Role of CSDs in Implementing Cross-Border Investment

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- 15th AECSD Conference
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**KSD: Profile (As of Aug 2018)**


- **Entity Character:** Non-profit seeking, special public organization under FSCMA*.
  
  * Financial Investment Services and Capital Market Act

- **Function:** Centralized deposit, book-entry transfer, etc.

- **Shareholders:** 57 institutions

- **Employees:** 651

- **Organization:** 8 Divisions, 29 Departments, 3 Branches

- **Location:** Busan HQ, Seoul office, Ilsan center, H.K Rep office
Eligible Participants

1,244

Market Value of Deposited Securities

3,997 trillion krw
(3.6 trillion usd)
I. CSD & Back-office Operations

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Housekeeping & Plumbing in Cross-Border Investment (CBI)

- Determination of whether a country has potential investment opportunities or not is influenced by a number of factors, especially related to size, quality of "Housekeeping," (macroeconomic policies, political economy, local financial markets, corporate governance, and so on), and efficiency of "Plumbing" (legal and regulatory framework, taxes, custody, clearing and settlement, and so on) (Housekeeping and Plumbing: The Investability of Emerging Markets, J.Ladekarl & S.Zervos, WB, 2004)
A Case: Plumbing fails in CBI

“*My local broker continuously delays cash-repatriation even couple of weeks after sell trades were settled. Operational cost is going up. My clients keep complaining. Can you consider to officially provide custody for this market?*

Solution by KSD

- Fact-finding: Obstacle & probability
- Cooperate with relevant entities (GC, local regulator/CSD/exchange, etc)
- Tailor-made solution to launch custody through GC network
- Having more Korean brokers entering in the market
CSD as Securities Market Infrastructure to support CBI activities

- Central securities depositories (CSDs) are systemically important entities that are critical for effective implementation of monetary policy, the credibility of a government’s debt management program, collateral management, and safe and efficient securities markets...... (IMF, Mar 2018)

(Global Map of CSDs, IMF)

- Role of CSD in enhancing the well-functioning of securities markets not only in domestic but also in cross-border market

- CSD as SMI maximizes investment efficiency in CBI
More CSDs jumping into CBI support services

Globalization of investment activity

- New investment source in search of higher returns
- Risk management by allocating portfolio in diverse markets
- Deregulation to open doors to foreign investors

Diversification of CSD business

- CSD evolution

Cross-Border services
Multiple markets & intermediaries

Conventional services
Advanced services
I. CSD & Back-office operations

II. Asian CSDs’ Experience

III. Implications
Asian CSDs’ Experience: Cross-Border Services
Asian CSDs’ Experience: **KSD Cross-Border Services - History**

- **1974**: Korea Securities Settlement Corporation founded
- **1982**: KDR depositary, Bank entry transfer for bond trading launched
- **1983**: Centralized deposit of securities implemented
- **1990**: Begins custody services for Korean securities issued overseas
- **1992**: New Issue Banked Deposit (NIBD) and proxy voting service started
- **1994**: Global custody, Custodian of DR original shares
- **1998**: Local custody
- **2001**: KSD’s repo service extended to cover all bilateral repo transactions
- **2004**: Begins National Housing Bond issuance through registration
- **2007**: KDR depositary
- **2009**: Foreign stock matching for funds
- **2012**: Off-shore fund platform
- **2013**: Securities Information Portal (SIP) launched
- **2014**: Custody and settlement service for gold spot market launched
- **2015**: Legal entity identifier (LEI) issuance service commenced
- **2016**: Central Registry Services for Securities Type Crowdfunding (CrowdNet) launched
- **2017**: SLJ Collateral Transaction service launched
- **2018**: Customer identification (CID)issuance service commenced
- **2019**: DVP system for RMB denominated bonds launched
- **2020**: Pension/Clean system launched

**15th AECSD Conference**
Asian CSDs Experience: KSD Cross-Border Services - Classification

- Based on User & Market

<table>
<thead>
<tr>
<th>User</th>
<th>Market</th>
<th>Year</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korean</td>
<td>Primary market</td>
<td>1994</td>
<td>Custodian of DR Original Shares</td>
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<tr>
<td>Foreign</td>
<td>Secondary market</td>
<td>2007</td>
<td>KDR Depositary</td>
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<td>1998</td>
<td>Local Custodian</td>
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<td>1994</td>
<td>Global Custody</td>
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<tr>
<td></td>
<td></td>
<td>2009</td>
<td>Foreign Stock Matching for Funds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2012</td>
<td>Off-shore Fund Platform</td>
</tr>
</tbody>
</table>

Mandatory: KSD

Competition: Cross-Border Services
Asian CSDs Experience: **KSD Cross-Border Services, Global Custody**

### Overview

- Most representative cross-border service
- Comprehensive service for resident investors to **directly invest** in foreign securities
- Settlement, safekeeping and corporate actions
- Mandatory: No exception for Korean brokers

### Structure

- **5 service providers** (2 GC, 2 ICSD, 1 LC)
- **Domestic proprietary message ↔ ISO15022 swift message**
Asian CSDs Experience: KSD Cross-Border Services, Global Custody

- **Numbers as of end of 2017**

  - **38** Markets worldwide
  - **37** Bil USD held in custody
  - **53** Bil USD annual settlement amount
  - **401,000** Annual settlement transactions

- **Market & Stock** (Excluding Eurobond market, amount in custody, as of June 2018)

  - **43% [5.5 bil usd]**

  - **etc**: 7%
  - **Vietnam**: 3%
  - **Brazil**: 6%
  - **HK**: 12%
  - **JAPAN**: 14%
  - **China**: 15%
  - **US**: 1.9% [665 mil usd]
  - **Tencent**: 1.3% [451]
  - **Alibaba**: 0.8% [270]
  - **NVIDIA**: 0.7% [238]
  - **Google**: 0.7% [236]
Overview of OSP (Off-shore Fund Platform)

- Extension of global custody into investment funds
- Comprehensive service for domestic FoF to invest in foreign-domiciled fund
- AC management, order routing, settlement, safekeeping and corporate actions
- Voluntary: One option out of TA, global platform and KSD platform

Standardization & Automation

Asian CSDs Experience: KSD Cross-Border Services, OFP
Asian CSDs Experience: KSD Cross-Border Services, OFP

- **Structure**
  
  - First utilization of ISO20022 fund messages in KR

- **Numbers as of July 2018**
  
  - 29 asset managers
  - 10 custodians
  - 202 domestic FoFs
  - 257 off-shore funds
  - 9.7 bil USD in custody
I. CSD & Back-office operations

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**New growth engine of CSD**

- ≈7% out of KSD total revenue (as of 2017)
- Potential
  - Potential revenue increase
  - Opportunity of collaboration with global players
  - Establish presence

**Timing for CSD to consider cross-border services**

- Cross-border services of KSD vs GNI per capita in KR
Thank You

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