

AFSF Session

November 2019



AFSF 2019 Knowledge Sharing Workshop, Bangkok

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I. AFSF at a Glance

1. Overview

2. Progress

Asia Fund Standardization Forum – Overview

AFSF Framework

- A consultative body of Asian CSDs aiming to advance post-trade processing by harmonizing operations for cross-border fund trading



ACG General Meeting

New Business Initiative TF (Convener : KSD)

Asia Fund Standardization Forum (AFSF)

AFSF Inauguration Ceremony, ACG19, Taipei 4th November 2015



Asia Fund Standardization Forum – Progress

AFSF Members

Regular Members : **14 CSDs from 13 Economies**

- ① Bursa Malaysia Depository Sdn. Bhd. (Bursa) – Malaysia
- ② Central Depository Services India Ltd. (CDSL) – India
- ③ Central Securities Depository & Clearing Corp. (CSDC) - China
- ④ Central Securities Depository of Iran (CSDI) - Iran
- ⑤ Hong Kong Monetary Authority (HKMA) - Hong Kong
- ⑥ Japan Securities Depository Center, Inc. (JASDEC) - Japan
- ⑦ Korea Securities Depository (KSD) - Korea
- ⑧ PT.Kustodian Sentral Efek Indonesia (KSEI) – Indonesia
- ⑨ National Securities Depository Ltd. (NSDL) – India
- ⑩ Philippine Depository & Trust Corp. (PDTC) – Philippines
- ⑪ Singapore Exchange (SGX) – Singapore
- ⑫ Taiwan Depository & Clearing Corp. (TDCC) - Taiwan
- ⑬ Thailand Securities Depository (TSD) - Thailand
- ⑭ Vietnam Securities Depository (VSD) – Vietnam

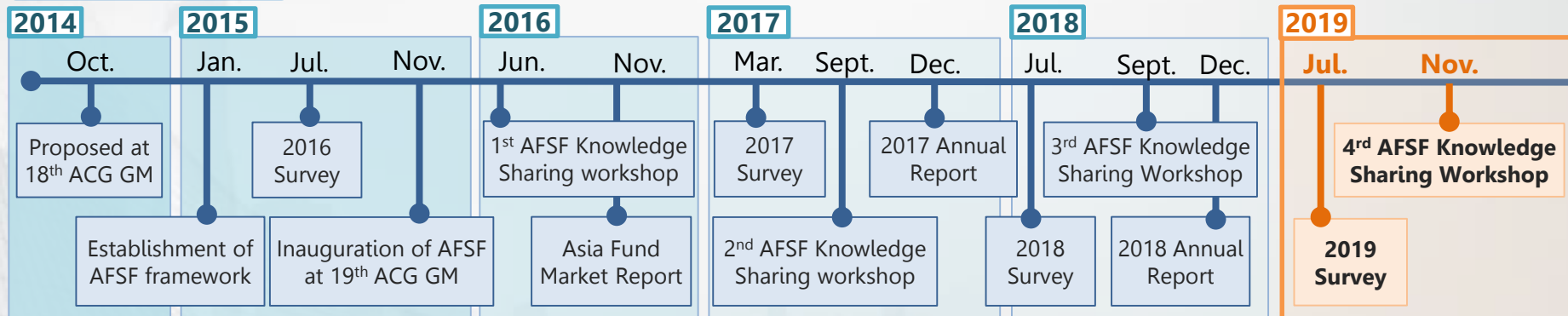


Advisory Members : **6 Global Fund Service Providers**

- Clearstream
- Deutsche Bank
- DTCC
- Euroclear Bank
- Morningstar
- SWIFT



AFSF Activities



Feedback from Last Year & Change in 2019

- Bringing external insights into the forum

- More interaction rather than one-way talk

- Not just confined to funds

- More knowledge sharing on latest tech



- Two **Guest Speakers** (Day 1)

- **Panel Discussion** (Day 1)

- **Investor Service Session** (Day 2)

- **DLT, e-voting, digital infrastructure, etc.**

II. AFSF Survey

AFSF 2.0 : Market Changes & Post-trade Concerns

1. **Overview: Objective & Outline**
2. **Survey Results**
 - **Part I: Cross-border Trading**
 - **Part II: Post-trade Concerns**

Overview: Objective & Outline

AFSF 2.0 : Market Changes & Post-trade Concerns

To have a reality check on **latest market changes** and **post-trade concerns** in Asia

Topic	Period	Content	Participants
Cross-border Trading Post-trade Concerns	Jul. ~ Oct. 2019 (4 Months)	32 Items under 2 Parts	11 Regular Members (Excl. Bursa, NSDL, SGX)

I. Cross-border Trading

- Statistics (Inbound/Outbound)
- Trading Process (Inbound/Outbound)

II. Post-trade Concerns

- Fund Structure
- Register Management
- Others

Survey Part I: Cross-border Trading

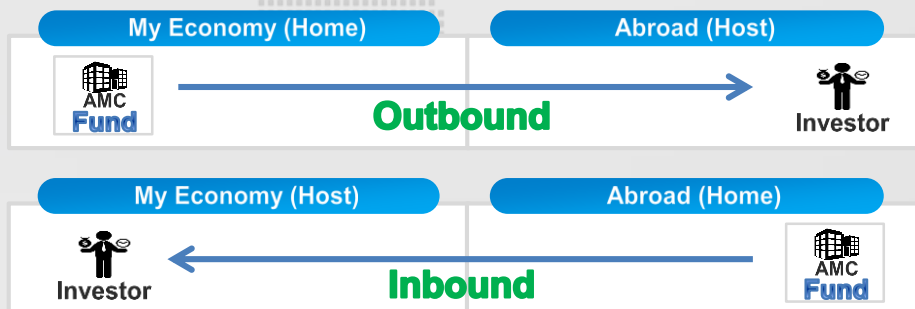
Section

1. Statistics (Inbound/Outbound)

2. Trading Process (Inbound/Outbound)

Preconditions:

1. End of 2018
2. Economies to be listed in **alphabetical order**
3. Unit of Cash: **1 billion USD** (unless otherwise specified)
4. Cross-border Trading Term: Outbound vs. Inbound



1. Statistics (Inbound/Outbound)

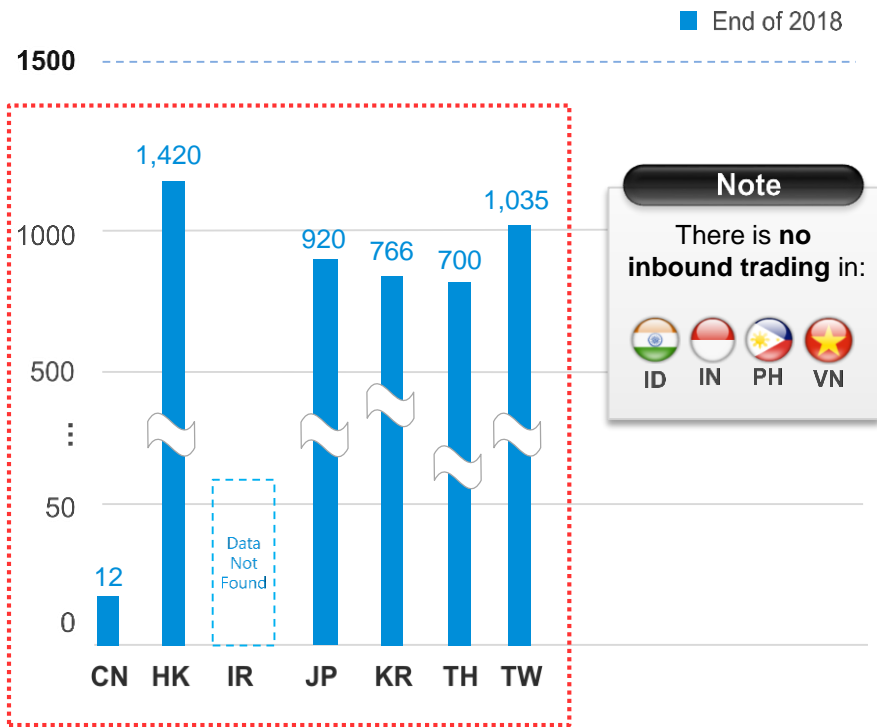
Imported vs. Exported : Number of Funds Traded

Q1. How many foreign funds are being **imported** into your economy (as of end of 2018)?

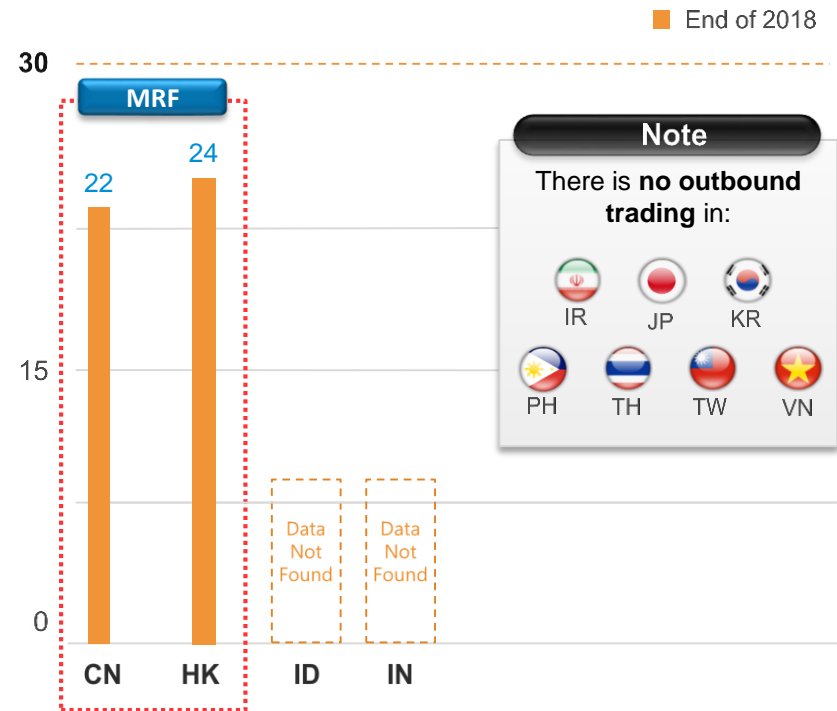
Q3. How many of your domestic funds are being **exported** to other economies (as of end of 2018)?

➔ Still leaning towards **inbound trading** from outside Asia while **outbound trading** remains quiet (except for CN-HK MRF)

Number of Funds Imported



Number of Funds Exported



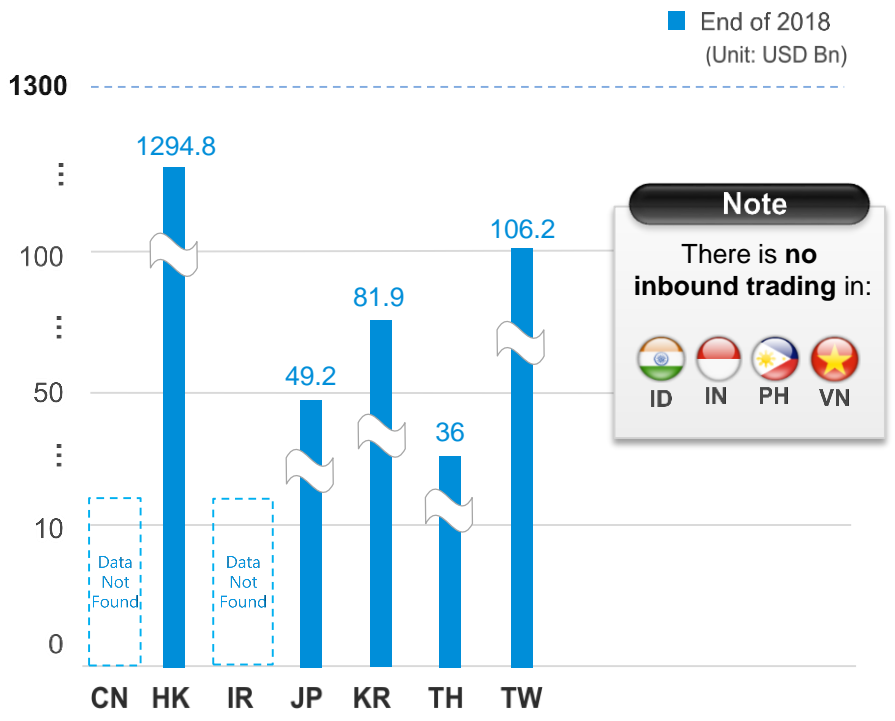
1. Statistics (Inbound/Outbound)

Imported vs. Exported : Trading Volume in AUM

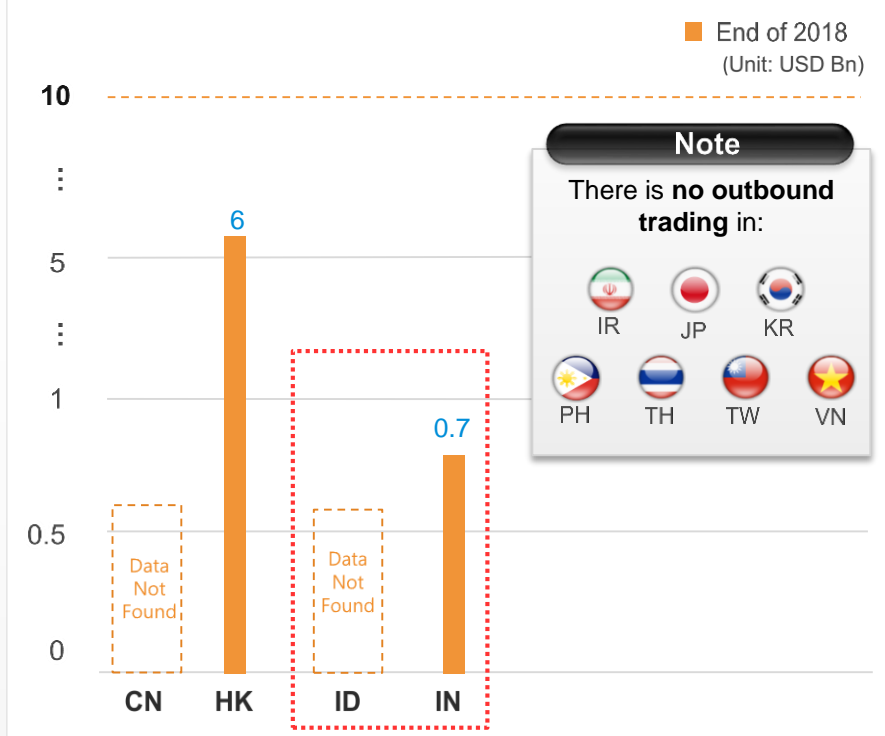
Q2. How large is the **inbound trading volume** in USD (AUM as of end of 2018)?
Q4. How large is the **outbound trading volume** in USD (AUM as of end of 2018)?

➔ Still leaning towards **inbound trading** from outside Asia while **outbound trading** remains quiet (except for CN-HK MRF)

AUM of Inbound Trading



AUM of Outbound Trading



1. Statistics (Inbound/Outbound)

Fun Fact: Fund AUM vs. Economy Size



HK and **TW** have grown much in size in inbound trading compared to GDP. **Others** have ample potentials for more fund investments given the size of accumulated wealth.

	Inbound Trading Volume	Ratio to GDP
HK	USD1294.8b	357%
TW	USD106.2b	18%
KR	USD81.9b	5%
JP	USD49.2b	1%
TH	USD36b	7%

	GDP
CN	USD13,407b
JP	USD4,971b
ID	USD2,716b
KR	USD1,619b
IN	USD1,022b
TW	USD589b
TH	USD504b
IR	USD452b
HK	USD363b
PH	USD330b
VN	USD241b

* Talled in the end of 2018

Inbound trading data are not available in:



CN



ID



IR



PH



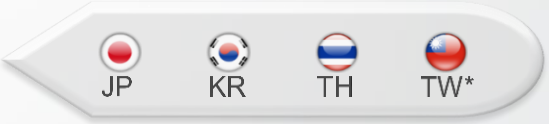
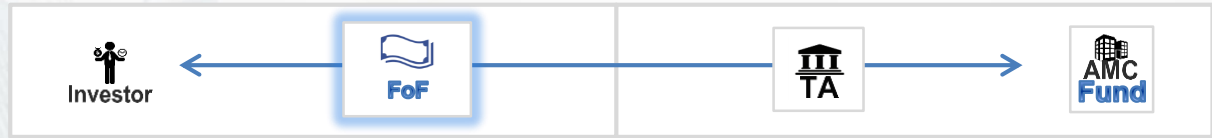
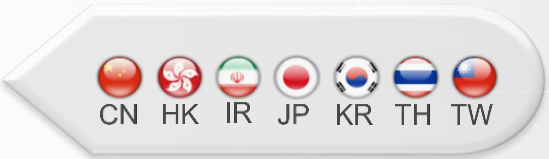
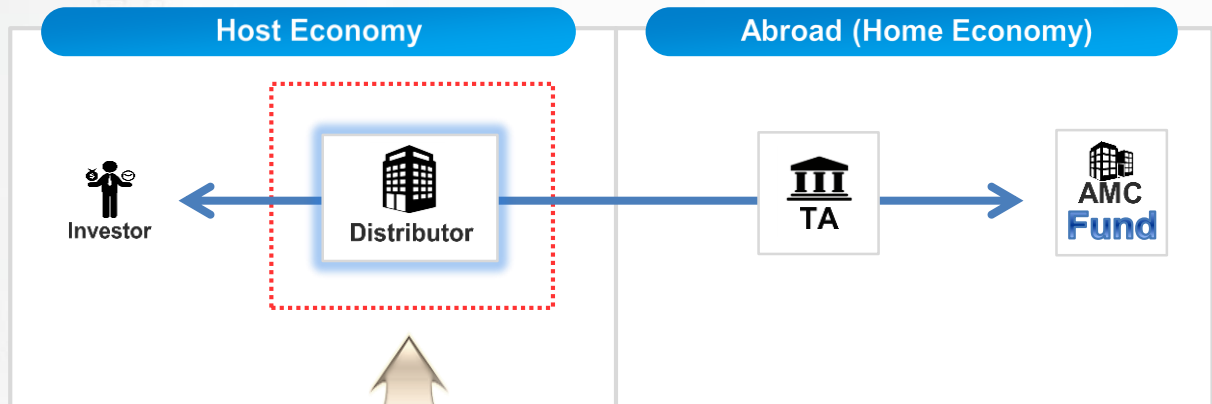
VN

2. Trading Process (Inbound)

Inbound Trading Process : Distribution

Q5. How are foreign funds sold in your economy?

➔ Mostly sold via **distributor** (and/or **fund of funds (FoF)**)



* TW: also via Investment-oriented insurance products

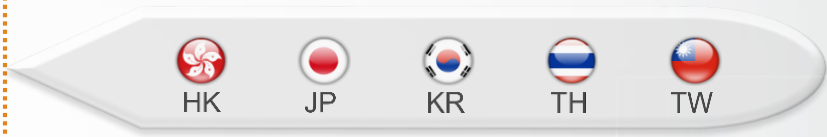
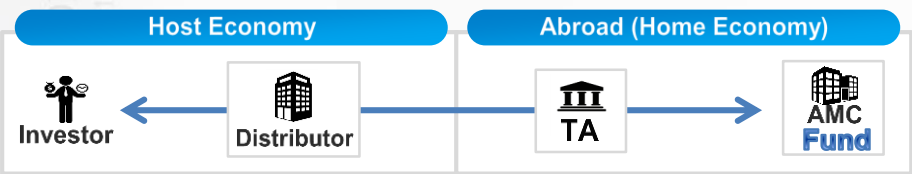
2. Trading Process (Inbound)

Inbound Trading Process : Model

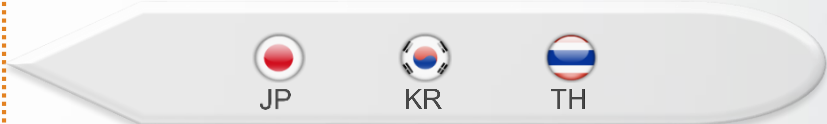
Q6. What is the model that best describes the inbound trading process in your economy?

➔ Sending orders to **foreign TA** either **directly** or **via intermediary(ies)** (domestic and/or overseas)

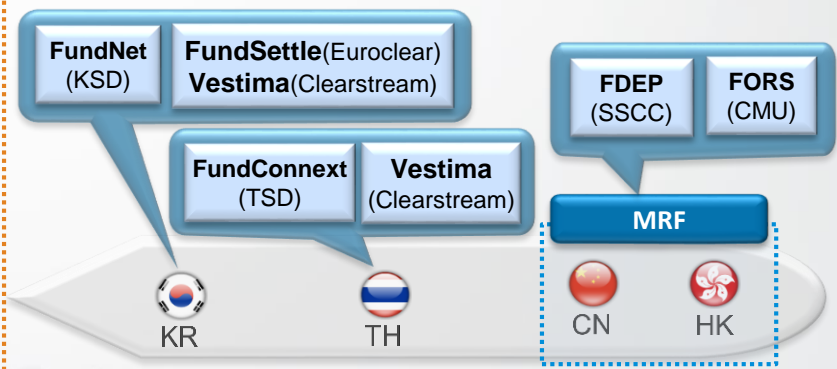
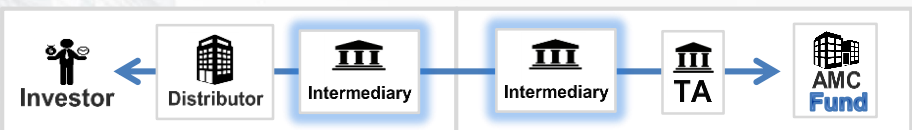
① Directly buying from TA



② Linkage with Global Intermediary



③ Linkage with Domestic/Global Intermediary



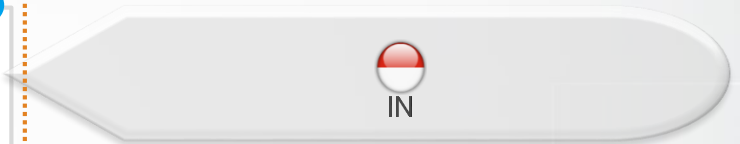
2. Trading Process (Outbound)

Outbound Trading Process: Model

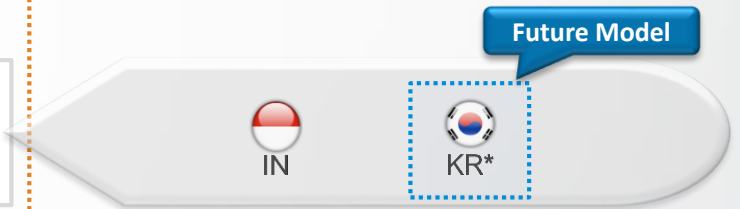
Q7. What is the model that best describes the outbound trading process in your economy?

➔ Mostly taking orders from **distributor via intermediary(ies)** (domestic and/or overseas)

① Directly with Foreign Distributor

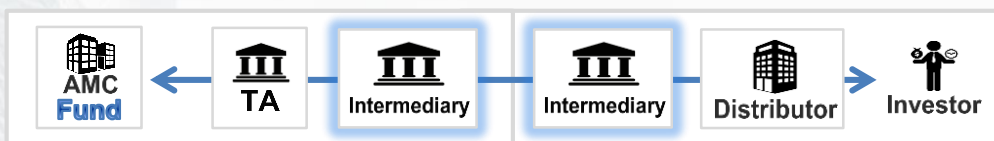


② Linkage with Foreign Intermediary



* KR: KSD is the sole TA in Korea.

③ Linkage with Domestic/Global Intermediary



Survey Part II: Post-trade Concerns

Section

1. Fund Structure
2. Register Management

Preconditions:

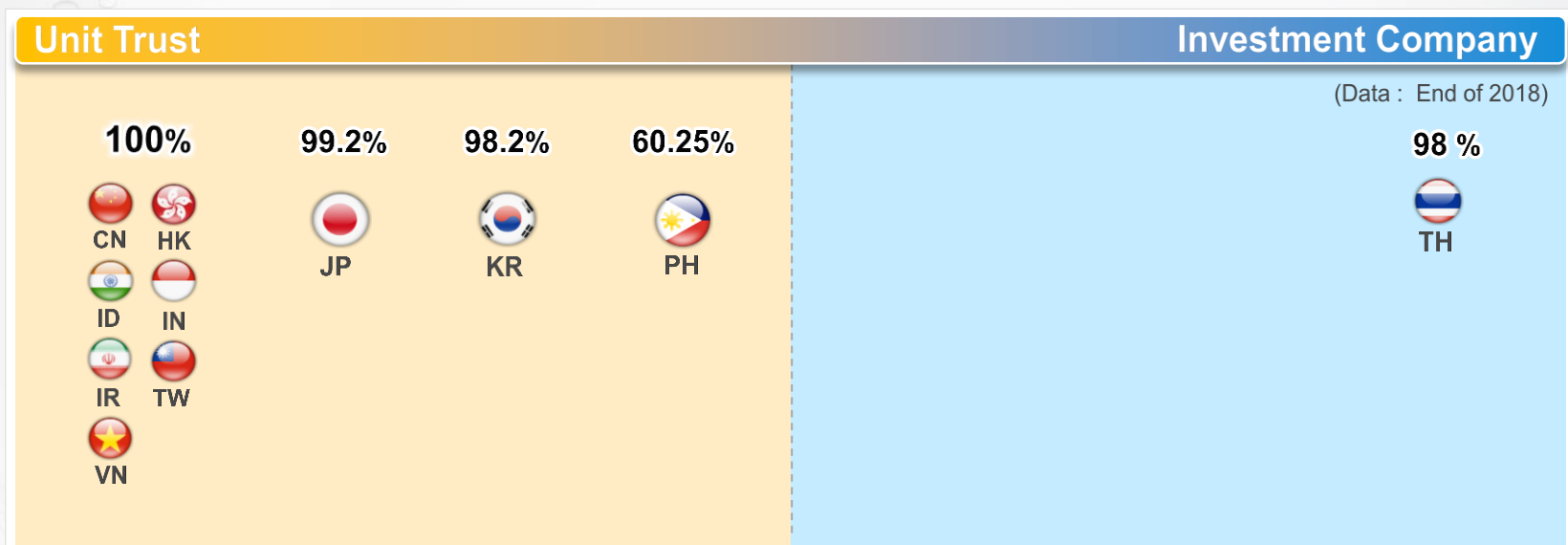
1. **Unit trust vs. Investment company**
2. **Investor register may/may not contain end-investor details.**

1. Fund Structure

Unit Trust vs. Investment Company

Q1. What is the **current proportion** of **investment company** and **unit trust** in terms of market share?

➔ **Unit trust still rules** (except for TH) in Asia.



Note

It is **not legally allowed** to structure funds as investment company in:










1. Fund Structure

Unit Trust vs. Investment Company

Q1-1. What's the reason for the dominance of unit trusts/investment companies?

➔ Either **chosen by market** or **driven by law**

Unit Trust	Investment Company
<p>Chosen by Market</p> <ul style="list-style-type: none">  Cost-effective and simple  Operational ease & tax treatment  tax benefits  The norm was established by banks. Operational ease 	<p>Driven by Law</p> <ul style="list-style-type: none">  Law defines that mutual fund must be structured as investment company except REIT.
<p>Driven by Law</p> <ul style="list-style-type: none">  Legally impossible to structure funds as investment company  Legal/business settings were established earlier. 	

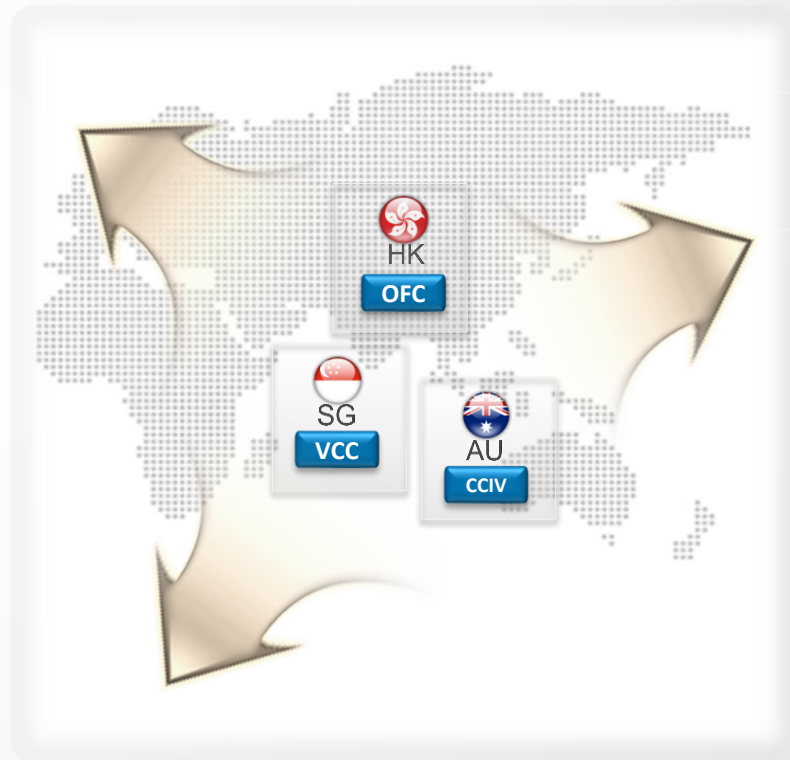
1. Fund Structure

Asian Funds Expected to Soar with OFC, VCC, and CCIV

Q3. Does your economy plan to change laws and allow for a **SICAV-like investment company**?

➔ **HK, SG, and AU** are moving fast to promote **global marketability** of their **domestic funds**.

	AU's CCIV	HK's OFC	SG's VCC
Fund Structure	Unconventional corporate investment scheme		
Regulatory Authority	ASIC	SFC	MAS/ACRA
Legal Framework	Corporations Act 2001 (Corporate Collective Investments Bill)	Code on Open-ended Fund Companies (under the Securities and Futures Ordinance)	Variable Capital Companies Act 2018
Enacted?	X	O	O
Umbrella Structure	Must (At least one sub-fund)	Allowed	Allowed
Tax Treaties	44	37	88



1. Fund Structure

Unit Trust vs. Investment Company

Q2. Will there be any difference in post-trade operations depending on fund structure?



Our members believe **that there won't be significant impact** on their operations.





	CSD to be Affected?	Note
CDSL	No	We do not envisage any major change in CSD's back-office operations
CSDC	No	-
CSDI	No	There won't be any change since it is legally impossible to structure funds as investment companies.
HKMA	No	From operational prospective, there is no difference in respect of various fund structure.
JASDEC	No	As long as the investment companies are exchange-traded securities, there will be no impact . For your reference, JASDEC doesn't handle non exchange-traded investment companies.
KSD	No	Legal frameworks are already well-established for both unit trusts and investment companies, and so are KSD's post-trade operations for both structures.
KSEI	No	There won't be any change since it is legally impossible to structure funds as investment companies.
PDS	No	Unknown yet
TDCC	No	There won't be any change since it is legally impossible to structure funds as investment companies.
TSD	No	No impact to CSD's back-office operations as currently funds in the form of investment company are operated outside CSD. The impact, though, will be with Transfer Agent as some parts of the operation are still manual.
VSD	No	There won't be any change since it is legally impossible to structure funds as investment companies.

2. Register Management

Keeper of Register & Location of End-investor Details

Q1. Who keeps a **register** of investors in your economy?





➔ Mostly kept by **AMCs** or **TAs**

Asset Manager	TA	CSD	Distributor
 CN IN IR PH TH TW	 CN HK ID IN IR JP* PH TH VN	 CN KR ID* IN IR*	 IN JP TH

* JP: For REITs only
* ID: For investor holdings units in demat
* IR: Future plan to shift from TA model to CSD model

Q2. Does the register contains **the end-investor details**? If not, who keeps the details?

➔ Mostly kept by **distributors, AMCs, or TAs**

Distributor	Asset Manager	TA	CSD	Others
 CN HK IN JP KR TW	 ID IN IR PH TH TW	 ID IN IR PH VN	 IN IR	 IN*

* IN: Custodian banks

2. Register Management

Sharing End-investor Details in Cross-border Trading

Q3. If a foreigner in another economy invests in a fund in your economy and wants to see their investment details in the register, **who should be providing** the copy of register?

➔ In most of the cases, **distributor(s) in host economy**

	Who should be providing?	Note
CDSL	Registrar & TA as AMC	-
CSDC	Distributor in host economy	-
CSDI	Distributor in host economy	-
HKMA	Distributor in host economy	(As for MRF trading), mainland investors should go to their local distributor to see their investment details in the register.
JASDEC	Unanswered	There have been few cases of non-residents buying Japan-domiciled funds. If a non-resident purchases Japan-domiciled funds from a distributor in Japan, it is considered that the non-resident makes an inquiry to the distributor.
KSD	Distributor in host economy	-
KSEI	Custodian bank	-
PDS	AMC/TA in PH	-
TDCC	Distributor in host economy	-
TSD	Distributor in host economy	-
VSD	Distributor in VN	-

3. Other Concerns

Bracing for Impact

Q. Aside from fund structure and register management, there could be some other matters of importance that we may have not noticed yet. Please share with us latest market movements that may impact the post-trade operations in your economy's fund industry.



HK

The following factors arising from different practice between Mainland and Hong Kong also affect the post-trade operations.

- fund cut-off time
- fund information disclosure schedule
- the number of decimal places for fund unit
- calculation and type of sales charge
- order submission mode
- medium of submission
- business day and holiday
- frequency and process for handling reconciliation process
- legal and regulatory framework



JP

It is determined to conduct shortening period for creation and exchange of ETFs.

Thank You

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