

To promote investor transparency, QSE started daily disclosure of major shareholders that own, directly or through children or subsidiaries, 5% or more of the listed company's capital. The disclosure started from 4 January 2015 and is available on the QSE website. Says Samuel: "HSBC worked closely with the QSE and market participants for the introduction of ETFs, which will be launched in Qatar shortly."

For the first time in Qatar, rights were permitted to be sold on the QSE. The QSE, with approvals from the Qatar Financial Markets Authority (QFMA), has put in place a mechanism for selling and pricing

of rights issues, providing protection and flexibility to investors that do not have an intention of subscribing in the listed company's capital increase. While stock lending and borrowing (SLB) was introduced by the QSE, "HSBC assisted in creating a structural framework for the operational aspect of the SLB mechanism," he says.

QSE introduced margin trading during December 2015. It has also announced the start of the application process to allow QSE members (mainly local brokers) to obtain licence as margin lenders. Margin trading will allow investors to purchase securities that are partially financed by the margin lender, a QSE member, who is licensed to provide margin trading services.

Saudi Arabia

UNWEIGHTED		
RANK		SCORE
1	HSBC	5.76
2	Deutsche Bank AG	5.31
WEIGHTED		
RANK		SCORE
1	HSBC	6.33
2	Deutsche Bank AG	3.71

The Saudi Arabian capital market opened to foreign investment under the Qualified Foreign Investor (QFI) Scheme in June 2015. The long-awaited opening, which allowed non-GCC foreign institutional investors to directly trade equities, was a landmark event that generated significant international investor interest.

The QFI regulations made it clear that the Saudi Capital Market is targeting certain kinds of foreign investors – not only to attract capital or liquidity to the market, but also to increase institutional investment. "The introduction of sophisticated global investors with long-term investment goals would contribute to market stability and reduce high volatility in prices. It will also enhance market efficiency and encourage more local companies to list," says Madhur

Bhandari, head of HSBC Securities Services, Saudi Arabia.

The Saudi Arabian stock market is the largest in the Middle East with an average daily trading around \$1.5-2bn and more than 160 listed stocks. It has a number of unusual characteristics: a T+0 settlement cycle for equities, pre-funding requirements, combined exchange, registrar and depository functions and a high proportion of retail exchange activity.

Alongside the introduction of the QFI regime, the stock market, the Tadawul, also implemented an Independent Custody Model (ICM), which is well-suited to the needs of large foreign institutional investors and clearly defines the roles and responsibilities of the custodian, broker, clearing bank and the CSD.

Charles R Cohen, director of Investor Services, Deutsche Securities Saudi Arabia, says: "The most significant market change in 2015 was the introduction of the Independent Custody Model (ICM), wherein the sub-custodian assumes responsibility for settling cash on behalf of the client [it was formerly the broker's responsibility]. With the implementation of ICM the custodian assumes greater control over assets and cash of the client."

Under the ICM, investors hold two accounts with their custodian: a custody account and a custodian trading (or access) account. Custodian trading accounts enable investors to use multiple brokers, if desired, and also provides centralised control and visibility of their activities. Shares and funds kept in the custodian trading account are accessible by brokers as instructed/authorised, but any resulting trades are settled by the custodian, which will be a direct member of the exchange and clearinghouse (so will therefore pay/receive cash/shares to/from the exchange).

Resulting movements of cash/ shares will be directly between the clearinghouse and the client account at the custodian and will not go via the executing broker, thereby reducing counterparty exposure on brokers.

HSBC Saudi Arabia introduced the first foreign investor under the QFI Scheme and carried out the first trades for a QFI. It was also one of the first custodians to do trade settlements under the new custody module called the ICM framework. "As the largest international custodian in Saudi Arabia, HSBC Saudi Arabia's role on the ground is to guide investors through the complexities of the market, provide regulatory insight and connectivity, and enable them to overcome local nuances," says Bhandari.

The Securities Depository Centre (SDC) will be publishing new Depository Rules in 2016 that will further align the rules with



the proposed market changes.

The Tadawul has stated as objective within its market development roadmap to itself float. There is also the possibility of a broader privatisation programme which may encourage IPO activity and provide further depth in the secondary market from 2017-19.

It is widely anticipated that Saudi Arabia's stock market could be considered for an upgrade to emerging market status by MSCI in 2017. If this happens, it would triggering significant inflows is likely to have a weight of around 4% in the index.

Adds Cohen: "Short-to-medium-term, other market changes are anticipated. MSCI and FTSE-Russell will be considering the Saudi market for inclusion in their respective emerging market indices. In order to meet the entry criteria the CMA and Tadawul may consider modifying certain aspects of Capital Markets Regulation and market infrastructure. We expect therefore the regulatory environment will continue to evolve."

South Africa

UNWEIGHTED		
RANK		SCORE
1	Standard Bank	5.98
2	Société Générale Securities Services	5.80
WEIGHTED		
RANK		SCORE
1	Standard Bank	5.51
2	Société Générale Securities Services	4.36

There were three broad areas of development during 2015: structure and operations, participation and regulation.

Market structure and operations are being amended in preparation for the equities settlement cycle transitioning to T+3, scheduled for July 2016. The implementation of the off-market exception handling process for market level trade matching and exception handling for transactions executed off exchange was an efficiency enhancement necessary ahead of T+3. "The implementation in April 2015 was seamless and served as a good indication of the market's ability to handle whole-sale implementation projects," says Charl Bruyns, head of investor services for South Africa at Standard Bank.

The Johannesburg Stock Exchange (JSE) has completed phase 2 of its multi-year implementation of T+3, which largely involved internal system readiness at the exchange level. Efficiency in corporate actions payment processing was improved on 5 October 2015 by the implementation of a process for payment of corporation action funds to custodians in central bank money. Strate's new collateral management product enhances the market's ability to reduce the operational costs associated with collateral.

"The scope of market services on offer



in South Africa continues to track international trends as evidenced by the gradual take up of segregated depository accounts that provide certain benefits in respect of account segregation and portability," adds Bruyns.

The breadth and depth of market participation increased in 2015 and the number of licensees is set to grow in the near term. The Financial Services Board is considering several applications for stock exchange licenses after having recently issued a licence for a CSD to Granite CSD (the second issued). "These developments have been met with some scepticism given the size of the South African capital market and the magnitude of technology investment that is required to integrate these new entrants into existing market infrastructure," adds Bruyns.

The main regulatory development is the on-going refinement of the depository rules. Another is changes aimed at achieving international alignment; in particular, the introduction of withholding tax on interest in January 2015 and the Protection of Personal Information Act 2013 (data privacy legislation, commencement date pending).

In addition, a number of changes have been made to financial services laws to incorporate the twin peaks principle of separating prudential regulation from market conduct regulation. The so called Twin Peaks legislative and regulatory changes are at advanced stages of development and consolidated market impact is expected in the next 18 months in the form of enhanced regulatory supervision and oversight, greater transparency, reporting,

risk management and consumer protection in South African financial markets.

Swaziland

UNWEIGHTED		
RANK		SCORE
1	Standard Bank	4.86
WEIGHTED		
RANK		SCORE
1	Standard Bank	6.61

Global intermediaries have opened the Swaziland market 10 to 15 years ago and to date there has not been any foreign investor activity in the market outside of South African institutions. Domestic investors still comprise 100% of trading on the (Swaziland Stock Exchange) SSX. In essence the sub custody business in Swaziland exists but is not active.

"There has however been development in the local market and particularly in terms of investments from local institutions," as Lindiwe Manana, manager, investor services Swaziland at Standard Bank said.

"The formation of the Financial Services Regulatory Authority has seen an increase in the adherence of the 30% investment requirement for local insurance and retirement funds i.e. local insurance and retirement funds are required to invest 30% of their funds in the Swaziland market. An increase in this amount to 50% has been intimated by the Financial Services Regulatory Authority."

Meanwhile, the Central Bank of Swaziland has implemented phase 1 of their centralised securities depository that has resulted in the dematerialisation and creation of an electronic register and transfer system for Government bonds and treasury bills.

Tanzania

UNWEIGHTED		
RANK		SCORE
1	Standard Bank	5.92
WEIGHTED		
RANK		SCORE
1	Standard Bank	6.20

Stanbic Tanzania, part of Standard Bank, is the dominant custodian in the Tanzanian market covering domestic, foreign and regional clients. "The key differentiator has been our on-the-ground custody team and capability versus a hub coverage that the competition had in place," explains Avith Massawe, head of investor services, Stanbic Bank Tanzania Limited.

"This coupled with the broader capability and regional presence of the Standard Bank Group in the securities market enabled Stanbic Tanzania to attain and maintain a leadership position in the market," he added.

The Tanzania capital and stock market has gone through notable developments in the past few years, including removal of foreign ownership limits on equities and partial removal of limits on participation on government debt trading by foreign investors, by allowing residents from East Africa Community to participate.

The introduction of a new and modern trading system by Dar es Salaam Stock Exchange i.e. Securities and Trading Technology developed in South Africa, replacing an old system of Millennium Technology.

There are a couple of initiatives that started in 2015 which are still on going and implementation dates are expected to be effective this year, 2016. Some of these initiatives include demutualisation and self-listing of the Dar es Salaam Stock Exchange which is currently looking for lead transaction advisor, sponsoring broker and other experts to facilitate the listing. The listing is expected to improve corporate governance, efficiency and raise funds for expansion.

Another initiative is the linkage of Dar es Salaam Stock Exchange CSDs and Central bank CDS at country level and the linkage of the East Africa Community member country's CSDs through a project called East Africa Community Capital Markets Infrastructure.

In terms of regulation, the Social Securities Regulatory Authority, in collaboration with Central bank issued investment guidelines, put emphasis on pension funds on the usage of fund managers and custodian.

The Central bank started reviewing its policy on capital accounts, with the intent of removing restrictions on foreign investors to participate on government securities trading. This was expected to be implemented by quarter four 2015 but is now expected in quarter one 2016.

Tunisia

UNWEIGHTED		
RANK		SCORE
1	Société Générale Securities Services	5.53
WEIGHTED		
RANK		SCORE
1	Société Générale Securities Services	6.71

There have been three major changes to sub-custody arrangements during 2015. Firstly, the ability to open segregated accounts for foreign global custodians with the CSD. Secondly, allowing management companies direct access to the CSD platform. Thirdly, the automation of repo transactions on the CSD platform.

New regulation governing the Tunisian CSD has been submitted to the Regulator (CMF) and is awaiting approval, which is expected be published in Q1 2016. Several requirements will be mandatory for market participants as monthly reconciliation between sub-custodian records and the CSD records.

Regarding the custody services providers, there is no official market share: Two main providers for foreign institutional investors following international standards: Societe Generale Securities Services (SGSS) Tunisia and BIAT.

"In terms of changes to sub-custody in 2016 and beyond; a new system is to be implemented before 2019 allowing for better STP and better automated market controls," notes Societe Generale.

"Regarding triangular trades; after general consultation submitted by Tunisie Clearing (TC) for all participants, a proposal has been prepared and submitted to the regulator (CMF)."

The CMF has not given its approval and suggests further consultation to be held in workshops to be organised including TC, TSE, market participants and the CMF.

The Tunis Stock Exchange will also introduce new quotation system during 2017 (Trading Platform-Hybrid / UTP-Hybrid) with better performance than the system currently used (NSCv900 since 2007).

Uganda

UNWEIGHTED		
RANK		SCORE
1	Standard Bank	5.30
WEIGHTED		
RANK		SCORE
1	Standard Bank	3.63

The Uganda Securities Exchange Limited (USE) registered a big milestone in its history with the launch and implementation of Automated Trading System (ATS) in July 2015. With the implementation of ATS, the USE moved to change the settlement cycle for equities from T+5 to T+3.

"The major driver of the custody business in 2015 was the high activity in the fixed income securities market particularly government securities i.e. Treasury bills and Treasury bonds, these will continue to

be very attractive securities in the Ugandan market, until Q2, 2016.

This fact is attributable to the prevailing macro-economic fundamentals which have led to high yields for government securities. On the Equities market the USE All share Index (USE ALSI) showed a marginally declining trend within 2015, because of the subdued activities at bourse and effect of the cross listed stocks from Nairobi Stock Exchange (NSE), whose prices dropped. However, the outlook is positive as USE tries to attract more products, including new listings, especially for the Alternative Markets Segment, for 2016 and beyond.

"In terms of future plans, USE is in advanced discussions with Bank of Uganda (Central Bank) to start trading in Treasury bonds. Currently Treasury bonds, though listed at USE, the securities are traded OTC, through primary dealers. Trading of Treasury bonds at USE will increase activity at the bourse and also allow the investors full benefits of price discovery and competitive pricing by the traders," said Andrew Omiel, head of investor services, Stanbic Bank Uganda.

Other USE initiatives in 2016 include linking the Securities Central Depository (SCD) with the national payment system (RTGS) to allow True DVP settlement, facilitated by Bank of Uganda, rather than using commercial banks at settlement banks by the second of this year.

United Arab Emirates

UNWEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	5.83
2	HSBC	5.66
WEIGHTED		
RANK		SCORE
1	HSBC	6.18
2	Deutsche Bank AG	3.59

The UAE authorities have taken several measures to enhance the regulatory framework and improve transparency and governance in the UAE markets over the last twelve months, including the long-awaited new Commercial Companies Law legalised by the President of the UAE.

"The new law covers governance, protects rights of shareholders and partners, and promotes corporate social responsibility. It also covers stock market flotation and aims to attract more investment by aligning corporate regulation closer to international standards," explains Georges Cattani, head of HSBC Securities Services, UAE.

The UAE regulator, the Securities and Commodities Authority (SCA), approved new regulations to classify securities brokerage companies as "Trading Members" or "Trading and Clearing Members", aiming to enhance the settlement process and reduce counterparty risk. Aligning with best international practices, the SCA also

MIDDLE EAST & AFRICA

ratified the implementation of a new Allocation Account System to aggregate trades for institutional investors to enliven the UAE market and increase liquidity.

The SCA has mandated companies to pay cash dividend via wire transfers instead of cheques effective from January 2016. This move enables timely and efficient payment of cash dividend to investors.

"The SCA also approved the setting up of Second Market for trading of Private Joint Stock Companies (PJSC) aiming to provide opportunity for better pricing for shares of private companies, better funding for those firms and ownership protection," added Cattani.

The local UAE Exchanges are working closely with the SCA to introduce the Central Counterparty mechanism in the UAE markets. They also announced plans to appoint the Central Bank of the UAE as their Settlement Bank with a view to reduce counterparty risk.

Allocation accounts, payment of cash dividends through wire transfers and Trading & Clearing Member regulations are a positive step in the development of the UAE markets. A renovated market infrastructure for post-trade matching and settlement, removal of the dual account structure and simplification of market entry are necessary for further growth in the local markets.

The SCA continues its engagement with regulators globally, to discuss mechanisms and initiatives and also review the necessary procedures to realise SCA's strategic plan to promote the UAE markets to "Developed" status over the next five years.

Zambia

UNWEIGHTED		
RANK		SCORE
1	Standard Bank	5.22
2	Standard Chartered	4.32
WEIGHTED		
RANK		SCORE
1	Standard Chartered	5.52
2	Standard Bank	4.72

Zambia introduced an alternative market on the Lusaka Stock Exchange (LuSE) in 2015 targeting the high growth potential of small and medium companies, an initiative which is expected to contribute positively to the liquidity of the capital market.

The market saw high activity in the fixed income securities market particularly government securities i.e. T-bills and government bonds, which are expected to be attractive securities in the Zambian market, attributable to the prevailing macro-economic fundamentals which have led to high yield rates for government securities.

On the equities market the LuSE All share Index showed a marginally declining



trend within 2015. However, the outlook is positive, notes Moses Simbeye, head of investor services at Stanbic Bank Zambia.

"The Zambian government has established an entity called Industrial Development Corporation which has taken over the running of 29 formerly state owned enterprises; the government intends to list these organisations and this is expected to positively contribute to the equities market in 2016 and beyond," Simbeye said.

In the 2016 budget the government has announced tax restructuring, whereby the withholding tax on discount income on government bonds has been removed but maintained on coupon income. The transfer tax on property and shares was reduced from 10% to 5%. These measures are meant to attract increased activity in the financial markets of Zambia.

Meanwhile, the project to separate the CSD from the exchange is still underway as well as the process to link the Bank of Zambia CSD to the Lusaka Stock Exchange CSD, both of these have reached advanced stages.

In the second half of the year the country engaged a number of monetary policies to try and stabilise the macroeconomic environment after the Zambia's number one export commodity, copper performance drastically fell on the international markets, worsened by the local power deficit challenges.

"Zambia remains an attractive market for both foreign and local investors. The Zambian Custody market continues to be dominated by two regional players," added Simbeye.

Zimbabwe

UNWEIGHTED		
RANK		SCORE
1	Standard Bank	5.61
WEIGHTED		
RANK		SCORE
1	Standard Bank	4.29

Zimbabwe's securities services sector has been undergoing significant develop-

ments in the past few years which have seen the implementation of the Central Securities Depository (CSD) and the Automated Trading System (ATS).

"These key developments have impacted the Zimbabwean custody environment in 2015 especially with regards to market structure and operations, market participation and market regulation," said Takunda Magumise, head of investor services, Stanbic Bank Zimbabwe Limited.

The implementation of the ATS during 2015 brought efficiency and transparency in the trading mechanisms and decommissioned the archaic call over system which was being utilised by the Zimbabwe Stock Exchange (ZSE).

A real time link was established between the CSD and ATS. This development also enhanced the risk management process for the information exchange process between the CSD and the ATS. Any changes in client data and holdings between the CSD and the ATS are done on a real time basis.

Meanwhile, the Zimbabwe Stock Exchange enhanced the corporate action management process through a directive requiring issuers to provide prescribed minimum detail for a corporate event.

"This substantially changed the process as corporate actions in Zimbabwe have always operated on an approximate basis. The new directives require that issuers should define all dates including record date, payment date, amount, ex-date and cum-dividend-date," added Magumise.

The Securities and Exchange Commission of Zimbabwe (SEC) directed the CSD and issuer agents to provide Corporate Event data in accordance with a structured timeline and this should be uniformly adhered to.

The SEC directed that all investors with dematerialised positions be credited with electronic shares for any scrip payments. By doing this, SEC enhanced the risk profile for Corporate Events in Zimbabwe.

ASIA PACIFIC

Regional overview

ASEAN's GDP is forecast to outperform the rest of Asia and indeed the rest of the world, with fundamental and exciting drivers such as foreign direct investment (FDI) that have already overtaken those of China. ASEAN 2025 blueprints for new financial market activities that have and will continue to excite sub-custodians.

For example, in the secondary market for equities, the launch of the ASEAN Exchange trading link and post-trade link, with a virtual total domestic market capitalisation of about \$2.4trn at start of 2015 (according to the World Federation of Exchanges) marked its first attempt to agglomerate modest-sized markets for deeper liquidity and greater global competitiveness.

Since then, "the launch of the link has allowed for better insights into the integration challenges of markets that are in different development stages and goals, with different market structures, settlement cycles and currencies, and which will continue to change despite being linked," according to Deutsche Bank.

Meanwhile, ASEAN equity market structures continue to evolve. Singapore has just launched its remote trading membership while the availability of third party clearing is imminent in another ASEAN economy. Thailand has implemented a Pre-Settlement Matching System and a number of ASEAN markets, including Vietnam, are keen on a T+2 shortened settlement cycle. Message standardisation using ISO20022 continues to gain momentum (2).

In the funds industry, the ASEAN Collective Investment Scheme (CIS) framework was launched in 2015. This allows ASEAN-domiciled funds to be offered across borders to retail investors. In Indonesia, related work has already started on the country's New Funds Platform (NFP), which will create an industry driven transfer agency and fund services utility to automate, standardise and promote greater efficiencies. Expected to launch in August 2016, the utility mirrors a regional Asia Fund

Standardisation Forum's effort.

Additionally, the European Securities Markets Authority (ESMA) will complete its assessment of Singapore in granting an Alternative Investment Fund Managers Directive (AIFMD) passport to managers and funds established in the country. In totality, this means that in ASEAN, new fund legal structures, oversight and governance standards and custodian services will evolve, with the possibility of the emergence of a regional funds hub.

Survey highlights

More responses were received from the customers of sub-custodians in Asia Pacific than any other region except Europe. There was a spread of highest rated firms over the diverse collection of markets in the region although two firms stood out as having excellent operations across the region: HSBC and Deutsche Bank.

HSBC was the highest rated firm, both weighted and unweighted, in the following markets: Australia, Malaysia, New Zealand, Sri Lanka, Thailand and Vietnam. It also picked up the top spot in the weighted category, where assets under custody and the importance of categories was taken into consideration: China, Hong Kong, Japan and the Philippines.

Deutsche Bank was the highest rated sub-custodian, weighted and unweighted, in Indonesia, Pakistan and South Korea. Under the unweighted methodology it was also the winner in China, India, the Philippines, Singapore and Taiwan.

Standard Chartered was the top rated sub-custodian in Bangladesh under both methodologies. DBS (formally the Development Bank of Singapore) was the top rated sub-custodian in Hong Kong unweighted as well as the Singapore weighted. Citi was the top-rated sub-custodian weighted in India. Mizuho was the highest rated sub-custodian unweighted in its home market of Japan. Bank of Taiwan was the highest rated sub-custodian weighted in its home market.

Australia

UNWEIGHTED		
RANK		SCORE
1	HSBC	5.61
WEIGHTED		
RANK		SCORE
1	HSBC	5.68

The move to a T+2 settlement cycle in Australia and New Zealand is scheduled for early March 2016 and will cover cash equities and fixed income securities in both markets.

"Market participants report being on track to migrate successfully to the shortened settlement cycle," says David Braga, head of BNP Paribas Securities Services Australia and New Zealand.

The ASX has also initiated a project to replace its existing CHES platform, which has serviced the cash equities market in Australia since 1994.

This project is expected to be completed in early 2019 and the resulting solution, while dependant on the result of legislative review on competition in clearing, is look-

ing to use market leading technology.

"A replacement of the CHES platform has the potential to revolutionise the equities clearing and settlement space within the Australian market and is seen as a key requirement for growth of the Australian market," he adds.

Securities lending is widely used in the market but there is no governing body regulating securities lending activities. An Australian Securities Lending Association has however been created with representatives from the securities lending market. The Association has no regulatory power but shares information amongst lending players.

Bangladesh

UNWEIGHTED		
RANK		SCORE
1	Standard Chartered	4.53
WEIGHTED		
RANK		SCORE
1	Standard Chartered	5.95

On 6 October 2015 the Bangladesh Secu-

rities & Exchange Commission issued a draft regulation with the aim of setting up a separate Clearing and Settlement Company under the proposed Clearing and Settlement Act.

"The Act will set the path to establish a company that will handle the settlement of securities and futures contracts in the exchanges," says Rajesh M Sharma, regional product head, Securities Services, South Asia, Standard Chartered Bank. "At present the clearing of securities is performed by the exchanges."

The commission has sent copies of the Act to stakeholders including Dhaka Stock Exchange, Chittagong Stock Exchange, Central Depository Bangladesh Limited, Association of Bankers, Bangladesh and the Insurance Association of Bangladesh. After receipt of stakeholder opinion the act will be finalised.

The initial paid up capital of the company will be BDT5bn (\$64m). The country's two stock exchanges can hold up to 70% shares

Understanding the true value of direct custody

Clive Triance, global head of banks and broker dealers sector sales and business development, HSBC Securities Services, offers his insight into the direct custody space

Banks and brokers have a multitude of data points to consider when evaluating which direct custodian to select. A best-in-class securities services offering is usually top of the wish list, with clearing, settlement, safekeeping, asset servicing, fails coverage, FX and treasury services all included.

Then, at the service level, links with market infrastructures and decision makers along with information and education about market changes impacting their business are important needs.

Finer details around each direct custodian tend to accumulate neatly into a few groups. These include, but are not limited to, price, instruction processing, cut off deadlines, advocacy/lobbying as value added services, market share, reporting services, tax expertise and technology.

It has become standard practice at industry events to ask the audience to vote on which of these really is the most important function. And, of course, there-in lies the rub, because each voter has a different view depending on their business model and the unique needs of the end customers. Often there are three or four sectors tied and almost never does pricing get the highest number of votes.

What is clear to all voters though is that the importance of choosing the correct provider and differentiators offered by each grow as markets become emerging or frontier.

In Asia and the Middle East, for example, it becomes clearer still that the pace at which each market is changing drives investment and volume in that market – an important consideration for investors, trading firms, banks and custodians alike.

The challenge faced by each country and its infrastructure is that not all of them will follow an identical path from frontier, to emerging to fully emerged as there are many macro-economic and political factors that drive the pace and direction of change.

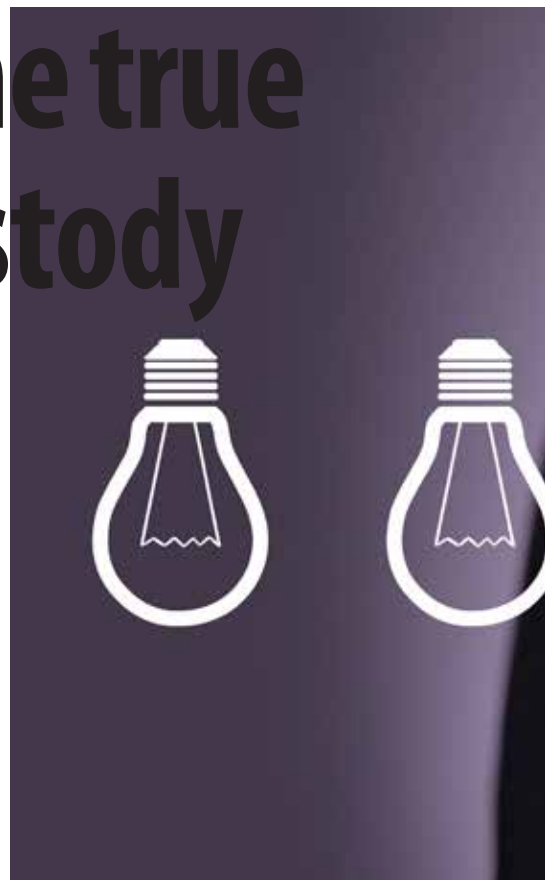
Some countries will look to the structures of mature markets to act as a blueprint. However many frontier and emerging markets would agree that they rely heavily on speaking to trusted direct custody providers that operate in multiple

countries to understand what the effect of each change will be, how long it will take to make and what the outcome is likely to be in terms of attracting flow and investors, whilst all the time supporting its economic and political needs.

While each of the key consideration groups listed above helps to create a structure from which to score firms in terms of servicing assets and trade flows, there is a greater need to have a relationship with a direct custodian based on trust and knowledge. Particularly as firms look for providers in the emerging and frontier markets.

Direct custodians need to be able to articulate clearly what they do well in the trade lifecycle of a transaction but what they must also be able to do is show their customers where they add true value. Partnership is sometimes an overused word in our industry but true partnership is based upon understanding each other completely and working together to ensure the needs of all are considered and

“Direct custodians need to be able to articulate clearly what they do well in the trade lifecycle of a transaction but what they must also be able to do is show their customers where they add true value”





understood as countries move along the cycle to maturity.

Much has been written about pricing in recent years and it's a popular discussion point across the industry, but the simple truth is direct custodians need to show clearly what they do for their customers, what their real differentiators are, and how they work to help developing markets improve. This in turn can lead to higher trading volumes and/or more investor interest which helps the business models of the customers of direct custodians.

Pressure on pricing has been the prevailing feature of the securities industry for the past decade. But when it comes to custody and asset services, there have been concerns, probing questions, as to whether the pressure on pricing becomes too great. For example, has the so-called "race to the bottom" jeopardised the long-term sustainability and stability of an essential and necessary part of the transaction lifecycle?

A fixation on fees alone won't allow emerging markets to operate as engines

for future growth. In each jurisdiction, industry players and market participants need to working together to harmonise the various available routes for foreign investment and create as favourable an operating environment as possible.

India

India is a notable example. HSBC, as a direct custodian, has been working with the Indian market to encourage the adoption of a new Foreign Portfolio Investor (FPI) framework. This recently replaced a two decade old two tier licensing regime with a single tier more open regime allowing a wider range of foreign investors to access the Indian market, and delegation of the licensing authority from the Indian regulator to approved institutions.

For HSBC, this change marked our two decades of partnering the development across the Indian market and we are pleased to have been an active part of facilitating this market development. The very first year of the FPI framework under

a wider more open system saw HSBC registering a record number of new licenses in the Indian market indicating the wider opportunities available to investors. This would not have been possible without a lot of time spent working for our direct custody customers.

In order to compliment India's market evolution HSBC listened to client feedback from foreign portfolio investors (FPI), who cited documentation-related challenges, procedural issues and a time consuming registration process as some of the key issues faced while investing in India.

This naturally led to the launch of an innovative utility which allows clients to intuitively navigate and complete the various documentation needed for the license, through a simple interactive user based platform.

Appropriately named FASTrak, with FAST representing FPI Account Simplification Tool, HSBC has seen clients embrace the technology in order to take advantage of the faster turnarounds feasible.

Firstly it allows investors to categorise themselves in line with FPI requirements and subsequently provides a complete list of the applicable required documentation. Investors can then complete all documents, with validation checks and assistance at various stages, and store everything on a single platform.

Clients can then complete all documents, with validation checks and assistance at various stages, and store everything on a single platform. The existing registration and documentation process takes about one month on average. FASTrak has cut this time significantly.

We continue to see opportunities to facilitate faster and simpler market access into markets like India and have focused our efforts to align with our client requirements. Just one example in one market of the benefits gained from using a partnership approach between the direct custodian, its customers and the wider market bodies and infrastructures.

These examples show that it's not just about price it's about working with countries, regulators, infrastructures and customers to improve markets and make them more attractive to investors and trading firms whilst operating the best possible direct custody service, putting the servicing and protection of assets and the needs of the customer at the centre. ■

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of a clearing company jointly, while any of the existing two stock exchanges will be allowed to hold a maximum stake of 49% in the entity.

Banks, non-bank financial institutions, insurance companies and the Central Depository Bangladesh Limited will be allowed to invest in the clearing company. The establishment of this company will also help to setup commodity and derivative markets in Bangladesh.

China

UNWEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	5.99
2	HSBC	5.80
3	Standard Chartered	5.44
4	Industrial and Commercial Bank of China	4.40
5	China Construction Bank	4.37
WEIGHTED		
RANK		SCORE
1	HSBC	6.13
2	China Construction Bank	6.02
3	Industrial and Commercial Bank of China	5.97
4	Deutsche Bank AG	5.61
5	Standard Chartered	4.42

A number of initiatives were introduced by Chinese regulatory bodies during 2015 to further expand channels for cross-border investment and facilitate RMB internationalisation.

In July 2015, the People's Bank of China (PBOC) released a Circular on Foreign Central Banks, Monetary Authorities, International Financial Organisations and Sovereign Wealth Funds to invest in the China Inter-bank Bond Market (CIBM) using RMB funds, which changed the application process for these investors from approval to registration. Also, these classes of investor are allowed to trade bonds, repos, bond forwards, interest rate swaps (IRS) and forward rate agreements (FRA) as well as lend bonds.

During the year, there was also rapid development in the Reminbi Qualified Foreign Institutional Investor (RQFII) scheme, which has now been expanded to 16 countries/regions with total quota RMB1.21trn.

By November 2015, asset managers from ten out of the 16 countries/regions have been granted license approvals. "HSBC is the only custodian to be servicing all those ten markets in terms of RQFII business," says Sophia Chung, Head of HSBC Securities Services, China.

On 30 November 2015, the Executive Board of the International Monetary Fund (IMF) decided to include the RMB into the currency basket of SDR as a fifth currency along with the US dollar, the euro, the Japanese yen and the British pound, with a weight of 10.92%, which will become effective on 1 October 2016.

Says Cheung: "This is an important milestone in the integration of the Chinese economy into the global financial system,



and also recognition of the progress that the Chinese authorities have made in the past years in reforming China's monetary and financial systems. This could lead to an increase in RMB allocation by major central banks and investors, as well as market demands for RMB assets."

Amy Wenhui Jia, global custody service division, Custody Service Department, Industrial and Commercial Bank of China, says: "The milestone of RMB internationalisation is that RMB has joined the International Monetary Fund's Special Drawing Rights in December and, more importantly, it will push forward the continuing reform and open-up on China financial markets."

"These new policies and changes will continue to attract the money that invests in emerging markets into China. It is also expected that in next year [during 2016] the capital accounts administration will be further relaxed from few first-tier cities and cross-border investment will enjoy the new opportunities."

Hong Kong

UNWEIGHTED		
RANK		SCORE
1	DBS Bank Ltd (formerly Development Bank of Singapore)	6.54
2	HSBC	6.02
3	Deutsche Bank AG	5.81
4	Standard Chartered	5.30
WEIGHTED		
RANK		SCORE
1	HSBC	5.62
2	Standard Chartered	5.18
3	Deutsche Bank AG	5.02
4	DBS Bank Ltd (formerly Development Bank of Singapore)	3.63

2015 was a significant year for the stock market in Hong Kong. The Shanghai-

Hong Kong Stock Connect (SHSC) gathered momentum and a number of modifications were made to enhance the scheme.

One of the key improvements was the introduction of the Special Segregated Account (SPSA) in April. The SPSA allows investors to open segregated accounts at the depository and appoint up to 20 brokers to trade A-Shares without having to pre-deliver the shares to brokers prior to trade execution.

Shaik Ismail Hakim, area Head, HSBC Securities Services, Asia, HSBC, says: "HSBC Direct Custody and Clearing successfully supported clients to implement the SPSA accounts and have opened approximately 30% of SPSAs opened (verbal confirmation from exchange)." HSBC's Custody Plus (execution + custody) product for the SHSC became an established solution for foreign institutional investors, providing "true delivery versus payment (DVP) on T+0 for China A-shares traded in Hong Kong". HSBC's market share of the Stock Connect scheme is consistently above 40%, based on assets held with HSBC Direct Custody in Hong Kong according to HKEx.

2015 also saw the launch of the Mainland-Hong Kong Mutual Recognition of Funds (MRF) initiative. Through the MRF, eligible mainland China and Hong Kong funds will be allowed to offer their respective products to retail investors in each other's market. The MRF initiative is a major breakthrough in the opening up of the Chinese funds market to offshore funds. Recently, the Securities and Futures Commission of Hong Kong granted

authorisation to four mainland funds to begin offering their products in Hong Kong.

Stephanie Marrelle, head of Hong Kong, BNP Paribas says: “RMB Internationalisation initiatives continues to drive investor appetite to access China’s capital markets. Recent RQFII quotas are now in 10 countries in addition to the various initiatives in progress – Shanghai-Hong Kong Stock Connect, Mutual Recognition of Funds and upcoming Shenzhen-Hong Kong Connect. Local custodians play a role in bridging the gap between regulators and market participants in developing innovative solutions, addressing operational risk challenges and engaging in continuous improvement dialogues. The progressive development of these initiatives will enhance the full convertibility of the RMB in the coming years.”

India

UNWEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	6.41
2	Société Générale Securities Services	6.13
3	HSBC	6.00
4	Citi	5.72
WEIGHTED		
RANK		SCORE
1	Citi	6.31
2	HSBC	5.64
3	Deutsche Bank AG	4.62
4	Société Générale Securities Services	4.11

The policy environment governing the capital markets in India has evolved rapidly since the 1990s to pave the way for vibrant, liquid and transparent markets. However, the securities markets and sub-custody services are subject to certain unique rules and guidelines.

Custodians are regulated by the Securities and Exchange Board of India (SEBI).

All custodians are subject to strict licensing requirements and are required to register with SEBI – but they also governed by the Reserve Bank of India for all banking & cash related activities.

In 2015, the commodity markets regulator Forwards Markets Commission (FMC) was merged with SEBI, paving the way for expansion of the commodities markets for foreign investors. SEBI notified 12 commodity bourses and associations as stock exchanges and created seven departments that included legal affairs, surveillance, investigations and enforcement.

Electronic funds transfer, combined with dematerialisation of securities, creates an environment conducive to the reduction of stock settlement cycles. The settlement cycle for electronic securities is T+2. A market for physical securities still exists in India but in an extremely limited form.

SEBU mandated that all new IPOs must be in the dematerialised form, with effect from October 2015. It also reduced the listing timeline for IPOs to six days, “which could help reduce cost and exposure to market volatility and bring Indian markets on par with other developed markets where listing happens within four to five days from the closure of issue, says Murali Narasimhan, SGSS nominee and deputy managing director of SBI-SG.

Since June 2014, SEBI has delegated its authority to local custodians to issue entry licenses, and conduct due diligence formalities, to foreign investors investing under the portfolio investment route. Around 1400 fresh registrations have since been granted.

Foreign investments in India are sub-

ject to sectoral caps. Further, a single foreign portfolio investor (FPI) is subject to 10% ownership limit in any company. The overall foreign investment limit is 24% for all categories of investors, which may be increased by the company. Foreign investment in debt securities is also subject to central bank prescribed limits. In July 2015, to simplify the investment regime, the government clubbed foreign direct and portfolio investments with investments by non-resident Indians (NRIs) under a composite sectoral cap. The move will give companies greater leeway on choice of routes to raise fresh capital.

Rajesh M Sharma, regional product head, Securities Services, South Asia, Standard Chartered Bank, says: “Government of India has simplified the registration process by harmonising various investment routes available to foreign portfolio investors to access India capital market. Indian market can be accessed by all categories of investors including individuals, corporate and family offices subject to certain terms and conditions laid down in SEBI FPI regulation 2014. Since the start of the FPI regime, more than 3000 FPIs have registered, with total investment estimated at close to \$35bn in the India capital market.”

The regulator announced many market friendly regulations in 2015, with an aim to increase transparency, flexibility, ease of investment and increase the market depth. Some major developments relate to corporate actions, open offer through stock exchanges as well as trading and settlement.

Regarding government securities, in 2015 there were positive measures relating to the purchase or sale of government securities by FPI directly from the issuer and regulatory changes to the government debt and corporate bond market. Sriram Krishnan, Director - Investor Services, Institutional Cash and Securities Services, global transaction banking, Deutsche Bank: “The banking regulator RBI made a significant policy announcement to increase the overall permitted foreign investments into government bonds, from 3.7% of overall debt to 5% by March 2018, say market announcements and reports. On the flip side, the residual maturity stipulation (minimum three years) was brought in, to ensure stability in the exchange rate.”

SEBI also implemented changes to the currency derivatives market, listing rules and M&A activity. FPI position limits in exchange traded currency derivatives were increased and India’s fledgling securities lending and borrowing (SLB) proposition also started to see some volumes, according to Krishnan.

Despite sharp decline in foreign port-



2016 Japan fixed income tax reform in a nutshell

By *Tomoaki Sako*, General Manager, Settlement and Clearing Services Division, Mizuho Bank



The long-awaited reform of the tax on fixed income financial instruments under the Japanese law finally came into effect on 1 January 2016. The change is a part of an extensive tax reform approved by the Diet and promulgated back in 2013. The core target beneficiaries for the tax reform actually are individuals; however, there are also some key changes, mainly favorable, affecting non-resident investors to facilitate cross-border investment.

The backdrop

The 2016 tax reform on income derived from financial instruments primarily intends to unify the taxation framework around equities and fixed income instruments for the benefit of individual retail investors. The initial proposal for this tax reform dates all the way back to June 2003 when the Tax Commission under the Cabinet Office of the government of Japan officially declared to unify the taxation on financial instruments.

There were two major goals: the first was to simplify the esoteric tax return process that varies by the type of financial instrument, and the second was to allow individual investors to net-off gains and losses arising from the various financial instruments that they hold.

You may wonder, why such a tax reform for individuals? The answer is the serious

issue of a rapidly-aging society, coupled with a declining birthrate, in Japan. The government eyed some JPY1,600trn of financial assets – mostly just sleeping in bank deposit accounts held by individuals – to achieve sustainable growth even while the national population declines.

The challenge for the government was how to unleash household wealth into the securities market, enabling more effective use of existing financial assets to support the growth of Japan's economy. So, it could have been totally irrelevant to non-resident investors; however, the government took the opportunity to also review the taxation of income arising from fixed income financial instruments to support cross-border investment by non-residents – another key investor group.

No more “clean” or “dirty”

When the Japanese Bond Income Tax Exemption Scheme (J-BIEM) was introduced in June 2010, non-residents became eligible for tax exemption on income from corporate bonds, subject to certain procedural requirements.

However, the exemption has not been that simple. Unlike the mainstream practice in global bond markets, clean (or tax-exempt) bonds turn dirty (or taxable) once booked in an account held by a taxable entity between two coupon payment dates. Dirty bonds remain dirty until the

next coupon payment date even if they are subsequently purchased by a non-taxable entity if such a transfer happens prior to the next coupon payment date.

Such JGBs are flagged as “temporarily taxable” and kept booked in the segregated taxable account of the local agent bank held with the Bank of Japan (BOJ) because the BOJ was restricting the transfers of JGBs from a taxable account to a tax-exempt account held by direct participants with the BOJ in between two coupon payment dates. The purpose of such transfer restriction was obviously to have only non-taxable JGBs to be booked with the tax-exempt account at the BOJ level.

Now, here is the good news. On 1 January 2016, that rather peculiar “temporarily dirty” bond taxation framework was repealed. The taxability of the coupon arising from fixed income financial instrument handled by the BOJ and JASDEC is simply determined by the tax status of the holder as of each payment date. Consequently, when a bond is held by a taxable entity as of its coupon payment date, the coupon will be taxed for the whole coupon period; likewise, when a bond that is held by a non-taxable entity as of a coupon payment date, the coupon will be tax-exempt for the whole coupon period. This is argu-



has increased. The transfer restriction between coupon payment dates imposed by the BOJ has been lifted and the BOJ has ceased to automatically transfer dirty bonds held by tax-exempt entities from taxable accounts to tax-exempt accounts on coupon payment dates. The tax adjustment per coupon payment date by the BOJ that used to be the remedy for non-taxable entities that purchased “dirty” bonds in the midst of coupon period has also therefore been abolished.

Drilling down the process

Let’s have a closer look at the detailed changes of settlement and reporting practices as the result of the change mentioned above. First, the “CLEN” or “DIRT” qualifier in tag 22F in SWIFT settlement instructions is no longer subject to pre-

matching on the Pre-Settlement Matching System (PSMS) of JASDEC, and is just ignored if included in instructions. Fewer items for pre-matching may arguably result in fewer mismatches, thus potentially contributing to reduced settlement failures caused by unintended mistakes in settlement instructions. Second, SWIFT MT535 (statement of holdings) reports from local agent banks have ceased to include the “CLEN” or “DIRT” qualifiers.

Turning eyes to taxation procedures, there are also some notable changes. Firstly, and most importantly, the application to acquire tax-exempt status under J-BIEM shall be renewed every five years from 1 January 2016 onwards. Submission of a J-BIEM application had been one-time event until the end of 2015, and this is a new requirement to ensure the effectiveness of the Know Your Customer (KYC) process. Qualified Foreign Intermediaries (QFIs) approved by the National Tax Agency shall run KYC for such periodic renewal of the J-BIEM application form.

For this application renewal requirement purpose, all J-BIEM applications submitted on or before 31 December 2015 are deemed to be submitted on 1 January 2016. Therefore, those forms shall be renewed prior to 1 January 2021, assuming no amendment during the next five years. If any changes made to any of the items set forth in the submitted application, such as a change of address or the name of the entity, shall be reported by amendment application immediately. The five-year clock resets upon submission of an amendment application. Secondly, the withholding tax agent for fixed income financial instruments is changed from issuers to the local agent bank that pays out coupons and redemptions to final beneficiaries either directly or via QFIs. With this change, Mizuho Bank started functioning as a one-stop withholding tax agent for both fixed income securities and equities.

Redemption income of discount bonds

Another major change in the tax reform package relates to the taxation on redemption income of discount bonds. For this tax purpose, discount bonds include the following:

1. Zero-coupon bonds issued at a discount and redeemed at par
2. Separate Trading of Registered Interest and Principal of Securities (STRIPS)
3. Non zero-coupon bonds issued at a deep-discount (i.e. 90% or less of the

face value) and redeemed at par

As a general rule, redemption income derived from discount bonds is subject to withholding tax at maturity coming up on or after 1 January 2016. This is a newly added taxation; however, the government simultaneously adjusted the J-BIEM scheme to cover this withholding tax on such redemption income under the umbrella of J-BIEM for the benefit of non-resident investors. The National Tax Agency released a new version of the J-BIEM application with an additional tick-box for discount bonds to incorporate this change. Investors that newly apply for the tax exemption status under J-BIEM on or after 1 January 2016 are strongly recommended to double-confirm whether the application form is up-to-date.

Given this revision to the J-BIEM framework, redemption income on discount bonds is subject to withholding tax if and only if it is held at maturity by a taxable investor with no available remedy under any tax exemption framework, such as J-BIEM or double tax treaties. For non-residents, if taxable, the tax rate is 15.315% on “deemed redemption income”. Deemed redemption income is calculated based on the redemption amount and the rate determined based on the tenor (i.e., the period from issuance to maturity) of the bond as follows:

1. Tenor up to one year: 0.2% of the redemption amount
2. Tenor over one year: 25% of the redemption amount

Transfer restrictions on CPI-linkers, T-bills and STRIPS lifted

Finally, let’s briefly touch upon the nice secondary effect of the tax reform package that benefits investors. Transfer restrictions that existed for CPI-linked JGBs, T-bills and STRIPS JGBs are abolished due to the changes in the taxation framework. From 1 January 2016, those bonds are able to be freely transferred between all types of investors, including individuals and taxable institutional investors regardless of the maturity.

In short...

The taxation on redemption income on discount bonds and five-year expiry rule of J-BIEM application shall require closer attention, but the operational burden caused by the clean/dirty dichotomy as well as the transfer restrictions on T-bills, linkers and STRIPS have become things of the past. ■

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folio investment during 2015, in line with emerging markets generally “India continues to be favourably positioned in terms of fundamentals as compared to its BRICS peers as low commodity prices is beneficial to the Current and Fiscal deficits. Further, the government is committed towards development and is taking concerted actions to improve the investment environment in the country,” says Narasimhan.

Kapil Seth, head of HSBC Securities Services, India, adds: The government has also put to rest uncertainty surrounding taxation – Minimum Alternate Tax (MAT) – for foreign portfolio/institutional investors by clarifying that without any permanent establishment or place of business in India, FPIs are not liable to pay MAT. This suitable amendment to the statutory provision is expected soon. Further, the government has deferred the implementation of the general anti-avoidance rules (GAAR) by two more years to April 2017.”

Christophe Beelaerts, head of India, BNP Paribas says: “All eyes are on India for attractive yields and long term gains. Local custodians play a role in providing foreign institutions local expertise, knowledge and an infrastructure to safe keep assets, post-trade settlement, clearing and back office administration.”

Indonesia

UNWEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	5.86
2	HSBC	5.78
3	Standard Chartered	4.98
WEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	5.36
2	HSBC	5.30
3	Standard Chartered	5.03

In 2015, the Indonesian capital markets underwent several initiatives specifically related to infrastructure, customer protection and regulation. Infrastructure development has been the main focus, with the aim of improving the reliability and scalability of the systems utilised by market participants.

Indonesia New Fund System (INFS) is an integrated system initiated by the OJK (Indonesia Financial Services Authority) and KSEI (Indonesia local CSD) that will provide a centralised platform for Indonesian investment fund-related participants. This initiative aims at digitising current paper, fax and email instructions, by implementing a standardised and automated channel for all Indonesia mutual fund market participants, including, but not limited to, custodian banks, selling agents or a fund's distributors and brokers.

INFS would also be the first system in ASEAN connecting all the mutual fund players, while improving efficiency and



reducing operational risk. Utari Listyani, country product manager, securities services, Standard Chartered Bank Indonesia says: “Standard Chartered is working closely with OJK and KSEI to define the scope of this transformative initiative and in the testing phases along with other players in the market.”

The C-BEST next-G central depository system caters for high volumes of transactions. In addition, there is a discussion to implement SWIFT 20022 standard for this development.

The Bank Indonesia – Scripless Securities Settlement System (BI-SSSS), a central bank system to settle government securities with improved performance, was launched in November 2015. Says Listyani: “This platform is used for government bonds settlement and depository. It was launched in conjunction with the implementation of Bank Indonesia – Real Time Gross Settlement (BI-RTGS) system and the Bank Indonesia Electronic Trading Platform (BI-ETP).

“All these three second-generation systems are expected to fulfil the development needs of financial markets in Indonesia, the reliability and efficiency of payment system to support and maintain financial system stability and secure national payment system activity. It will also support the growing need for cross-border connectivity within the ASEAN community.

The Indonesian Central Bank has issued new FX regulations with the aim of relaxing the previous ones, with two key aspects. Firstly, the relaxation for non-residents to conduct FX transactions in Indonesia to encourage more FX transaction volumes. This includes allowing non-residents to sell IDR and buy foreign currency with value T+3 (before it was prohibited and there

was a mismatch between FX value date and settlement cycle (T+3), thus increasing settlement risk). Secondly, the relaxation for non-residents to conduct hedging transactions by simplifying the requirements to cater for the needs of foreign investors to hedge their investment position in Indonesia.

Supranoto Prajogo, head of HSBC Securities Services, Indonesia, adds: “The Fund Portal in Indonesian Fund industry will connect all market participants, to deliver and receive the instruction/confirmation electronically with the aim of ensuring that the processing of mutual fund transactions is more efficient.”

To increase customer protection, Indonesia has established the Securities Investor Protection Fund (SIPF). Customers of custodian banks have been covered by the SIPF since January 2016.

Japan

UNWEIGHTED		
RANK		SCORE
1	Mizuho Bank Ltd	6.48
2	Bank of Tokyo-Mitsubishi UFJ, The	5.86
3	HSBC	5.81
4	Sumitomo Mitsui Banking Corporation	5.66
WEIGHTED		
RANK		SCORE
1	HSBC	7.07
2	Mizuho Bank Ltd	6.41
3	Bank of Tokyo-Mitsubishi UFJ, The	6.19
4	Sumitomo Mitsui Banking Corporation	6.03

2016 will be a “very hot” year for Japanese government bond (JGB) holders, according to Satoshi Ishikawa, senior vice president, custody sales and marketing team, settlement and clearing services division, Mizuho Bank, Ltd. “Several changes are scheduled to take place for JGB taxation and operations in 2016.”

Firstly, the rule that determines the taxability of JGBs held by non-residents will be simplified. Whether a bond is so-called

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clean (tax-exempt) or dirty (taxable) will no longer be an issue for settlement instruction matching – it shall solely depend on who is holding the bond on the coupon date. If held by a non-taxable entity, interest amount shall be tax exempt for the entire applicable interest period regardless of the bond's trading record.

Secondly, the transfer restrictions on CPI-Linkers, T-bills and STRIPS have been lifted. Since 1 January 2016, such bonds could be freely transferred between all types of investors, including individuals and taxable institutional investors, regardless of the maturity.

Thirdly, the operating hours of JGB services will be further extended, in line with the BOJ's aim to improve JGBs' usage as collateral in cross-border transactions. On 13 October 2015 the BOJ-Net, a settlement market infrastructure maintained by the Bank of Japan, extended the operating hours for JGB settlements from 9:00-16:30 JST to 8:30-19:00 JST. From February 15, it will be extended further to 8:30-21:00 JST.

Finally, a renewal requirement of Application for Withholding Tax Exemption has been implemented. Under the old system, the submission of the application form was a one-off requirement (it did not have to be renewed). However, since 1 January 2016, the application form for tax-exempt status under Japan Bond Interest Tax Exemption Scheme (J-BIEM) needs to be renewed every five years. "All foreign financial institutions acting as Qualified Foreign Intermediary (QFI) as well as foreign investors directly maintaining account with local financial institutions in Japan will have to meet this requirement," says Ishikawa.

Kazuhide Nishikawa, head of client services, direct custody and clearing, HSBC Securities Services, Japan, says: "Local custodians have become withholding tax agents for interest income on fixed income instruments. In line with this, there were some last-minute changes, e.g. additional approval is required on redemption income for Qualified Foreign Intermediary (QFI) and re-submission of the tax forms is mandatory."

Malaysia

UNWEIGHTED		
RANK		SCORE
1	HSBC	5.73
2	Standard Chartered	5.42
3	Deutsche Bank AG	5.40
WEIGHTED		
RANK		SCORE
1	HSBC	6.23
2	Deutsche Bank AG	6.15
3	Standard Chartered	5.33

2015 saw a number of initiatives introduced to enhance competitiveness and



efficiency, as well as strengthen the Malaysian capital markets.

As part of ongoing initiatives by Bank Negara Malaysia, the central bank, to increase accessibility of Malaysia's payment system and bond depository, the Real-time Electronic Transfer of Funds and Securities System (RENTAS) will be adopting the international SWIFT standard in 2016. On Bee Heong, head of HSBC Securities Services, Malaysia, says: "This increases the straight-through processing (STP) environment and transforms the competitive dynamics of Malaysia's capital market."

Amendments were also made to securities laws Capital Markets and Services (Amendment) Act 2015 (CMSA) and the Securities Commission (Amendment) Act 2015 (SCMA) to facilitate innovative fundraising structures, enhance investor protection, clarify responsibilities of issuers and advisers, expand the scope of the

Securities Commission's supervisory powers and also to align securities laws with the International Organisation of Securities Commission (IOSCO) principles.

The exchange, Bursa Malaysia Berhad (Bursa Malaysia), has amended the ACE Market listing requirements (ACE LR) as part of its ongoing efforts to build a more robust and sustainable marketplace. "The enhancements to the ACE LR are to ensure the continued attractiveness and growth of a resilient marketplace in Malaysia and to provide small to medium-sized enterprises (SME) and investors the opportunity to tap into the growth of the capital market," he adds.

A goods and services tax (GST) was implemented in April 2015. The multi-stage consumption tax is charged on all taxable goods and services in Malaysia, unless specifically exempted. Services which are rendered directly in connection with capital market products traded in

Malaysia are subject to GST.

The Malaysian market is well structured to support Shariah-compliant transactions (around 75% of listings are compliant). "Aside from an established and mature Islamic finance infrastructure, there is also plenty of guidance provided," says Annie Yip, country product manager, securities services, Standard Chartered Bank Malaysia. "This can be seen in the assistance given for inadvertent changes to an issuer's nature of business during a holding period."

Market participants that wish to have a seamless experience in the market with regards to Shariah-compliant transactions, have to take note of three factors.

Firstly, Shariah-compliant securities are typically marked with "S" straight after the stock name. Furthermore, the Shariah-compliant securities' list prescribed by the Shariah Advisory Council (SAC) of the Securities Commission (SC) is usually updated twice a year, in May and November. A negative or positive list may be prescribed upfront as a compliance reporting filter.

Secondly, the SAC also advises investors on the timing for the disposal of securities that have been reclassified as non-Shariah-compliant while in custody. Specific upfront benchmarks to service providers are possible, such as daily market pricing versus purchase price filtering. Investors may then act only when counters are reported/impacted rather than monitoring all counters on a regular basis. Accuracy improves as more quantifiable benchmarks such as percentages, price, value and volume are defined.

Thirdly, brokerage or other out-of-pocket market charges are allowed by the SAC in determining net profit when investors are divesting non-Shariah compliant stocks held inadvertently. A full suite of Islamic cash management capabilities is available to support the Shariah investment ecosystem, including channelling of profits to charitable organisations or Baitumal.

New Zealand

UNWEIGHTED		
RANK		SCORE
1	HSBC	5.57
WEIGHTED		
RANK		SCORE
1	HSBC	5.87

New Zealand's stock exchange operator, NZX, confirmed at the end of February 2015 that it will move to settle trades within two days instead of the current three-day process from 7 March. The timing mirrors the move by Australian bourse, ASX, which will also switch to what's known as T+2 at the start of next week.

A shorter settlement cycle under T+2 may require increased accuracy in settle-

ment instructions as well as quicker turn around in amendments to inaccurate settlement instructions. In practice, it means the time it takes for the seller of a share to receive payment and the buyer to take ownership will soon take 48 hours.

While this may lead to greater efficiency in the market, action would be required by participants to drive this efficiency. A failure to match settlement instructions may result in increased settlement failure.

In New Zealand, many large institutional investors hold securities with NZClear, a real time settlement system operated by the Reserve Bank of New Zealand. The arrangements for the transfer of securities between the NZCDC settlement system and NZClear mean that clearing participants are usually able to settle with their institutional clients on the same day that they settle with NZCL.

A move to a shortened settlement cycle may also increase the level of securities lending, as a participant that has taken a short position will only have two days, rather than three days, to obtain securities to settle the short position.

Pakistan

UNWEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	5.20
WEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	6.39

Pakistan's three major stock exchanges merged at the start of the year in what was described as a "quantum leap forward" for the country's capital markets. The unification of Islamabad Stock Exchange (ISE), Lahore Stock Exchange (LSE) with Karachi Stock Exchange (KSE) into a single entity - the Pakistan Stock Exchange (PSX) - has been a complex process.

In January there were 555 companies listed on the three bourses with a total market capitalisation of over \$67bn. Over 1,880 foreign institutional investors and 883 domestic institutional investors were trading across the venues. Close to 400 brokerage houses were members of the exchanges as well as 21 asset management companies.

Aside from exchange consolidation, the Securities and Exchange Commission of Pakistan (SECP) has launched initiatives to broaden reach of capital market investment products to savers across the nation. This include new products such as REITS (Real Estate Investment Trusts) and government debt securities secondary market trading and pushing forward with launch of small and medium enterprise (SME) segments.

Both the Central Depository Company of Pakistan (CDC) and National Clearing

Company of Pakistan Limited (NCCPL) are involved. NCCPL had provided clearing and settlement services to all three stock exchanges in Pakistan and will now do so for the PSX.

Last year, the business announced the formal full launch of its latest service for the capital market investors - National Custodial Services (NCS). It meant NCS began offering investors the option to directly settle their trades and transactions with the NCCPL and also maintain the custody of the securities and cash with NCCPL. Custodian banks dealing with the custody and settlement of stock market trades of foreign clients have now been inducted as custodian clearing members (CCM) of NCCPL.

Philippines

UNWEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	6.22
2	HSBC	5.74
3	Standard Chartered	5.25
WEIGHTED		
RANK		SCORE
1	HSBC	5.34
2	Standard Chartered	5.07
3	Deutsche Bank AG	4.71

Regulators in the Philippines continue their efforts to enhance the country's capital markets. In May 2015, the Bureau of Treasury (BTR) implemented non-restricted trading across tax categories in the secondary market for local government securities, which provided additional investment avenues for tax-exempt and taxable institutions and individuals. In November 2015, the Securities and Exchange Commission (SEC) released the amended Implementing Rules and Regulations (IRR) of the Securities Regulation Code (SRC Rules), which aims to strengthen the market and regulatory structures and adopt global best practices.

In the equities market, the Philippine Stock Exchange (PSE) continues to enhance its technology platforms in line with its vision to be a world-class exchange. In June 2015, the PSE launched its new PSEtrade XTS trading system, powered by NASDAQ's X-stream trading technology. The new trading system aims to handle increased trading volume, provide same-day recovery (in the event that the disaster recovery site is utilised) and facilitate new products and services.

The PSE has yet to comply with the SEC requirements in line with their application to purchase majority of the Philippine Dealing System Holdings Corporation, which manages the fixed income exchange. Maris Flores, head of HSBC Securities Services, Philippines, says: "The market continues to anticipate the prospective merger of the equities and fixed income exchanges."

“Aside from this, we expect to see more ratifications of Double Taxation Avoidance Agreement (DTAA) with other countries and continued foreign exchange liberalisation. The Philippines will also hold its presidential election in May 2016, which is seen to be fundamental for the Philippines to remain an attractive place to invest.”

Singapore

UNWEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	5.88
2	HSBC	5.85
3	Standard Chartered	5.44
4	DBS Bank Ltd (formerly Development Bank of Singapore)	5.25
WEIGHTED		
RANK		SCORE
1	DBS Bank Ltd (formerly Development Bank of Singapore)	6.43
2	HSBC	5.10
3	Standard Chartered	4.88
4	Deutsche Bank AG	3.65

Singapore Stock Exchange is transforming its post-trade market infrastructure. The outgoing version of its post-trade platform (PTS) and client accounting system (CAS) was built in the 1980s. These systems relied heavily on batch file uploads and manual interfaces. CAS was de-commissioned towards the end of 2015 and the contracts that were generated by the system are replaced by allocations generated and managed by the new SGX Post Trading System (PTS).

The new infrastructure allows market participants to communicate with SGX via an application programming interface (API). FIXML messages are now used for the clearing process and ISO20022 SWIFT messages are required for the settlement process.

API Live date is targeted for mid-2016 and will be rolled out in phases that will continue into early 2017. Anshuman Asthana, regional product head, securities services, ASEAN, Standard Chartered Bank, says: “Members need to complete a number of rigorous testing with SGX Depository (CDP) prior to obtaining the certification to go live.”

Some of the new features in relation to securities settlement at CDP after API include: real time matching; electronic allgement of trades; and ISO20022 messaging. Leading providers of account operator services to international broker-dealers, including Standard Chartered, will be part of the first wave of migration in 2H 2016 when the first group of institutional brokers go live.

The new regime of multiple proxies took effect on 3 January 2016 in Singapore. This new development allows specified intermediaries, such as banks and capital markets services license holders that provide custodial services, e.g. nominee company, to



appoint more than two proxies for casting votes on behalf of their clients. Prior to this, unless the articles of a company provided otherwise, a member is allowed to appoint only up to two proxies.

Gopu Maniam, vice president, client services, direct custody and clearing, HSBC Securities Services, Singapore, says: “Effectively, indirect investors can be appointed as proxies to participate in shareholders’ meetings and are given the same rights as direct investors.”

In preparation for this implementation, the Singapore National Market Practice Group (NMPG) sub-committee working group has held several rounds of discussions with SGX, depository agents and registrars to agree on a proxy voting process in line with the new multiple proxies regime.

In addition to submitting the physical proxy form as per the current practice, depository agents are now also required to submit an Excel spreadsheet to the registrar stating all voting instructions via e-mail 72 hours (instead of the current 48 hours) before the company’s meeting. Any publically-listed company that has not amended its constitution to allow proxies to be deposited 72 hours prior to an AGM/EGM will have to receive all voting instructions 48 hours prior to the meeting.

In line with the Accounting and Corporate Regulatory Authority’s (ACRA) latest update, “we understand such publically-listed companies would have to start the process of amending their constitution to cater for the lodgement of proxies 72 hours (instead of 48 hours) prior to an AGM/EGM,” says Maniam. “Until such time, operationally, market participants will have to scrutinise the proxy form carefully to determine if the public company has adopted the multiple proxies regime and additionally verify the cut-off time (i.e. 72

or 48 hours).”

All registrars are, however, adopting the market practice agreed by NMPG working group members to receive proxy instructions 72 hours prior to the meeting. Clients will have to review the details and cut-off times provided in the respective announcements to ensure successful submission of their votes. The introduction of multiple proxies is a well-established international best practice, which allows retail and portfolio investors to participate in shareholders meetings and cast their votes using proxies.

The setup of the ASEAN trading link and ongoing passporting initiatives will transform Asia’s capital markets and invigorate trading volumes across Asia. “Continuous development is required for the post-trade environment to connect exchanges, harmonised post trading, clearing and settlement rules on a standard operating model,” says Mostapha Tahiri, head of Singapore, BNP Paribas SS. “Local custodians with knowledge and deep experience will be able to add value to the development of a harmonised post trade infrastructure. Market participants will require scalable operating models and effective collateral management to optimise and benefit from these initiatives.”

South Korea

UNWEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	6.00
2	HSBC	5.69
WEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	6.74
2	HSBC	6.47

There were a number of key market developments in 2015 and South Korean market participants are increasingly turning to custodians to help them adapt to the region’s changing market landscape, which is being transformed by initiatives

such as the RMB internationalisation, pension fund reforms and the various cross border fund passports.

The Korea Securities Depository, KSD, is the sole CSD. This core infrastructure recently secured the position of designated fund administrator for private pension funds and set-up a DvP system for RMB-denominated bonds.

According to revised tax law, National Tax Services (NTS) had intended to apply a 10% VAT on safe custody fees, which would have impacted the assets held in Korea by foreign investors if implemented. In working with the NTS and the industry, it was subsequently clarified that any fees collected from foreign investors as a result of providing custody services will be exempt from VAT.

Korea selected five foreign banks (including HSBC Korea) for the won-yuan direct transaction market, which opened on 1 December 2014. HSBC has a sizeable market share of the Renminbi Qualified Foreign Institutional Investor (RQFII) market. Aloysius Wee, head of HSBC Securities Services, Korea, says: "HSBC successfully facilitated Korea's first RQFII in receiving RMB3bn (\$0.46bn) quota in November 2014 – the largest amount ever approved for a first-time applicant to China's State Administration of Foreign Exchange scheme."

The Association of Custodian Banks submitted an official joint paper to the Ministry of Finance and Strategy (MoSF) via Korea Federation of Banks (KFB) to clarify that the Common Reporting Standard (CRS), developed by the OECD to achieve a global tax reporting and due diligence standards, will not be applicable at the end investor (Investment Registration Certificate holder) level. Instead, the industry's recommendation is to take a similar approach to FATCA, where the CRS application should

be applied at our client level basis.

Korea Exchange expanded the daily price fluctuation limit from 15% to 30% in Q2 2015.

Reformation of Joint Compensation Fund System under the Korea Exchange has taken effect in order to meet international standards of Principles for Financial Market Infrastructure (PFMI). Therefore, the maximum fixed cap for deposits by the members has been removed and utilisation of partial KRX settlement reserve prior to the Joint Compensation Fund has been introduced.

The government 3-Year Plan for Economic Innovation includes structural reforms in various sectors and promoting investment. To stimulate the capital market, Korea is working to join the MSCI advanced market index, transforming the Korea Exchange into a holding company, promoting equity-based crowd funding and giving tax incentives to PEFs investing in ventures.

In the foreign exchange market, FX transaction-related regulations focusing on streamlining capital account transaction reporting requirements open won-yuan direct markets in China and promote yuan-denominated bond issuance in the Chinese bond market.

KSD started depositary and settlement services for Shanghai-Hong Kong Stock Connect in August 2015; since, Korean investors have been among the most active.

Sri Lanka

UNWEIGHTED		
RANK		SCORE
1	HSBC	5.09
WEIGHTED		
RANK		SCORE
1	HSBC	6.65

The highlight for Sri Lanka's capital markets in 2015 was the official announcement of the Central Counterparty (CCP), which

was heavily lobbied for over a period of time. The CCP is expected to be in place by 1Q 2017 along with new products and changes in the market.

The Colombo Stock Exchange is currently seeking approval to list foreign companies.

The budget of the new government also saw some key changes proposed in capital markets, including: a drive to increase the market capitalisation to \$50bn; de-mutualisation of the Colombo Stock Exchange; the removal of the 0.3% Share Transaction Levy; tax holidays for companies listing on the exchange; and the implementation of a commodity exchange regulated by the SEC.

There were also changes made to the account opening process. Shehan Patterson, head of HSBC Securities Services, Sri Lanka, says: "These significantly reduced the account opening timelines in the market. Internal changes were agreed by the custodian banks, SEC and the depository. HSBC Sri Lanka took a lead in this initiative."

Taiwan

UNWEIGHTED		
RANK		SCORE
1	Deutsche Bank AG	6.30
2	HSBC	5.83
3	Standard Chartered	5.72
4	Citi	5.54
5	Bank of Taiwan	5.27
6	JPMorgan	5.24
WEIGHTED		
RANK		SCORE
1	Bank of Taiwan	7.04
2	JPMorgan	6.95
3	HSBC	6.24
4	Citi	6.10
5	Standard Chartered	5.38
6	Deutsche Bank AG	5.32

The Financial Supervisory Commission implemented a number of initiatives in 2015 to enhance securities market efficiency and attractiveness to foreign investors.

These include the establishment of a STP voting platform by the Taiwan Depository & Clearing Corp to facilitate voting by foreign institutional investors (FINIs) via international voting agent, widening of the daily stock price movement limit from 7% to 10%, and the addition of five more currencies (EUR, JPY, GBP, AUD and HKD) to USD, as eligible cash collateral currencies for securities borrowing and lending in Taiwan.

In addition, "legislators passed the abolition of capital gains tax on individual investors, to support the increase of trading volume in the market," notes Shirley Tsai, head of HSBC Securities Services, Taiwan.

In 2016, planned initiatives include increasing the number of eligible stocks for day trading from the current 400+ to over 1,400 lines effective 1 February 2016, changing settlement cycle of emerging



stocks from T+1 to T+2 to align with other listed stocks in February 2016, allowing securities firms to borrow stocks from (in addition to lending stocks to) their clients (including FINIs), other securities firms and securities financing institutions in 1Q, and establishing a cross-border trading link between the Taiwan Stock Exchange (TWSE) and the Singapore Exchange (SGX) in 1H. These changes aim to enhance the liquidity and trading volume of the market, thereby attracting more investments to the market.

HSBC Taiwan was engaged in the discussions related to these initiatives with the local regulators, and collected international market practices and institutional investors' suggestions for their reference. Says Tsai: "As the chairperson of the custodian working group and co-chair of the Capital Markets Committee of the American Chamber of Commerce, we continue to lead the industry to participate in discussions with regulators on further market development."

Thailand

UNWEIGHTED		
RANK		SCORE
1	HSBC	5.96
2	Standard Chartered	5.43
WEIGHTED		
RANK		SCORE
1	HSBC	5.86
2	Standard Chartered	5.35

This year saw the launch of the Pre-Settlement Matching System (PSMS) to the market. In August 2015, the Thailand Securities and Depository (TSD) and Thailand Clearing House (TCH) enhanced straight-through-processing (STP) in their post-trade services by launching the second PSMS. The system has been implemented to enable auto-pre-matching between counterparties via SWIFT for custodian banks and application programming interface message or file upload for local brokers. To facilitate PSMS, the TSD now allows market participants to open segregated depository accounts at the client account level in the TSD system.

Kajohndach Jessadachat, country product manager, securities services, Standard Chartered Bank Thailand says: "PSMS will completely overhaul pre-matching processing moving it from the current over-the-phone arrangement to an automated one, improving the efficiency in the market."

In addition, there are additional changes related to the implementation of PSMS. A minimum market tolerance limit set up at THB50 per transaction for the settlement amount to market participants, applicable to all clients. Safekeeping account numbers (at the TSD) for bond settlement instruc-



tions. Regarding share registration, the clients' segregated accounts will be opened under the participant name at the depository level (although there would be no impact for clients on the disclosure of the shareholder's name and corporate action entitlement on a book-close date). For subscription of initial public offering (IPO) or public offering (PO) with local brokers, the client is required to indicate the segregated depository account number in IPO/PO subscription form in order to facilitate registrar to credit resultant shares to client's account number directly.

Utumporn Viranuvatti, head of HSBC Securities Services, Thailand, says: "HSBC Thailand has worked closely with the TSD and TCH on the development of these initiatives, providing consultation on streamlining the pre-matching process and the key aspects of the PSMS."

During 2015, Thailand's economy continued to recover at a gradual pace and the political stability is currently sound. The market has seen an increase in merger and acquisition (M&A) activity as well as a number of listed securities increased from new IPOs in the equities market. Some examples of newly listed large securities include Star Petroleum Refining (SPRC), Global Power Synergy Pcl (GPSC), Jasmine Broadband Internet Infrastructure Fund (JASIF) and North Bangkok Power Plant Block1 Infrastructure Fund. Electricity Generating Authority of Thailand (EGATIF) became the first state enterprise infrastructure fund ever listed on the Stock Exchange of Thailand (SET).

As part the SET's strategic plan (2014-2016), the SET now allows foreign companies to seek listing on the SET as a primary listing or foreign companies listed abroad can list on the SET as their secondary market (dual listing). Looking forward, the SET will be embracing the

digital economy by introducing e-services such as e-proxy and e-rights. This effort was driven in order to reduce the manual work involved in corporate actions events together with the relaxation of the required constitutive documentation from clients.

Vietnam

UNWEIGHTED		
RANK		SCORE
1	HSBC	5.51
WEIGHTED		
RANK		SCORE
1	HSBC	5.89

Access to the Vietnamese market has been made easier for foreign investors. Documentation requirements have been simplified – there is no longer a need to translate documents into Vietnamese or to consularise documents in order to open securities accounts. Further, foreign ownership limits in certain sectors and industries has been lifted. In certain companies, the government has announced its intent to completely divest its ownership.

Vinith Rao, head of HSBC Securities Services, Vietnam, says: "These are fundamental shifts in the attitude of the government and regulator and provide clear evidence of their determination to conduct focused reforms, in line with their efforts to position the country for an upgrade by MSCI."

The central depository is also taking great strides towards automation of processes and mitigating risk. They have already launched a new secure electronic gateway, which has potential to increase the straight-through-processing (STP) of corporate action announcements. It has already launched an electronic securities trading code application and approval system and will soon launch an electronic system for voting in company general meetings. The latter has significant potential to improve corporate governance.

AMERICAS

Regional overview

It is undoubtedly a difficult period for South and Central America, which inevitably puts strain on the financial system. Brazil is in the midst of a severe recession and Chile is suffering the effects of its main export, copper, suffering huge falls in price.

Further north, from Mexico to Canada, things look much brighter which should ultimately alleviate problems in the region. Canada though is approaching a seismic change in regulation, with responsibilities moving from state to federal level. Meanwhile, the US preparing for the shortening of the settlement cycle to T+2 in 2017.

The MILA initiative is powering ahead, integrating of the stock exchanges and securities depositories of Chile, Colombia, Mexico and Peru. Notwithstanding Citi's high-profile exit from the custody business, Argentina seems to be moving beyond its longstanding default-related problems.

Survey highlights

The most competitive market in the sub-custody survey was Brazil. Only international sub-custodians qualified for the tables. BNP Paribas Securities Services was the stand-out performer when only the raw data was considered in the unweighted table.

When the assets under custody of the respondents were taken into consideration and service categories weighted by how important the respondents considered them to be, in the weighted table, Citi was the highest rated sub-custodian in Brazil by a wide margin. Citi was the only firm with sufficient responses to qualify in any of the other Latin American countries.

In Canada, CIBC Mellon was the most highly rated custodian under both methodologies.

Argentina

Citi's high profile exit from the custody business in Argentina last March set a subdued tone for the country's securities services market in 2015. A ruling by a US court in March, which prevented the bank from passing on interest payments from the South American country to local bondholders, was enough for Citi to shut its custody business.

In reality, the block on Citi making \$3.7m interest payment on the 2038 bonds was just another setback in a long-running legal dispute with bondholders dating back to the country's 2001 default.

"It's fair to say that the Argentinean custody market trespassed a choppy scenario over the year," admits Sebastian Martín, Banco Santander's head of securities services for Argentina. Even so, the bank managed to boost its market share during the period.

"We expected the results of the presidential elections and went on an aggressive commercial campaign," explains Martín. The result was an increase in domestic insurance clients over the twelve months and a solid sense optimism for 2016.

Banco Santander Río recently announced the launch of its global custody business, with a view towards implementing a platform that will be fully operational by the second quarter of 2017.

Meanwhile, Argentina's new government, elected in December 2015, has wasted no time in pledging to partly pay back debts owed to holdout creditors.

The outlook is perhaps starting to improve for Argentina's surviving custodians.



Brazil

UNWEIGHTED		
RANK		SCORE
1	BNP Paribas Securities Services	5.97
2	Citi	5.90
3	HSBC	5.68
WEIGHTED		
RANK		SCORE
1	Citi	5.92
2	BNP Paribas Securities Services	5.58
3	HSBC	5.24

Brazil's custody market, traditionally dominated by local banks Itaú Unibanco, Bradesco, and Banco do Brasil, has had an

increasingly international feel about it in recent years. There are multiple reasons for foreign custodians entering the country but the main driver is strong demand, both to help foreign investors develop their business in the country and to help local investors reach out to international markets.

This has benefitted the likes of BNP Paribas Securities Services, which completed the launch of its asset and fund services

offering in Brazil last year. “This is a fascinating time for Brazilian finance,” Andrea Cattaneo said at the start of 2015 when he took up his role of country head for Brazil. “The need to diversify investments to boost returns means Brazilian investors are reaching out to global markets, which are eager to connect with them.”

Fast forward twelve months and Cattaneo, although still optimistic, exercises a greater degree of caution. Brazil hosting the Olympics is a bright spot, but country’s current deepest recession in more than a century will inevitably have an impact on its fiscal prospects and sovereign rating. He also admits the latest sovereign debt downgrade to non-investment grade by the major rating agencies could affect the size and type of investment into the country.

Meanwhile, a complex and continuously shifting regulatory environment means market participants will have to remain nimble in 2016. This includes the Brazilian Securities Commission’s ever-changing procedures for registration of foreign investments.

Elsewhere, the Post-Trade Integration Project – a BM&FBOVESPA initiative to combine its four existing clearinghouses – is expected to move forward in the latter half of the year.

Canada

UNWEIGHTED		
RANK		SCORE
1	CIBC Mellon	6.21
2	RBC Investor & Treasury Services	5.98
WEIGHTED		
RANK		SCORE
1	CIBC Mellon	6.21
2	RBC Investor & Treasury Services	4.74

It’s difficult to overstate the importance of Canada’s Capital Markets Act (CMA) – new legislation which, if adopted, would provide multiple jurisdictions with a common set of securities law. The rules would replace the current fragmented provincial system – comprising British Columbia, Ontario, New Brunswick, Saskatchewan, Prince Edward Island and the Yukon.

As things stand at the beginning of 2016, participants have released a revised draft and officials continue to make progress on implementing the changes.

The eventual impact on managing systemic risk across the Canadian capital markets is expected to be significant.

Given all upheaval, it’s no surprise that global investors are increasingly relying on local asset servicing experts providers to keep track of the legislation and its anticipated effects. Those providing core custody services on the ground, notably CIBC Mellon and RBC Investor & Treasury Services, remain the agents of choice for many of the world’s leading custodians and broker-dealers and investors.



Aside from the CMA, other initiatives are coming to the fore. The OECD is introducing a new Common Reporting Standard, with Canada expected to adopt the methods from July 2017. The US Foreign Account Tax Compliance Act (FATCA) is still impacting sub-custody clients in Canada. And, given that the Canadian and US markets are closely aligned, the US decision to move from T+3 to T+2 by the third quarter of 2017 means Canadian market participants are working to meet the same timeline.

It’ll be local banks such as CIBC Mellon and RBC that will be relied upon to make sure core custody services – safekeeping, settlement, clearance, corporate actions, income collection, proxy voting and tax services – are carried out to a high standard during this time of market change.

Chile

UNWEIGHTED		
RANK		SCORE
1	Citi	5.73
WEIGHTED		
RANK		SCORE
1	Citi	6.31

Much has been done to encourage foreign investment into Chile in recent years. Resolution 36, introduced in 2011, is still considered the most meaningful example of change. In short, the rules simplified the treatment of foreign investors. Appointing a tax agent was made mandatory,

while clarification around the treatment of tax on dividends was introduced. There was also a list of permitted transactions, including among others, free payment transactions and securities lending.

What will 2016 bring? The economic outlook is not the best with the price of copper, Chile’s major export, falling below \$2 per lbs. GDP growth for 2016 is expected to be 1.9%; the average rate between 1987 and 2015 was 5.2%.

“This coming year will be a test on foreign investors and their commitment to Chilean investments,” says Eduardo Garcia, Banco Santander’s head of custody & securities services in the country.

Still, Garcia says investors can feel access the market through a local custodian without major restrictions in investment or repatriation of funds. “The only thing worth mentioning is the fact that the major listed companies still have local powerful families as the major shareholder,” he adds, while also acknowledging that equity market liquidity tends to be lower than other major Latin American markets, especially for mid-cap and small-cap stocks.

On the regulatory front, the country is rolling out of the tax reform which will kick in next year. It will mean an increase in corporate tax and a change in the way shareholders are taxed. Plenty, then, for custodians to keep tabs on.



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CIBC MELLON

Colombia

UNWEIGHTED		
RANK		SCORE
1	Citi	5.07
WEIGHTED		
RANK		SCORE
1	Citi	6.52

A new law requiring local mutual funds to appoint a third-party custodian in order to increase asset safety and investor protection in the market came into force in September 2015. The move improves the attractiveness of Colombia for foreign investors as it demonstrates a continuous effort by the authorities to boost asset protection levels. BNP Paribas Securities Services, for one, completed the onboarding of its clients' funds on 3 September 2015, as per the regulatory timetable set by the Colombian Ministry of Finance.

In addition, the integration of the stock exchanges and securities depositories of Chile, Colombia, Mexico and Peru as part of the MILA initiative is powering ahead with the aim of promoting trading activity in the member countries thanks to an efficient and competitive infrastructure. The regional financial integration is also widening its scope with the work of the four governments through the Pacific Alliance.

Mexico

UNWEIGHTED		
RANK		SCORE
1	Citi	5.16
WEIGHTED		
RANK		SCORE
1	Citi	6.44

Statistics from the Institute of International Finance highlight Mexico as a recent bright spot for foreign investment. Bond investors have moved into the country, with inflows into Mexico's government bonds hitting a high in January at 1.57trn pesos (\$85bn). That beat a previous set in November and underlines Mexico's resilience to China's slowing growth, rising US interest rates and dwindling commodity prices.

There are barriers of course. Security, generally in Mexico and specifically the banking system, worldwide antitrust issues and the sluggish penetration of the banking system for the general population are among them.

"Many Mexican banks are foreign subsidiaries, and subject to regulation by the Mexican government as well as the government of the bank's home jurisdiction," said Vicente Corta Fernández, partner at international law firm White & Case in a research paper. "So it's difficult for both the foreign bank and the Mexican subsidiary to have all of the information needed to remain in compliance with all of the applicable laws."

Back in 2014, the government enacted



an overhaul of financial regulations with the aim of improving regulation, creating greater certainty for lending, and clarifying ambiguities in bankruptcy law. The reforms are positive but will take time to show results. One of the main issues depressing the economy now is the unforeseen scale of the negative effect of tax reforms, not least a new 10% tax on dividends from foreign companies.

Despite this and even with issues around corruption, security, reform enforcement, the investment climate is still superior to other Latin American countries. Helpful trends include an innovative business climate and creative avenues for investment. Transaction compliance and anticorruption in the past has been seen as superficial; now, investors are more deeply analysing the potential corruption of a transaction.

US

By following Europe's lead, a move to T+2 (trade date plus two days) in 2017 for US equities, corporate and municipal bonds, and unit investment trusts (UITs) is set to foster greater certainty, safety and sound-

ness across the US capital markets.

Shortening the settlement cycle to T+2, according to the Depository Trust & Clearing Corporation (DTCC), will help mitigate operational and systemic risk by reducing exposure between the parties to a trade, between the counterparties to the clearinghouse, and for the clearinghouse itself.

The compression of timeframes and required changes to the rules, procedures, and internal processes of industry participants are the core enablers of the move to T+2.

Other enablers include migration to institutional trade-date matching as a best practice, further dematerialization of physical securities, mandated settlement matching, and a cross-industry standing settlement instruction (SSI) solution are in place or in the process of being implemented.

The last time the U.S. settlement cycle was shortened was in 1995, when it changed from T+5 to T+3.

Market infrastructures, custodians and asset managers are currently preparing their new business models in line with these developments.