



AECS D 2021: International Cooperation in the New Environment

Headline

An annual training seminar of the Association of Eurasian Central Securities Depositories (AECS D) has become a good tradition for the AECS D member countries. Each time, this international event provides a platform for experience sharing and idea generation for further development of Eurasian CSDs. Despite the new operating environment shaped by the pandemic and related restrictions, seminar participants have been continuing their efficient cooperation online, for two consecutive years now. In 2021, the event took place on 23-25 June.

Over the course of time, the event has been growing bigger and attracting more and more participants and listeners. For one thing, the online format erases geographical boundaries, and second, the advent of the digital era in the post-trade industry cries out for a greater international integration of markets and custodian institutions.

The past seminar brought together a record-high number of participants, more than one hundred, which is 1.5 times higher than in 2020. Participants of the AECS D seminar 2021 represented more than 19 countries and included representatives of governmental authorities, regulators, secretariats of regional CSD associations, and AECS D member depositories and observers. Among the invited speakers were representatives of CSDs from Iran (Central Securities Depository of Iran) and China (China Central Depository & Clearing Co., Ltd.).

This year, the number of countries represented by seminar listeners increased: the AECS D member countries were joined by the UK, Iran, China, Saudi Arabia, the United Arab Emirates, Belgium, and Germany.



"The increasing scale of the event is evidence of the AECS D member countries' need to share their achievements with and learn from their counterparts. International cooperation is the key to advancement of both national financial markets and the common global infrastructure. Interest shown towards our activities, including by countries that are not members of the Association, proves that our work is important and useful," said **Arman Melkumyan, Head of NSD's Network Management Division**.

The seminar is still focused on such values as experience sharing, improvement of knowledge of securities custody models in other countries, and coordination of joint efforts aimed at development and integration of financial markets.

The seminar covered various topical issues faced by the securities custody industry, such as innovations, tri-party services and securities lending, services provided to foreign nominee holders, corporate action notification using the ISO 15022 and ISO 20022 standards, e-IPO, and investment fund administration services. The seminar participants also discussed automation of corporate actions, adaptation to foreign laws, and specifics of services with respect to a sukuk, a financial instrument commonly used in Islamic countries.

Traditionally, the first day of the seminar included a session during which representatives of the AECS D member countries shared their news and future plans.

 **Korea's CSD** presented its new products: an information platform for asset-backed securities (ABS), a mechanism for determination and administration of a risk-free interest rate, and a system of verification of securities lending contracts.

 **The CSD of Kazakhstan** told about completion of the process of consolidation of depository and registration operations on its platform. This helped cut operating expenses significantly and reduce fees for CSD's clients. In addition, the CSD offered some services for direct holders of securities, such as identification and order-giving process using an electronic digital signature and automation of the process of securities holder list compilation. In the nearest future, they intend to launch biometric identification and simplified AML procedures. In addition, Kazakhstan's CSD will offer bank accounts for direct holders of securities, which will allow it to implement a DVP system.

 **The CSD of Kyrgyzstan** mentioned the first IPO in the corporate sector and told about its plans to design a new IT system that would help the CSD boost its capabilities and launch a new format of electronic communication between all professional securities market participants.

 Significant changes in the financial market of Uzbekistan paved the way for large-scale reforms and will have an impact on the country's CSD. In 2021, a legislative framework was put in place to support the national capital market development program that envisages privatization of some major companies in the banking, insurance, steel, mining, and other industries. The institutional landscape will also change. The key institutions in the national securities market will be the Ministry of Finance (as regulator), **Uzbekistan's CSD**, the National Bank of the Republic of Uzbekistan, the Tashkent Republican Stock Exchange (as market operator), and professional market participants (brokers, issuers, and investors). The roadmap of reforms 2021-2022 provides for substantial changes that will help the market get prepared to mass privatization and bring the market closer to global standards. The reforms are also expected to change corporate governance standards. In particular, the CSD will establish a Supervisory Board and start applying international financial reporting standards. As part of its international activities, the key priorities of Uzbekistan's CSD include building links with the CSDs of Kazakhstan and Russia, as well as obtaining a Thomas Murray rating.

To expand the range of business solutions offered, the CSD of Uzbekistan has launched an e-voting and remote shareholder meeting service.

 **The CSD of Tajikistan** told about its intention to support the issuance of first Islamic securities (sukuk) in the nearest future and asked other AECS D member countries to share their experience in that field. You can read more about SUKUK in the [consultative material](#) provided by CSDI.

 The securities market of **Azerbaijan** will soon see a number of changes that, in particular, will make it possible for commercial banks to trade in the market on their own, without brokers. The plans also include certain steps that will help improve the investment climate in the country by easing the tax and fee burden and privatizing some large government-owned companies.

 A representative of the **Belarusian CSD** told about its connection to SWIFT and plans to expand its correspondent network.

 **Armenia's CSD** told about its experience of involvement in the first cross-listing on the Armenia Securities Exchange and the Moscow Exchange. They also presented the AMX Online platform that allows investors to manage their accounts through a mobile app and participate in e-voting.

 **Russia's CSD (NSD)** presented its development plans for the nearest future, including expansion of its correspondent network not only in Europe, but also across Asia, development of B2B products and services, launch and improvement of record-keeping and payment services for marketplaces and e-trading platforms, and creation of BigData-based products and services.

 **Turkey's CSD** told about its plans to launch a e-BDS (Electronic Board of Directors) system and to design a shareholder registration system and also presented its ideas of using an electronic crowdfunding system. All of those technological solutions could be adapted to the needs of other markets, if necessary.

In addition, the seminar participants shared their experience in maintaining their efficiency and sustainability in the COVID-19 pandemic environment.



AECS D 2021 XVIII International Conference Yerevan

Announcement of the Conferences of the AECS D: "Reforming Financial Markets: Benefits and Threats"

On **October 27-28, 2021**, the First Virtual Conference of the Association of Eurasian Central Securities Depositories (AECS D): "Reforming Financial Markets: Benefits and Threats" will be held with the participation of leaders and professionals in the field of exchange and depository activities from the CIS countries and far abroad.

The event is held to exchange useful knowledge, ideas, skills and experience with the aim of developing organized financial markets and assistance in organizing centralized depository services, increasing investment activity, as well as expanding access to national and international liquidity.

AECS D International Conference is a regular event that arouses increased interest of the international financial community, gathering a large number of professionals and experts on financial market issues on its sidelines.

AECS D International Conference 2021 will be held in a virtual format for the first time.

The Central Securities Depository of Armenia will host the first virtual conference of AECS D.

This event is a dialogue platform for all participants of financial system with many new business opportunities and contacts. The event gives new knowledge and experience in accordance with international trends.

The official opening of the event will take place on **October 27, 2021**.

Organizers of the conference are Association of Eurasian Central Securities Depositories, "Central Depository of Armenia" Open Joint Stock Company.

The international conference will be attended by senior representatives and professionals of central depositories of such countries as: Armenia, Belarus, Russia, Kazakhstan, Tajikistan, Uzbekistan, Georgia, Iran, South Korea, China and many others, as well as representatives of international settlement and clearing organizations, news agencies, regulators and companies.

Also invited to the event:

- representatives of the governmental bodies;
- heads of securities issuers, professional participants in the securities market;
- heads of international institutions.

The conference will discuss the impact of global threats on the financial markets, the formation of prerequisites for reforming various processes of financial markets and reforming as an opportunity to increase the competitiveness of the market infrastructure.

Among the issues discussed:

- Global trends of reform
- "Catch-up reform": reforming with a view to the future, not the present
- Search for sources of financing for reforms
- New technologies as prerequisites for future reforms
- Digitalization of assets and its impact on CSD business
- Interaction among Central Depositories and their Associations

And this is not a complete list of issues that will be discussed at the upcoming international conference.



CDA Online app is live now! The services of Central Depository of Armenia are available online

AMX- Central Depository of Armenia has launched "CDAonline" app which makes receiving of information from depository account and instructions on transfers available online. For the first time in Armenia an international e-voting mechanism resonant to international standards has been created for issuers and investors.

Users can be aware of the shareholder meetings, its deadlines and agenda, moreover, they can receive attached documents, send questions to the issuer (joint stock company), participate the general discussions, vote and receive all previous meeting data. Saving additional resources the issuer, in its turn, gets the opportunity to invite General Meeting, receive summarized data and communicate with the investors more productively. Moreover, with this app you can take part in the General Meetings invited by the Issuer without arriving the meeting setting.

[More details →](#)

AMX WAS AWARDED "THE BEST BOND DEAL" at Cbonds Awards CIS

AMX has been nominated in the category "The Best Bond Deal" at Cbonds Awards CIS as participant of the cross-listing deal of "Unibank" ojsc. The award ceremony took place in St. Petersburg, which was attended by more than 200 financial professionals.

[More details →](#)



National Depository Center has launched "E-Issuer" portal

The National Depository Center (NDC) has launched the "E-issuer" portal in order to ensure issuers' convenience. The new platform is web-based system and it meets the requirements of the real-time software. Via the system, issuers are able to access information on a registry of securities holders. At the same time, issuers can get all needed information regarding securities: quantity, nominal value, ISIN codes, currency, securities holders name and etc.

New electronic service has been launched by NDC

National Depository Center of the Republic of Azerbaijan (NDC) provides various electronic services through its website to the investors to enhance the quality and efficiency of services that in turn, reduce investors and issuers time, effort and costs.

In this regard, NDC launched "Inter Account Transfer" electronic service on June 11, 2021.

This service enables investors to electronically transfer their securities from one account to another, view and conduct all securities' balances within their accounts. Investors can also view details of all transactions executed by them. The new service meets all the requirements of the real-time system and it has multiple verification steps to protect investors' accounts.



Central Securities Depository creates a LinkedIn company profile

The Central Securities Depository of the Republic of Belarus shares the launch of its official LinkedIn page. The latest news of the CSD, information on its services, regulatory documents updates, analytics of the securities market and the depository system will be published there.

[More details →](#)



Approval of amendments to the Rules of Registrar and Depository Activities (General Part) of the Code of Rules of Central Securities Depository JSC

By its resolution passed by absentee voting on 11 June 2021, the Board of Directors of Central Securities Depository JSC approved amendments No. 8 to the Rules of Registrar and Depository Activities (General Part).

[More details →](#)

Approval of amendments to the Rules of Depository Activities of the Code of Rules of Central Securities Depository JSC

By its resolution passed by absentee voting on 14 June 2021, the Board of Directors of Central Securities Depository JSC approved amendments No. 36 to the Rules of Depository Activities.

[More details →](#)



Viktor Zhidkov Heads NSD's Executive Board

National Settlement Depository (NSD), Russia's central securities depository, has appointed Viktor Zhidkov as Chairman of the Executive Board. Mr. Zhidkov's candidacy has been approved by the Bank of Russia and by NSD's Supervisory Board.

NSD headed by the new Executive Board Chairman will continue to implement its development strategy until 2024: developing its core depository business and additional innovative products for Moscow Exchange Group clients focusing on reliability, effectiveness, and business growth.

[More details →](#)

NSD Confirms its Status as Local Operating Unit (LOU)

National Settlement Depository (NSD) successfully passed annual re-accreditation of the Global Legal Entity Identifier Foundation (GLEIF) and confirmed its status as Local Operating Unit (LOU) based on the results of 2020.

NSD is the first company in Russia and the CIS countries that has received accredited LOU status which allows to assign and verify, on an annual basis, LEIs (Legal Entity Identifiers) of market participants. Other services include accepting LEIs issued by other LOUs for servicing, ensuring that the information for LEI provided by participants is up to date and correct, and providing data to the LEI database maintained by the Global Legal Entity Identifier Foundation (GLEIF).

[More details →](#)



Merkezi Kayıt Kuruluşu received four awards in IDC Financial Services Summit 2021

IDC (International Data Corporation) Turkey Finance Summit held digitally on June 3 2021 with the 'The Future of the Fittest: How Financial Institutions will Revamp, Rebuild and Reinvent Beyond 2021' headline. MKK received four awards at once at the summit in the categories stated below:

- "YRTS: Investor Risk Monitoring System": 2nd in Governance, Risk and Compliance category.
- "e-INVESTOR: Investor Information Center": 3rd place in the Governance, Risk and Compliance category.
- "VAP: Data Analysis Platform": 3rd in Data Infrastructure category.
- "KFS: Equity Based Crowdfunding System": 3rd in Financial Inclusion category.

Investor Risk Monitoring System (YRTS), which won the second prize in the "Governance, Risk and Compliance" category, aims to monitor systematic risk and to maintain financial stability by measuring the risks of intermediary institutions and investors who engage in margin transactions, short sales and securities lending transactions.

e-INVESTOR which won the third prize in the "Governance, Risk and Compliance" category, was designed in 2020 as a new application where investors can access extended information about their investment portfolios in the capital markets. e-INVESTOR enables investors to follow their account balances and account movements registered with MKK, perform investor-blocking transactions and benefit from various information and reporting services related to them.

The Data Analysis Platform (VAP), which became second in the "Data Infrastructure" category, presents a data platform to the world of finance about Turkish capital markets in different breakdowns with econometric models and published in international standards. VAP can be accessed at www.vap.org.tr. Reporting capabilities and dashboards are offered under four main headings: "Depository Data", "Investor Statistics", "Corporate Governance Data" and "Indices".

The Crowdfunding System (KFS), for which we received the third prize in the "Financial Inclusion" category, provides the opportunity to collect the financial resources needed for the realization of business ideas that plan the production of technological products and services with high value and competitiveness in Turkey. MKK provides platforms to become a member by providing system integration to CFS.

KSD Global Services: what we offer in the Secondary and the Primary markets



Ms. Da-mi Kim
Assistant Manager,
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The globalization of the Korean capital market has led to remarkable growth in cross-border investment. KSD has contributed significantly to this growth by making it easier for firms to access capital outside of their home countries and for investors to access wider opportunities to diversify their investment portfolios. Also, as a service provider, we have expanded our revenue streams and global presence.

KSD's global securities services at present encompass both the secondary and primary markets. In the secondary market, we provide foreign securities deposit and settlement services for outbound investment and custody and proxy services for inbound investment. In the primary market, we support issuers listing depository receipts (DRs) in foreign countries.

KSD Global Services in the Secondary Market

First, let us look into the provision of infrastructure for investors in the secondary market. After retail investors were allowed to invest in listed foreign currency securities in July 1994, Korean investment in foreign securities rose significantly as a new investment alternative. Accordingly, the need to establish a stable and safe cross-border settlement environment emerged, and it became legally mandated to centrally deposit domestic investors' foreign securities in KSD accounts opened with global custodians. After a long period of close coordination with the government and related institutions, KSD now provides a low-cost, high-efficiency foreign currency securities deposit and settlement system.

To centrally deposit securities listed in several foreign markets, KSD appointed a number of global custodians and international central securities depositories (ICSDs), opening accounts under the name of KSD. This enables domestic investors to invest in foreign securities through a single channel (investor – domestic broker – KSD – global custodian – local custodian – local CSD) without appointing overseas custodians individually. Moreover, since KSD administers the custody of foreign securities for investors unable to open an account in overseas custodians because of relatively small investment volumes, this structure can protect domestic investors' rights and save time and costs that may arise when transactions are individually processed. KSD currently supports investment in over 40 markets around the world and continues to expand its coverage.

To go deeper into details at the working-level, let's walk through the foreign stock purchase process. It begins with a domestic investor placing a trade order with a domestic broker. Then, the order is conveyed to both KSD and the local broker by the domestic broker. At this time, the domestic broker should notify the local broker of the transaction details along with the fact that settlement is processed through KSD. This way, the local broker and KSD's global custodian can complete the transactions through the local CSD and exchange. Then, how about rights exercising? Since KSD secures all the corporate actions-related information from foreign issuers through the global custodians as the nominee, the domestic investors can receive notification of corporate actions event in a timely manner and exercise their rights through KSD without dealing with any overseas institutions.

KSD also plays an essential role in foreign investors' access to the Korean market. According to the Korean law, foreign investors who want to invest in the Korean market must enter into a custodian contract with a qualified institution in Korea and file an application for registration with the Governor of the Financial Supervisory Service. In this case, KSD can act as a custodian of securities acquired by foreign investors. Since it is common to sign a custodian contract with a standing proxy agreement, we also act on behalf of investors in handling investment registration, exercise of shareholder rights, settlement, and other relevant tasks as a proxy. As we are not just a local custodian, but also the CSD in Korea, our service stands out for its efficiency and expertise.

KSD Global Services in the Primary Market

Now, I will focus on our experience in cross-border securities issuance and listing in the primary market. The internationalization of the Korean capital market began in 1985 when domestic companies were allowed to issue overseas securities. Currently, securities issued by a substantial number of Korean companies and foreign companies have been listed and traded in each other's countries. Let's see how KSD supports issuers seeking to be listed in overseas markets, both outbound and inbound.

For outbound offerings, DR issuance is the major form of overseas listing for Korean companies that have already listed their shares in the domestic market and wish to be listed again on an overseas exchange. By issuing and listing DR, companies can build visibility by maximizing overseas IR activities, and raise more capital by tapping into the global capital market and attracting investors from around the world.

The first step to issuing DR is for the issuer company to enter into an DR agreement with the depository bank. Then, the depository bank deposits the underlying shares represented by the DR at the custodian located in the issuer's country and issues DRs to overseas investors. In Korea, unlike the usual practice of local banks holding the underlying shares of DRs, KSD acts as a direct custodian for the ordinary shares under a custodial agreement with the depository bank. This unique structure enhances the stability of asset management and enables prompt book-entry transfer. As a custodian, KSD handles the shares transfer following the conversion between ordinary shares and DRs. We also support all the corporate actions-related exercise of rights such as voting rights, dividends, etc. for the DR holders as a proxy of depository bank.

In the opposite direction, when foreign companies wish to be listed in the Korean market, they have the option of directly listing shares or issuing Korean depository receipts (KDR). Firstly, to list shares in the Korean markets, foreign companies should go through an IPO process. In such cases, KSD acts as a CSD in charge of the registration and settlement of the shares, and also as a transfer agent providing securities administration services such as title transfer, issuing services, and dividend payment on behalf of the issuer. However, this method is not without a significant obstacle: the conflict in laws between the place of incorporation and the place of trading. There should be no restriction on transfer in the articles of incorporation and also, the method of issuing shares and exercising rights should not be in conflict with local laws and the relevant regulations of KSD.

An important criterion in deciding whether to issue KDRs or shares in Korea also lies on this point since KDR issuance can minimize legal conflict through elaborately constructed contracts. The structure and issuance procedure of KDR are the same as that of DRs described above. The only difference stands in that KSD is the KDR depository, not a custodian. Pursuant to the Korean law, KSD is solely allowed to conduct operations as a KDR depository bank. As a depository bank, KSD appoints an overseas custodian by entering into a custodial agreement to deposit the underlying shares of the KDR in the country where the shares are issued.

KDR can be a great alternative for foreign corporations that are ineligible to issue stocks in Korea, but there are some conditions for issuing KDR. KSD's acquisition of ordinary shares should not be in violation of the law of the issuer's home country, and there should be no restriction on the exercise of shareholder rights by KSD. After confirming that the securities are eligible for KDR issuance through a written opinion submitted by a lawyer of the country of incorporation, KSD issues KDRs and distributes them to investors through domestic brokers.

Closing

We have seen how KSD has expanded its business scope on a global scale based on its function as a CSD, and what roles KSD fills in each of those services. The full breadth of KSD's services cannot be contained in this article, but we hope to share more information in the future through articles, workshops and conferences. Although the coronavirus has hindered many of our activities, it is no obstacle to our enthusiasm for interacting with each other and sharing our development experiences. We sincerely look forward to the next knowledge sharing opportunity and hope we will soon be able to meet face-to-face.



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